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Testimony in front of the Connecticut Tax Panel - Roger Senserrich

9/16/15 – Connecticut Association for Human Services

Good morning Senator Fonfara, Representative Berger and members of the Tax Panel. My name is Roger Senserrich, and I am the Policy Director at the Connecticut Association for Human Services (CAHS). CAHS is a statewide non profit agency that works to reduce poverty and promote economic success through both policy and program work.

I am here to encourage the panel to take bold steps to update Connecticut's obsolete tax structure. Any reform should introduce some significant and necessary changes to Connecticut's property tax system, making it more fair and efficient, and work to make the state's tax code more family friendly.

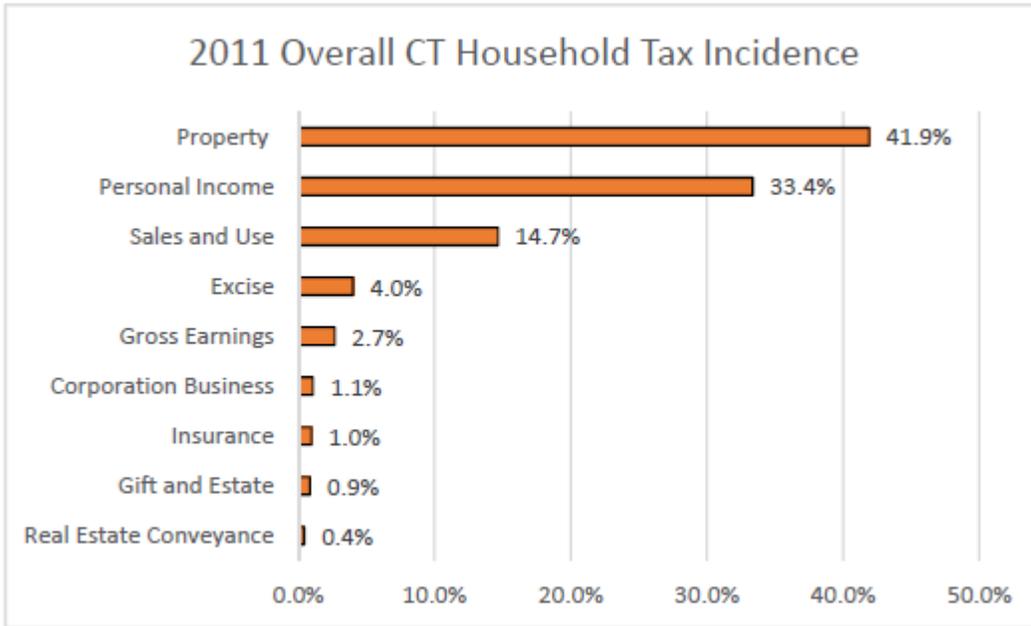
Supporting families

Although Connecticut prides itself for a strong commitment to children, our tax system is uniquely unfriendly to families. Connecticut is one of the only two statesⁱ that does not offer child tax credits or exemptions on its income tax, compensating from the cost of dependents. Our parents pay the same burden as couples without kids, despite the very high cost of childcare in the state.

The state needs to address this issue. We encourage the tax panel to consider the creation of a dependent care exemption to provide additional support to families with children. In addition, the panel should consider fully restoring the state earned income tax credit, providing additional support and rewarding work among low-income parents. The panel should also evaluate the possibility of creating a state child tax credit to either complement the current system or target it more effectively to families in need.

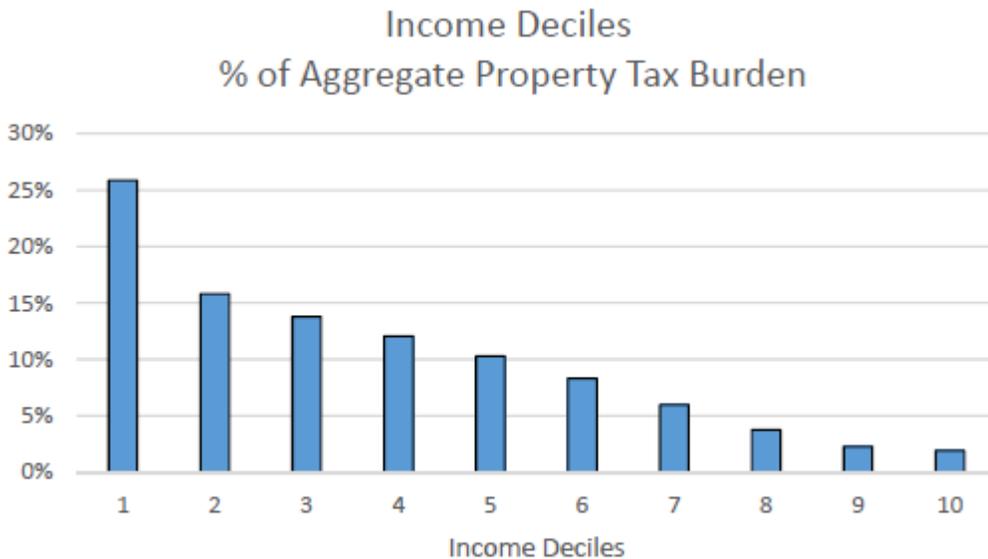
Property tax reform:

The property tax raises the lion's share of public revenue in the state, covering 41.9% of all taxes paid by Connecticut Householdsⁱⁱ in 2011.



Property taxes are fairly progressive within a town, as property values are closely aligned with wealth. Connecticut’s municipalities, however, are very different from each other; due to the state’s marked income and racial segregationⁱⁱⁱ, wealth is often concentrated by town, with municipal boundaries marking very large disparities. As a result, the mill rates tend to be lower in wealthier towns, and higher in poorer cities, as their grand list includes older, smaller, less valuable housing stock and commercial properties, and more tax exempt institutions.

This makes Connecticut’s property taxes very regressive: households in the top 10% of the income distribution pay less than 1% of their income in property taxes, while those in the bottom 10% pay more than 12%^{iv}:



To partially address these disparities, the General Assembly considered some significant reforms this past session. The main reform bill, S.B.1, contained three main components: **a state wide motor vehicle tax**, **Payment on Lieu of Taxes (PILOT) reform**, and the creation of **a regional tax base revenue system**.

The reforms included in S.B.1 were included in the budget, albeit with some changes. The first piece, car taxes, will immediately provide relief to low income households and make property taxes less regressive. The changes

to the PILOT formula will provide additional resources to the municipalities that concentrate most non-taxable properties, Connecticut's large cities.

The third component, however, the **regional property tax base revenue system for commercial and industrial property**, was largely rendered irrelevant in the final bill. The original framework was largely similar to the very successful Minnesota Metropolitan Revenue Distribution model^v, established in 1971 in the Twin Cities region. Under this framework, each community contributes 40 percent of the growth of its commercial and industrial property tax base after a specific year (1971 for the Twin Cities, 2013 under S.B.1) to a regional pool. The funds are redistributed based on a formula that takes into account a jurisdiction's population and fiscal capacity, as defined as per capita real property valuation.

According to former Minnesota State Representative Myron Orfield, an expert on regional revenue-sharing, the system has reduced tax-base disparities among Twin Cities' communities from 50:1 to roughly 12:1^{vi}. The system has not eliminated disparities, because 60% of any new revenue from commercial development remains in the host community. The Metropolitan Council reports the program has led to twice as many cities gaining revenue (119) than those cities losing revenue (61). Approximately 32 percent of the region's commercial/industrial tax-base is shared, making up 10 percent of the region's total tax base.

The impact of this reform goes beyond revenue, as it reduces the incentives for municipalities to compete for new development to shore up their tax bases. Under the initial draft, cities and towns would have been able to plan on a regional level, placing a stronger focus on smart growth. As any new development would have benefited the region as a whole, with the town hosting the new development receiving additional revenue to pay for their costs, municipalities would have had a strong incentive together to protect open spaces, focus on infill development and placing new projects close to infrastructure hubs. This legislation would have given rural communities and suburbs the tools to preserve their character, as they no longer need to attract development at any cost to expand their grant list, while also enabling cities to attract new development more effectively.

Unfortunately, the final legislation introduced two significant changes. First, the revenue will be split 80-20 between the host town and the region, reducing the incentive to rebalance growth and ease the pressure on core cities. Second, and crucially, the revenue sharing system only comes into effect if all the municipalities within a regional Council of Governments agree to participate in it. As a result, this component of the reform bill remains underused, as cities and towns do not enough incentives to cooperate.

We suggest that the committee expand and reinforce the revenue sharing system approved during this past session. Property taxes in Connecticut are not only extraordinarily regressive, but produce very strong incentives to steer investment away from our poorest communities. With a strong reform, Connecticut metropolitan areas would be able to rebalance their growth patterns between the core and outer areas, avoiding the harmful tax competition that penalizes the municipalities with poorer grant lists. A strong reform has the potential to help reverse decades of underinvestment in our cities and urban sprawl while ensuring that no municipality is left behind.

Broadening the tax base

A recent study by the state Department of Revenue Services^{vii} indicates that Connecticut tax system as a whole is very regressive, with households in the lower 10% of the income distribution paying close to 24% of their income in state and local taxes, compared to the 6.4% effective tax rate faced by the top 20%. This unfair distribution of the tax burden is driven largely by the state's heavy dependency on property and sales tax. Any reform considered by the panel should seek new sources of revenue to make the tax system more progressive.

Connecticut Voices for Children has published several reports with new proposed sources of revenue^{viii}; we remit to their testimony for more details. We encourage the panel to consider:

- Taxing capital gains: introduce a capital gains surcharge for taxpayers in the highest income bracket (more than \$500,000 for individuals, \$1,000,000 for couples) of 2% additional tax on all capital gains. This would raise \$165 million.
- Eliminating outdated tax expenditures: the Office of Fiscal Analysis produces an annual report on Connecticut tax expenditures^{ix}. These are tax breaks and incentives included in the tax code to support nascent industries or promote economic activity. Many of the exemptions and deductions, however, are outdated, and have a strong financial impact on the budget. We support eliminating many of these expenditures, as well as adding an automatic sunset clause to all provisions. The legislature already eliminated some tax expenditures this session. We encourage this panel to go further.
- Broaden the base on the sales tax: the sales tax currently does not cover many services, including accountants or attorneys. Broadening the base to cover currently exempt services could potentially raise enough revenue to lower the overall rate, or preserve exemptions for low-income families.
- Taxes on soda and sugar sweetened beverages: a tax on sugary drinks would improve health; depending on how it is structured it could raise \$160 million.

Concluding, CAHS supports a strong, broad reform to Connecticut's tax system. We encourage the members of this panel to be ambitious and seek bold and creative solutions to improve the fairness and efficiency of the system. The reform should tackle the property tax system head on, making it more fair, and creating new incentives for municipalities to work together creating a regional revenue sharing system that encourages cooperation and investment in urban areas. These reforms should be paired with changes to support working families in the state and broaden the tax base.

Thanks for your time today.

ⁱ <http://www.ctvoices.org/sites/default/files/bud15dependentexemption.pdf>

ⁱⁱ Department of Revenue Services, 2014 "Connecticut Tax Incidence" Report. Available at <http://www.ct.gov/drs/lib/drs/research/drstaxincidencereport2014.pdf>

ⁱⁱⁱ <http://cahs.org/background-research-concentrated-poverty/>

^{iv} Directly, through direct taxes, or indirectly, through higher rents.

^v Chapter 473F of Minnesota statutes; available here: <https://www.revisor.mn.gov/statutes/?id=473F>

^{vi} Orfield, M., Wallace, N. (2007) "The Minnesota Fiscal Disparities Act of 1971: The Twin Cities' Struggle and Blueprint for Regional Cooperation" William Mitchell Law Review, 33:2, p.591-611

^{vii} Department of Revenue Services, 2014 "Connecticut Tax Incidence" Report. Available at <http://www.ct.gov/drs/lib/drs/research/drstaxincidencereport2014.pdf>

^{viii} Defiesta, N. and Shemitz, E. (2015) "Funding Our Future: Child and Family Friendly Revenue Options" CT Voices for Children. Available here: <http://www.ctvoices.org/publications/funding-our-future-child-and-family-friendly-revenue-options>

^{ix} i See http://www.cga.ct.gov/ofa/Documents/year/TER/2014TER-20140102_Tax%20Expenditure%20Report%20FY%202014.pdf for 2014's version.