CONNECTICUT VOICES FOR CHILDREN

Connecticut State Revenues: An Analysis of the Governor's FY 2012 Revenue Proposals

Joachim Hero, M.P.H.

March 2011

New Haven Office
33 Whitney Ave.
New Haven CT 06510
Phone: 203.498.4240
Fax: 203.498.4242

Hartford Office
53 Oak St. Suite 15
Hartford CT 06106
Phone: 860.548.1661
Fax: 860.548.1783

Web Site: www.ctkidslink.org
E-mail: voices@ctkidslink.org

Connecticut State Revenues:
An Analysis of the Governor's FY 2012 Revenue Proposals

March 21 2011

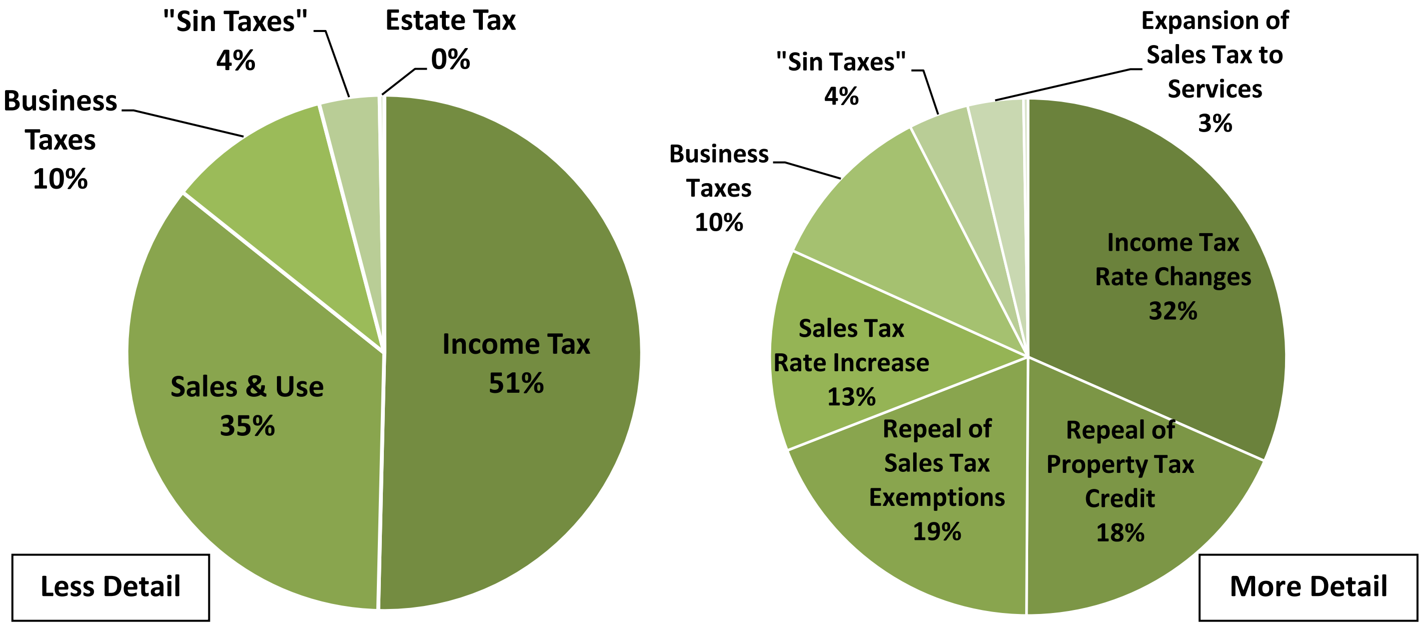
The multi-billion dollar deficits Connecticut faces in 2012 and ongoing years result, in large part, from poor planning that has pushed off difficult fiscal choices and, in the process, exacerbated the fiscal hole resulting from Connecticut steep revenue losses in this "Great Recession." To begin, budgets in 2009, 2010, and 2011 were never truly balanced. Deficits in fiscal years 2009 and 2011 were addressed with the issuance of $1.019 billion in Economic Recovery Notes ($926 million to eliminate the FY09 deficit, as well as $78 million in capitalized FY10 and FY11 interest costs and $15 million in other costs) and $646.4 million in Economic Recovery Revenue Bonds (to balance the FY11 budget).[1] Additionally, much of the deficit that remained in those years, after spending was cut, was closed through the use of one-time revenues and gimmicks that are now mostly exhausted as options. By choosing to balance the budgets of Fiscal Year (FY) 2012 and FY2013 through a combination of spending reductions and new, ongoing revenues without new borrowing, the Governor's budget proposal released on February 16th should be applauded for its seriousness and honesty. Yet members of the General Assembly should now assess how these proposals might be improved, particularly with respect to the demands they place on middle-income residents.

The Governor's revenue proposal consists of a variety of revenue changes that will produce new revenue of $1.948 billion in FY 2012 and $1.771 billion in FY 2013.[2] In stark contrast to previous budgets in this recession, almost all of the new revenue would be derived from ongoing sources, improving Connecticut's future fiscal outlook.[3] The budget recommendations optimistically assume average total personal income growth of 4.8% in FY 2012 and 6.4% in FY 2013, along with employment growth of 1.5% and 1.6%, respectively.[4] The governor's budget office estimates that with projected economic growth, its proposed revenue reforms would bring total state revenue to $18.268 billion dollars in FY 2012, exceeding its recommended appropriations by $192 million.

In addition, the Governor's budget proposes several new revenue sources for municipalities. These include mandated sales, hotel, car rental, and cabaret taxes that are collected by the state and returned to the municipality where the sale originated. Towns will also have the option of levying a real estate conveyance fee in a fixed amount on top of the existing fee which will be increased and made permanent. Mandated property tax exemptions on boats, non-commercial aircraft, and certain commercial vehicles would also be eliminated, allowing municipalities to collect property tax on previously-exempt property. For information on these proposals, as well as proposed changes to municipal aid, please refer to Connecticut Voices' separate analysis on municipal aid and revenues.[5]

Of new ongoing revenues, half would come from proposed changes in the personal income tax, 35% from the sales tax, 10% from business taxes (including corporate income tax, insurance premiums tax, and public utilities taxes), and 4% from tobacco and alcohol taxes (Figure 1, below)[6]. Of income tax changes, 64% of new revenue would come from increased rates—which includes both an increase to marginal rates as well as a plan to phase out the lowest tax rate for higher-income taxpayers—while the remaining 36% would come from the elimination of the property tax credit. Of new sales tax revenue, 54% would come from the elimination of exemptions, 37% would come from various rate increases, and 9% would come from the expansion of the sales tax to certain services.

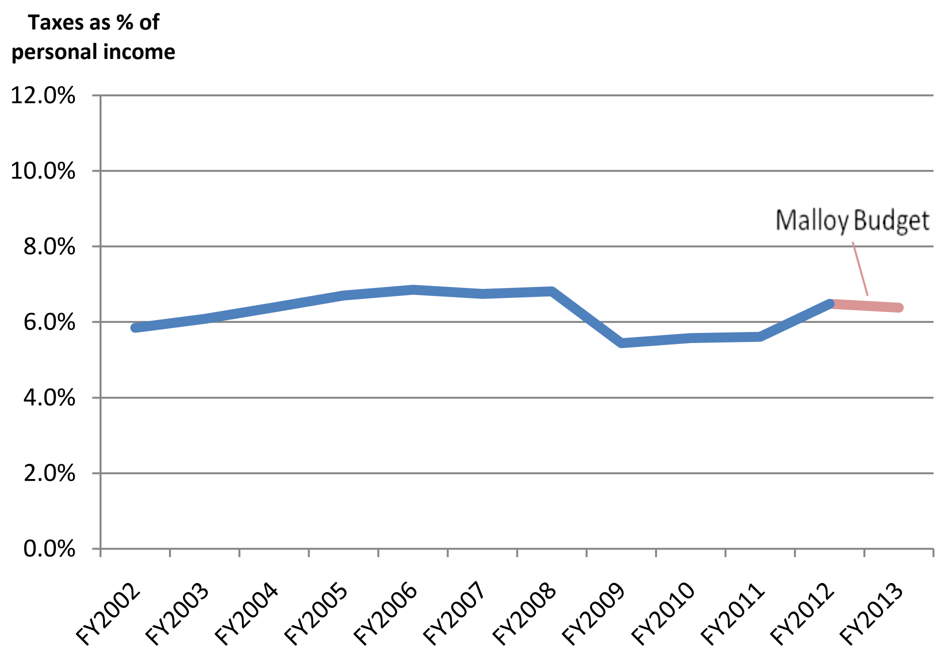
Figure 1. Proposed Revenue Increases* by tax category (FY2013)



*Excludes Hospital, Nursing Home, and ICF/MR taxes

Historically, Connecticut's state and local government sector has been a relatively small portion of the total state economy. In the most recent census data (2008), Connecticut ranked fifth lowest among states on state and local revenue as a proportion of total personal income.[7] While the Governor's budget would increase state tax collections by close to two billion dollars in each of FY 2012 and 2013, the effect on state taxes as a proportion of total personal income in the state would be quite small (6.5% in both fiscal years) and below levels in much of the later half of the last decade (Figure 2)[8]. The current budget crisis also results from a recession that is far more severe than any since the Great Depression, making the amount of revenue raised unsurprising relative to the scope of the fiscal problems the state faces.[9]

Figure 2. Under Governor's budget, state tax responsibilities would stay within recent levels



Therefore, recent characterizations among the media and public figures that describe the Governor's revenue proposal as one of the largest in history overstate its significance given proper historical context and considering the exceptional economic circumstances.

The following sections describe and analyze the Governor's revenue proposals by major tax category.

Income Tax[10]

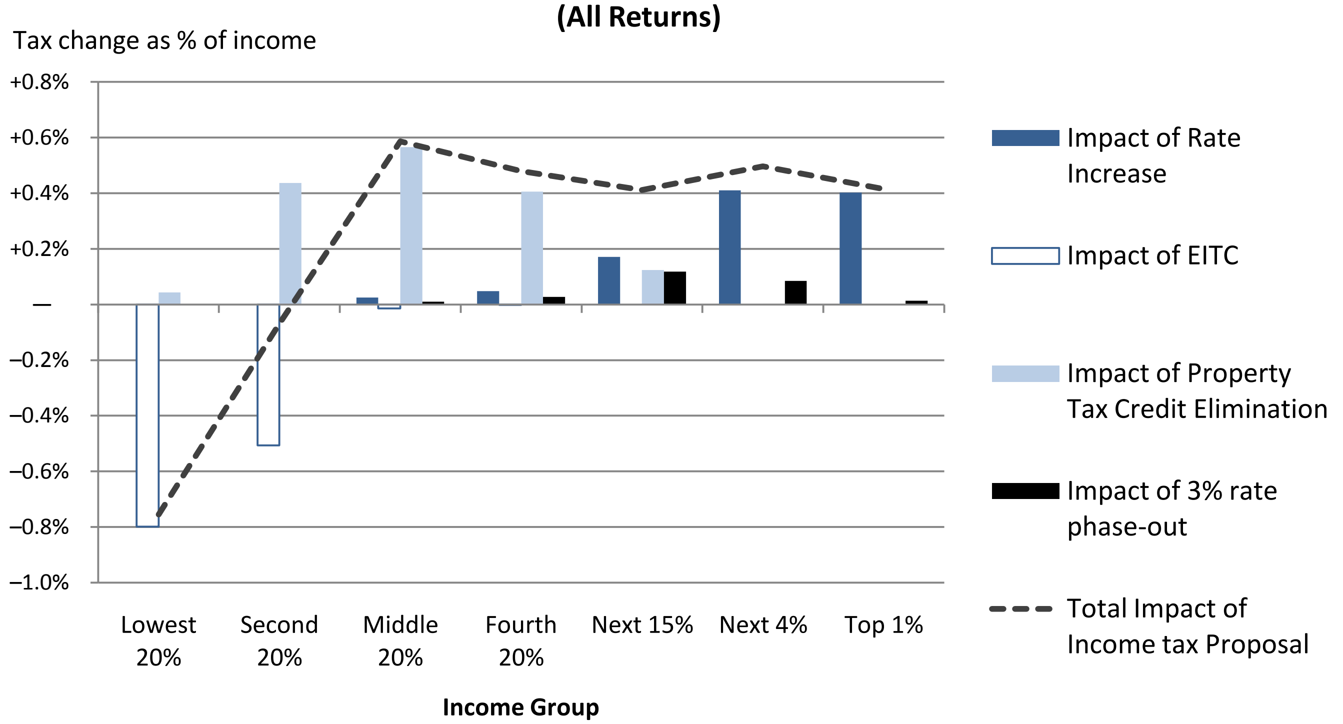
The Governor derives roughly half of new, ongoing state tax revenue from his proposals to raise income tax rates, eliminate an existing property tax credit, and phase out the lowest rate tier starting at incomes above $100,500 for joint returns ($56,500 for single returns). The proposal also includes a refundable state Earned Income Tax Credit (EITC) that would reduce tax liabilities for low-income working residents. The combined proposals would make Connecticut's income tax more progressive, particularly at the low end, but would have a disproportionate impact on middle-income taxpayers.

Table 1. Proposed Income Tax Rate Structure

Single Filers	Joint Filers	Current Rate	Proposed Rate
Income Above			
$ -	$ -	3.00%	3.00%
$ 10,000	$ 20,000	5.00%	5.00%
$ 50,000	$ 100,000	5.00%	5.50%
$ 100,000	$ 200,000	5.00%	5.75%
$ 200,000	$ 400,000	5.00%	6.00%
$ 300,000	$ 600,000	5.00%	6.25%
$ 400,000	$ 800,000	5.00%	6.50%
$ 500,000	$ 1,000,000	6.50%	6.70%

Figure 3[11], below, shows the impact of each of the Governor's income tax proposals at different levels of personal income. It also demonstrates the overall effect on taxpayers when each element is combined. Those elements include:

Figure 3. Impact of Proposed Income Tax by Level of Income
(All Returns)



-Set higher income tax rates. Five new marginal tax rates would be created for a total of eight rates, starting at, for joint filers, a rate of 3% for taxable income below $20,000 and rising to a rate of 6.7% on income over $1,000,000 (Table 1). It is estimated about 32% of taxpayers would experience some change in their marginal tax rates.

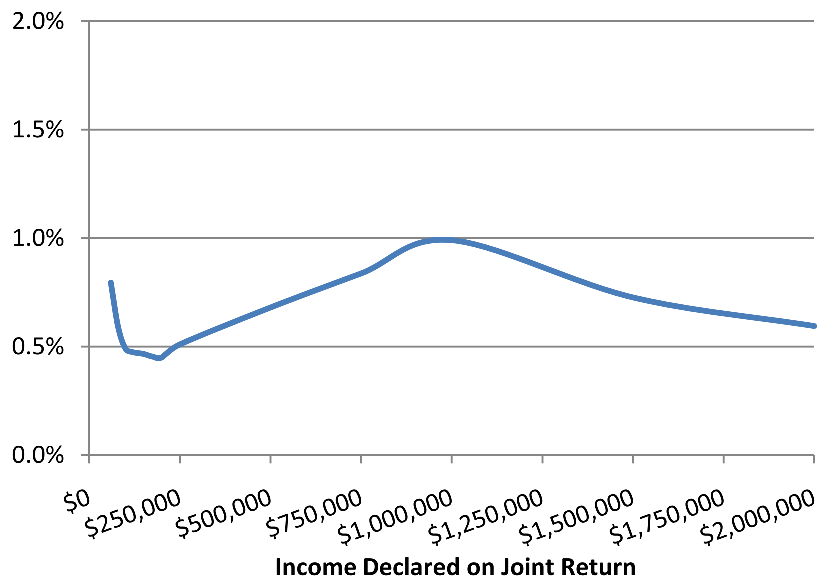
-Eliminate property tax credit. Connecticut's property tax credit of up to $500 per return for low and middle-income households would be eliminated. About 55% of Connecticut taxpayers would be affected by this change (and about 70% of taxpayers filing joint returns), with the largest impact on middle income filers.

-Phase-out 3% marginal tax rate for high-income residents. Taxpayers with incomes above $100,500 ($56,500 for single returns) would gradually pay higher taxes on the first $20,000 ($10,000) of their incomes (by having more of their taxable income subject to the 5% rate, rather than the 3% rate), rising to a maximum tax increase of $400 ($200) for incomes of $190,500 ($146,500) or more. Roughly 31% of all taxpayers in Connecticut would be affected, with the largest impact on upper middle income taxpayers (the 80th- 95th percentiles).

-Establish a state EITC. To reduce the regressive impact of sales tax and other proposed tax and spending changes on lower-income residents, the Governor's budget proposes a refundable state Earned Income Tax Credit (EITC). The credit, equal to 30% of the federal EITC, would reduce state income tax liability for low-income working individuals and families dollar-for-dollar. If the taxpayer's state income tax liability was less than the amount of the credit, the balance would be paid to the taxpayer in the form of a refund. The credit is especially helpful to working families with children, who are eligible for much larger credits than childless taxpayers. The maximum credit for families with three or more children would be about $1,700. The EITC has long been considered to be pro-growth and among the most effective anti-poverty policies, increasing employment and reducing the taxes of low-income families. It is estimated that 10% of all Connecticut taxpayers would benefit from the state EITC, with the average credit equaling between $700 and $800 for residents with incomes under $44,000.[12]

As designed, the new income tax rate structure would apply broadly, increasing state income taxes for about 64% of all taxpayers and reducing taxes for about 8% (figures are estimates).[13] However, the tax increases would apply unevenly, with higher percentage increases in tax liabilities for taxpayers with incomes between $50,000 and $100,000 as well as among some higher income categories. For example, a household with $60,000 of income that normally claims a property tax credit of the maximum of $500 would lose that credit, resulting in an overall income tax increase of just over 0.8% of the household's income. By comparison, a household with income of $200,000 would experience an overall increase of under 0.5% of its income. Figure 4, right, shows the relative size of likely income tax increases on taxpayers filing jointly with incomes between $60,000 and $2,000,000.[14] Higher percentage increases in tax among middle-income taxpayers reflect the effect of eliminating the property tax credit. However, the small percentage of taxpayers with incomes between $50,000 and $100,000 who currently do not qualify or do not claim the credit would see little to no increase in their income taxes.[15] The "hill" effect, visible in Figure 4, reflects the fact that the Governor's proposed income tax rate increases have greatest impact below $1,000,000 of income. Thus, as income rises beyond $1,000,000, one's tax increase as a percent of (one's rising) income would gradually decline to about 0.2% (the difference between the current top marginal rate in Connecticut of 6.5% and the proposed increase to 6.7%).

Figure 4. Example tax increases as a % of income (Effect of income tax changes starting at $60,000)



Source: Connecticut Voices Analysis of OFA Data

Taxes on Consumption of Goods and Services

The second largest source of new tax revenue in the Governor's proposal comes from changes to the sales tax. In addition to an increase in the base rate from 6% to 6.25%[16], the proposal applies the tax to a handful of services that are not currently taxed, removes a variety of current sales tax exemptions, and increases rates paid for hotel occupancy, rental cars, and luxury goods. Other proposed consumption-related changes to the tax system include increasing taxes on cigarettes and other tobacco products; increasing the excise tax on alcoholic beverages; increasing various fees and penalties related to motor vehicle use; and increasing the tax on gasoline and diesel fuel by three cents and two cents, respectively.

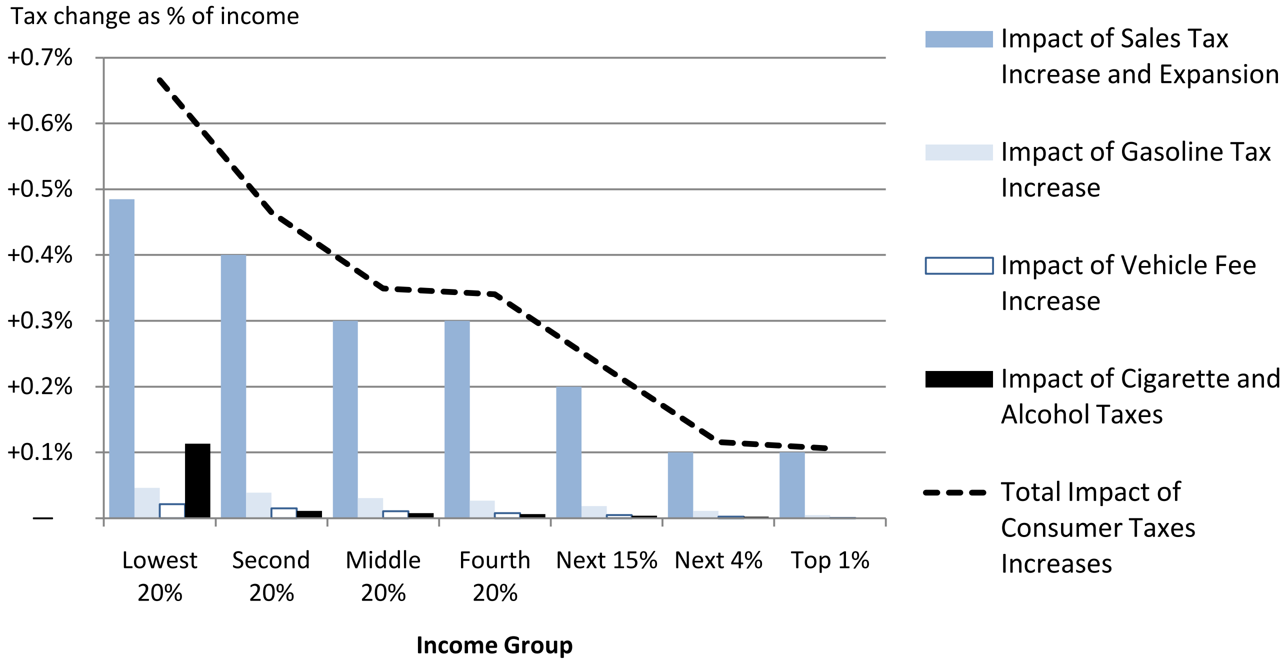
-Increase Sales Tax Rates. Under the new rate of 6.25% (6.35% if one includes the 0.1% new local tax for sales of goods and services at certain retail establishments that would go to municipalities), Connecticut's sales tax would remain roughly equal to or below sales tax rates in surrounding states, and would remain lower than the majority of other surrounding states when accounting for both state and locally-imposed sales taxes.[17] In FY2009, Connecticut ranked 33rd among states in sales tax collections as a proportion of personal income, with sales tax receipts equal to 1.67% of aggregate personal income (compared to a national average of 1.86%). The Governor's proposal also includes a luxury tax on the sale of certain items with prices over given thresholds. Automobiles over $50,000, boats over $100,000, jewelry over $5,000, and articles of clothing over $1,000 would be taxed an additional 3 percentage points on the portion of the sale price exceeding these thresholds.

-Apply sales tax to more services. Broadening the sales tax base makes state tax systems more fair, more stable, more economically neutral, and on better long-term fiscal footing. The governor's budget would impose the sales tax on a handful of new services such as haircuts, boat services, and cosmetic surgery, bringing in an estimated $46.5 million in revenue. As in most other states, however, the vast majority of services in Connecticut would remain untaxed. Experts estimated in 2009 that—even excluding huge service sectors such as health care, education, legal and certain banking services—broadly applying the sales tax to services in Connecticut could yield over $1.6 billion in new revenue.[18]

-Eliminate Exemptions. Another way that the Governor's budget broadens the sales tax base is by eliminating various tax exemptions. Over $250 million, or 19%, of all the Governor's tax proposals come from closing exemptions in the sales and admissions taxes. Over half of this revenue would be achieved through the elimination of the existing exemption for items of clothing and footwear that cost less than $50. Another 40% of this revenue would result from eliminating existing exemptions on the value of coupons and on the value of trade-in vehicles.

Since consumption does not rise proportionally with income, taxes on consumption affect middle and lower-income people more than higher-income people. Figure 5, below, shows the combined and factor effects of the Governor's consumption-tax proposals.[19] While the bottom 20% of the income distribution would experience an average tax increase of close to 0.7% of their incomes, the top 5% would experience and average tax increase of 0.1% of their incomes.

Figure 5. Impact of Proposed Consumption Tax Increases (All Returns) by Level of Income



Business Taxes

Ten percent of the Governor's revenue increases come from changes to Connecticut business taxes. Roughly 60% of the net revenue gain would be due to the continuation of a surcharge on the corporate income tax, a small increase in the insurance premiums tax, and a change to how corporations in the state must apportion income from sales to out-of-state customers. The remaining 40% comes from the creation of a new tax on companies that generate and sell electricity. The Governor's budget also recommends reining in the film production tax credit while expanding upon a tax credit to businesses that hire new workers.

-Adopt a "Throwback Rule." The Governor's budget includes a reform to its corporate income tax known as the "throwback rule," which is intended to capture income that inadvertently leaks out of Connecticut's tax system. Currently, Connecticut-based businesses that have income from sales occurring in states where the business has no physical presence ("nexus") pay no state corporate income taxes on that income. The throwback rule proposed by the Governor would "throw back" income from these types of sales so that it would be taxed under the Connecticut corporate income tax.[20] The new rule would result in an estimated $20 million in new revenue in each of FY12 and FY13. It would also help to level the playing field between businesses, mostly larger, that now benefit from having less than 100% of their income taxed and many local businesses without out-of-state sales that must pay tax on all of their income.

Of the forty-five states that currently tax corporate income, twenty-five have already adopted a throwback rule.[21] The adoption of a throwback rule has spread rapidly because of its effectiveness and also because of its ease of implementation. As Michael Mazerov of the Center on Budget and Policy Priorities notes, "Enacting the throwback rule is a simple change in a state's corporate income tax law that generally entails adding a single sentence to the statute imposing the tax.

-Limit transferability of film tax credit. Connecticut's film tax credits are currently the only state business tax credits that can be sold to another business. Since most production companies that qualify for film tax credits do not owe enough tax in Connecticut to fully benefit from them (often because they are organized as LLCs so pay only a $250/year business entity for the privilege of doing business in Connecticut), the credits are generally only valuable to those companies to the extent that they can be sold to businesses that do owe Connecticut taxes. In practical effect, this is the equivalent of allowing Connecticut corporations to pay a portion of their state taxes to film production companies, many of which are not based in Connecticut. The governor's bill recommends limiting the degree to which one of these credits, the film production credit, can be sold. Beginning January of this year only 50% of the value of the credit would be salable, declining to 25% in 2012 and thereafter.

-Continue 10% surcharge on corporate income for another two years. Beginning in January 2009, Connecticut implemented a surcharge equal to 10% of corporate income tax owed.[22] The Governor's budget would maintain this surcharge through 2013. The surcharge is projected to add $25 million in FY2012 and $45 million in FY2013.

-Increase insurance premiums tax from 1.75% to 1.95%. In 1995, Connecticut's tax on direct insurance premiums was reduced from 2.00% down to 1.75%.[23] The Governor's bill would increase this tax to 1.95%, generating an additional $25.4 million dollars in FY2012 and $25.7 million in FY2013.

Establish an electric generation tax. The Governor recommends establishing a new tax of 0.2 cents per kilowatt hour on companies that generate electricity, but exempting energy generated at facilities that exclusively use fuel cells or an alternative energy system.

Comments and Conclusion

A recent editorial in the New York Times praised the Malloy administration, in contrast with governors in New York and New Jersey, for its willingness to balance spending reductions to Connecticut's budget with new revenues.[24] Such praise is warranted. In proposing many reasonable changes to the state tax code, the Governor would certainly spare the state from deeper budget cuts that would risk limiting vital services and further harming the state's economy. Additionally, many of the revenue reforms put forward by the Malloy Administration, such as a more progressive state income tax, would be improvements to Connecticut's current tax code and would make state taxes fairer and better suited to today's economy. On the other hand, the impact of some of the Governor's proposals on middle-income taxpayers and missed opportunities in corporate income tax reform are cause for concern. The following comments highlight important observations and mention several ways that the Governor's proposals can be improved.

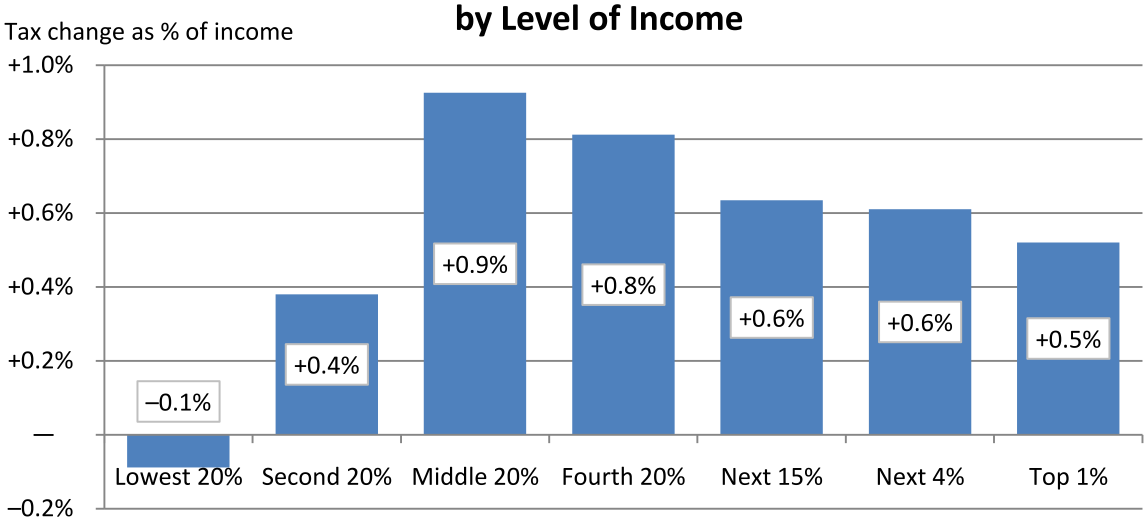
Connecticut can raise more revenue than proposed and preserve quality public goods without straying from historical levels of taxation. As large as $1.5 billion dollars in new revenues may sound, numbers should always be understood in proper context. First, under the Governor's proposal, state taxes would remain a similar proportion of total personal income in Connecticut as in recent years. At 6.5% of total personal income, taxes would in fact be at a *lower* proportion than before the recession started (between 2005 and 2008).

This fact is important in recognizing that the Governor's tax proposals do not represent a large expansion of state taxation relative to the total level of income in the state. For decades, Connecticut has raised one of the lowest proportions of total personal income in taxes and fees in the country.[25] In 2006, the Federal Reserve Bank of Boston reported that Connecticut was top in the nation in its "revenue capacity" but among the bottom five states in its "revenue effort"—defined as actual revenue raised relative to a state's capacity to raise revenue.[26] These facts provide evidence that the Governor's budget could still do more to raise revenue, without departing from the revenue-to-income proportions of other states or even from Connecticut's own historical levels.

By raising more revenue, Connecticut could avoid some of the proposed budget cuts that harm vulnerable populations. It could also soften steep public sector worker wage and benefit concessions, which could be difficult to achieve and would mean a reduction in the disposable incomes of a segment of middle-class taxpayers.

Moderate and middle-income taxpayers would be disproportionately affected by the Governor's tax proposals. While the Governor's income tax proposals would make Connecticut's income tax more progressive, the combined first-year impact of sales and income tax changes would make moderate and middle-income taxpayers the hardest hit of any other income group. The Institute on Taxation and Economic Policy, using a microsimulation tax model, estimated that the combined effects of personal income and various sales tax changes would be an average tax increase of 0.9% of income on the middle 20% of taxpayers in Connecticut, compared to an average of 0.5% for the top 1% of taxpayers (Figure 6).[27]

Figure 6. First-Year Impact of Proposed Income and Sales Tax by Level of Income



The Governor has, with admirable intentions, attempted to minimize the harm on any particular constituency or economic sector by spreading tax increases broadly to all but the lowest of income groups. But it is taxes on higher income groups that will result in the least economic harm. Prominent economists have long argued that state tax increases on high incomes are the least damaging method to address fiscal crises during a recession.[28] With Connecticut's economy still weak, and with middle- and lower-incomes showing stagnation or decline over the past decade[29], adopting more progressive revenue options would be both more economically prudent and more just.

The General Assembly could achieve this by, for example, maintaining a more limited property tax credit (the elimination of which accounts for 68% of the tax increase on the middle 20% of Connecticut taxpayers) and instead increasing top marginal rates beyond what the Governor has recommended. By raising the top income tax rate above the Governor's proposed 6.7% rate to just 6.85%, Connecticut would raise an additional $40 million in revenue; by raising the top income tax rate to 7.7%, Connecticut would raise an additional $266 million in revenue.[30]

More can be done to reform the corporate income tax and make businesses pay their fair share. In the Governor's presentation of his budget, it was announced that only 19% of the proposed new revenue would come from the business community, the rest would be shouldered by individuals.[31] And while the Governor's recommendations to extend the 10% surcharge on corporate income and impose higher taxes on insurance companies help ensure that corporations share in the distribution of new taxes, these higher business taxes deepen the need to implement business tax reforms that ensure that businesses are taxed fairly. Business reforms such as mandatory combined reporting, which prevent multi-state corporations with operations in Connecticut from avoiding the state's corporate income tax by shifting income out of the state, would not only help level the playing field among businesses but would bring the state needed revenue.[32] Other reforms such as increasing oversight of the growing number of business tax credits would raise revenue by limiting state tax expenditures to credits that actually accomplish the economic benefits they purport to achieve and help the state to achieve its long-term goals.[33]

The impact of the tax proposals on our lowest income families should not be viewed in isolation. While many low-income working families would undoubtedly benefit from the adoption of a refundable 30% state Earned Income Tax Credit (EITC), many of the spending proposals in the Governor's budget would shift costs to families that currently are borne by the state, achieving the same effect as a tax increase.[34] In some cases, the negative effect of these budget cuts on low-income families will amount to more than the benefits they might receive through the tax code, particularly among families who have struggled to find work and do not qualify for the EITC.

---

[1] Office of Fiscal Analysis, Connecticut State Budget 2009-2011, p. 22 (summarizing PA 09-2, June Special Session, that authorized this borrowing); Office of Policy and Management Fiscal Accountability Report, 11/2010, p. 20. The eight year Economic Recovery Revenue Bonds are secured by two charges on consumers' electric bills: the Competitive Transition Assessment (stranded cost charge) that was to phase out and the Energy Conservation and Load Management Charge for a total of $96 million/year for the duration of the Notes.

[2] Office of Policy and Management, FY 2012 – FY2013 Biennium: Governor's Budget Summary. p. A-8. These totals include, for FY 2012, $1839.6 million in new tax revenue, $17.5 million in licenses, permits, fees, rents, fines, and escheats, and $91.6 million in federal grants and fund transfers. In FY 2013, the breakdown is $1,688.4 million, $9.5 million, and $72.9 million, respectively. These totals also include new "user fees" on hospitals, nursing homes, and intermediate care facilities for the mentally retarded (ICF/MR) that are designed to maximize the receipt of federal funds. The group of facilities affected by the fees would, in the aggregate, be fully reimbursed by the state, which would still achieve a net gain of $150.7 million dollars in FY12 and $150.6 million dollars in FY13. These gains to the State in federal funds, however, are mostly offset by the loss of federal funds that result from some of the Governor's proposed cuts to federally matched programs.

[3] The only notable source of new revenue that is temporary is the continuation of the 10% surcharge on the corporation tax (estimated to collect $25 million in revenue in FY2012 and $45 million in FY2013) which would expire in FY2014. This surtax impacts some but not all Connecticut corporations, since many corporations doing business in Connecticut – including some large corporations - do not pay the corporation tax (including S corporations, LLCs).

[4] Office of Policy and Management, FY 2012 – FY2013 Biennium: Economic Report of the Governor. pp. 127-128.

[5] Shelley Geballe. "Municipal Aid and Revenues: The Impact of the Governor's Proposed FY12-FY13 Budget." Connecticut Voices for Children. March 2011. http://ctkidslink.org/publications/b11municipalaidrevenuefullreport.pdf

[6] The pie charts in Figure 1 exhibit new proposed taxes and fees in FY13 because tax proportions in FY12 are distorted by the inclusion of an extra half-year of personal income tax revenue. This occurs because proposed income tax changes would apply retroactively to the beginning of calendar year 2011. The pie charts also do not include revenue from new user fees on hospitals, nursing homes, and intermediate care facilities for the mentally retarded. These revenues were excluded since, as facilities would be reimbursed these costs in the aggregate, they are better described as federal revenue maximization.

[7] Joachim Hero. "Reality Check: Connecticut's Public Revenues and Spending Have Remained Lean and Stable for Decades." Connecticut Voices for Children. February 2011. http://ctkidslink.org/publications/bud11realitycheck.pdf

[8] Data between 2002-2008 from the Office of Fiscal Analysis, "Revenue and Budget Data." (2009). p. 6; data for 2009 from Connecticut Comptroller, "Annual Report of the State Comptroller Budgetary Basis: Fiscal Year Ended June 30,2009" (2009) http://www.osc.state.ct.us/2009annual/generalfund/scheduleb2.asp; data for 2010-2013 and income data from Office of Policy and Management, FY 2012 – FY2013 Biennium: Economic Report of the Governor. pp. 127, 130.

[9] During the recession that lasted between 2007-2009, seasonally-adjusted unemployment in Connecticut peaked at 9.2%. The most severe recession before that (over the last 20 years) was during the Weicker administration, when the seasonally-adjusted unemployment rate never rose above 7.4%.Connecticut Labor Market Information, State of Connecticut Unemployment Rate / Residents Unemployed. Connecticut Department of Labor. http://www1.ctdol.state.ct.us/lmi/unemploymentrate.asp

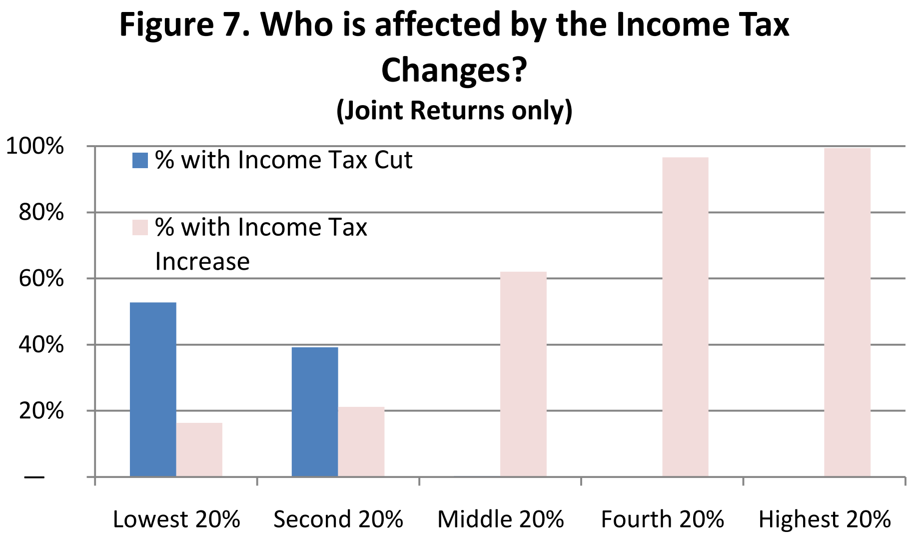
[10] Distributional impact of the governor's proposals were estimated by the Institute on Taxation and Economic Policy (ITEP) using a micro-simulation model. To estimate revenue effects, ITEP uses a prediction of personal income growth that may vary from predictions used by the Governor's budget office, the Office of Policy and Management.

[11] In Figures 3, 5, and 6. Income groups are defined by the following incomes:

Income Group, (2010 dollars)
Lowest 20% - Less than $25,000
Second 20% - $25,000 – $44,000
Middle 20% - $44,000 – $75,000
Fourth 20% - $75,000 – $120,000
Next 15% - $120,000 – $278,000
Next 4% - $278,000 – $1,262,000
Top 1% - $1,262,000 or More

[12] The estimate of who would benefit from the EITC does not indicate the number of people who would qualify. Estimates in this report of the impact of the EITC, as well as other credits, use existing tax data to model the probable impact based upon known tax filing behavior, not the potential impact assuming that all who qualify receive the maximum credit for which they are eligible.

[13] The impact on different income categories (for joint returns only) is displayed below.



[14] This income range was what was used by the Office of Fiscal Analysis in its analysis of the Governor's budget. Because the example incomes used did not extend below $60,000, this graph does not show the even higher potential tax increase for lower income taxpayers who do not qualify for the EITC, or qualify for a very small EITC. Similarly, the graph also does not show how, because of the EITC, income tax liability may be reduced for low-income taxpayers.
[15] Records from the Connecticut Department of Revenue Services show that in 2008 roughly 5% of households between $50,000 and $100,000 did not claim the property tax credit. Connecticut Department of Revenue Services, 2008 Individual Income Tax Data Report. Available at, http://www.ct.gov/drs/cwp/view.asp?a=1445&q=471966
[16] An additional 0.1% on top of the proposed increase would be applied to products and services sold though most retail establishments and would be returned to the town where the sale originated. For further analysis of this provision of the Governor's tax plan and impacts on grants to municipalities, see Shelley Geballe. "Municipal Aid and Revenues: The Impact of the Governor's Proposed FY12-FY13 Budget." Connecticut Voices for Children. March 2011. http://ctkidslink.org/publications/b11municipalaidrevenuefullreport.pdf
[17] Maximum sales tax rates in states with a sales tax range from 4% in Hawaii to 12% in Alabama, when accounting for both state and local sales taxes. See Tax Policy Center, Tax Facts, "Sales Tax Rates, State and Local 2004-2010." Urban Institute and Brookings Institution. http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=492
[18] "Feasibly taxable services" refer to all services consumed by households, excluding housing, healthcare, education, transit, legal, funeral, and certain banking and insurance services. Michael Mazerov, "Expanding Sales Taxation of Services: Options and Issues." Center on Budget and Policy Priorities. July, 2009.
[19] Graph shows all proposed changes to the sales tax, including base expansion, rate change, and luxury tax. Excluded from the analysis are changes to the Admissions and Dues Tax and to the Hotel Occupancy Tax.
[20] Under the proposed language, the throwback rule would also only apply to sales where goods were shipped from within Connecticut.
[21] Michael Mazerov, "Closing Three Common Corporate Income Tax Loopholes Could Raise Additional Revenue for Many States," Center on Budget and Policy Priorities, Revised May 23, 2003, http://www.cbpp.org/cms/index.cfm?fa=view&id=1868#_edn8
See also John C. Healy, Editor, "2001 Multistate Corporate Tax Guide", Panel Publishers. (2001). pp. 616-621. Massachusetts is treated here as a state without a throwback rule because its non-standard version of the rule can be evaded easily.
[22] See Conn. Gen Stat. §12-214 5(6)(b).
[23] As required by PA 94-04.
[24] Editorial Board. "Connecticut's Better Budget" The New York Times. A30. March 10th 2011.
[25] Connecticut Voices for Children. "Reality Check: Connecticut's Public Revenues and Spending Have Remained Lean and Stable for Decades." February 2011, http://www.ctkidslink.org/publications/bud11realitycheck.pdf
[26] Yesim Yilmaz, Sonya Hoo, Matthew Nagowski, Kim Rueben, and Robert Tannenwald. "Measuring Fiscal Disparities Across the U.S. States: A Representative Revenue System/Representative Expenditure System Approach, Fiscal Year 2002. New England Public Policy Center." Working Paper 06-2. 2006. (Paper is part of the Urban Institute's Assessing the New Federalism project).
[27] In addition to effects resulting from the proposed income tax changes, this graph shows all proposed changes to the sales tax, including base expansion, rate change, and luxury tax. Excluded from the analysis are changes to the Admissions and Dues Tax and to the Hotel Occupancy Tax.
[28] Peter Orszag and Joseph Stiglitz, "Budget Cuts Vs. Tax Increases at the State Level: Is One More Counter-Productive than the Other During a Recession?" Center on Budget and Policy Priorities. (2001). http://www.cbpp.org/10-30-01sfp.pdf
[29] Douglas Hall & Shelley Geballe, "Pulling Apart in Connecticut: Trends in Family Income, Late 1980s to Mid 2000s." Connecticut Voices for Children. April, 2008.
[30] Estimates made using the Institute on Taxation and Economic Policy's microsimulation tax model.

[31] Dannel P. Malloy. "FY2012 – FY2013 Biennium, Governor's Budget." Presented on February 16th, 2011. http://www.ct.gov/opm/lib/opm/budget/2012_2013_biennial_budget/2012_2013_budget_powerpoint_final.pdf

[32] Michael Sullivan & Jeffer M. Tebbs. "Closing Corporate Tax Loopholes Through Mandatory Combined Reporting." Connecticut Voices for Children. March, 2010.

[33] Joachim Hero, Orlando Rodriguez, and Shelley Geballe. "Time for Connecticut to Re-examine its Business Tax Credits." Connecticut Voices for Children. April 2010.

[34] For example, the Governor proposes new cost-sharing obligations on low-income families eligible for HUSKY for certain health services, with a maximum out-of-pocket outlay of 5% of annual income. For families with significant medical need, spending 5% of income on health care that previously was free is a far greater burden than the Governor's proposed tax changes, and may well exceed the family's benefit under the proposed state EITC.