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NEWS RELEASE

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State Policy Think Tank Responds to Tea Party Rallies; Challenges Myths About Public Revenues and Spending in Connecticut

Says Cuts-Only Budget Approach Would Damage Economy, Balanced Approach Needed That Includes Revenues

Calls at Tea Party rallies and elsewhere for huge public service cuts and concerns about the impact of potential tax increases on wealthy residents are based on misconceptions, according to Connecticut Voices for Children, a research-based think tank. The organization questioned calls made by some at Tea Party rallies and elsewhere for major cuts to public services and for dramatically scaling back the role of the public sector, even as families are struggling through difficult economic times.

"How do huge, damaging cuts for families make sense now? Are our children too well-educated? Are our streets too safe? Is our economy doing too well?" said Jamey Bell, Executive Director of Connecticut Voices for Children "Public investments like education, public safety, and job training give us the infrastructure that makes economic prosperity and a good quality of life possible in our state."

Rather than a cuts-only budget approach, the organization instead called for several state revenue reforms, including a progressive income tax, closing corporate tax loopholes, and scaling back on some of the state's $5.3 billion in tax expenditures (e.g., tax credits, exemptions, deductions, and rate reductions).

"Any proposal that would try to close Connecticut's budget deficit through cuts alone is not a serious solution," said Joachim Hero, Senior Policy Fellow at Connecticut Voices for Children. "Relying only on cuts would hurt families just as their needs are rising and undermine our prospects for economic recovery. We need a balanced approach that includes revenues."

Connecticut Voices summarized research findings challenging myths about government revenues and spending, arguing that the state faces a budget crisis caused by a declining

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economy and short-sighted fiscal choices, rather than a problem of overspending. The research findings suggest that Connecticut’s state and local government is relatively lean compared to other states and that state spending has remained fairly stable over recent decades.

- Connecticut's state and local government has not grown as a share of the economy since 1970. Connecticut's state and local government is the 5th smallest in the country, relative to the size of its economy.
- State and local taxes and fees in Connecticut have declined as a share of the state's total personal income since 1997. The proportion of total income paid towards state and local government in Connecticut has fallen from a high of 14.7% in 1997 down to 13.9% in 2008. Connecticut's decline occurred over a period that the 50-state average increased from 15.6% to 15.9%.
- As a proportion of total state income, Connecticut ranks among the bottom 10 states in its spending on education, social services, transportation, public safety, and environment and housing.
- Connecticut is a relatively low tax state for businesses. Connecticut ranks 5th lowest among states in total state and local business tax revenues as a share of the state's private sector economy.

The report, “Tax Day Reality Check,” can be found on the Connecticut Voices website at www.ctkidslink.org. Connecticut Voices for Children is a statewide, research and policy organization that works to advance strategic public investment and public policies that benefit the state’s children, youth and families.

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CONNECTICUT VOICES FOR CHILDREN

Tax Day Reality Check

April 2011

The severe national economic downturn has meant that the needs of Connecticut residents have grown, but the state revenues necessary to meet those needs have declined. Calls for huge service cuts in response to this economic crisis, as well as concerns about the impact of potential tax increases on wealthy residents, are based on misconceptions.

Connecticut's public revenues and spending have remained lean and stable for decades. A review of state revenue and spending trends indicates that the state faces a budget crisis caused by a declining economy and some short-sighted fiscal choices, rather than a problem of overspending.

- Connecticut's state and local government has not grown as a share of the economy since 1970.[1] Connecticut's state and local government is the 5th smallest in the country, relative to the size of its economy.
- State and local taxes and fees in Connecticut have declined as a share of the state's total personal income since 1997. The proportion of total income paid towards state and local government in Connecticut has fallen from a high of 14.7% in 1997 down to 13.9% in 2008. Connecticut's decline occurred over a period that the 50-state average increased from 15.6% to 15.9%.
- As a proportion of total state income, Connecticut ranks among the bottom 10 states in its spending on education, social services, transportation, public safety, and environment and housing.
- Connecticut is a relatively low tax state for businesses, according to a study by the Ernst & Young accounting firm.[2] Connecticut ranks 5th lowest among states in total state and local business tax revenues as a share of the state's private sector economy. The state's increase in overall state and local business tax revenues between Fiscal Years 2005 and 2009 was the lowest growth rate among all states.
- Connecticut businesses net a positive return on taxes paid, according to the Ernst and Young study. Businesses paid 99 cents for every dollar of benefit derived from public spending that directly benefited businesses. These services include education, transportation, water and sewer infrastructure, police and fire protection, courts, and others.
- While Governor's Malloy's proposed budget would increase state revenues, state taxes would remain a similar proportion of total personal income as in recent years.[3] At 6.5% of total personal income, taxes would actually be a lower share of income than before the recession started.

If Connecticut raises income taxes for the wealthiest residents, the overwhelming majority will stay, and we will obtain significant new revenues to meet growing public needs.

- Research by the Political Economy Research Institute at the University of Massachusetts found that employment and family concerns are the main reasons that families move, and the impact of taxes on choices about where to live is very weak.[4] Family ties, comfort with the community, jobs, the costs of moving, and valuing public services in the state are the reasons families stay put, regardless of their state's tax rates.
- Connecticut's taxes are competitive with tri-state neighbors.[5] Large differences in property taxes among wealthy suburbs in Connecticut and New York give Connecticut much more room to raise income taxes on the wealthy without exceeding overall New York state tax rates. Property taxes in wealthy New York suburbs on homes for sale over $3 million dollars range from 69% to 232% higher than in Greenwich, and from 36% to

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115% higher than in New Canaan. For someone with $1.7 million in taxable income in Greenwich, the difference in property taxes from Purchase, New York can be the equivalent of 2% in additional income tax. In addition, Connecticut income and sales taxes are competitive with New York and New Jersey rates.

- Increasing income taxes on the wealthiest residents would simply begin to make Connecticut's state and local tax system less regressive. The wealthiest 1% of taxpayers pay less than half the share of their income on state and local taxes (4.9%) that middle-income (10%) and lower-income (12%) taxpayers pay. While the "bottom" 95% of New Jersey residents pay a smaller share of their income in state and local taxes than the bottom 95% of Connecticut taxpayers, New Jersey still raises more revenues as a proportion of total personal income because of its more progressive tax structure.[6]

Connecticut needs a balanced approach to the state's budget problems that includes revenues. To meet the gap between the needs of families and declining revenues, Connecticut must take a balanced approach to reducing the deficit and maintaining vital services that includes revenues. A solution must be based on a clear-eyed, factual assessment of Connecticut' state and local tax picture, not misconceptions.

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[1] Joachim Hero, "Reality Check: Connecticut's Public Revenues and Spending Have Remained Lean and Stable for Decades." Connecticut Voices for Children, February 2011.

[2] Orlando Rodriguez & Shelley Geballe, "Connecticut's Business Taxes in Context: A Summary of Ernst & Young's National Survey of State and Local Business Taxation," Connecticut Voices for Children, May 2010.

[3] Joachim Hero, "Connecticut State Revenues: An Analysis of the Governor's FY 2012 Revenue Proposals," Connecticut Voices for Children, March 2011.

[4] Jeff Thompson, "The Impact of Taxes on Migration in New England," Political Economy Research Institute, University of Massachusetts at Amherst. April 2011.

[5] F. Wade Gibson, "Connecticut's Taxes Are Competitive With Tri-State Neighbors." Connecticut Voices for Children, April 2011.

[6] Joachim Hero, "Reality Check: Connecticut's Public Revenues and Spending Have Remained Lean and Stable for Decades." Connecticut Voices for Children, February 2011.