CONNECTICUT VOICES FOR CHILDREN

Funding Our Future: Child and Family Friendly Revenue Options
Executive Summary

March 2015

The Governor's budget proposal falls short on two important measures. First, it fails to make essential investments in the health and wellbeing of children and families, with half of the proposed budget cuts ($319 million out of $590 million total) coming from programs and services that benefit Connecticut families. Second, it fails to address existing inequities in the state's tax system, which the Connecticut Department of Revenue found asks the most from those with the least. Connecticut can avoid damaging cuts and move toward a fairer tax system through changes to the existing revenue structure.

1. **"Sunset" tax expenditures.** Tax expenditures – in the form of exemptions, deductions and credits – result in the loss of over $6 billion in state revenues. Most of these expenditures, unlike other forms of public spending, do not require reauthorization and escape regular legislative review. By enacting a universal "sunset" provision that terminates all current tax expenditures, and by reenacting only those provisions that serve the public interest, the General Assembly could increase transparency and raise significant funding for programs that provide broad public benefit.
2. **Eliminate specific tax expenditures**. The full version of this report identifies over $470 million in tax expenditures that could be eliminated to provide additional state revenue without any downside to the public interest. Specific expenditures identified include exemptions for amusement and recreation services, winter boat storage, and lawn bowling clubs.
3. **Broadening the base of the sales tax on services.** While the sales tax applies to the sale of most goods, services are not taxed unless done so explicitly through legislative action. Services make up a growing share of the state's economy, but the state's sales tax has not kept pace. Expanding the sales tax base to include most consumer services would allow for a reduction in the tax rate to 4.25% without loss of revenue.
4. **Adjust top marginal rates on the state's highest incomes.** Connecticut's top "marginal rate" of 6.7% is substantially lower than those in other states like New York (8.82%) and New Jersey (8.97%). Increasing progressivity by adjusting top rates would offset $300 million in cuts to children and families while leveraging significant ($114 million) federal funding.
5. **Enact combined reporting.** Connecticut is the only state in the Northeast that does not require combined reporting – a fix of an existing tax loophole that allows corporations that conduct business in multiple states to use accounting gimmicks to avoid paying state taxes. Enacting combined reporting legislation could produce an estimated $129.8 to $149.5 million in tax revenue.
6. **Raise the cigarette tax.** Supported by 70 percent of voters in a 2013 poll, raising the cigarette tax by 95 cents would promote public health while generating an estimated $60 million in revenue.
7. **Introduce a sugar-sweetened beverage and candies tax.** As originally introduced, Proposed Bill No. 5461 would have imposed a tax on soft drinks (of one cent per ounce) and candy, resulting in a substantial public health benefit while raising an estimated $179 million.

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