

State Tax Panel Meeting

October 13, 2015 10:00 AM in Room 2B
Minutes

The meeting was called to order at 10:20 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. David Nee, Also in attendance were ex-officio members: Ben Barnes, Sen. Scott Frantz, Commissioner Kevin Sullivan, Rep. Jeff Berger. **Absent** were: Bill Dyson (conflict) Sen. John Fonfara. Sen. Martin Looney, Rep. Brendan Sharkey, Robert Testo, Marian Galbraith(work conflict) , Bill Breetz, and Rep. Chris Davis(family conflict), Howard K. Hill and Al Casella(out of state for work).

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

Chairman's Remarks: Bill Nickerson indicated that today's meeting will be a turning point for the panel as we now start to look at individual taxes and not just the economy overall. He also indicated that there was a huge workload ahead. He asked the panel to consider adding back the December 8th meeting at 10:00 am and this was approved by the members. At that time conversation will begin on possible recommendations for inclusion in the final report of the panel. The consultants will provide a summary of findings with potential options and recommendations by December 1st for review. No votes will be taken until the final meeting on December 15th.

Consultants Remarks: Bob Ebel indicated that the options and recommendations will be based on feedback, discussion papers and recommendations by the expert presenters.

Commissioner Sullivan asked how CBIA got to present, and what the process would be if other advocacy groups also wanted to present before the panel. Bill Nickerson indicated that they had requested presenting a panel at the hearing and the chairs felt it would be more beneficial if they presented at a meeting. If other groups ask to present the chairs would entertain their requests within the timeframe we have available.

A power point presentation was made (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)

Testimony: **Connecticut Business and Industry Association.** All six presenters discussed general business tax policy, with the first three focusing on C corporations and the remaining three on pass-through entities.

- Harry Im, United Technologies Corporation
- Jerry Maher, Boehringer Ingelheim
- Stephen LaRosa, Alexion Pharmaceuticals
- Alan Lieberman, Shipman & Goodwin
- Patrick Duffany, CohnReznick
- Tony Switajewski, Blum, Shapiro and Company

A lively discussion occurred after the presentation. Annika Singh Lemar asked what besides taxes matter to businesses in the location decisions, and indicated that altering taxes may make us more competitive but could lead to lower spending on education. Alan Clavette stated that our charge was revenue neutrality and that indicators were we should broaden the base and lower the rate. Harry Im indicated that businesses would not like to see it broadened on business inputs.. Steve LaRosa stated that we are almost out of runway and it will be hard to remain competitive as everyone is concerned about growth. Jerry Maher mentioned that the R&D tax credit is key as it is tied to good jobs that pay well, and hence we reap the benefits of higher IT collections and property tax too. Kevin Sullivan indicated that for business executives, IT, gift and estate taxes matter. In the last few months Commissioner Sullivan indicated that we heard from two camps that (A) Connecticut is anti-business (B) businesses should pay more. OPM Secretary Ben Barnes asked about the idea of avoiding tax inputs so we are taxing based on generation of profits. Harry Im said that companies look for stability and our system of taxation seems to be stop gap. Ben Barnes agreed that often we are driven by a need for revenues to provide public services. Harry Im indicated that Connecticut needs an overall tax policy that companies can rely on for stability and not just one to fill short term needs. Sen. Frantz asked the panel to respond on a scale of 1-10 how competitive are we? Harry Im indicated and the other panelists agreed that we were below 4. Commissioner Sullivan indicated that in a global market place we need to hold on to high paying jobs and not just increase low paying jobs.

Alan Lieberman then discussed pass through entity taxation. A detailed power point with examples is on our website. Commissioner Sullivan indicated for the record that to operate as a partnership you must pay \$250 whether you make money or not. Tony Switajewski indicated that they would like to see parity between c-corps and pass through entities. Lou Schatz indicted that there was a penalty to in-state businesses with non-resident ownership. Another troublesome issue for practitioners is retroactive taxation that the Legislature has enacted recently. He also stated that tax credits should be available to all businesses and everyone should be treated equally when it comes to credits. Alan Clavette indicated that this is always in dispute as they are public companies that can raise capital. Bob Ebel indicated that the question is always do we tax at the origin or the destination? OPM Secretary Ben Barnes stated that so far Connecticut has not crossed the Rubicon to allow business credits against the personal income tax. Oftentimes businesses organize as to what is better for them at the Federal

level. Patrick Duffany believes that the goal of taxation should be pro jobs. Bill Nickerson asked what it would look like if we eliminated all tax credits except R&D. The response was that you cannot anticipate policy around decisions that companies make.

Meeting recessed at 12:10 pm and reconvened at 12:30 pm

1. Presentation

Fiscal Architecture: What Makes Fiscal Sense in the Context of Connecticut's Economic, Demographic and Institutional Realities and Trends?

Sally Wallace
Professor of Economics and Director, Fiscal Research Center
Andrew Young School of Policy Studies
Georgia State University

A power point presentation was given that is available on our website. Commissioner Sullivan asked if pages 9-10 in the text were indicative of residents leaving CT to go to lower tax states. Sally Wallace replied that the migrations were to Florida, New York, Massachusetts, California and Pennsylvania. Taxation plays a part but employment opportunities and family also matter. Some of these states have higher tax rates. Commissioner Sullivan and Sen. Frantz both indicated they would like to see possible data on out-migration income. Bill Nickerson stressed that 1/10th of 1% in Connecticut pay 45% of the income tax right now. This can be very volatile and he wondered how this compared to the national picture. Sally Wallace indicated that Connecticut is different due to demographics, aging population, and income disparity.

2. Presentation

General Business Taxation: Net Income (Profits), Value Added Tax, Gross Receipts Tax

LeAnn Luna, Professor of Accounting
Center for Business and Economic Research
University of Tennessee

Matthew Murray, Professor of Economics and Director, Howard H. Baker, Jr. Center for Public Policy
University of Tennessee

A detailed power point is on- line at the website.

LeAnn Luna said that Connecticut appears to be in line with the region with the corporation tax rate at 7.5% until you add the surcharge which brings it to 9% on the top end c-corporations. She asked the panel to consider do we tax at the origin or destination. Economic theory suggests that destination is best. The corporation tax is very volatile, ranging from a recent high of \$900 million in 2007 to \$450 million in 2009 during the recession. It is currently running at about \$600 million. She also noted that

Connecticut is going to combined reporting as of January but there is no clear data on whether that will increase revenue. New York and Vermont have done this also but they are too recent to get a better picture. Sen. Frantz asked if they had looked at Connecticut's changes to personal income tax and the effects that might have on companies doing business here. Lee Ann Luna indicated that it would be hard to answer. Business income tax is levied only on profits or capital of C corps. Businesses organized as S corps, LLCs and sole proprietorships are captured by the income tax.

Tax credits were of concern to Bill Nickerson and he asked if we were studying the productivity of the credit. The answer was it is hard to match credits to growth but that DECD does track them according to Commissioner Sullivan. Credits after 2014 were limited to 50.01% of tax liability down from 70% for years prior. Matthew Murray indicated that we have 2.5 billion in unused credits out there now and that it would take about 16 years to use all the credits. Matthew Murray indicated tax credits used to develop human capital or infrastructure could be beneficial, but not when tax credits are used to reduce tax liability. The presenters brought forward in their power point suggested changes to the current corporate income tax structure that the panel could consider in its deliberations. Matthew Murray and LeAnn Luna then also discussed a shift from the corporate income tax to a gross receipts tax or a value added tax. There would be significant winner and losers in these approaches. Sen. Frantz told the panel that there are currently 387 taxes in Connecticut and our report card is poor. If we want to spur economic development our tax policy is crucial. Commissioner Sullivan indicated that there was a huge outcry that we are still feeling because of the way the new taxes were implemented this year and said there should have been a hearing. John Elsesser indicated he was concerned about the competitiveness of the GRT. Lee Ann Luna indicated that administrative costs would go way down under the GRT.

Bill Nickerson reminded the members that the next few meetings are crucial to the panel's work and final product. He would like to get active participation so we can look toward some consensus.

The meeting adjourned at 2:50 pm.

****Next Meeting is Tuesday, October 27, 2015 at 10:00 am in Room 2B. This meeting will be longer in duration as it is scheduled to run until 4:00 pm and will cover Estate and Gift Taxation, Sales and Use Taxes, Personal Income Taxes, Property Tax, PILOT and Tax Exempt Properties.**

Respectfully submitted,

**Mary E. Finnegan
Administrator, State Tax Panel**

