2. The Connecticut General Retail Sales Tax
Discussion Draft
12.12.15

***Recommendation 1.* Remote Sales Transactions**

The Department of Revenue services should remain aggressive in the taxation of the increasing dollar amount of remote sales (e-commerce, catalogue sales) at retail at the standard 6.35% statutory rate by seeking to require sellers to collect the tax wherever possible.

- Revenue Implication: increase as the remote economy is projected to growth from but, in the short term, likely difficult to fully a DRS identified $100m revenue in 2015 (though Connecticut has collected more than $300 in FY 2015). However to give a sense of growth in the remote sales sector, it is estimated that for the US as a whole, state and local governments lost a combined #he 11.4 bn in sales tax collections in 2012 (3% of total state sales tax collections); that number is projected to grow $17.0 bn in 2015 (to approximately 3.5% to 4.0%). On a revenue neutral yield overtime, by broadening the base there will be a downward pressure on the general statutory rate.

***Recommendation 2*. Digital Downloads**

Tax all forms of final (retail) consumption so that digitized versions of goods are taxed at the same standard retail rate as the physical items. As the tax may be difficult to enforce on some vendors since they may not have physical presence in Connecticut, as part of its enforcement strategy the state should look to organizing companies to remit the sales tax

- Revenue implication: base broadening overtime to allow for lower statutory tax rates.

***Recommendation 3*: Shared Economy**

Ensure that the sharing economy is taxed similarly to the traditional economy. Recognizing that the sharing economy is still developing such that it is early to make decisions on the details of how to tax the entire sector, a comprehensive analysis should be conducted by the Department of Revenue Services over the next year to articulate current practice and appropriate changes. As with digital, the state should look to organizing sales instrumentalities as collection agent

- Revenue Implication: base broadening overtime to allow for lower statutory tax rates

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***Recommendation 4*. Adopt the presumption that the Connecticut retail sales tax is a tax on final consumption that is to be broadly applied to all goods and services; if exemptions are to be allowed in, partial or whole, the Assembly must be explicit in their rationale for such treatment.**

- Services. Broaden the sales tax to more services used for final retail consumption, including sales at retail for residential renovation and repair, residential utilities including electricity and natural gas, marina services and towing, road and towing services, barber shops and beauty salons, government sales, and legal and accounting services. Continue the exempt status of doctor, nurse and other medical services.

  - Revenue Implication: immediate/medium term base broadening, lower rate; effect on rate will depend on which activities are included in the tax base. Each case subject to OFA Fiscal Note.

- Food for Home Consumption Impose the sale tax on all food purchases, at the standard 6.35% rate regardless of whether they are regarded as part of out-of-home meal or for home consumption , and combine this base broadening with a targeted, refundable low income sales tax credit (or other tax instrument). Purchases with food stamps remain exempt.

  - Revenue implication: $402m revenues forgone in FY 2015,, which would result in a standard statutory rate of 5.7%- 5.9% statutory rate prior to adjusting for offsets for low income families and cross-border shopping.

***Recommendation 5*. Business-to-Business (B2B) Sales**

Business-to-Business Sales. Adopt a medium term strategy of exemption from sales taxation for intermediate, business-to-business (B2B) sales, and in particular computer and employment services. Review the current practice that limits exemption in cases where a parent company may have substantial control rather than full ownership.

- Revenue Implications: compared to current practice a base narrowing which would require an increase in the standard statutory rate of 8.5 %- 9.0% if fully implemented for all B2B sales)

***Recommendation 6*: Tax Holidays**

Eliminate the practice of a sales tax holiday

- Revenue Implication: increase in RST yield of $5.2m revenue yield would result < 0.2 % reduction in the standard statutory rate (FY 2014)