One Connecticut
the campaign to fight poverty and build economic security

For the Last Decade, CT Corporations Enjoyed Significant Tax Relief. Now, When Times Are Tough, It's Fair to Ask CT Corporations To Give Something Back.

The majority of corporations pay only $250/year in corporate business tax. Two-thirds of corporations filing a Connecticut (CT) corporate business tax return pay only $250 in corporation business tax -- CT's Alternative Minimum Tax or AMT (in 1998, 33,043 out of 50,055 corporations – or 66%). CT's AMT has not been increased since 1989. [CT Department of Revenue Services [DRS], *Annual Report 1999-00;* Office of Fiscal Analysis [OFA], *Connecticut Revenue and Budget Data,* March 2002]. By comparison, CT residents who have an adjusted gross income over about $30,000 pay more than $250/year in personal income tax. [DRS, *1999 Personal Income Tax Statistics*]

Some corporations pay no corporate business tax at all. About 2,100 corporations pay no CT corporate business tax at all; they use tax credits to offset any tax owed.

Some corporations get refund checks for "unused" credits. About 450 CT corporations not only pay no corporate business tax, but they get cash *back* from CT by "selling back" at 65% of their value Research and Development and Research and Experimentation tax credits that they cannot use, because they don't have sufficient tax liability. This year, CT will give about $30 million to CT corporations in these refundable credits. [OFA, *Connecticut Tax Expenditure Report 2002*]

CT businesses have enjoyed tax cuts every year since 1992, including in the late 1990s when the economy was booming. In *every year* since 1992, CT reduced the taxes on CT businesses through rate reductions, and the enactment of new exemptions, deductions, and credits. Between 1991 and 2000, CT passed *$1.3 billion* in tax cuts that benefit businesses. Of this, 39% ($506 million) came from reductions in the corporate business tax rate and 61% ($783 million) came from new exemptions, exclusions and credits. [OFA, *Synopsis of Tax Reductions for Business and Workers Compensation Reductions,* 2001] These tax breaks are not routinely reviewed by the General Assembly to see if CT is getting any return for what lawmakers believed was a business investment.

CT has increased the number of available business tax credits and the amount claimed in credits has increased 42-fold since 1987. In 1987, there were 9 different tax credits against the corporation business tax and 289 companies filed returns that claimed a total of $2.71 million in credits. By 1999, CT had 22 different credits against the corporation business tax and 15,313 companies filed tax returns that claimed a total of $113.29 million in tax credits. [OFA, *Connecticut Revenue and Budget Data,* March 2002]

CT reduced its business tax rate substantially since 1995; CT's rate is now lower than neighboring states. From 1984 through 1995, CT had a corporate business tax rate of 11.5% --one of the highest in the nation. In addition, beginning in 1989, CT imposed a 20% surtax on corporations. This surtax was reduced to 10% in 1992 and eliminated in 1993. [OFA, *Connecticut Revenue and Budget Data,* March 2002]. Now, CT's corporate business tax rate is 7.5%. These rates are lower than CT's neighboring states:

Corporate Business Tax Rates: Where Does CT Stand?					
	CT	**MA**	**RI**	**NY**	**NJ**
Rate	7.5%	8.33% and 14% surtax	9%	8%	9%
Source: *FY 2002-2003 Midterm Economic Report of the Governor*, p. 123.					

Many of these tax breaks are "expedient." $127.6 million of the exemptions, exclusions and credits against the corporate business tax are characterized by the non-partisan Office of Fiscal Analysis as "expedient," i.e., the tax expenditure "violates one or more of the principles of a high-quality revenue system without any apparent counterbalancing or compensating precept." Other business exemptions from the sales and use tax are likewise characterized as "expedient." [OFA, *Connecticut Tax Expenditure Report 2002*]

For every $1 in CT business taxes collected, CT now *doesn't* collect more than $0.70 in taxes on account of these preferential tax breaks. This year – State Fiscal Year 2001-02 (SFY 02), taxes on insurance, public service and petroleum companies and the corporation business tax are estimated to generate about $852 million in revenue (about $93 million *less* than the $944 million that had been budgeted for the year). At the same time, OFA estimates that CT will forgo collecting more than $670 million in taxes because of dozens of preferential tax exemptions, exclusions and credits against these taxes. [OFA, *Connecticut Tax Expenditure Report,* March 2002; April 1, 2002 *Monthly Letter* from the Comptroller to the Governor (re SFY 02 anticipated revenues)]

Business taxes pay for a much smaller share of the General Fund than they did a decade ago. In SFY 90-91, ***nearly 24%*** of CT's General Fund revenues came from the corporate business tax and the taxes on public service corporations, insurance companies, and oil companies. [*Governor's Budget Summary 1992-3,* A-11] In SFY 95-6, these taxes contributed about 16% of general fund revenues, and ***NOW*** these taxes generate ***only 7.4%*** of General Fund revenues. [*Connecticut State Budget 2001-2003]*

I never made an investment decision based on the tax code…If you are giving money away, I will take it. If you want to give me inducements for something I am going to do anyway, I will take it. But good business people do not do things because of inducements.

U.S. Treasury Secretary (and former Alcoa CEO) Paul O'Neill
(testifying at his confirmation hearing)

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