

# Connecticut's Tax Climate

Connecticut Tax Review Committee

April 21, 2015

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# About the Tax Foundation

- Nation's leading independent tax policy research organization
- Principled research, insightful analysis, and engaged experts
- 77 years of informing smarter tax policy at the federal, state, and local levels
- Tax systems that are simple, neutral, transparent, stable, and pro-growth
- State program named most impactful in state tax policy by *State Tax Notes* for 2011, 2012, & 2013

# Tax Foundation Annual Projects

- *Facts & Figures* booklet
- *State-Local Tax Burdens*
  - Connecticut residents pay 11.9% of their income in state-local taxes, the 3<sup>rd</sup> highest in the country
  - Consistently in highest five states since 1992
- *Tax Freedom Day*
  - For Connecticut, is on May 13 in 2015
  - National day is April 24
- *Location Matters*
- *State Business Tax Climate Index*

# Do Taxes Matter?

- Many things affect business and individual location decisions
- Taxes are part of that equation and policy changes can have immediate effects
- Anecdotes (Phil Mickelson, Tiger Woods, Gerard Depardieu, Tom Golisano)
- Migration effects in international tax policy are demonstrably large
- Migration is real enough that states seek to crack down on it

# Do Taxes Matter?

- Study of 26 peer-reviewed academic articles on relationship between taxes and economic growth
  - All but three find a negative effect of taxes on growth
  - Most harmful to least harmful: corporate income tax, individual income tax, consumption taxes, property taxes
  - Even CBPP concedes there are “some studies by reputable economists” finding high state-local taxes have “measurable and consistently adverse impact on state economic performance.”
- Short term vs. long term
- Total cost vs. marginal cost
- Benefits vs. costs

# Location Matters

## Effective Rates and State Ranks for New and Mature Firms

	New Firms		Mature Firms	
	<i>Effective Rate</i>	<i>State Rank</i>	<i>Effective Rate</i>	<i>State Rank</i>
Capital-Intensive Manufacturing Operation	9.8%	30	8.0%	14
Labor-Intensive Manufacturing Operation	9.8%	26	6.7%	12
Call Center	35.4%	46	26.9%	46
Distribution Center	42.3%	38	32.3%	36
Corporate Headquarters	22.1%	46	19.0%	44
Research and Development (R&D) Facility	21.8%	49	14.5%	42
Retail Store	42.5%	46	20.9%	44

- High corporate tax rate but single sales factor apportionment and no throwback rule
- High unemployment insurance taxes
- Capital stock tax (one of 18 states)

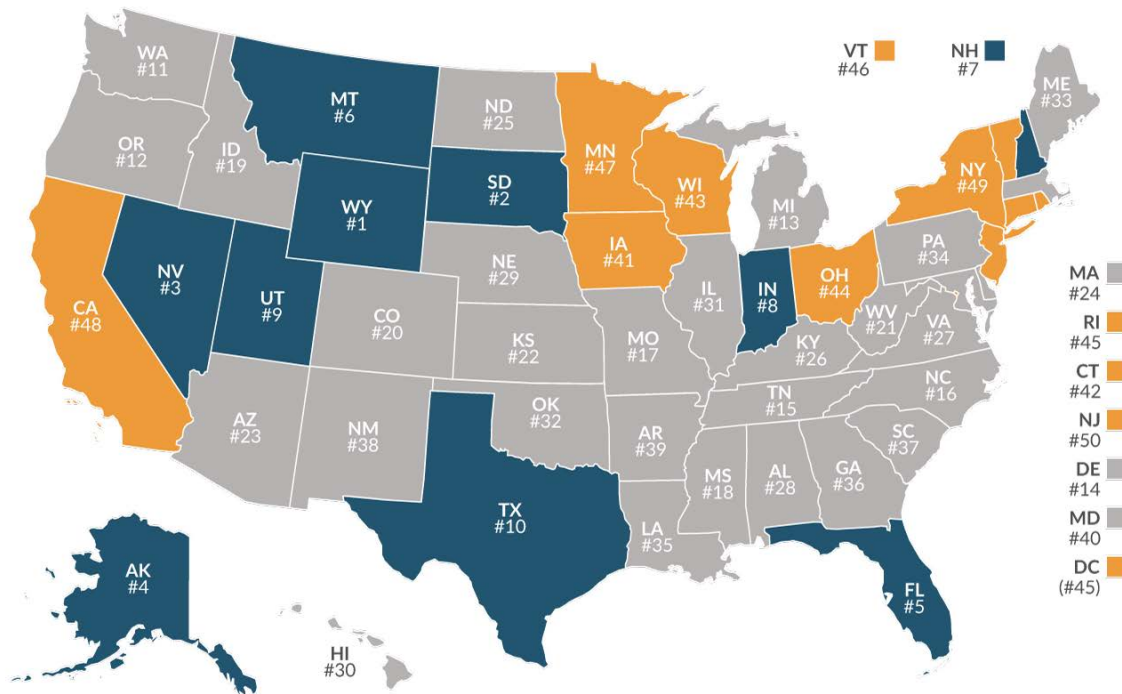
# State Business Tax Climate Index

- *How* (not *how much*)
- Ranking of status quo (as of July 1) and roadmap for improving
- Overall rank and five component ranks
  - Individual Income, Corporate Income, Sales, Unemployment, and Property/Wealth
- Widely cited and used by media, policymakers, and other indices
- Downloaded 500,000 times a year
- Survey of academics, policymakers, and media named it 21<sup>st</sup> best think tank policy report in the world

# State Business Tax Climate Index

## 2015 State Business Tax Climate Index

Which states have the most competitive business tax systems?



Note: Published October 28, 2014.  
 Source: State Business Tax Climate Index.

- 10 Best Business Tax Climates
- 10 Worst Business Tax Climates





# State Business Tax Climate Index

- Connecticut's overall rank is **42nd**
  - 1<sup>st</sup> being best, 50<sup>th</sup> being worst
- Corporate Tax Component: 32nd
- Sales Tax Component: 42nd
- Unemployment Insurance Tax Component: 20th
- Property Tax Component: 49th
- Individual Income Tax Component: 34th

# State Business Tax Climate Index

- Individual income tax recapture provision
- Income tax brackets not indexed for inflation
- Corporate income tax 20% surtax
- No net operating loss (NOL) carryback provision
- Capital stock tax
- Estate tax (\$2m threshold) and gift tax
- Sales tax rate of 6.35% ranks 31<sup>st</sup> highest
- Sales tax breadth low, about 26%

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