State Tax Panel
Meeting Minutes 10/28/14

The meeting was called to order at CCSU at 3:14 pm by co-chair Bill Nickerson. . Present were: Melinda Agsten, Ben Barnes, Bill Breetz, Al Casella, Alan Clavette, Bill Dyson, John Elsesser, Sen. Scott Frantz, Marian Galbraith, Tiana Gianopulos, Howard K. Hill, Annika Singh Lemar. Don Marchand, David Nee, Bill Nickerson, Lou Schatz, Kevin Sullivan, Robert Testo and Rep. Pat Widlitz, Absent were ex-officio members Rep. Sean Williams (out of state) Sen. John Fonfara(work conflict) and Sen. Donald Williams. Ken Saccente served as designee for Rep. Brendan Sharkey. Also present were: Mary Finnegan, Finance Committee, Tom Fiore, OPM and Lou Bucari and Susan Sherman, DRS. The members briefly introduced themselves at the start of the meeting.

Joe Brennan, Vice-President, CBIA made a presentation to the panel. He indicated that the top priority should be to encourage investment and economic growth in Connecticut. Other factors he mentioned were predictability and consistency, transparency, ease of compliance, and concentrating on those economic base industries that export goods and services while importing wealth into the state.

Predictability is also a very important component of a good tax system. According to CBIA, transparency in the development and application of tax policy can help remove ambiguity and allow for critical input from the affected parties. Ease of compliance and low costs for compliance are essential. Joe Brennan strongly suggested that although the purview of our panel is tax policy we should not look at tax policy in a vacuum. The reality is that Connecticut has among the nation’s highest labor costs, healthcare costs, and energy costs. If we combine our state, federal and local taxes they too are among the highest. He stressed that not all businesses are impacted uniformly by our tax code. We have some good policies in Connecticut like apportionment for manufacturers and financial services. On the **corporation business tax** side policy changes have been made to lessen the positive benefit of some of our policies such as limits on tax credits that make us less friendly to in state businesses. This year’s legislation that allowed for the use of accrued but unused tax credits to be used against a tax other than the corporate tax should be extended to other companies. **The Sales and Use Tax** is so complex that issues often revolve around what is taxable and what is not. Some services like business analysis and management services are not easily defined. **Personal Income Tax** is complicated in that our rate is lower than New York’s but they impose it on taxable income after deductions and exemptions are taken. So depending on the taxpayer, the total may be greater here than in New York on the same income level. Small businesses were impacted greatly by the 2011 changes that disallowed any benefit from marginal rates for certain taxpayers. In summary he also indicated that often our changes are not made with policy in mind but solely to raise revenue. He would like this panel to look at policy driven changes that will make us more competitive and lead to greater economic growth while still increasing tax revenue for the state and its municipalities.

Joe McGee, Vice-President Business Council of Fairfield County recommended that the panel seek a tax code that encourages an investment in infrastructure that he broadly defined to not only include physical infrastructure such as , roads, bridges, highways but also human capital. Business now follows the talent. We need to look at the use of tax incentives. Are they used effectively? We need to align overall state tax policy and the use of capital investment. We need to see how all the pieces are interconnected. We need to look at tax policy, economic policy and capital investment policy as executed by the Bond Commission. Given the need for the substantial sums that will be required for infrastructure investments in the coming decades, he felt that there will be a need for Public private Partnerships to muster capital and leverage state resources. We need to figure out how to finance as this goes to the heart of tax policy.

Nick Perna, Economist, Yale University, Faculty: Mr. Perna indicated that it is the role of the state to create a winning environment not create winners and losers. This economic downturn is the worst since the Great Depression and Connecticut's rebound has been more muted. Dr. Perna did not feel that the income tax increase in 2011 was the cause of Connecticut's slow growth but rather it was the severe dose of federal fiscal austerity that occurred after the initial federal stimulus and the slowness of the state in addressing its budget deficits. Dr. Perna indicated also that in the short run economic analysis could not definitively answer which was the better method for addressing budget deficits-tax increases or spending cuts. Dr. Perna felt that factors for economic growth included decreasing inequality, which needed to be dealt with at the federal level, and improving educational outcomes and attainment, which is necessary for a high performing economy.

Question and Answer

i. William Nickerson asked whether it is better to pursue a policy of targeted tax credits or instead use those resources and lower the overall tax rate.
    1. Mr. Brennan responded that the state needs to pursue two tracks. The first is offering targeted tax credits because the state needs the tools similar to other states in attracting business. However, he felt the most important track is providing an overall conducive business environment for all taxpayers.
    2. Mr. McGee responded that since Connecticut is a high tax state, it needed to focus on providing high value for the high taxes. He noted the need for affordable housing, and that regulatory policy need to be considered as well as tax policy.

3. Dr. Perna indicated that Connecticut needed to be in the game regarding tax credits, but a more conducive business environment was more important.

ii. Kevin Sullivan asked Mr. Brennan why in the CBIA survey of businesses do such firms not rank our state's tax code as the number one issue, yet when such businesses are asked what they would want changed, they cite state taxes.
    1. Mr. Brennan responded that businesses felt that was the one area that could be controlled from an array of businesses costs that are already high relative to the nation.

iii. John Elsesser asked about the significance of property taxes for businesses.
    1. Mr. Brennan responded that it was not as large a factor as it had been in the past because the state had taken steps through its Electronic Data Processing tax credit and its exemption of manufacturing machinery and equipment.
    2. Mr. McGee noted it was important to track the effective tax rate in each municipality, rather than averaging the property tax rate for all municipalities in Connecticut. He noted the effective tax rate in Greenwich was low but high in Bridgeport.

iv. Robert Testo asked why people, especially young people, are leaving the state.
    1. Mr. McGee wanted to explode the myth that young people are leaving the state and pointed to statistics from Stamford that confirmed his point. Survey results indicate that young people want to live somewhere fun which is increasingly viewed as the inner city, hence the popularity of New York City, Boston, and Philadelphia.

v. Lou Schatz asked about the concern of businesses in regards to the state's taxation of services under the sales tax.
    1. Mr. Brennan pointed out that Connecticut taxes more services than most other states and a particular area of concern over the years is the state's taxation of business analysis and management services. The level of taxation of services is not the only issue, but also the complexity of compliance.

vi. David Nee asked Mr. McGee what investments in education were necessary.
    1. Mr. McGee pointed out that accrediting university courses takes too long. He also felt the state needed to consider bold initiatives such as forgiving interest on student loan debt in proportion to the number of years they remain in Connecticut. He also pointed out that Connecticut has

developed a focus on the knowledge economy over the years, and now needs to support and enhance that economy.

vii. Tiana Gianopulos asked about the impact of the Estate and Gift tax on economic development.
   1. Mr. Brennan responded that it was primarily a factor in the transfer of family owned businesses, of which there are many in Connecticut.
   2. Mr. McGee indicated that it was a balancing act not to drive businesses and individuals out of the state.

RFP Update

Secretary Barnes from OPM provided an update on the selection of an administrator and technical consultant for the Commission. Secretary Barnes indicated that the RFP process did not generate sufficient submissions and expected to send out another solicitation by the end of the week. He will be exploring experts utilized in other states for similar work**. Commissioner Sullivan also stressed that we need to immediately seek legislation to extend the work of the panel until January, 2016**.

. **Next Meeting**

Wednesday, December 3rd, 2014 at 3:00 pm in Room 2B at the LOB

Proposed Agenda

Primer on taxes from Commissioner Sullivan and DRS staff and OPM staff

Report from Secretary Barnes on the RFP process

Articulate and refine the mission of the Commission

Discussion of Sub-committee assignments

Membership Vacancies

Representative Widlitz informed the panel that Yolanda Kodrzycki and John Soto would not be able to serve on the panel. She recommended that the two existing alternates be made permanent as had been envisioned by the appointing authorities when they included alternates on the panel. Sen. Scott Frantz concurred. William Nickerson moved that Melinda Agsten and David Nee be made permanent. William Dyson seconded the motion. The motion passed. Bill Breetz asked about other names that may have been suggested. Bill Nickerson informed him that the panel had no authority to fill the vacancies as the appointing authority was clear in the legislation.

The meeting adjourned at 4:58 p.m.

Respectfully submitted, Mary E. Finnegan, Finance Committee Administrator