

## **Tax Expenditures & Good Reasons Why THIS Form of Spending Also Should Be On The Budget-Balancing Table**

“Governments deliver benefits through tax expenditures by selectively lowering the taxes of an individual, household, or business; other less-favored taxpayers finance the subsidy either by paying higher taxes or receiving fewer services.”

– Corporation for Enterprise Development, *Budgeting and Economic Development Performance: A Guide to Unified Development Budgets* (September 2000), p.14

- **Tax expenditures are preferential tax credits, exemptions and deductions, sometimes called “tax breaks,” “loopholes” or “investments in economic development.”**
- **CT is spending *lots* of money – nearly \$4 billion/year - through the tax code.** This year, CT will spend nearly \$4 billion on the tax side of the budget. This revenue loss *does not* include revenue declines through rate reductions. (From the 1991 through the 2000 legislative sessions, \$1.3 billion in tax reductions benefiting businesses were enacted; that amount *does* include tax reductions.)
- **Tax expenditures usually become entitlements because CT doesn’t review this spending to see if it makes sense.** CT’s tax expenditures become entitlements because they are not reviewed regularly to see if they serve an important public function – in fact, many are never reviewed at all. This is very different from direct spending through the appropriations side of the budget where all spending has to be justified and renewed at least biannually.
- **Some tax expenditures are categorized as “expedient.”** A group of these tax expenditures have as their rationale, according to OFA’s Tax Expenditure Report, “expediency” which means they “violate one or more of the principles of a high-quality revenue system, without any apparent counterbalancing or compensating precept.”
- **Tax expenditures should be on the table with appropriated expenditures as lawmakers seek to balance the budget.** Responsible budget choices require a comparison of the costs and benefits of *all* state spending. Ignoring tax expenditures distorts the options available to lawmakers as they seek to balance the budget.
- **Tax expenditures can serve worthwhile purposes that advance significant economic and public policy goals.** But they have to be re-evaluated in light of changing economic realities and policy priorities and weighed against other spending in determining where cuts should be made.

# Putting Tax Expenditures on the Table Can Change the Equation

## Examples:

### I

- A sales tax exemption for advertising services including direct mail. This exemption costs the state \$20M each year. CT's taxpayers are subsidizing the advertising that many of us think of as "junk mail" that we get every day. [CGS 12-407(2)(u)(U)]
- A sales tax exemption for vending machine sales of food and items costing 50 cents or less. This exemption costs the state \$1.2 Million/year. CT's taxpayers are subsidizing the sale through vending machines of soda, candy and food – often to young people – much of which can be characterized as "junk food". [CGS 17-412(27)]

***These two tax expenditures alone cost the state more than \$21 Million and could virtually restore the \$13 Million in mental health cuts implemented by the Governor last fall and prevent the additional \$9 Million reduction to the mental health strategic fund currently proposed by the Governor.***

### II

- An exemption for non-commercial winter boat storage, which costs the state \$300,000 year. [CGS 12-407(2)(m)]
- An exemption for sale of gold or silver bullion and rare coins at an annual cost of \$100,000. [CGS 12-412(45)]

***The \$400,000 represented by these two tax expenditures could restore the Governor's cuts last fall to Head Start and other Early Childhood Programs.***

For more information on tax expenditures, see **Connecticut Voices for Children's** publications:

*An Overlooked Form of Spending: Tax Expenditures & The Need For Review;*  
and *Enhancing State Investments Through Smart Budget Choices*

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