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Testimony before the Finance, Revenue, and Bonding Committee, regarding H.B. 7322, An Act Concerning State and Local Revenue.

Gwen Pastor, Policy Analyst, Connecticut Association for Human Services, April 25, 2017

While nobody is eager to see an increase in taxes, the Connecticut Association for Human Services (CAHS) believes the Finance Committee and General Assembly need to balance the budget with a careful mix of revenue increases as well cuts. **Simply cutting the budget with no new revenue will result in the loss of thousands of jobs and devastate essential government functions, including programs serving the most disadvantaged in our society.**

For years, Connecticut has battled budget deficits which have snowballed into our present crisis. The Governor and legislature have tried to mitigate the shortfalls through revenue increases and substantial cuts, including many to crucial social service programs. Overly optimistic revenue forecasts have led us to believe that these actions would help us to avoid the present situation. The only way to avoid repeating these problems is to **grow the state's economy and job base**, as this Committee seeks to do with R.B. 1055, AAC Stranded Tax Credits, for which CAHS has submitted separate testimony. This testimony focuses on revenue proposals, some of which are included in H.B. 7322.

In order to preserve the integrity of the vital programs Connecticut's low income working families depend upon, CAHS supports several revenue-boosting options, including removing sales tax exemptions on services, lowering the sales tax rate, and **imposing an excise tax on sugar-sweetened beverages** (please see [CAHS' testimony](#) regarding HB.7314 before the Finance, Revenue, and Bonding Committee on April 11, 2017).

Currently, services such as car washes, hair salons, pet grooming, chauffeur services, tennis lessons, and interior design, are exempt from the sales tax. These services are overwhelmingly utilized by Connecticut's more affluent residents, while items typically utilized by all of Connecticut's residents, whether lower-income or higher-income, such as clothing, are subject to the sales tax. While it is claimed that services are not taxed because they can be more difficult to collect, this categorization of what is or is not taxed is regressive and disproportionately impacts lower-income families. [However, if Connecticut were to lower the sales tax rate from 6.35% to 5.5%, while also eliminating exemptions for services, it could raise approximately \\$730 million in new revenue, closing approximately 43% of Connecticut's \\$1.7 billion shortfall in FY 2018.](#) This proposal would both raise revenue for the General Fund, including social assistance programs for disadvantaged children, families, and others, and

lessen the regressivity of our state's tax system. CAHS strongly supports this proposal from Connecticut Voices for Children as the fairest, most viable method to generate significant additional revenue for the state.

In addition, this Committee should follow the lead of Colorado and Louisiana to **facilitate collection of the sales tax for retail purchases made online**. Currently, items purchased on the internet are not consistently subject to the state sales tax. Smaller retailers that do not have a physical presence in Connecticut, yet nonetheless conduct sales in Connecticut via the internet, are not required to collect sales taxes. Rather, current law places the onus upon the consumer to pay these taxes on their own, which is frequently not a realistic expectation. Eliminating the exemptions for smaller retailers and enforcing the collection of the sales tax for items sold online in Connecticut would provide clarity to Connecticut's tax collection processes, create a more level playing field with brick-and-mortar retailers, and increase available revenue by as much as \$70 million.

At the same time, **CAHS strongly opposes eliminating the sales tax exemptions for nonprofit organizations**, another provision in H.B. 7322. As the state has cut back on social service programs in recent years, more the need for strong nonprofit service providers is greater than ever. Eliminating sales tax exemptions for nonprofits would weaken Connecticut's nonprofit organizations when they are more needed for the success of Connecticut's families and workforce than ever before.

While seeking to balance the budget, this Committee must consider how to encourage economic and job growth while ensuring there is adequate revenue for critical government functions. Balancing the budget solely with cuts could wipe out thousands of jobs. At the same time, certain tax increases could send a negative message to business and individual tax payers. There are numerous measures that need to be taken to reform the state's tax structure in ways that will stimulate growth and equity. Unfortunately, much of this reform requires time and consideration inconsistent with passing a balanced budget in the next two months. CAHS will actively pursue such discussions following the legislative session.

For now, CAHS urges this Committee to support reforming the sales tax structure by removing exemptions for services and lowering rates, making it easier to collect more internet sales taxes, and imposing an excise tax on sugar-sweetened beverages.