

State Tax Panel Meeting

November 17, 2015 10:00 AM in Room 2B

Minutes

The meeting was called to order at 10:10 by Co-chair Bill Nickerson. Present were voting members: Melinda Agsten, Alan Clavette, Bill Nickerson Tiana Gianopulos, John Elsesser, Lou Schatz, Annika Singh Lemar, Don Marchand. Al Casella, David Nee, Howard K. Hill, Bill Dyson, Robert Testo and Marian Galbraith. Also in attendance were ex-officio members: Ben Barnes, Sen. Scott Frantz, Commissioner Kevin Sullivan, Rep. Jeff Berger and Rep. Chris Davis. Absent were: Sen. John Fonfara. Sen. Martin Looney, Rep. Brendan Sharkey, Bill Breetz

Also present were: Robert Ebel, Michael Bell, Pat Widlitz, and Mary Finnegan.

Chairman's Remarks and Discussion: Chairman Nickerson indicated that this would be the last of the panel's meetings were new content would material would be presented. He also indicated that by December 3, embers would receive a summary document of the tax study findings and tax policy options for consideration. On December 8th the panel will have a full discussion of the material tht will have been sent out on the 3rd. The panel will meet on December 15th and will make recommendations on Connecticut Tax Policies as the State approaches the 2020's.

At this point Commissioner Sullivan asked where is the revenue neutrality in these reports? Bob Ebel replied that state and local taxes are a system and if we change revenue one place we need to find it elsewhere> John Elsesser said he viewed that our work would be revenue neutral as a whole keeping in mind the changes in silos like probate fees. There would be revenue neutrality in in totality. Bill Nickerson viewed our charge as more state tax revenue neutral and we should keep minimal the local tax issues. Anika Lemar stated that she felt that some of the other property tax measures were compelling but John Elsesser indicated that treating different classes differently was not optimum. Robert Testo spoke about the county system of government as being more effective in some senses with shared services.

Presentation on Direct and Indirect Property Tax Relief: John Anderson University of Nebraska, Lincoln and David Sjoquist, Georgia State University, moderated by Michael Bell

The policy options offered included replacing the current complex set of property tax exemptions and circuit breaker with a single unified circuit breaker mechanism that would help those homeowners and renters whose property taxes are too high relative to

their resources. Use value assessments should be used for protection of land that provides ecosystem services. Also the State could possibly modify the current tax deferral program. Two alternatives of the local sales tax option-one in which local sales tax revenues stay in the town where they are collected and a regional sales tax plan would be implemented in each of the 9 COG's where half would stay in the town where it is collected and half is distributed to towns on a per capita basis. Other options put forward were a local income tax based on five alternative definitions of an income tax base, local option tax design issues and increased reliance on user charges and fees. Pat Widlitz provided some historical perspective on the history at the General Assembly where we did things that gave revenue to the towns one year and then took them back so that trust between the State and towns is not good. Don Marchand indicated that the county system was abandoned in the 70's in Connecticut. Alan Clavette stated that the business entity tax which is difficult to collect is really a franchise fee.

Presentation on the Connecticut Personal Income Tax, Business Personal Property Taxation and Motor Vehicle Tax: Joseph C. Cordes, George Washington University and Lawrence Walters, Brigham Young University, moderated by Michael Bell.

The paper offered alternatives on Business Personal Property including adopting an alternative tax to replace any property tax relief granted for personal property taxes, phase out the tax over time and do not replace the revenue, pool the base from the relatively small number of very large personal property taxpayers. We should also recognize that there should be an exemption from declarations for perhaps businesses under \$10,000. Some of the suggested motor vehicle tax options would be to leave the tax as it was changed in 2015, a revenue neutral statewide mill rate and hold harmless provisions to replace lost revenue in some cities, a statewide minimum mill rate and an additional local rate up to a maximum allowed rate, replace the current ad valorem tax on motor vehicles with a revenue neutral excise tax based on the vehicle MSRP and age. The income tax suggested policy options included: strengthening the budget stabilization fund, treating social security, military benefits the same as they are treated under the federal income tax, substitute Federal taxable income for Federal AGI as the starting point for computing CT AGI, Replace the current income tax with a flat tax, restore the EITC to 30%, tax capital gains at preferential rates, and maintain competitiveness. A discussion ensued as to what revenue neutrality meant to the panel. Bill Nickerson indicated that he believed we were looking at the state revenue picture in a long term perspective to see if it was fair, competitive and working. We were not to recommend that the state change its expenditure path. David Nee felt we were to look at the whole system of taxation. Pat Widlitz indicated that as former chair of Finance she had envisioned this as a look at the structure for the state budget and its components to municipalities. In light of where the State is now and the issues before the General Assembly it is even more critical that we look at the structure of the whole state tax structure for competitiveness, fairness and simplicity. Commissioner Kevin Sullivan indicated his concerns on how to report and if we get prescriptive how to do it. He felt we need to move in a way that offers considerations and options. Anika Singh indicated that she felt that property tax must be included. John Elsesser stated that the property tax piece negated all fairness and equity issues. Bill Dyson said that some are

quality of life issues and that we could not harm anyone and still do disservice to the State. As far as individuals taking their pensions and moving South there are still a number of issues to be addressed including what constitutes residency according to Lou Schatz.

Lawrence Walters from Brigham Young University presented papers on Business Personal Property Tax and Motor Vehicle Tax. One of the options Dr. Walters provided on Business Personal Property Tax was to eliminate the tax for business property under a certain threshold. Alan Clavette commented on the time burden imposed by the Business Personal Property tax due to required paperwork. Anika Singh Lemar suggested businesses instead be given the option to either file the Business Personal Property Tax or pay a minimum amount. John Elsesser pointed out the information towns receive from Business Personal Property tax filings is valuable. There was discussion on how antique cars are classified. Senator Frantz commented property tax on antique cars was capped at \$500 so that the cars remained in Connecticut and were not moved over the border. Senator Frantz also pointed out the state receives revenue upon the transfer (through sale or passing of an estate) on these antique cars. John Elsesser commented it is the state that receives revenue upon transfer of antique cars, not the towns.

Presentation on Connecticut Probate Fees and Controlling Interest and Conveyance: Judge Paul Knierim, Probate Court Administrator and Vincent Russo, Manager of Communications and Intergovernmental Relations, Office of the Probate Administrator and Catherine Collins, George Washington University, Moderated by Robert Ebel.

Judge Paul Knierim spoke on the current probate system and the new funding structure. This past session the budget was changed from general fund supported to a steeply higher decedent's estate fees retroactive to January 2015 and elimination of the General Fund support system. There had always been a \$12,500 cap on fees and the system was able to survive with the \$9 million appropriation. If the cap was raised to \$20,000 then they would need a \$7 million appropriation. General Fund support is warranted because of the essential services that the courts provide to children, the elderly, individuals with mental illness and persons with intellectual disabilities. There are currently 54 districts down from 117 in 2011. The new law would cost decedents estate of over \$2 million \$5615 plus .005 of all monies in excess of \$2,000.000. Estates that do not even go through the courts because of the set up would still be paying. Sen. Frantz indicated if someone donated their whole estate of \$3,000,000 to the Beardsley Zoo the State would still collect. There is a lack of connection to a service provided. Judge Knierim indicated some policy options of consideration including maintaining the new changes, restoring the cap on fees, overhauling the fee structure, and requiring that all estate tax returns be filed with DRS.

Catherine Collins indicated that in Connecticut the REC tax is the only tax imposed by both the State and the towns. The property tax and the REC tax are the only taxes

available to the municipalities. The State sets the rate as well as the taxable transactions. Certain targeted investment communities municipalities can also add an additional percentage onto the transaction to a maximum of 1.25% on real estate over \$800,000 .The CIT tax is imposed by the State when Connecticut real estate interests are transferred through the sale or trade of controlling interests of a corporation, partnership or similar type entity. These revenues are not shared with the towns. Policy options could include retain the current three components, repeal the state rates and retain the local rates, , increase the State REC but repeal the local component as well as other proportional changes. John Elsesser strongly remarked that towns are collection agents of the State and they should be allowed to keep the revenue collected and not have to send it to the State for redistribution. The State also sweeps some local revenue items when they need it. He feels the towns should be able to keep the dollars they collect.

(The power point presentations and all supporting documents are located on-line on our website: (www.cqa.ct.gov, go to committees, then Finance. then scroll to the bottom left for tax panel documents)

Meeting adjourned at 5:00 pm

Next Meetings: Tuesday, December 8, 2015 at 10:00 am-5:00 pm in Room 2B
Tuesday, December 15, 2015 at 10:00 am-5:00 pm in Room 2B

.

Respectfully submitted,

Mary E. Finnegan
Administrator, State Tax Panel