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State Budget Trends Report Challenges Some Conventional Assumptions

Deficit closing during this recession relied less on revenue changes than during previous CT recessions

A new overview of state budget trends contradicts some conventional views and concerns about taxes and spending in Connecticut. Connecticut's recent recession sparked controversy about the appropriate balance between revenue increases and spending cuts in closing the state's budget deficit. During the last recession, Connecticut policymakers closed a larger share of the deficit through spending cuts and smaller share through revenue increases than during previous recessions, according to the report by Connecticut Voices for Children, released at their state budget forum at the State Capitol on Thursday.

"Connecticut has a long history of taking a balanced approach to responding to recessions and reducing the state budget deficit," said Jamey Bell, Executive Director of Connecticut Voices for Children, a research-based think tank. "As Connecticut's economic downturn has increased the needs of families in the state, these revenue reforms will help to protect education, health, and other services for families when they need them most."

Among the findings of the report, which challenge some common assumptions about the growth of state spending and the impact of business taxes:

- In response to the latest recession (Fiscal Years 2009 to 2013), Connecticut policymakers closed 37% of the state budget deficit through revenue increases, compared to 42% in the previous recession (Fiscal Years 2002 to 2003) and 44% during Fiscal Years 1989 to 1992.
- State spending has remained stable over the last two decades, after an increase in the late 1980s and early 1990s. Spending as a share of personal income was about 2% lower in 2010 than in 1995.
- Over the last 20 years, state revenues from corporation business taxes and sales taxes have fallen dramatically as a share of personal income. Corporation business taxes fell 73% and sales taxes 44% as a proportion of personal income between 1990 and 2010. The report attributes this decline to corporate tax cuts, expanded loopholes, and tax avoidance by

businesses. The decline of sales tax revenues was due to a shift towards an economy based increasingly on services, which are usually not subject to sales taxes, rather than goods, which are taxed.

- Although middle-income and low-income Connecticut residents pay a larger share of their income in state and local taxes than the wealthiest residents, the report finds that recent state tax reforms have improved the progressivity of the tax system. Connecticut Voices credits this change to the passage of a state earned income tax credit (EITC) for working families and adoption of more progressive income tax rates for wealthier residents.

Connecticut Voices also released a separate summary of recent national rankings of business taxes and state accountability, including findings that:

- Connecticut is home to some of the country's biggest tax avoiders – General Electric and Traveler's – according to an analysis by the Institute on Taxation and Economic Policy and Citizens for Tax Justice of state and local taxes paid by Fortune 500 companies.
- Connecticut ranks poorly – 36th in the Nation – in a study by Good Jobs First on states' accountability for creating high-quality jobs through corporate subsidies.
- Connecticut ranks as the lowest-tax state in America for businesses, according to the Council on State Taxation (COST), a trade association of large corporations.

“Connecticut has low business taxes, generous subsidies with few strings attached, and considerable tax avoidance by major corporations,” said Wade Gibson, Senior Policy Fellow at Connecticut Voices for Children. “Yet we still rank dead last in job creation. There is more to this problem than just taxes; we need to invest wisely and examine tax subsidies to ensure we get the best bang for our buck.”

In response to the findings, Connecticut Voices called for several revenue reforms, including

- Closing corporate tax loopholes through “combined reporting” and “throwback rule” reforms,
- Evaluation and disclosure of business tax subsidies to assess how many jobs are being created;
- State reporting on how much different income groups pay in personal income taxes and the impact of business taxes on businesses of different sizes.

The two reports, “Taking Stock: Four Decades of State Revenues, Expenditures, and Deficits,” and “Making Sense of the Rankings: Where Connecticut Stands on Business Taxes,” can be found on the CT Voices website at ctkidslink.org.

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