



News Release

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Connecticut should seek a balanced approach to the budget, raising new revenue and investing in long term economic health of state

Advocates encourage lawmakers to modernize the sales tax, reform wealth and income taxes, strengthen the corporate income tax, and review business tax breaks

NEW HAVEN – Long term investments in children and families have been the cornerstone of the state’s prosperity. To preserve these investments and support long term economic health, a balanced approach to the upcoming biennial budget must include new resources. A new report by Connecticut Voices for Children calls on lawmakers to avoid last year’s cuts-only approach by offering a menu of revenue options.

Per the report, the Governor and the Legislature can balance the budget with increased revenue, new strategic investments, and smaller budget cuts, and in so doing, position the state for a more prosperous future. The report focuses on several possible options to modernize Connecticut’s tax system, either by expanding its base or by closing business tax breaks that only favor a few.

Revenue Options Could Generate \$7 Million to \$3 Billion in New Revenue

Modernize Outdated Sales Tax	Apply sales tax to services*	\$730 million to \$1.5 billion
	Collect a larger share of taxes due on internet sales*	\$65 to \$75 million
	Apply the sales tax to digital downloads*	\$7 to \$11 million
Reform Wealth and Income Taxes	Increase personal income tax by a half a percentage point for top earners	\$238 million
	Higher rates on dividends and capital gains	\$134.6 million
	Repatriation of deferred management fees	To be determined
	Join regional compact to close carried interest loophole	\$535 million
	Improve enforcement of existing tax laws	\$40 million
Strengthen Corporate Income Tax	Adopt throwback rule to eliminate “nowhere income”*	\$12 to \$25 million
	Eliminate the corporate income tax capital base system and replace with a value-added tax as an alternative minimum tax*	To be determined
	Renew efforts to regularly review business tax breaks*	To be determined
Support Critical Programs	Enact sweetened beverage tax	\$85 to \$141 million
	Institute a low-wage employer fee	\$305 million

*Asterisk denotes policies discussed and/or recommended by State Tax Panel

“A cuts-only approach may offer a short-term solution to the budget deficit, but it does so at a significant cost to the long-term economic and social structure of the state,” says Derek Thomas, Fiscal Policy Fellow at Connecticut Voices for Children. “There are opportunities to invest in Connecticut’s future by

modernizing an outdated sales tax system, strengthening taxes on corporations, and reforming wealth and income taxes.”

The report build on policies discussed and/or recommended by the State Tax Panel, a body of experts who met over the course of two years to evaluate Connecticut’s state and local taxes. While the Panel’s final recommendations were required to be revenue neutral, the policies themselves can be adapted to yield new revenue to support essential investments in our future.

“The budget deficit we face results from decades of denial – the refusal to think long term about the impact of deferred pension payments,” says Ellen Shemitz, Executive Director at Connecticut Voices for Children. “The solution to the deficit lies not in repeating the short term thinking of the past, but rather in embracing a strategic development framework that includes investments in the people, places and things necessary to ensure a more inclusive, shared prosperity for the decades ahead.”

The report finds three challenges with the current revenue system. Income tax collections on corporate profits in Connecticut have dropped from 13.2 percent of general fund revenues in 1991 to less than 4 percent of overall tax collections in 2015, mainly because of the growth of business tax credits and tax avoidance. At the same time, sales tax revenue decreased from nearly a third (31.9 percent) of total general fund revenue to a quarter (25.2 percent) in 2015 as a result of a failure to keep our laws up to date with an economy that consumes far more services than it did 40 years ago. In addition, our overall state and local tax yields an effective tax rate that is higher for lower income taxpayers than for the wealthiest among us - increasing wealth disparity in a state already ranked third in terms of income and wealth equity.

Finally, in addition to sales, income, and corporate tax reform, the report suggests introducing a sweetened beverage tax and instituting a low wage employer fee to fund critical programs.

About Connecticut Voices for Children:

Connecticut Voices for Children is a research-based policy think tank based in New Haven, Connecticut. Our Mission is to promote the well-being of all of Connecticut's young people and their families by advocating for strategic public investments and wise public policies. To achieve these objectives, Connecticut Voices for Children produces high quality research and analysis, promotes citizen education, advocates for policy change at the state and local level and works to develop the next generation of leaders.