

DIVERSIFYING MUNICIPAL REVENUE IN CONNECTICUT

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Connecticut Tax Study Panel
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Overview

- **Current Environment**
- **Arguments For & Against Diversification**
- **Policy Options**
 - **Adopt Local Sales Tax**
 - **Adopt Local Income Tax**
 - **Increase User Charges**

Current Environment

Property Taxes/OSR

Connecticut	88.0%
U.S.	51.1%

Property Taxes/Tax Revenue

Connecticut	98.8%
U.S.	73.9%

Why Diversify Revenue

- Reduce reliance on property taxes
- Capture revenue raising capacity
- Revenue stability

Reasons Not to Diversify

- **Property tax is a good tax**
- **Property tax is more stable**
- **Could lead to larger expenditures**

Local Sales Tax

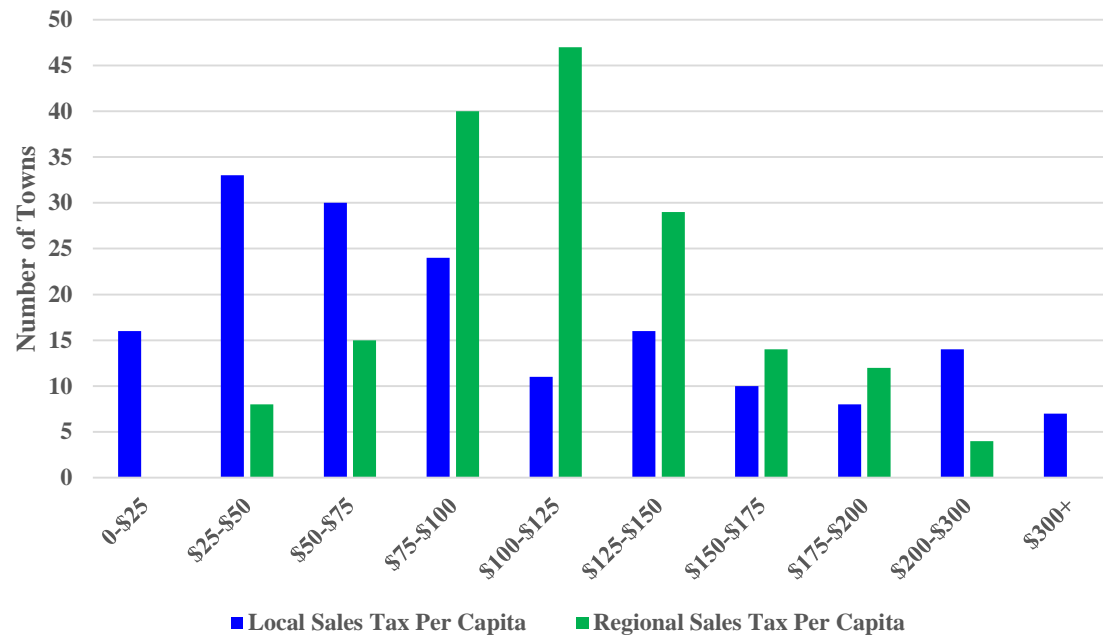
Considered a 1% tax on state base

- Revenue going to host town
- Regional sales tax

Estimated Revenue

- **Generate an estimated \$607 million**
- **Rev per capita vary widely across towns**
 - **\$5 to \$717 for the Local Sales Tax**
 - **\$42 to \$230 for the Regional Sales Tax**

Estimated Revenue per Capita



Other Issues

- Cross-border effects
- Fiscal disparities
- Could reduce property taxes by about 6.1%
- Cost of admin/compliance would be small

Other Issues

- **Generate revenue from commuters/shoppers**
- **Some shifting of sales between towns**
- **Towns will compete for sales tax base**
- **More regressive than the property tax**

Local Income Tax

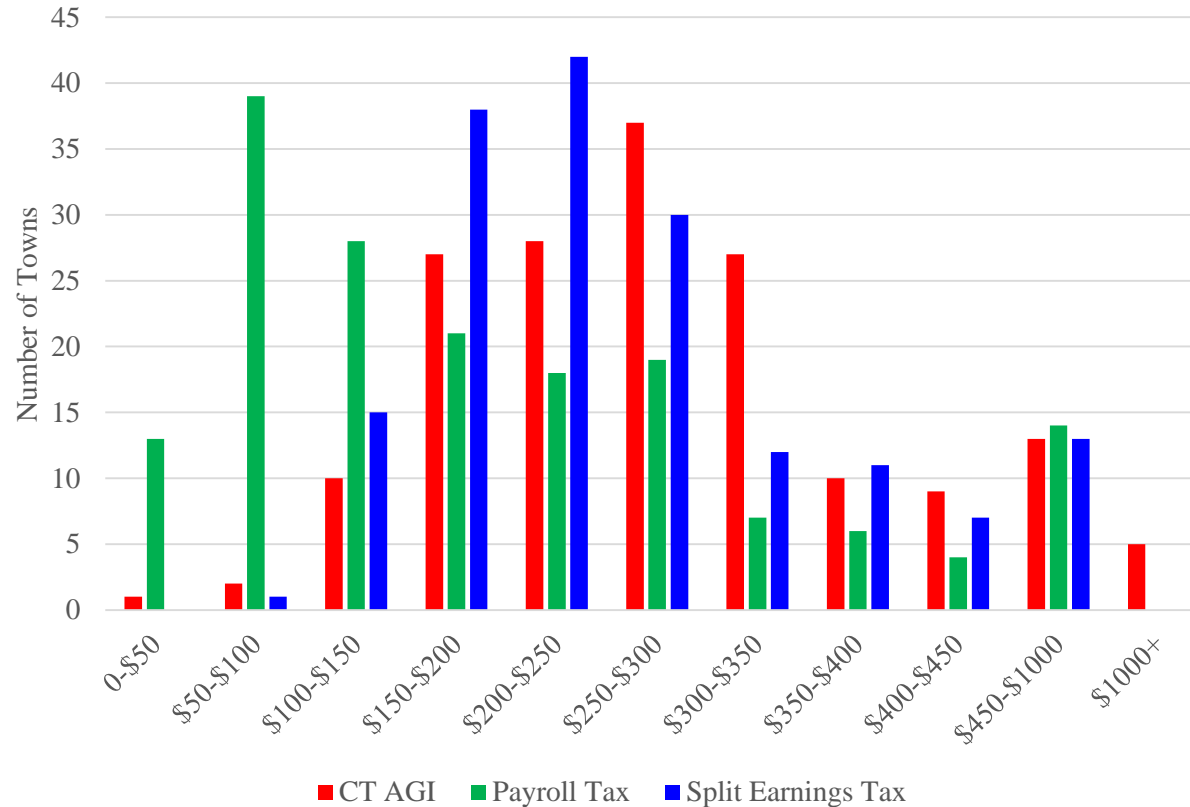
Considered the following:

- **AGI Tax:**
0.75% tax on CT AGI
- **Income Surtax:**
18% tax on CT tax liability
- **Payroll Tax:**
1% tax on earnings by place of employment
- **Split Earnings Tax:**
1% tax on earned income split by
town of residence and town of employment
- **Residence-based Tax:**
1% tax on earned income of residents
and those working in the town,
with a credit to town of residence

Estimated Revenue

- Generate an estimated \$1,084 million
- Rev per capita vary widely across towns
 - AGI Tax: \$40 to \$1,773
 - Payroll Tax: \$22 to \$872
 - Split Earnings Tax: \$97 to \$760

Estimated Revenue per Capita



Other Issues

- Effect on employment
- Fiscal disparities
- Could reduce prop taxes by 11.5%
- Small admin cost for AGI Tax & Inc Surtax
- Large admin cost for earned income tax

Other Issues

- Payroll tax would generate rev from commuters
- AGI Tax and Inc Surtax are progressive
- Tax on earned inc is slightly regressive

User Charges and Fees

- Signals cost of providing public services
- Can reduce congestion
- Equity
- Can be a flat tax per household

Reliance on Current Charges

- CT raises 8.6% of OSR from current charges
- Average for U.S. is 22.9%
- Might increase revenue by \$349 to \$867 million

Reasons for Low Reliance

- State sets limits on some charges
- State is responsible for some services
- Reticence to use fees

Impact Fees

Not allowed in CT

Potential revenue of \$33.4 to \$45.2 million

Charges: Policy Options

- Review state limits on fees
- Encourage greater use of fees
- Encourage shifting to fees based on use
- Authorize impact fees

Thank You



Questions?

Figure 3. Percent Reduction in Property Taxes

