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**Testimony Supporting
H.B. 5003: An Act Concerning the Estate Tax Exemption Threshold and the Gift Tax Cap;
Testimony Opposing
H.B. 5034: An Act Eliminating the Estate Tax**

Finance, Revenue and Bonding Committee
February 27, 2020

Good afternoon Senator Fonfara, Representative Rojas, Senator Witkos, Representative Davis, and esteemed members of the Finance, Revenue, and Bonding Committee:

I am testifying today on behalf of Connecticut Voices for Children, a research-based child advocacy organization working to ensure that Connecticut is a thriving and equitable state where all children have an opportunity to achieve their full potential.

Income and wealth inequality have been rising for several decades and are now at their highest levels since the end of the Second World War. The pre-tax income share of the top one percent of the U.S. population now exceeds that of the bottom 50 percent. These effects are even greater in CT, where the pre-tax income of the top one percent accounts for 27.3 percent of the state's total income. Wealth inequality is even greater than income inequality. The wealth share for the top one percent of the U.S. population now exceeds the wealth share of the bottom 90 percent.

Income and wealth inequality adversely influence the education, health, and economic opportunity of most children in Connecticut, and this is especially true for children of color throughout our state. Additionally, Connecticut's regressive tax system as a whole exacerbates rising pre-tax income and wealth inequality by disproportionately taxing working- and middle-class families. However, there are two progressive taxes in Connecticut that work to counteract this process: one is the income tax, which primarily works to limit income inequality; and the other is the estate and gift tax, which primarily works to limit wealth inequality.

When a wealthy individual passes away and leaves an estate to his or her heirs, Connecticut taxes the estate. In 2019, this tax only applied to estates worth more than $3.6 million. In 2020, it will only apply to estates worth more than $5.1 million. And the exemption is scheduled to increase each year until it reaches $11.4 million in 2023.

CT Voices for Children Supports H.B. 5003: An Act Concerning the Estate Tax Exemption Threshold and the Gift Tax Cap, a bill that would maintain the estate tax exemption at its current level and eliminate the $15 million dollar cap on the gift tax. Additionally, we suggest amending the language within H.B. 5003 to freeze the estate tax parameters at 2019 levels, which included an exemption of $3.6 million. We also suggest amending the language of the bill to eliminate the $15 million dollar payment cap on *both* the estate and the gift tax.

Conversely, we oppose any attempts to decrease or eliminate the estate tax, including H.B. 5034: An Act Eliminating the Estate Tax.

In addition to making Connecticut's tax system fairer by limiting the advantage that heirs of wealthy people enjoy from unearned wealth transfers, the estate tax brings in critical revenue. In 2019, the state received

$225.2 million in revenue from the estate tax, and in 2020 Connecticut is projected to receive $180.8 million. Importantly, this amount of revenue is sufficient to entirely fund the Connecticut Earned Income Tax Credit, which primarily supports working-class families and currently mirrors the federal EITC at 23 percent. In fact, revenue from the estate tax is sufficient to cover the cost of restoring the CT EITC to 30 percent.

ESTATE TAX: JUST FACTS

- *Connecticut's estate tax provides much needed revenue, and simple reforms could further increase these revenues.*
- If Connecticut repeals the $15 million cap on the payment of the estate and gift tax, the state would raise an additional $12.5 million in revenue a year.
- The gift tax is important because it prevents leakage of the estate tax; however, capping the total payment amount at $15 million is regressive.
- *Connecticut's estate tax is more generous to heirs inheriting wealth than our peer states.*
- All states in the Northeast except New Hampshire have an estate and/or inheritance tax.
- If Connecticut allows the exemption to match the federal exemption of $11.4 million, as scheduled, it will be significantly more generous toward wealthy heirs than peer states.
- Connecticut is the *only* state that currently has a cap on the estate and gift tax.
- *The estate tax is the only tax in Connecticut that directly addresses wealth inequality.*
- Connecticut has the third highest concentration of millionaire households in any state (including DC).
- Having an estate tax does not adversely impact revenue due to the relocation of wealthy residents; a study by the Federal Reserve Bank of San Francisco estimates the revenue benefit of CT having an estate tax to be 26 percent larger than the revenue cost of wealthy residents relocating.

The estate tax is a fair and equitable tax in that it helps to limit rising inequality due to unearned wealth passing through generations. It is also a critical source of progressive revenue for the state, helping to fund programs that support *all* children across the state—not just the lucky few. This week, CT Voices released an in-depth report on how Connecticut's Estate Tax helps to address wealth inequality. The author of this paper, Michael Enseki-Frank from Yale Law School's Legislative Advocacy Clinic, plans to present his research in greater depth later in this hearing.

Thank you for your time and consideration.

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