

March 28, 2002

Dear Senator Looney, Representative McDonald and Members of the Finance, Revenue and Bonding Committee:

Attached is a **revised** proposal to: a) close the SFY 03 budget deficit without sacrificing essential state investments; and b) establish a process to review in a comprehensive way, for the first time in a decade, the current state and local revenue structures and make recommendations to ensure that they conform to the *Principles of a High Quality Revenue System* (National Conference of State Legislatures & National Governors' Association, 1993).

Please note that the proposal to close the SFY 03 deficit draws from proposals made by the Governor, this Committee, and the House Speaker and assumes that:

- The General Assembly makes no further reductions in revenues through other bills;
- Legislation is passed to de-couple the state tax code from recently-enacted federal tax code changes that will reduce state tax revenues (e.g., from the bonus depreciation provisions in P.L. 107-047, signed by President Bush on March 9, 2002, that would reduce CT's corporate tax revenues over the next three years by an estimated \$240 million unless affirmative action is taken by the General Assembly); and
- Legislation is passed to preserve state tax revenues that are threatened by recent court decisions (e.g., the Carpenter case, through H.B. 5550).

The proposal for a CT Tax Policy Review Committee envisions that this Committee would engage in a rigorous review of the current state and local revenue structures, and make recommendations that could impact on all types of taxes. The Committee might recommend, for example, increased state spending for local public education to reduce reliance on the local property tax, elimination of exemptions to the state sales tax for non-essential goods and services with a corresponding reduction in the overall sales tax rate, the enactment of a more graduated rate structure for the state income tax, and elimination of business tax expenditures that demonstrate marginal economic utility.

Thank you for your consideration of this proposal.

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Director  
Advocates for CT's Children and Youth

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# Continuing Our Investments in CT's Future

(revised 3/27/02)<sup>1</sup>

	Expenditure	Revenue
	OFA Projected Deficit for SFY 03 (as of 1/31/02)	(~\$710 M)
Governor's Budget Adjustments	Increase the Cigarette Tax to \$1.11 / pack (PA 02-1)	~\$130 M
	Maximize federal funds	~\$100 M
	Sweep Funds from Quasi-Public Agency Accounts (e.g. S.B. 30, H.B. 5051) <sup>2</sup>	~\$100 M
	Delay changes or impose freezes in Inheritance, Gift, and Other Taxes; Collect Bottle Deposit Escheats and Other Fee Increases (e.g. S.B. 28, S.B. 39)	~\$38 M
	Balance	(~\$342 M)
Finance Committee Proposals	<b>S.B. 611 Sections 1 &amp; 6</b>	
	Impose a temporary 1% surcharge on CT taxpayers with AGI in excess of \$1M	
	Impose CT Income Tax on in-state gambling winnings of non-CT residents	
	<b>Total</b>	<b>\$146-\$148M</b>
Speaker's Proposal	<b>H.B. 5736 Sections 1-5, 8-9, 10, 11, 12-13, 14-15 and one § of 18</b>	
	Sunset sales tax exemption for direct mail advertising, vending machine sales, etc.	
	De-link Estate Tax from changes in the federal tax code	
	Increase corporate alternative minimum tax & reduce certain credits	
	<b>Total</b>	~\$121M
	<b>Speaker's Proposal for a Tax Amnesty</b>	>\$30 M
	Balance	(<\$45 M)
Supplemental Proposals	<b>Sunset a Number of Tax Expenditures characterized as "expedient" by OFA<sup>3</sup></b>	
	Make Subchapter S Corporations again subject to the Corporation Tax	~\$26 M
	Sunset the refundable R & D Credit	~\$30 M
	Sunset the sales tax exemptions for the lease & rental of motion picture film for display by a theater operator, carwashes, winter boat storage, tax preparation services, & sale of certain data transmission equipment	~\$15.3 M
	Sunset 50% refund of fuel tax paid on fuel used by taxis and livery services	~\$1 M
	Balance – to be used for a 10% CT EITC (S.B. 498)	>\$27 M

<sup>1</sup> All tax changes proposed in this table are recommended *for one year only*, to close the SFY 03 budget gap. Each should be reassessed next year as part of the work of the proposed CT Tax Policy Review Committee.

<sup>2</sup> Funds "swept" are to be considered one-year loans, with funds replaced in SFY 04, with interest.

<sup>3</sup> OFA characterizes 69 tax expenditures as "expedient" in its *2002 Tax Expenditure Report*, stating that they "violate one or more of the principles of a high-quality revenue system without any apparent counterbalancing or compensating precept." The total revenue loss from these "expedient" tax expenditures is about \$601 million in SFY 02. The tax expenditures listed here are merely *illustrative* of those that might be selected for the one-year sunset.

## **Proposal for An Act Creating a CT Tax Policy Review Committee**

(1) There is hereby created a CT Tax Policy Review Committee to be chaired by the co-chairs of the Finance, Revenue and Bonding Committee or their designees. Not later than June 20, 2002, the co-chairs of the Finance, Revenue and Bonding Committee shall convene the first meeting of the CT Tax Policy Review Committee, which Committee shall include: the State Comptroller or her designee, the State Treasurer or her designee, the Secretary of OPM or his designee, and the ranking members of the Finance, Revenue and Bonding Committee or their designees. The co-chairs of the Finance, Revenue and Bonding Committee may, at their discretion, include other members on the CT Tax Policy Review Committee. The CT Tax Policy Review Committee shall be staffed by the Office of Fiscal Analysis with the assistance of the CT Center for Economic Analysis at UCONN.

(2) The CT Tax Policy Review Committee shall review CT's state and local tax systems (including the property tax) for the purposes of making recommendations for revisions necessary to assure that the system conforms to the *Principles of a High Quality Revenue System* (National Conference of State Legislatures & National Governors' Association, 1993) by: a) providing appropriate and timely revenues sufficient for state and local governments to meet the essential needs of state residents; b) distributing burdens equitably; c) promoting economic efficiency and growth; d) maximizing ease of administration; and e) ensuring transparency and accountability. The CT Tax Policy Review Committee shall prepare a report including its findings and recommendations, and shall submit its report, findings and recommendations to the Finance, Revenue and Bonding Committee no later than December 1st, 2002.

(3) The review, report and recommendations of the Tax Policy Review Committee shall include, without limitation: ( a ) an analysis of how the burden of financing state and local government services has changed from 1989 to the present, including what types of taxes accounted for what percentage of government revenues over that period of time and changes in the incidence of who is bearing the cost of financing state and local government; ( b ) an analysis of CT's revenue system as compared to the revenue system of other states with which CT is economically competitive; (c) recommendations for revisions, as needed, to CT's various tax code provisions (including the property tax) to enhance the stability, parity and progressivity of CT's tax structure; (d) a recommended process for the mandatory sunset of all tax expenditures – new and existing – and the establishment of guidelines for assessing the appropriateness of and sunset period for tax expenditures; (e) enhancements to fiscal information reporting, including by way of example but not by way of limitation, information provided by OFA's Tax Expenditure Report and information in the fiscal notes on tax expenditure bills; and (f) a review of all economic development and housing expenditures (including through tax expenditures, grants, and loans) to assess how funds might be used more effectively, and with greater accountability, to address unmet housing and community development needs.