Testimony Supporting H.B. 5426:
An Act Concerning Reports on Business Tax Credit and Abatement Programs

Wade Gibson, J.D.
Finance, Revenue, and Bonding Committee
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Senator Daily, Representative Widlitz, and Members of the Finance Committee:

I am testifying today on behalf of Connecticut Voices for Children, a research-based public education and advocacy organization that works statewide to promote the well-being of Connecticut's children, youth, and families.

Connecticut faces two simultaneous problems: a jobs problem, with 150,000 people out of work, and a budget problem, which has led to significant cuts and tax increases. In order to tackle both issues, the state must spur job creation, and in the most cost effective manner possible. That will mean, among other things, scrutinizing the hundreds of millions we spend on business tax credits to make sure every dollar counts.

Business tax credits are a form of government spending. They are dollars bound for the state treasury that the legislature directs elsewhere. And, they are directed elsewhere with less accountability and transparency than dollars spent through the regular appropriations process. Business tax credits, as a result, are vulnerable to overspending. Indeed, we spent hundreds of millions over the last generation, and increased credits 27-fold from 1987 to 2008, yet there was zero net job growth.

The Business Tax Credit and Tax Policy Review Committee will help make sure we get maximum bang for the buck, and three provisions of H.B. 5426 will make its job easier. The first, requiring DECD tax credits to be evaluated on how they fit the state's overall economic plan, will help ensure we are not pursuing multiple, potentially conflicting, strategies at once. Instead, we must focus our limited resources on only those areas with the greatest possible return.

The second provision, requiring reports on the location of taxpayers receiving DECD credits, will also focus our efforts. Compared to Connecticut's $200 billion per year economy, tax credits are a tiny, blunt instrument. They are more effective in lending towns and businesses that last bit needed to reach critical mass than they are in turning around places the market passed by long ago. Too often, states use tax credits to subsidize the past, rather than catalyze the future. Location reporting would help make such mistakes clearer.

The third provision, requiring a comparison of Connecticut and other states' tax credits, would address a constant critique of business tax credits—that states engage in a race to the bottom, offering larger and larger subsidies for a fixed number of jobs, with the only winner being corporations, not citizens. In times like these, we must be responsible stewards of taxpayer dollars, and these three provisions would advance that goal.