

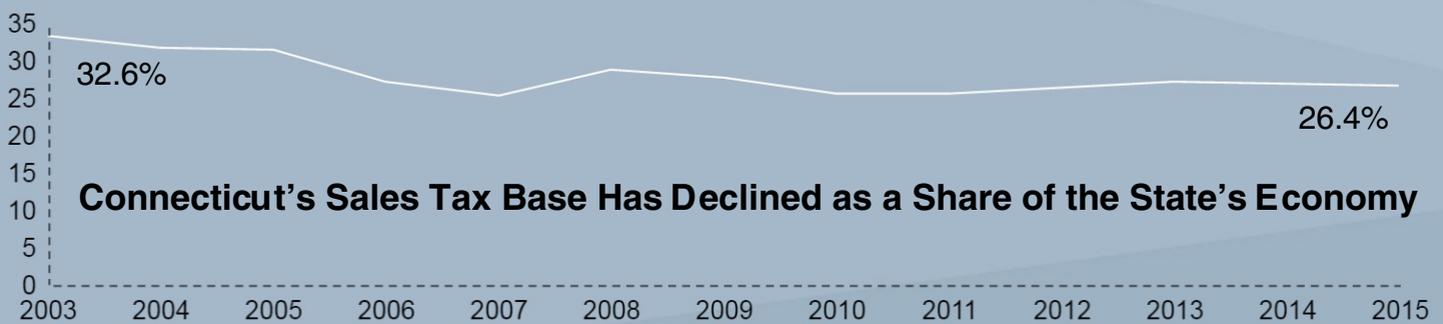
Modernizing the Sale Tax

A Bold Reform to Address CT's Fiscal Challenges

Failure to keep our laws up to date with the 21st century economy has weakened the sales tax as a stable source of revenue. Broadening the sales tax base to include services will strengthen the state's revenue system so that we can continue to invest in education, healthcare, transportation, and other critical services.

Ensures Revenue Adequacy

Over the past 40 years, the share of household spending on services has increased from one third to close to half of household budgets. Yet, services – such as interior design, tennis lessons, haircuts, car washes, pet grooming, bowling alleys, and taxi and limousine rides – remain largely untaxed. As a result, taxable sales as a share of total household income in Connecticut have declined from 32.6% in 2002 to 26.4% in 2015.



Generates Significant New Revenue

Broadening the sales tax base to include services while lowering the rate at the same time from 6.35% to 5.5% could generate \$730 million in new revenue annually. This amount of revenue would be enough to close 43% of the \$1.7 billion revenue shortfall in FY 2018.

Reduces Revenue Volatility

Consumers spend less when they earn less, naturally causing sales tax revenue to decline during recessions. But even when the economy grows slowly, people still consume services such as haircuts and dry-cleaning, and they may even consume more of certain services; for example, they may make more car repairs to put off having to buy a new car.

Creates a More Equitable Tax System

Expanding the sales tax to include services helps ensure that households with similar incomes and spending levels pay similar amounts of sales tax. The current system violates this goal by levying a tax on consumers who, for example, purchase equipment to maintain their own lawns but not those who buy lawn services.

