

State Tax Panel Meeting

October 27, 2015 10:00 AM in Room 2B

Minutes

The meeting was called to order at 10:10 by Co-chair Bill Dyson Present were voting members: Melinda Agsten, Alan Clavette, Bill Nickerson Tiana Gianopulos, John Elsesser, Lou Schatz, Annika Singh Lemar, Don Marchand. Al Casella, David Nee, Howard K. Hill, Bill Dyson, Robert Testo and Marian Galbraith. Also in attendance were ex-officio members: Ben Barnes, Sen. Scott Frantz, Commissioner Kevin Sullivan, Rep. Jeff Berger and Rep. Vinny Candelora (alternate for Rep. Chris Davis). Absent were: Sen. John Fonfara. Sen. Martin Looney, Rep. Brendan Sharkey, Bill Breetz(out of state), and Rep. Chris Davis(family conflict)

Also present were: Robert Ebel, Michael Bell, and Mary Finnegan.

Chairman's Remarks and Discussion: Bill Dyson welcomed members and indicated that we had a very full day ahead. He also indicated that members of the panel should expect that the next three meetings would be lengthy and that a great deal of information would be sent electronically for those meetings. The next meeting is November 17th at 10:00 am in Room 2D. He also stated that the chairs had heard from a few members on the new probate fee issue and why it was not fully addressed in the paper on the estate tax. In particular panelists Don Marchand and Al Casella had stressed the need for us to look at the cost of probate as part of the whole picture on Estate and Gift tax. Sen. Frantz also mentioned his support of this being included since it eliminated a \$12,500 cap on Court probate fees and doubled the fees on estates worth more than \$2 million. Bill Nickerson indicated that at this late date it was not possible to expand the scope to include a paper on this topic but would suggest that Bob Ebel provide a short synopsis of the issue. Anika Lemar asked if other topics can be suggested for panel consideration. She stressed that we should be looking at empirical data and there are too many other options that other members might want to discuss. Commissioner Sullivan remarked that we had much work left to do and the panel could get hijacked by an issue that is not a tax but fits into the world of fees. Why this, what else? Bill Dyson indicated that he wanted members to keep an open mind and we would be discussing many topics later before voting. He wants everyone to have the chance to state their case. Sen. Frantz re-iterated that as public officials they have to look at those in desperate need and keep a large part of the tax base with a predictable revenue stream. Bill Dyson stressed that the timeframe was now too short to put something out there given the limitations involved and the compressed timetable. David Nee felt that this issue should not be included and he felt strongly about the EITC

issue and others may too. New issues may arise but the timeframe does not allow for in depth analysis on a myriad of other topics.

Consultants Remarks: Bob Ebel remarked that the consultants had looked at this issue early on but did not include it in the final analysis as they saw it as more of an expenditure issue. This issue also was not relevant when we adopted the scope of study. John Elsesser asked that the panel hear from the consultants and stated that we should not look at fees.

Connecticut Estate and Gift Taxes: Karen Smith Conway, Professor of Economics, University of New Hampshire and Jonathan C. Rork, Professor of Economics, Reed College (by conference call)

(This power point and all supporting documents are located on-line on our website: (www.cga.ct.gov, go to committees, then Finance. then scroll to the bottom left for tax panel documents)

Karen Conway spoke about the concern that people have that taxes are driving people out of CT. Migration is now to NY, Mass, Fla and the Carolinas but is dependent on other factors such as being close to family, job opportunities, weather conditions as well. She indicated that estate, inheritance, and gift (EIG) taxes are notoriously volatile and hard to predict. Not only is it dependent on people dying, but it can also be paid many years later than the death occurs. Since 2001, CT EIG tax revenue as a share of total tax revenues has exhibited a decreasing trend from a high of 2.5% to currently below 1%. Also CT is the only State to levy a stand-alone gift tax. This tax is one of the progressive elements of the tax system in CT. CT does not have "portability" which would double the exemption for married couples. Commissioner Sullivan mentioned that CT has an absolute lifetime cap of \$20 million which includes gifts as well. Sen. Frantz asked that the research look at other states not just New England if possible.

Connecticut also has the largest growth in income inequality. Tiana Gianopulos indicated that clients can elect a 6166 election for income tax if a business is part of the equation so that it could be paid over time. Bill Nickerson again mentioned that 30,000 people pay 45% of the taxes. Karen Conway replied that she is not saying that some people move because of taxation but she did not find a migration effect in the data. David Nee mentioned a PRI study from 2006 that found no correlation between taxes and out-migration, but unemployment and low incomes were a factor. ***The link to this report is www.cga.ct.gov - click on offices, click on Program Review and Investigations, click studies, scroll to taxes and click on report on Connecticut's Tax System where there will be a final report and summary. Karen Conway said that patterns are changing and Connecticut lost more elderly to other states in the 1980's than we do now. On this topic, Rep. Dyson remarked that there is a song some will sing regardless of what you say.

Options offered for consideration are outlined in the position paper which is on-line.

Policy options include: Retain the current EIG Tax, Allow for a state-specific QTIP election, Conform to the Federal Estate Tax, Increase the Marginal Tax Rate on Federally Taxable Estates, Eliminate the Gift Tax, Eliminate the Estate and Gift Tax..

Ben Barnes indicated that low gift numbers in 2013 and 2014 may be misleading because federal policy changes in January of 2013 accelerated gift payments in December 2012.

Meeting recessed at 12:40 pm and reconvened at 1:15 pm.

General Sales Taxation in Connecticut: William F. Fox, Ergen Professor of Business and Director, Center for Business and Economic Research, Haslam College of Business, University of Tennessee

William Fox introduced the overall topic of sales tax which included a summary of findings and a mix of policy options. He mentioned that Connecticut gets 25% of its revenue from the tax which is low by national standard of 31.2%. The sales and use tax base is 27.9% of personal income where the national average is 36.8%. Our standard rate of 6.35% is below the median state and local sales tax rate of about 6.9% across the country. Most states have one or two sales tax rates but Connecticut has 7. His report is based on sales tax as a levy on final consumption. Dr. Fox also mentioned that we have 86 exemptions in statute that are for intermediate purchases and not consumption. Taxation of intermediate purchases raises the cost of doing business in CT, pyramids and therefore changes relative prices that affect consumption decisions and potentially alters firm behavior. Anika Lemar asked about the relationship between increased spending on taxable items by young families and Connecticut's aging population. Don Marchand indicated that on-line sales are not taxed at the same rate as store bought purchases. Melinda Agsten also mentioned that there is an incentive to participate in underground bartering in order to avoid the sales tax. Dr. Fox indicated that the best policy is to tax consumption broadly at a low rate and allow for as few exemptions as possible. The report looks at some things currently exempt such as food for consumption, sales tax holidays, residential utilities and residential repairs and renovations. We also need to look at taxing goods from out of state for consumption in the state. E-commerce items should be taxed at the same rate if it is a remote purchase or an in-state purchase. Sales from out of state vendors are not reported and sales tax is often not paid. Robert Testo asked why we don't enlist the help of NESTOA or some other organization to combat this. Dr. Fox indicated that CT should look at being part the Streamlined Sales Tax Project. John Elsesser mentioned that Ohio is using GRT to collect internet sales. Dr. Fox again spoke to the need to tax consumption as broadly as possible.

Policy recommendations included: reduce the number of sales tax rates, impose tax on all food purchases, eliminate the sales tax holiday, broaden the base, reduce taxes on intermediate services particularly employment and computer services, legislate a less stringent ownership rule for exemptions when services are sold between a parent and subsidiary, look at exemption for charitable organizations, impose sales tax on government entities, join the Streamlined Sales Tax Project, expand the definition of nexus, levy sales taxes on the sharing economy and use internet platforms like Airbnb and Uber to collect the tax, digitized downloads should be at the same tax rate as hard-

copy purchases, ask DRS to review taxes on sharing economy and digitized economy, and lastly allow a refund for the included sales tax when private label credit cards were used to finance a purchase that becomes a bad debt. Melinda Agsten cautioned that Connecticut needs to be careful that “non-profit” does not mean “tax-exempt” as Federal determination is needed. John Elsesser expressed concern that levying sales taxes on local governments would raise property taxes. Commissioner Sullivan indicated that these policy changes would assume no “sacred cows” for the Legislature.

Connecticut Taxation of Real Property Overview and Properties Exempt from Paying Property Taxes: Michael E. Bell, MEB Associates, Research Professor, Institute of Public Policy, George Washington University

Dr. Bell introduced the first of his two papers which was an overview of Connecticut Property Tax Policy. He informed the panel that CT’s property tax base is generally broader than that of other states because it includes selected personal property as well as motor vehicles. Connecticut is also very reliant on the property tax revenues ranking 5th. He also was critical of the five year assessment cycle as it distorts measures of assessment quality. The State also provides 22 full property tax exemptions for certain types and uses of property. There is also a wide disparity among municipalities and their reliance on these revenues. Property tax in Connecticut is regressive in that the households with the lowest income pay 25.9% of all property taxes and the 357 households with the highest incomes pay 1.9%. Property tax relief provided to residential property owners is very modest. Anika Lemar indicated that the property owners ability to react is limited, and local zoning of lot size and density also influence land use. Commissioner Sullivan asked what the purpose of the 70% assessment ratio was and Dr. Bell indicated that it was to conform to assessment practices and create uniform ratios across municipalities. Net grand list is used to apply State aid in a conformed way. Dr. Bell expressed concern that there is little oversight of the process, and stated that fractional assessments undermine transparency and recommended the panel consider a 100% assessment with an equal yield reduction in mill rate. Connecticut has a five year assessment cycle while the majority of states use CAMA to do one year cycles. John Elsesser responded that towns take all the parts of the budget and then fill the hole with property tax. Michael Bell indicated that we need to look at a broader base for the property tax. The property tax tends to be a stable revenue source because it is based on asset value, not an annual stream of income or sales. A more ideal property tax would include all forms of real property, i.e., land and structures for both residential and commercial properties, agricultural land and property owned by governments and non- profit organizations alike. The property tax deals with property values and not income levels.

The second paper titled Properties Exempt from Paying Property Taxes in Connecticut was summarized by Michael Bell. Dr. Bell stated that Connecticut is one of only two states where the state has taken on the responsibility of reimbursing local governments for foregone revenues due to exempt properties. A summary of policy options included maintain the status quo, develop a traditional PILOT program to generate revenues from tax exempt properties to help finance the delivery of public services benefitting

those properties, limit the value of real property exempt from taxation for individual properties, phase out property tax exemptions for selected properties, and finally return responsibility for establishing property tax exemptions to local governments. A lively discussion ensued on the current tax system and home rule. Melinda Agsten indicated that the National Lincoln Institute on Land Policy identified Boston's policy as a best practice.

Meeting adjourned at 4:30 pm

Next Meeting is Tuesday, November 17, 2015 at 10:00 am-4:00 pm in Room 2B.

Respectfully submitted,

Mary E. Finnegan
Administrator, State Tax Panel