CONNECTICUT VOICES FOR CHILDREN

Independent research and advocacy to improve the lives of Connecticut's children

Testimony Regarding
Governor's S.B. 946: An Act Concerning Revenue Items to Implement the Governor's Budget

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Finance, Revenue, and Bonding Committee
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Senator Fonfara, Representative Berger, and distinguished members of the Committee:

Thank you for the opportunity to testify today. We present 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. **We testify in opposition to painful and short sighted cuts to essential services and in support of a more balanced and equitable revenue structure: one that makes visible the tradeoffs between special tax treatment and loss of services and one that prioritizes the success of our children and families over the unfair advantage of a few.**

The difficult choices facing our state result from two primary challenges: post-recession revenues that have fallen short of expectations, and past budgeting decisions that have left us with significant debt. To close the resulting deficit of over a billion dollars in the coming fiscal year, the Governor's budget proposes deep cuts to current State services. **Over half of the total savings proposed in the budget come from rollbacks in services that advance child and family wellbeing.** These include:

- Eliminating HUSKY coverage for over 30,000 pregnant women and parents;
- Reducing local education support by $158 million; and
- Imposing a 60% cut to State support for developmentally disabled children who also suffer from emotional, behavioral, and mental health needs.

Detail provided in Appendix A: The Children's Budget.

Many of these unwise and unfair cuts would not be necessary if, instead, we focused our attention on fixing existing inequities in Connecticut's tax system. A 2014 tax incidence report by the Connecticut Department of Revenue Services found that Connecticut households earning between $5,533 and $16,245 per year pay an effective overall tax rate of over 26 percent, while the wealthiest households with incomes over $165,394 pay an effective overall tax rate of only 8 percent. **Simply put, our tax system imposes a greater burden on families who have less.** Rather than remedy these inequities, the proposed budget would instead eliminate the scheduled restoration of Connecticut's Earned Income Tax Credit (EITC) to 30% of a recipient's federal credit amount, asking low-income working families who already pay more than their fair share to forgo a much needed tax cut.

Better choices exist — we must take a fairer approach to balancing the budget, one that does not ask the most from children, families, and those who have least. While the proposed budget does take measures to raise revenue, including capping the ability of corporations to use net operating losses to reduce tax liability, and capping various other tax credits, there are many additional steps Connecticut can and should take to increase the fairness of our tax code and avert cuts that harm children and families.

First, we ask the Committee to eliminate outdated and/or baseless tax expenditures: those that either have been found to offer no significant public benefit (as determined in the 2014 report by Connecticut's Office of Fiscal Analysis) or were enacted decades ago for services that no longer require special treatment. For instance, Connecticut could avert both the $49.2 million cut to the HUSKY program *and* the $11 million cut to the EITC by repealing an obsolete tax expenditure enacted in 1997 at the dawn of the internet revolution to encourage a rapid buildup in Internet services.

Second, we ask the Committee to consider enacting automatic end dates for *all* tax expenditures. Tax expenditures should require regular review and re-approval by the General Assembly, just like other expenditures that are considered and approved regularly through the appropriations process. By sun-setting all tax expenditures absent an affirmative vote to protect any particular exemption, the Legislature would avoid the loss of hundreds of millions each year on tax loopholes that no longer have a policy justification. (A summary of major tax expenditures that could be reclaimed to raise revenue, totaling over $470 million, is included in Appendix B.)

Third, we ask the Committee to expand the base of the sales and use tax so as to permit an overall decrease in the sales tax rate. Broadening the sales tax to include most services would make room for a significant reduction in the sales tax rate, increasing Connecticut's interstate competitiveness, while maintaining a neutral or positive effect on the state's budget.

Fourth, we ask the Committee to correct the existing rate structure of the personal income tax to make our tax code fairer (and to prevent avoidable cuts to essential services). An analysis by the Institute of Taxation and Economic Policy in Washington, D.C. (ITEP) found that by adjusting the definition and rates of the top tax brackets, affecting the wealthiest 2 percent of taxpayers, the state could generate roughly $300 million in new revenue with more than 1/3 of that amount paid for by the federal government rather than local taxpayers.

Finally, other commonsense revenue ideas have been proposed that have public health benefits and would allow the state to continue essential services for vulnerable children and families, including:

- Raising the cigarette tax by 95 cents would promote public health while generating an estimated $60 million for state coffers; and
- A sugar-sweetened beverage and candies tax would offer a large public health benefit while raising approximately $179 million in the coming fiscal year.

The table below illustrates the many positive alternatives Connecticut has that can avoid asking children to close the State's budget deficit:

Proposed Cut	Cut (millions)	Revenue Option	Revenue (millions)
HUSKY A coverage for parents and pregnant women	-$49.3	Repeal 1997 tax expenditure for Internet services	+$62.2
State Department of Education and higher education	-$219.4	Adjust top marginal income tax rates	+$300
Department of Developmental Services' Voluntary Services	-$20.0	Eliminate 1999 tax expenditure on home renovations and restoration	+25.2
Earned Income Tax Credit (EITC)	-$11.0	Eliminate tax expenditures: athletic clubs (1994) and lawn bowling clubs (1999)	+$11.2

Connecticut has an obligation to pay its debts and keep its budget balanced, but we have an obligation to future generations as well, an obligation we meet through investments in children's education, healthcare, and wellbeing. Connecticut Voices for Children respectfully urges the Committee to consider our proposed revenue modifications as part of a more equitable approach to closing the deficit. Thank you for your time. We would be happy to answer any questions.

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