

Options for a Stronger Connecticut

June 30, 2009

CT Voices for Children/
Legal Assistance Resource Center of CT

CONNECTICUT
VOICES
FOR CHILDREN

Where Do We Start?

Step back from Crisis Mode

- Connecticut's budget – both the expenditure side and the revenue side – should reflect our values *and* our aspirations
- It should answer the question: “What kind of state do we want: for ourselves, for our children, for each other, (and how can we fairly and adequately pay for it)?”

A Better Choice for Connecticut

“Our public structures - good schools, safe roads, quality health care programs, and strong public safety agencies - are vital to preserving [Connecticut’s] quality of life and to ensuring Connecticut's economic vitality.”

Better Choices for Connecticut

February 2, 2009

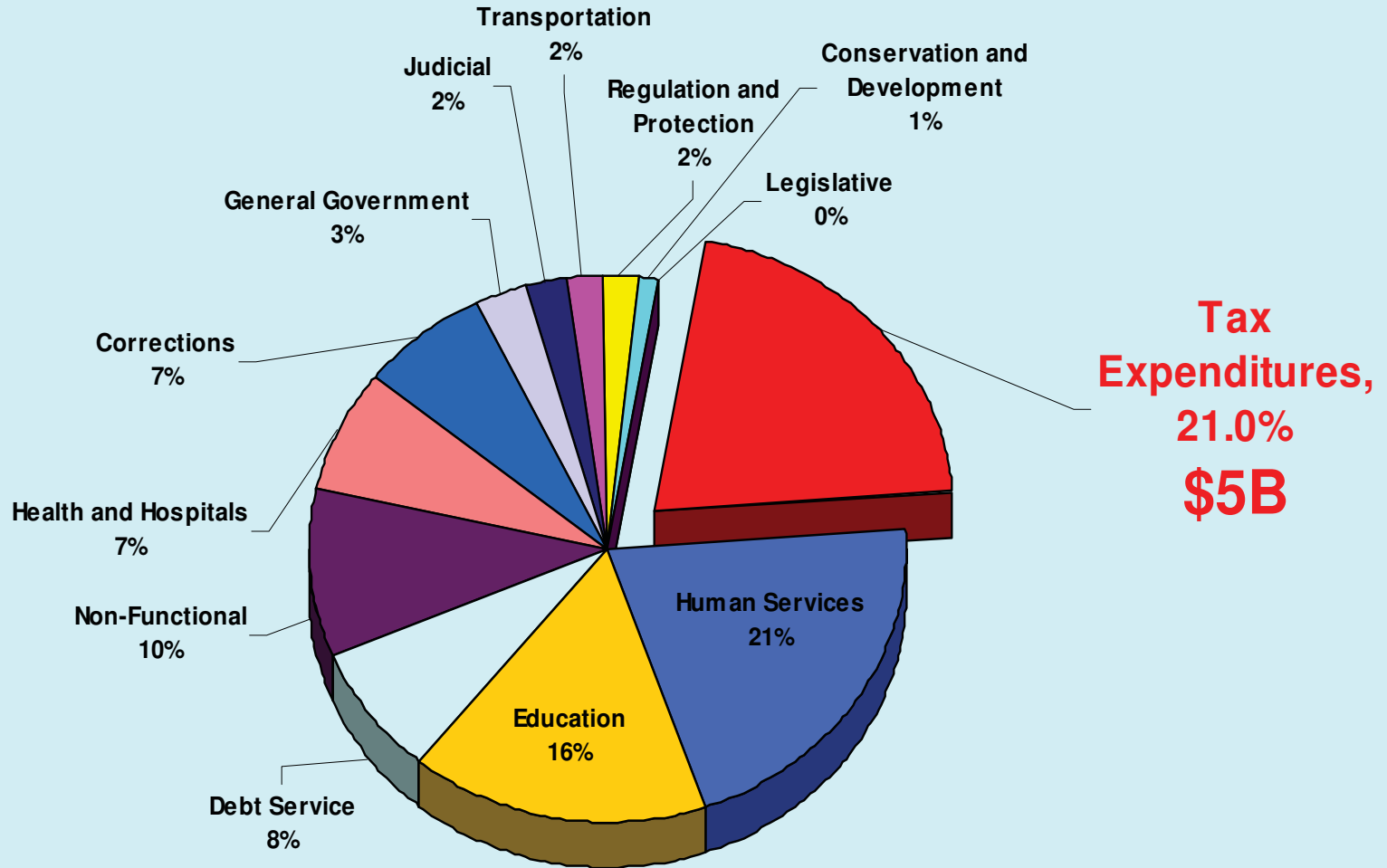
Connecticut's Deficit Projections Getting Worse Every Month

	August Projection	February Projection
FY09	\$24 m	\$1.4 B
FY10	\$727 m	\$4.0 B
FY11	\$1.0 B	\$4.7 B
FY12	\$831 m	\$4.8 B

2009 – 2011 Biennial Budget Available Tools

- Rainy Day Fund - \$500 million/yr
- Federal Stimulus - \$800 million 1st year;
\$680 million 2nd year
- Spending Cuts, including Tax Expenditures
- New Revenues – Personal and Corporate
Income Tax, Sales Tax, Special Funds

Consider both Appropriations Budget and Tax Expenditure Budget



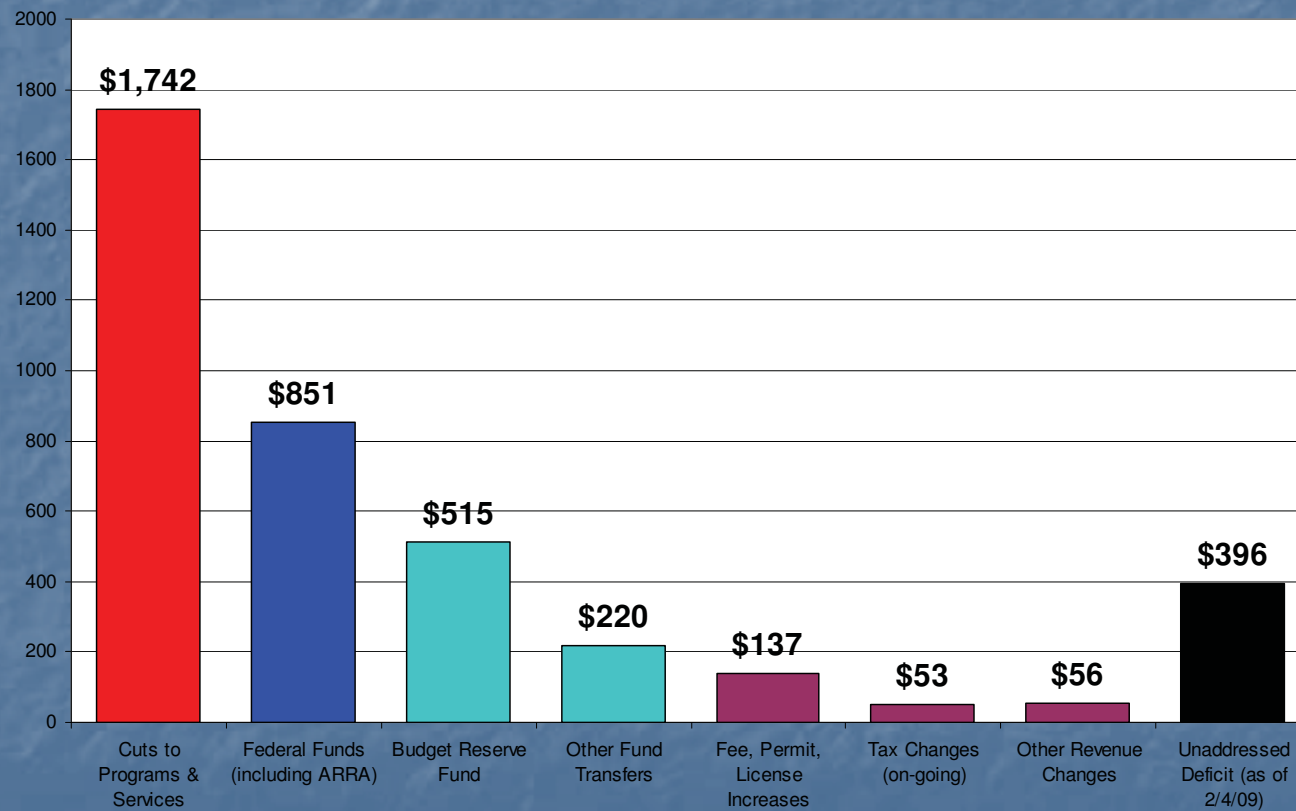
Total "spending" through appropriations and through tax expenditures totals \$23.6 billion in FY09.

Cutting Spending Hurts Our Economy, Our State, Our Families, and Our Communities

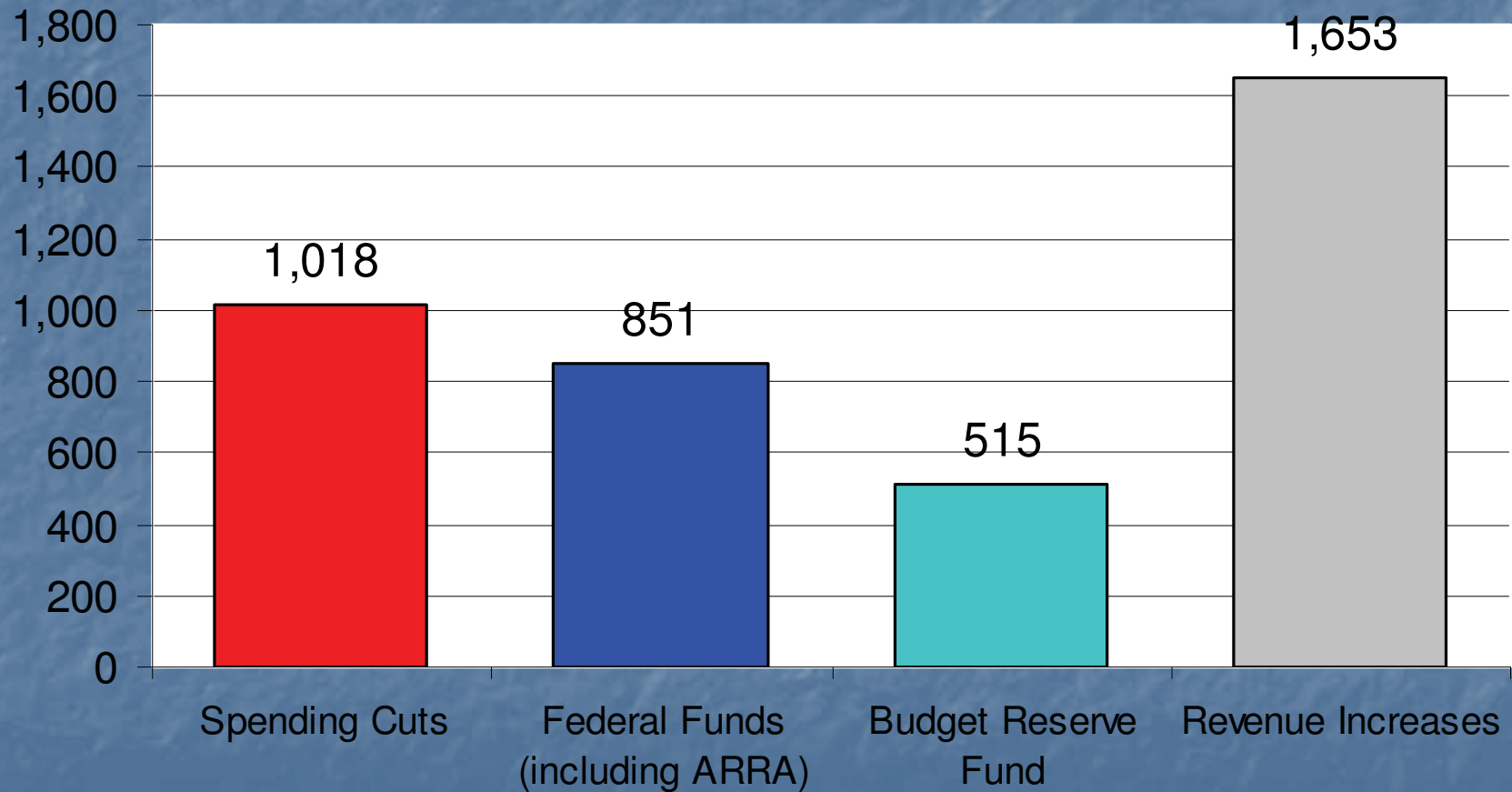
	Governor's Recommended Cuts	Estimated Statewide Job Loss
FY10	\$1.1 B	14,700
FY11	\$1.3 B	17,200

Source: Center for Economic and Policy Research, 2008

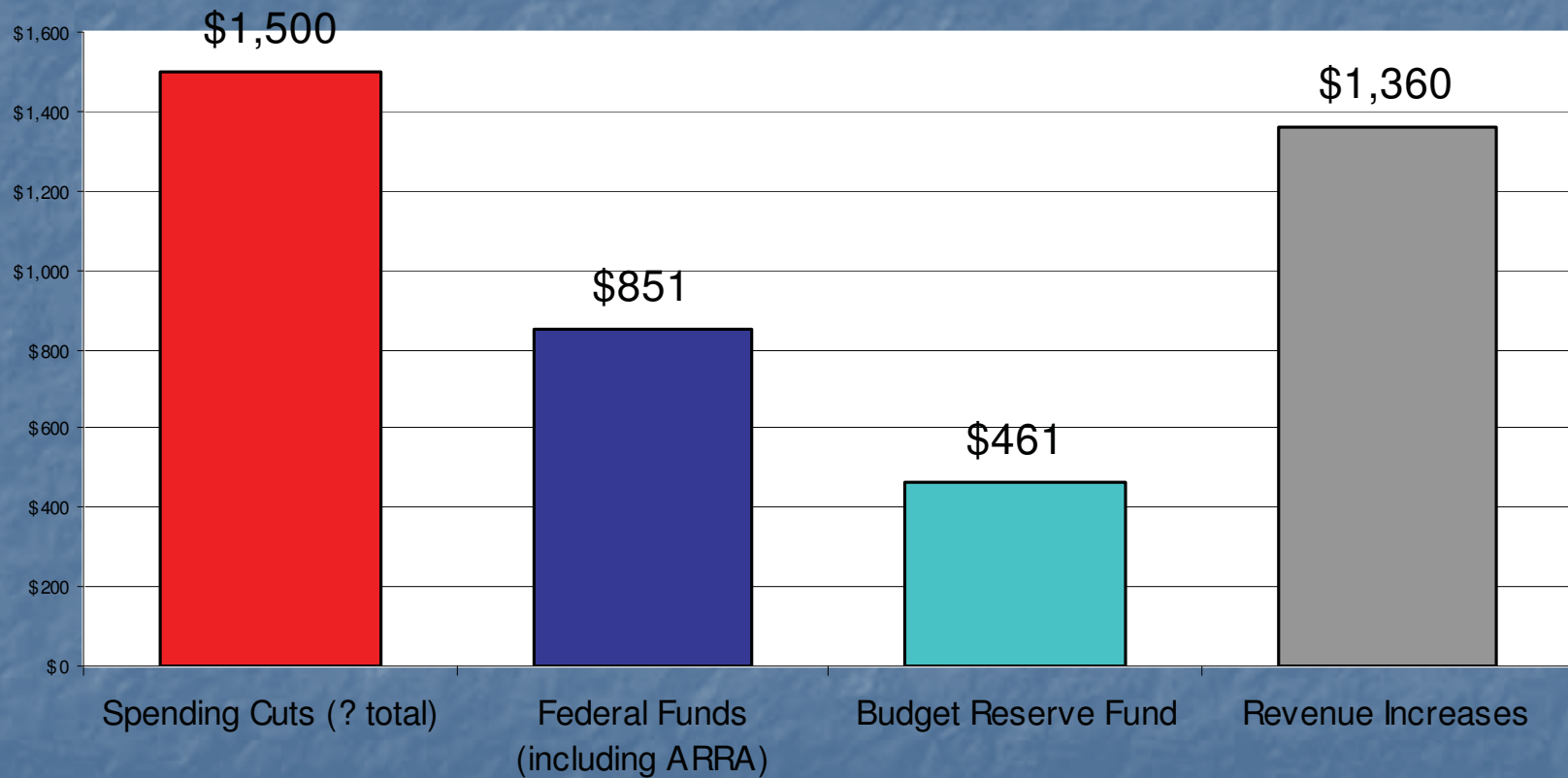
Gov. Rell's May FY 10 Changes to Balance Budget: \$3.6 B



Appropriations/Finance Committees FY 10 Changes to Balance Budget (4/2/09) \$4 B (in millions)



Changes to Balance Budget - Adopted by Legislature - 6/26/09 - FY 2010



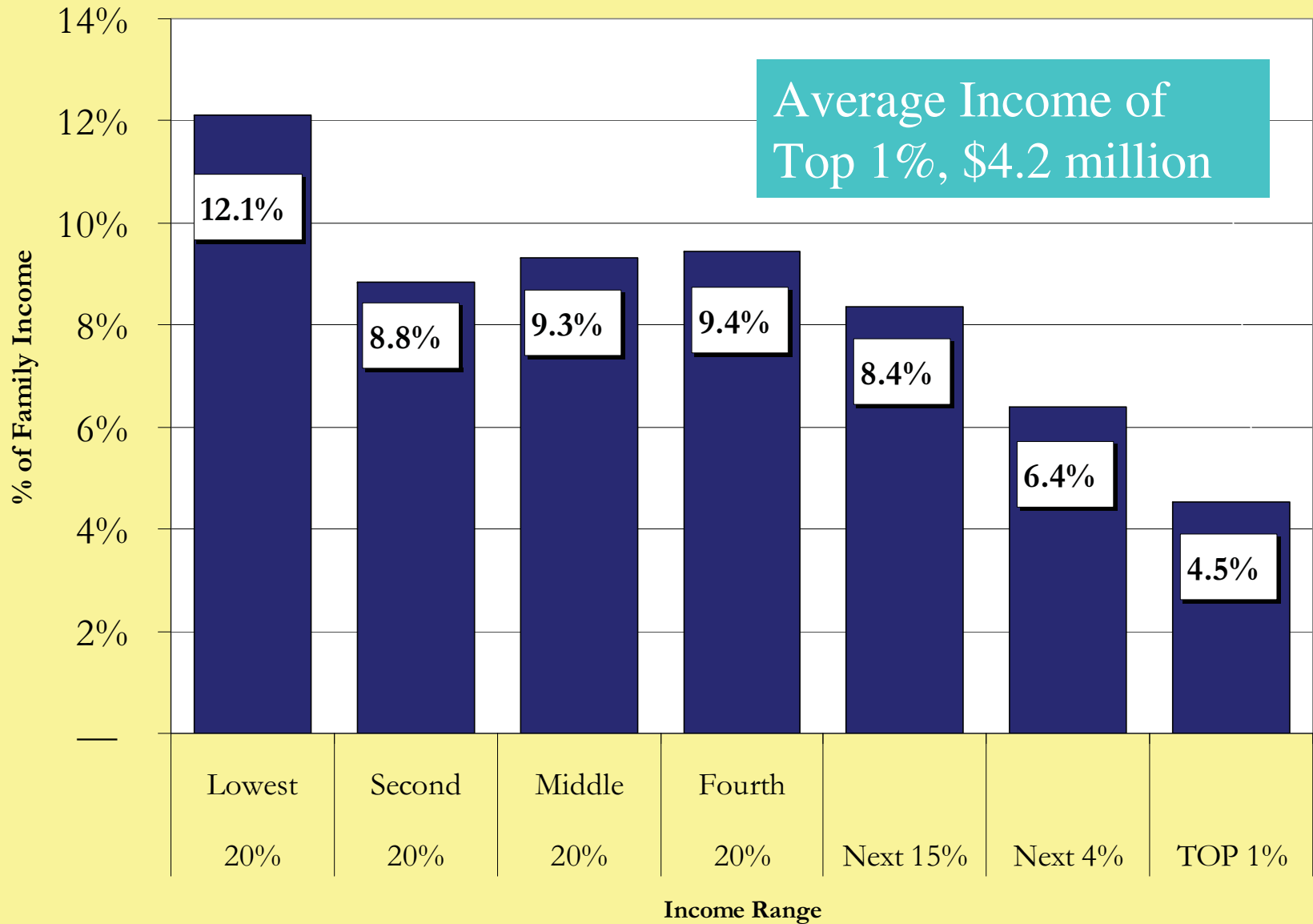
Proposed Revenue Changes (Major Items Only) FY 2010

	Finance Committee	Legislative Budget (6/26/09)
Personal Income Tax	\$1,200 million (rates at 6%-7.95%; start at \$250,000)	\$910 million (rates at 6%-7.5%; start at \$500,000)
Corporate Tax Surcharge	\$160 million/ 30% surcharge	\$133 million/ 25% surcharge
Estate/Gift Tax Surcharge (30%)	\$42.7 million	\$42.7 million
Cigarette Tax Increase	\$36 million/ \$.50 increase	\$102 million/ \$.75 increase

Better Choices for Connecticut: Expanded Revenue Options

1. Raise the Income Tax for Those
Most Able to Pay

Connecticut State and Local Taxes by Income Range, 2007 (as percent of family income, after deductions from federal taxes)



Progressive Personal Income Tax Rates

Three new income tax brackets:

6% for families with incomes \$200,000 - \$500,000

7% for families with incomes \$500,000-\$1,000,000

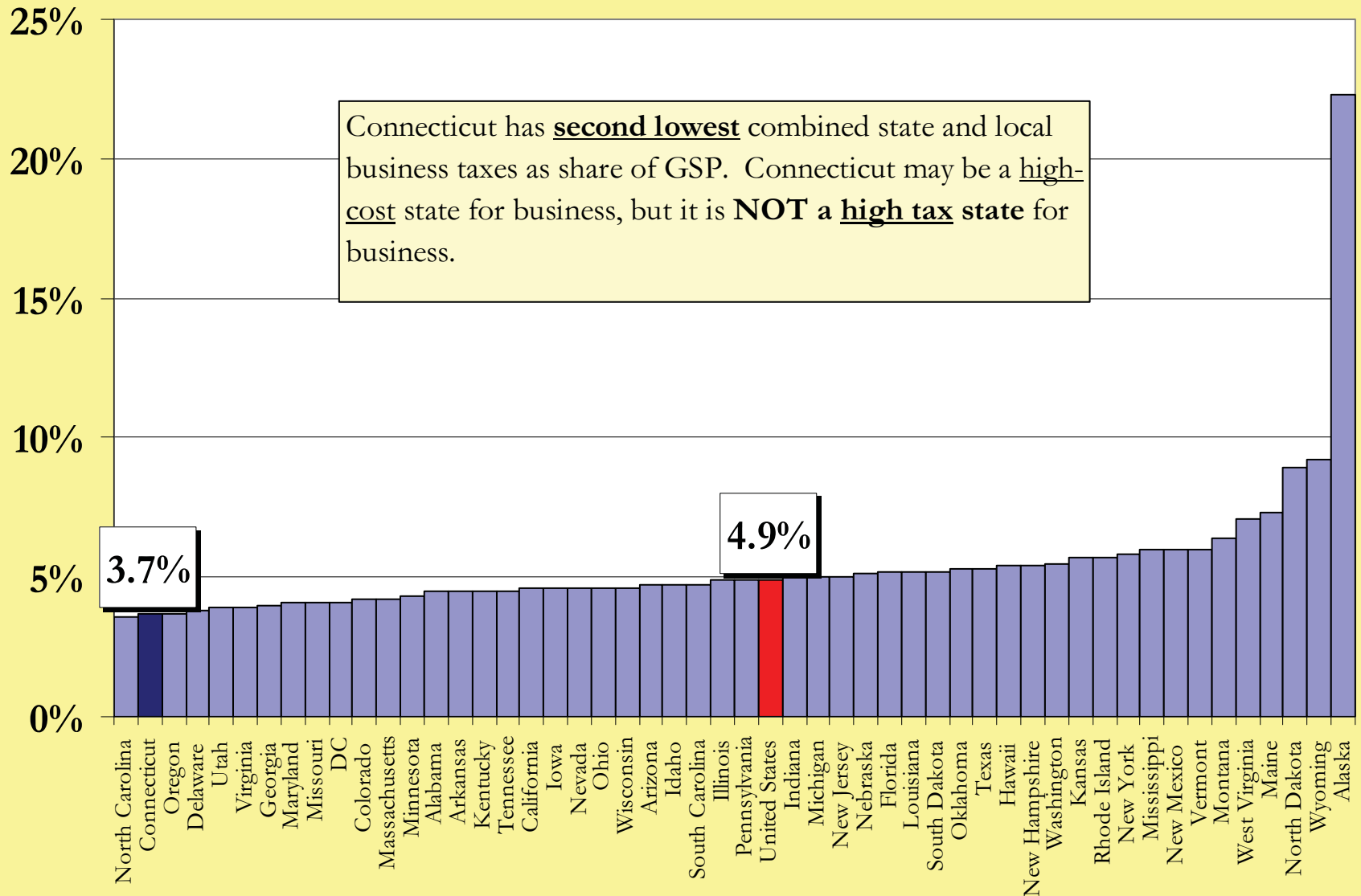
8% for families with incomes \$1,000,000+

Total Additional Revenue: \$800M-\$1.2B

Better Choices for Connecticut: Expanded Revenue Options

2. Reform the Corporate Income Tax, closing loopholes and providing a level playing field for CT based companies

Total State and Local Business Taxes as Percent of GSP, 2008



Source: CT Voices for Children calculations based on Ernst & Young, *Total State and Local Business Taxes: 50 State Estimates for Fiscal Year 200*, (Ernst & Young, 2009).

Reform Corporate Income Tax

Two Components:

Re-Apply Corporation Income Tax to 'S-Corporations', but with graduated rates to protect small businesses- \$20-\$30M

Adopt Mandatory Combined Reporting -- \$100-\$120M

Total = \$120m-\$150m

About Mandatory Combined Reporting

“in the absence of combined reporting, multi-state corporations will always be able to develop new methods of transferring profits from high-tax to low-tax states.” ⁽¹⁾

What is Combined Reporting?

- Combined reporting “treats a business composed of a parent corporation and one or more subsidiaries as a single corporation for tax purposes.”
- Counteracts aggressive corporate “tax planning”

(1) Inst. on Taxation & Econ. Pol’y, Combined Reporting of State Corporate Income Taxes: a Primer (2008), <http://www.itepnet.org/pb24comb.pdf>.

Better Choices for Connecticut: Expanded Revenue Options

3. Increase the Sales Tax by
1 percent (and offset with State
Earned Income Tax Credit, and a
Business Property Tax Credit)

Total = \$425m-\$475m

Better Choices for Connecticut: Expanded Revenue Options

4. Scale Back Public Subsidies to the Entertainment Industry

Total = \$90m-\$100m

Scale Back Film Tax Credits

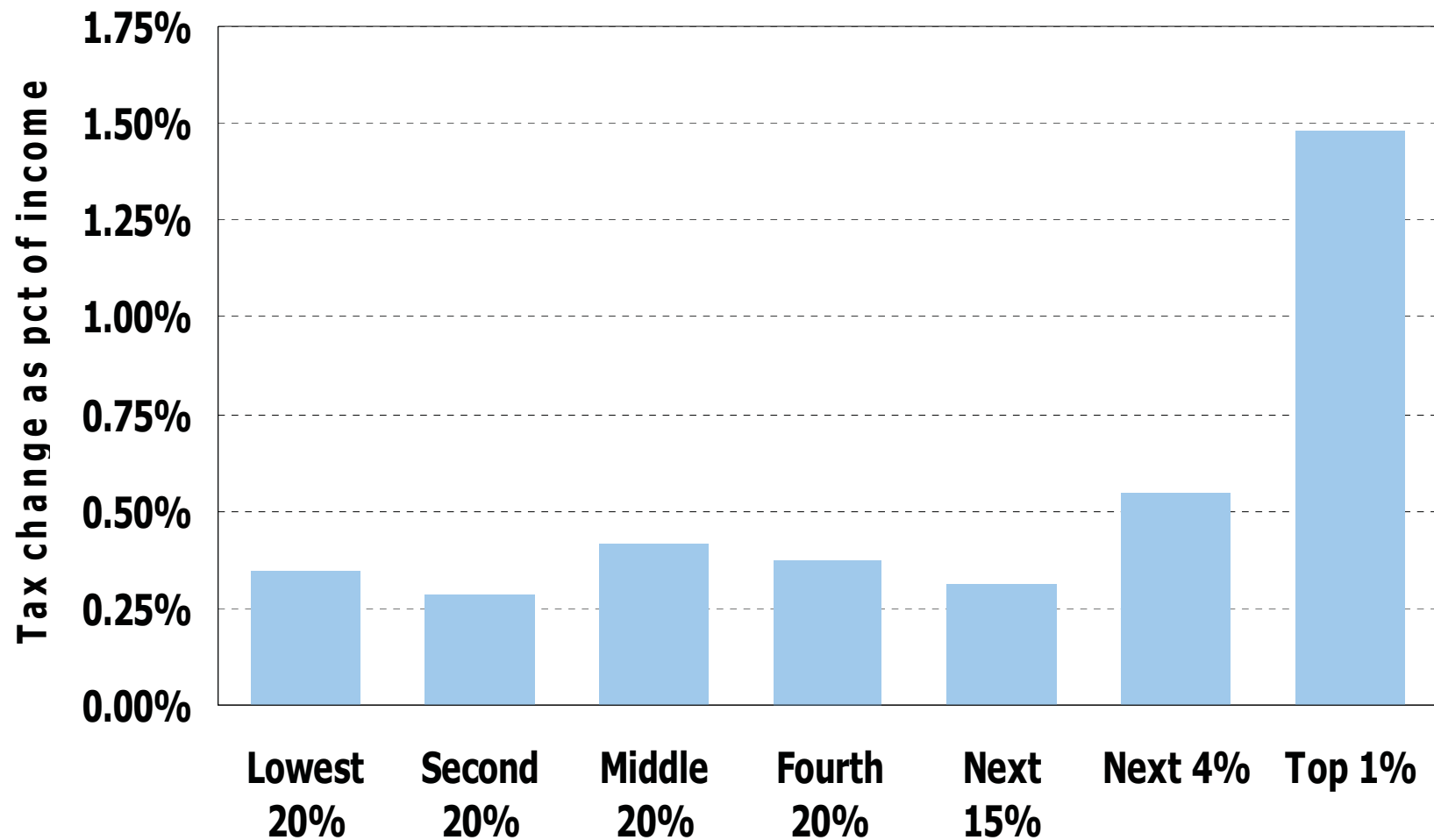
- Put a cap on total \$\$ available for tax credit in any given year
- Remove ability of corporate entities to transfer or sell credit to other (sometimes totally unrelated) corporations

Better Choices for Connecticut: Expanded Revenue Options

5. Increase Taxes on Alcohol and Tobacco

Total = \$78m-\$80m

Combined Impact of Principal Personal Income, Corporate Income, and Sales Tax Changes (inc. offset)



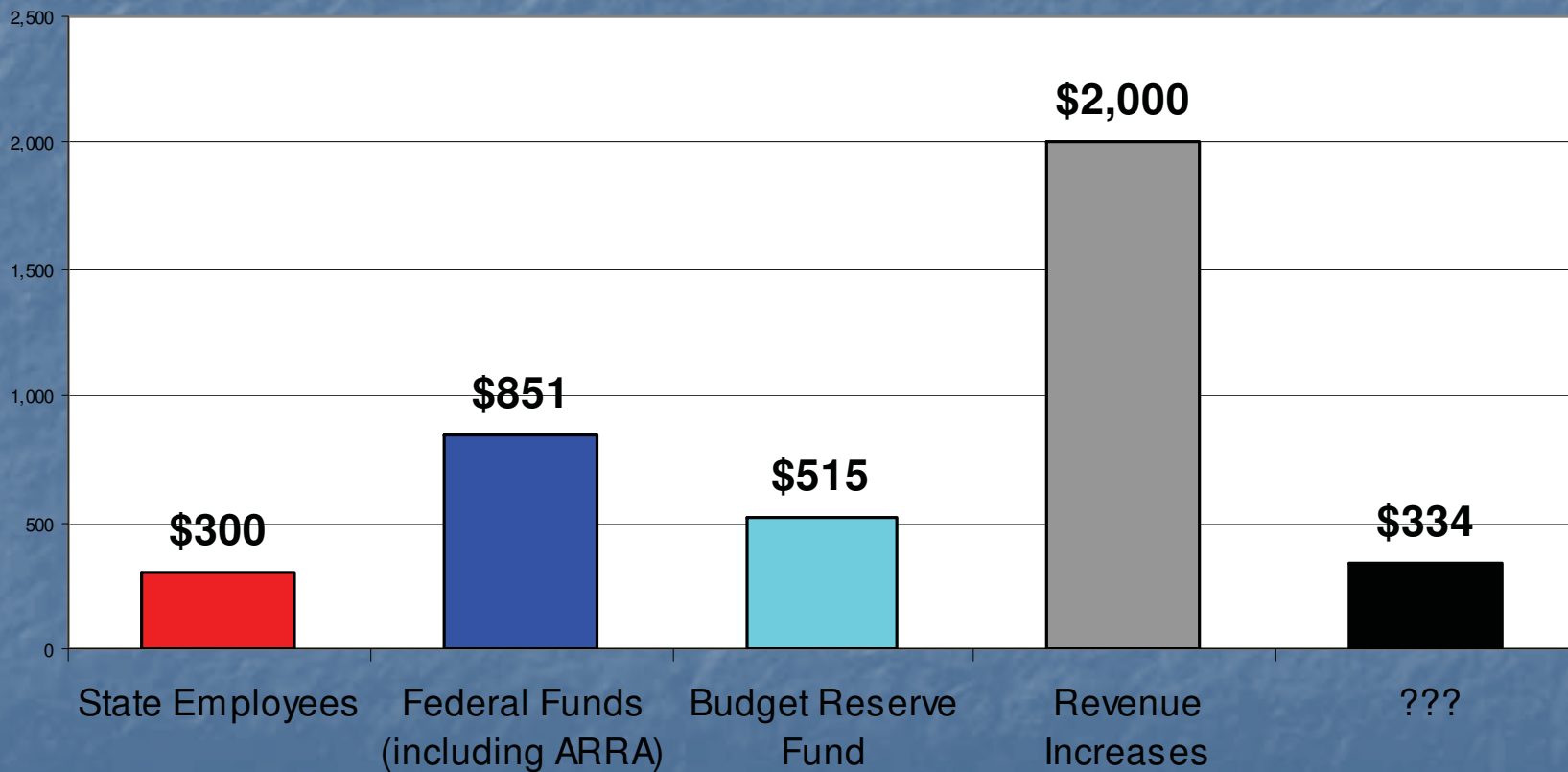
Better Choices For CT Revenue Plan

■ Personal Income Tax	\$800 m - 1.2 B
■ Corporate Tax	\$120 m – 150 m
■ Sales Tax	\$425 m – 475 m
■ Entertainment Industry Subsidies	\$90 m - \$100 m
■ Alcohol & Tobacco Taxes	\$78 m – 80 m
TOTAL	\$1.5 B – 2.0 B

Better Choices

FY 10 Deficit Mitigation Plan

\$4 B (in millions)



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**CT Kidslink's State Budget Webpage (all publicly-
available state budget documents):**

http://www.ctkidslink.org/announcement_83.html