

3. The Connecticut General Business Taxation The Corporate Net Income (Profits) Tax and Its Alternatives

Discussion Draft

12.12.15

Replace the Corporate Net Income (Profits) Tax with a Broad Based/Low Rate Alternative

Recommendation 1. Alternatives to the Corporate Net Income

Replace the Corporate Net Income Tax (CIT) with either a broad based tax on value added (VAT) or on gross business receipts (GRT). To accomplish this the state shall first undertake a study of the structural impacts and tradeoff and the issues of implementing such a tax replacement. In examining these broad-based tax options to be imposed uniformly on corporate and non-corporate businesses alike, the state shall also examine how the adoption of a tax regime with a broader base and much lower rate tax can become a strategy for further modernizing and stabilizing the current business tax system. This includes (i) eliminating the capital base system (ii) phasing-out the proliferation of tax credits that can now be applied against the corporate net income tax, and (iii) phasing- in the exemption of business-to business transactions from the retail sales tax

- Revenue implications: the analysis is to be carried out on an equal-yield/revenue neutral basis of the alternatives vis-à-vis the current corporate tax structure.

Relating to the Existing Corporate Net Income Tax

Recommendation 2. Capital Base System

Eliminate computation of the capital base (stock) tax that serves as an alternative method of calculating taxpayer corporate income tax liability.

- Revenue implications: since, at present, the corporate taxpayer is required to pay the higher of the two tax liability calculations—capital base and capital net income, any revenue losses would be made up by raising the corporate net income tax rate and/or placing limits on the issuance of new credits against the net income tax.

Recommendation 3: Proliferation of Tax Credits

Discontinue the practice of issuing new tax credits that erode the base of the corporate net income tax, and also evaluate existing credits as to whether they are achieving their intended objectives. If credits are intended to provide general tax reduction, then phase out the credits and lower the statutory rate. If credits are intended to promote economic development, then efforts are to be made to identify policies that can promote economic growth at lower revenue costs to the state.

- Revenue Implications:

Recommendation 4. Mandatory combined reporting

Maintain mandatory combined reporting for entities that are part of a unitary business and require that unitary groups be broadly inclusive.

- Connecticut currently allows for combined reporting. Thus there is an expected gain by moving to mandatory combined reporting. However, a large jump in revenues should not be anticipated.

Recommendation 5. Apportionment of Multi-state income

Broadly adopt single sales apportionment.