

***Payroll Commission**

MEETING MINUTES

Wednesday, July 31, 2019

10:00 AM IN ROOM 1E OF THE LOB

I. CONVENE MEETING:

The meeting was called to order at 10:00 AM by Chairman Sen. Fonfara.

The following commission members were present:

Sen. Fonfara, Sen. Witkos, Rep. Rojas, Rep. Davis, Commissioner Jackson (DRS), Jeffrey Beckham (OPM)

II. OPENING REMARKS/INTRODUCTION OF MEMBERS:

Sen. Fonfara opened the meeting by welcoming all the members to the first meeting of this important commission. It is his hope that through today's meeting as well as future meetings that members gain a better understanding of the workings of a possible payroll tax in CT and how its implantation can positively affect state government as well as the citizens. He stressed that this group will not be a voting group but rather a fact finding commission with the goal of gathering information on this important issue.

Rep. Rojas noted that this is a complicated issue which he is hopeful the members of this commission can learn more about as they deliberate the matter in the future.

Commissioner Jackson and Mr. Beckham both expressed appreciation for being a part of this group as they are hopeful that the information gathered will help the executive branch as they prepare for the up-coming budget adjustments.

Sen. Witkos expressed his hope that this group will work to get the word out to the general public regarding the mechanics of a possible payroll tax and how it will affect both citizens and businesses in the state. He also questioned if members could appoint a designee if they are unable to attend a meeting- Sen. Fonfara answered yes.

Rep. Davis stated that the formation of this group was a smart idea as we in state government want to better understand how this tax may work so that if it is implemented it is done so correctly.

III. AN INTRODUCTION TO THE PAYROLL TAX:

Presentation by Lisa Hammersley and Katie Roy of the Connecticut School Finance Project entitled "An Introduction To The Payroll Tax."

Link to presentation:

http://cga.ct.gov/fin/tfs/20190724_Payroll%20Commission/20190731/Presentation-%20Connecticut%20School%20Finance%20Project.pdf

Link to FAQs:

http://cga.ct.gov/fin/tfs/20190724_Payroll%20Commission/20190731/FAQ%27s-%20Connecticut%20School%20Finance%20Project.pdf

Following the presentation a question and answer session between the members and the presenters took place. A summary is below.

Rep. Rojas asked if there is any concern that the IRS may view this tax as a “work around” and not recognize it as valid. Katie Roy explained that payroll taxes are allowed by the federal government and the feds cannot tell a state what to do with their income tax rates- she notes that it would take an act of congress to change the way the feds currently deal with payroll taxes at the state level. She also suggests that the commission meet with Attorney General Tong to discuss this issue as he would have more of a definitive answer on the subject.

Rep. Rojas and Ms. Roy also discussed how non-profits will be treated under the tax. She explained that non-profit employers will be treated like all other employers under her plan yet the legislature can ultimately decide how they are to be treated. They also discussed the importance of engaging the business community on this issue as soon as possible. Ms. Roy noted that she has talked to business leaders in the state and they have expressed the need to phase in the tax and also the importance of providing proper education on the issue prior to implantation. Rep. Rojas continued to ask if any other states have two income structures in place (wage vs non-wage). Ms. Roy answered that it is not unheard and in fact CT used to have two income structures in place.

Rep. Davis asked how the payroll tax would affect both public and private contract employees. Ms. Roy suggested that during wage negotiations to have two tables in the contract- one that would have wage increases if the payroll tax went into effect and one table indicated the increases if the payroll tax were not adopted. She again noted that providing a phase in and the proper education on the subject as key for all businesses and employees throughout the state. Rep. Davis and Ms. Roy also engaged in a discussion of how minimum wage employees would be affected if the tax were adopted. Ms. Roy pointed Rep. Davis to the School Finance Project’s prepared response on this issue for more information on page 9 of the following document: http://cga.ct.gov/fin/tfs/20190724_Payroll%20Commission/20190731/FAQ%27s-%20Connecticut%20School%20Finance%20Project.pdf

Jeffrey Beckham questioned if there is any relevant case law on the compatibility with the payroll tax and the IRS, specifically pointing out that social security and pension earnings will be affected.

Commissioner Jackson discussed the difficulties and the legal roadblocks that his agency is faced with in regards to what data is available to complete the tasks assigned to this group.

Sen. Witkos asked what the \$100-\$300 million in savings to the state is attributable to. Ms. Roy explained that the savings is accomplished by not providing the full 5% credit against all brackets of the personal income tax. The two then discussed how payroll services would need to adjust their work according to this new payroll tax and whether this would be a substantial task. Sen. Witkos then spoke to the importance of providing proper education to the public on this issue so that they can be made aware of how these changes will affect them if they are to be adopted by the state- a calculator on the DRS website was suggested.

Commissioner Jackson warned the commission that due to the changing dynamics of the workforce in Connecticut the numbers and projections that may be available to the group for analysis may not provide a correct outlook of how a payroll tax may impact citizens.

Sen. Fonfara and Ms. Roy engaged in a conversation regarding how the payroll tax would impact Medicare and Social Security payments. Ms. Roy explained that the proposed payroll tax would reduce the total Medicare and Social Security payments Connecticut sends to the federal government by five percent. However, this would not impact the Medicare and Social Security benefits Connecticut receives from the federal government, nor would it impact what individuals receive for Medicare. Additionally, the payroll tax proposal would not impact what people have already put into Social Security or what they are currently receiving in benefits.

Sen. Fonfara and Ms. Roy then discussed how the adoption of a payroll tax will not only benefit certain citizens as it relates to SALT- in fact there are people in every town in the state that will be effected positively as it relates to SALT not just a certain group such as homeowners.

Commissioner Jackson moved on to point out the impact that raising the standard deduction would have on the SALT cap.

Rep. Davis then engaged in a discussion with Ms. Roy regarding the possible benefits that CT employers may have if they employ workers from other states.

Sen. Witkos then asked for clarification regarding how state employees would be impacted if the State of Connecticut was not subject to the payroll tax as an employer. In response Ms. Roy referenced page 11 on the FAQs document explaining that if the General Assembly decides the State of Connecticut is exempt from the payroll tax as an employer, state employees (like all wage earners) would still be subject to the reduced income tax rates on wages if the amount they earn is over the threshold. However, state employees earning less than the threshold would be part of the two thirds of current state income taxpayers who would no longer owe any state income tax, which means they would no longer see it deducted from their paychecks. Additionally, the implementation of the payroll tax, and any potential impacts on wages, could be taken into account when the wages portion of the SEBAC agreement expires and is renegotiated in 2021.

Jeffrey Beckham suggested that the commission research if there is a way to give businesses credit for their payroll tax liability through the other taxes we impose such as the corporation business tax.

Rep. Davis then spoke to possibly making the tax an optional one and also his overall skepticism that the payroll tax may be “too good to be true- why aren’t all states across the country doing this.” To the optionality component Ms. Roy pointed out that to make it optional would require a credit against the personal income tax and thus would be subject to IRS examination and putting employees in an uncertain tax position.

IV. NEXT MEETING:

TBD

V. CLOSING REMARKS:

Commissioner Jackson explained to members that the Department of Revenue Services as state statute has required is currently gathering the data it needs to evaluate the implementation of a payroll tax on employers in the state. The department has begun to develop and produce an information return form and, not later than August 15, 2019, to all such employers.

Rep. Rojas also urged commission members and interested members of the public to submit any questions they may have regarding the payroll tax ASAP so that the commission can prepare their work going forward.

Tom P. Spinella

Administrator