

## State Tax Panel Meeting

December 8, 2015 10:00 AM in Room 2B

### Minutes

The meeting was called to order at 10:10 by Co-chair Bill Nickerson. 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 (by conference call), Howard K. Hill, Robert Testo and Marian Galbraith. Also in attendance was ex-officio members: Tom Fiore for Ben Barnes, and Commissioner Kevin Sullivan

Rep. Jeff Berger, Rep. Chris Davis. Sen. Scott Frantz, Sen. John Fonfara. Sen. Martin Looney, Rep. Brendan Sharkey (were all absent because of special session), and Bill Breetz and Bill Dyson also were absent.

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

#### **Chairman's Remarks and Discussion:**

Bill Nickerson addressed the members on how we would proceed with the agreed upon recommendations and also the policy issues to be addressed over time. Commissioner Sullivan indicated that he saw the approach as one where we would explain the principles we were guided by as well as the need for revenue neutrality. He also stated that we should stress the extensive review that was undertaken and the path we took to get to the recommendations we were making. We should also mention the need for fiscal accountability as we consider moving in these directions. Bob Ebel then addressed the panel and mentioned the order of the topics to be discussed. He stated that we should be guided by what makes sense for the 2020's. All materials related to the discussion are on our website. The first topic was the **Personal Income Tax**. In regards to the retirement income policy option, Commissioner Sullivan indicated that the report should say "all non-ERISA" retirement income. A great deal of discussion ensued about the possible recommendations and whether the personal income tax should be based on Federal Taxable Income. The consensus seemed to be that we should stay with the Federal AGI. Lou Schatz clarified that the EITC will be going back to 30%. Anika Singh Lemar questioned whether people leave or not because of taxation. Many complain that their taxes are too high whether it is state, federal, property or estate. We need to define who we are trying to invest in. Are we serving the needs of young people? Upon whom do we want the tax burden to fall? She also endorsed taxing retirement income on a means tested basis. John Elsesser indicated he also supported taxing retirement income with a cap or means-testing. Don Marchand wished to look at who is subject to personal income tax and look at taxing part-time residents if they live

in two different states. Melinda Agsten said she is not convinced that older people leave because of taxes. A few members questioned why teacher's and military personnel have some exclusion and others do not. What is the policy reason? The next topic was **Business Taxes**. Commissioner Sullivan indicated that we need to start with what is not what was. The 2015 Legislature made some significant changes that were being modified today in the special session. Bill Nickerson felt the current system of credits was not sustainable and needed to be examined. He also expressed concern with moving towards a Gross Receipts Tax (GRT) or Value Added Tax (VAT) due to the burden on unprofitable businesses, particularly start-ups. John Elsesser said that we need to look at small businesses and start-ups and how we can help them. Bob Ebel did clarify that Net Operating Losses (NOLs) would carry forward under a GRT or VAT scheme. Commissioner Sullivan asked if we need to move toward something else if there is dissatisfaction with two primary taxes and the fee? Anika Singh Lemar indicated that she was not afraid of innovation and would endorse a GRT or a VAT. Melinda Agsten supported making changes to the current Corporate Income Tax structure in the short-term and converting to the GRT or VAT long-term. Anika Singh Lemar indicated that everything we heard suggested the best policy was to broaden the base and lower rates. Marian Galbraith also supported moving to a GRT. Robert Testo said he was willing to be bold if we create a system for new businesses to thrive. The **Sales Tax** rates and exemptions were discussed based on the research papers presented. Anika Singh Lemar stated that we need to look at public policy for exemptions and not just special interests or lobbyists. To broaden the base we need to have policy reasons for any exemptions. Alan Clavette suggested rather than enumerating services to be taxed in statute, all services be taxed unless exempted based on a public policy position. John Elsesser indicated the revenue loss from exempting business-to-business transactions from sales tax could be tied to a business GRT or VAT. The next topic was **Estate and Gift taxes**. Tiana Gianopulos discussed the QTIP provision on estates and the need to modify. She also supported that the estate tax settlement should align with the Federal one of 9 months rather than 6 months. Both Al Casella and Melinda Agsten indicated that they see out-migration in their practice partially as a result of our tax system on estates. Bob Ebel mentioned that the data they had available was from 2013. More recent numbers might reflect an increase in out-migration patterns. Anika Singh Lemar spoke of the systemic inequality and that the very rich are not representative of Connecticut. She would like to base policy recommendations on real actual data. She also indicated that she might have to submit a minority report on this topic. The issue of portability was also discussed. The panel then moved on to a discussion on **Property Taxes**. Much discussion ensued on the role of the state and local taxation issues. The use of the Council of Governments (COGs) was also discussed and John Elsesser mentioned the "Nutmeg" effort whereby 74 towns joined in doing regional revaluations. A lively discussion took place on the expansion of what is taxable property and how to put policy reasons behind the changes. Methodology was also discussed as well as the cycle time for revaluations, and Public Act 490 definitions. Local sales tax options were discussed as well as the new changes made by the Legislature. Tom Fiore (OPM) mentioned the Municipal Revenue Sharing Account that that would give towns a half-percent of the state sales tax revenue by Fiscal Year 2018. He indicated that the special session today is

considering a bill which would delay the January start date to May. John Elsesser would like to have the State collect the local sales tax portion for regional COG's and then distribute on a needs capacity. Bill Nickerson was concerned this would lead to a whole new level of government. Marian Galbraith answered that the COG's already make decisions and the towns are wary that the State will not follow through on its promises of revenue diversions from the state sales tax.

All recommendations and suggestions agreed to by the panel will be discussed for final action at the meeting on December 15, 2015 at 10:00 am in Room 2B of the Legislative Office Building.

**(All supporting documents are located on-line on our website: ([www.cga.ct.gov](http://www.cga.ct.gov), go to committees, then Finance. then scroll to the bottom left for tax panel documents)**

Meeting adjourned at 4:40 pm

Next Meeting: Tuesday, December 15, 2015 at 10:00 am-5:00 pm in Room 2B

Respectfully submitted,

Mary E. Finnegan  
Administrator, State Tax Panel