

# CONNECTICUT STATE TAX BASICS



**Commission on Economic Competitiveness**

**Commissioner Kevin B. Sullivan**

**November 5, 2015**



*Taxes...are dues that we pay for the privileges of membership in an organized society.*

President Franklin Roosevelt

*I shall never use profanity except in discussing taxes.*

Mark Twain



# CHANGING STATE TAX PROFILE

	FY 1984	FY 1994	FY 2004	Current
Income (PIT)	0%	37%	48%	53%
Sales & Use (SUT)	46%	32%	30%	25%
Corporate	14%	10%	5%	5%
Motor Fuels	7%	6%	4%	3%
Cigarette	3%	2%	3%	2%
All Other Taxes	30%*	13%	10%	12%

\* Includes taxes on capital gains, dividends & interest



# TAX LEGACY



## OLD WORLD

- Production economy
- Wage earners
- Geographic boundaries
- Physical presence
- Tangible property
- Separate entities
- Cost of performance
- C corps

## NEW WORLD

- Service economy
- Mobile & contingent workforce
- Cyberspace
- Economic presence
- Intangible property
- Combined reporting
- Market-based sourcing
- Partnerships, S corps, LLCs

# TAX POLICY ?

pol·i·cy *n.* 1. A plan, guiding principle or course of action designed to influence and determine decisions and actions.

~~2. Appropriations.~~



# TAX PRACTICE

*In the tax-law boiler room, the motto is,  
“Anything worth doing is worth overdoing.”*

*Michael Graetz & Ian Shapiro, **Death by a Thousand Cuts** (2005)*



# TAX PRINCIPLES

## Nexus

- Due Process, equal protection
- Commerce clause

## Equity

## Complexity

## Volatility

## Competitiveness

## Neutrality



# TAX INCIDENCE

**Property Tax: Moderately regressive, biggest tax bite at 40%, 23% exported, not volatile.**

**Income Tax: Progressive, 33% total, not exported, volatile.**

**Corporate Income Tax: Moderately regressive (ultimate consumers), 1% of total, 56% exported, fewer but paying more.**

**Sales Tax: Moderately regressive, 15% of total, 24% exported, few services, volatile.**



# PERSONAL INCOME TAX

- Federal AGI based (before deductions & credits)
- Rates & brackets (high end recapture)
- Withholding & estimated payment
- State modifications
- State credits (EITC, property tax, Angel Investor)

# SALES & USE TAX

- Permits (renewable)
- Rates
- Consumption of goods & services
- Tangible & intangible personal property
- Tax expenditures
  - Exclusions
  - Exemptions
- Use tax



# BUSINESS TAXES

- Corporate income tax
  - Rates & surcharge
  - Separate or combined
  - Apportionment & sourcing
  - Net operating loss (NOL)
  - Transfer payments, offshoring
- Business entity “tax”
- Pass-through entities: Income tax
- Other: Hospitals, insurance companies, utilities, public service companies, CATV, railroads, motor carriers
- Credits & sales tax exemption: Cost, benefit?
  - Competitive or entitlement



# CONNECTICUT TAXES ARE NOT ANTI-BUSINESS



- 2015 *Council on State Taxation*
  - Low (2<sup>nd</sup> region) to moderate (23<sup>rd</sup> nation) total *effective* state & local business tax burden
  - Lowest (region), 3<sup>rd</sup> lowest (nation) business share of total state & local taxes
- CBIA 2015 survey: 63% profit, 82% growing or holding steady
- Typical later and slower recovery
- Location, education, quality of life.
- Governor's transportation initiative

**... BUT WE CAN ALWAYS DO BETTER**

# OTHER TAXES

- Gift & estate taxes
- Fuel & petroleum products
- Liquor taxes
- Tobacco taxes
- Real estate conveyance
- Admissions & dues



# STATE TAX AUTHORITY

- Commissioner's Office
- Operations
- Collections
- Audit
- Penalty, interest, waiver & amnesty
- Criminal enforcement
- Litigation
- Security & non-disclosure of taxpayer information
- Interagency & interstate offsets
- IRS



# HOT TOPICS

## Personal income tax

- Credits
- Mobile workforce
- Retirement income

## Corporate income tax

- Unitary, single factor apportionment
- NOL
- R&E, R&D credits
- Gross receipts alternative: Eliminate corporate income tax, pass-through taxation, business entity “tax”

## Tax incentives

- What really matters – cost & benefit?

## Sales tax

- Economic nexus: Quill “quagmire”
- Remote sellers & “sharing” economy
- Goods & services broader base, lower rate
- Business-to-business services
- Use tax rebuttable presumption
- Earmarking

## Local option taxes

## Uniform gift & estate tax

- Re-couple with federal tax (indexed)

## Administration

- Tobacco enforcement
- Fraud
- Index interest rate & pay first

# QUESTIONS ?

