

BUSINESS TAX TASK FORCE REPORT



**SIMPLER, FAIRER, SMARTER &
GROWING CONNECTICUT'S ECONOMY**

SEPTEMBER 27, 2012

TASK FORCE MISSION

**GOVERNOR MALLOY'S EXECUTIVE ORDER NO. 17
(JANUARY 12, 2012)**

- **Identify specific areas of business taxation and other issues, including tax credits and other tax benefits, that should be the focus of future legislation and state economic policy.**
- **Evaluate the cost, benefit, efficiency, effectiveness and measurable performance of the current tax credit structure with respect to economic development, business retention and growth, and employment retention and growth.**

TASK FORCE MEMBERS

Co-Chairs

- Commissioner Kevin Sullivan, Department of Revenue Services
- Commissioner Catherine Smith, Department of Community & Economic Development
- State Comptroller Kevin Lembo
- Acting Commissioner Dennis Murphy, Department of Labor
- Deputy Secretary Karen Buffkin for Secretary Ben Barnes, Office of Policy & Management
- Shelagh McClure for State Treasurer Denise Nappier
- Christopher Bruhl, Business Association Executive
- Dr. Steven Lanza, Economist
- Julie McNeal, CPA

OUR ECONOMY

- **Businesses create jobs & jobs create opportunity for the people of Connecticut. Most business taxes are passed along to consumers. Reducing taxes for middle income consumers & lower income working families puts money back into state businesses & the economy.**
- **Effective economic development policy focuses on retaining, growing & attracting strategic business sectors and clusters that are innovative, high value-added, productive and offer good employment with good benefits.**
- **Coherent & stable tax policy encourages business location, retention and growth that provides jobs, stimulates economic activity & strengthens our state and local tax base.**
- **The common purpose of state tax, economic & fiscal policy is securing a vibrant business climate that encourages business investment, activity, employment and revenue allocation in Connecticut.**

OUR PROCESS

- **Invitational public hearing, briefings, reports, outreach & discussion.**
- **Agreement on recommended areas for action.**
- **Report (October 1, 2012).**

WHAT WE KNOW . . .

- Prudent state expenditures & sufficient revenue for longer term fiscal stability in a balanced state budget are essential to a positive business climate.
- Taxes are generally a *modest* factor in business decisions but can be important in specific cases, while tax complexity only encourages tax avoidance.
- Connecticut's comparative business tax burden is moderate, except for new investment, property taxes & business services.
- DRS & DECD are generally viewed positively but need to operate with more clarity & consistency while adding essential tools to analyze the impact or dynamic interactivity of tax policy, economic policy & fiscal policy.
- Every tax creates incentives & disincentives, picks winners & losers, & results in a complex array of business entities, investments, contractual arrangements & employment relations – so change must be carefully considered in order to avoid instability & unintended economic consequences.
- To the extent that the annual legislative process continuously raises tax or tax policy questions, discussions & revisions, the result can be unsettled business expectations that undermine a positive business climate.

- **Business tax policy is cumulative, legacy-based, revenue driven, insufficiently aligned with economic policy & inadequately reflects the emergent marketplace (global, mobile, virtual, contingent employment, intangible goods & services).**
- **Business tax incentives are insufficiently aligned with state economic policy, encourage interstate & intrastate “tax shopping” & are disconnected from state budgeting – but are important economic development tools.**
- **Connecticut should not try to compete with low wage, low benefit or low public investment states but does need to stay competitive within the Northeast region in terms of business tax policy, taxes & incentives.**
- **Connecticut differentially & inequitably taxes similar enterprises solely on the basis of chosen forms of doing business, but any overall change in business taxation requires careful consideration of impact & transition.**
- **Business leader & investor views of tax climate are influenced by personal income & gift/estate taxes.**
- **Complexity, weak interagency coordination & cost of compliance adversely influence business operations, strategies & decisions.**
- **Consistent application of law, avoidance of retroactive changes, & reliable guidance are positive attributes of fair, effective & efficient business taxes.**

TAX FAIR & JOB FRIENDLY

“Open for business” means economic & revenue policies that work together. Our goal, over the next 6 years, is to make taxes more *directly* business fair & job friendly without jeopardizing fiscal stability, retreating to policies that become an economic race to the bottom or shifting the burden to middle income taxpayers.

RECOMMENDATIONS

- The goal of these recommendations is to support a growth-oriented economic climate that:
 - Is beneficial & fair for taxpayers.
 - Helps businesses thrive & compete effectively.
 - Grows enterprise, good jobs, incomes & consumer buying power.
- Based on further specific analysis & starting now but phased *over the next 6 years*, Connecticut should consider action to . . .

CORPORATE INCOME TAX, BUSINESS ENTITY TAX & PASS-THROUGH PERSONAL INCOME TAX . . .

- **Clarify current definition of “engaging in business” in order to assure a level playing field for in-state businesses.**
- **Phase out the Corporate Income Tax “surcharge,” minimum Corporate Income Tax & Business Entity Tax.**
- **Require annual, combined on-line business/tax registration as a condition of legally engaging in business but eliminate current business termination fee.**

... CORPORATE INCOME TAX, BUSINESS ENTITY TAX & PASS- THROUGH PERSONAL INCOME TAX

- **Provide EZ filing for lower taxable income entities & electronic filing for all business taxes.**
- **Establish a DRS external advisory group on simplified business tax accounting & filing.**
- **Standardize apportionment, factor weighting & sourcing.**
- **Evaluate impact & transition to a standard simplified, uniform business entity tax with access to all major credits.**

BUSINESS TAX CREDITS . . .

- **Have DECD administer all major tax credits available to businesses.**
- **Sunset no use & low use tax credits, consolidate related tax credits.**
- **Going forward, credits need to be better aligned with the state's overall economic strategy, driven by measurable performance & accountable for results.**
- **Rationalize credit terms (duration relative to investment return, transferability, carry-forward & no carry-back for all credits).**

... BUSINESS TAX CREDITS

- Provide annual budget reporting that tracks total cumulative authorized & claimed credits.
- Provide a searchable DECD database for state tax credits & other business assistance programs as well as periodic reporting, both to include entity, purpose, amount, required performance & status of performance plus dynamic analysis of net direct & indirect state economic benefit & state tax impact – balanced with the need to protect confidential tax & proprietary business information.
- Establish DECD-led interagency working group to simplify credit approval process & improve inter-agency cooperation.
- Limit expansion of credits against Personal Income Tax in order to protect core state revenue stability.

OTHER BUSINESS TAX ISSUES . . .

- **SALES & USE TAX**
 - Phase down sales taxes on consumer purchases.
 - Phase out taxation of business-to-business computer & data-processing services, analysis, management & management consulting services.
 - Clarify current definition of “engaging in business” in order to assure a level playing field for in-state businesses.
 - Clarify manufacturing exemption for mixed use businesses & repairs.
 - Establish DRS & DECD working group on taxation of e-commerce.
- **PERSONAL INCOME TAX, GIFT & ESTATE TAX**
 - Provide domicile “safe harbors” for charitable activity, limited business activity & pro-rata residence.
 - Eliminate gift tax.
 - Cap individual estate tax liability.
 - Establish DRS, DECD & DOL working group on worker classification & contingent employment.

. . . OTHER BUSINESS TAX ISSUES

- **PROPERTY TAX**

- Establish OPM, DRS & DECD working group on business property taxation.

- **ADMINISTRATION**

- Identify appropriate revenue & economic modeling, strengthen DRS & DECD analytic capacity, establish higher education partnership for tax & economic research.
- Tie DRS delinquency interest rates to market-based IRS rates.
- Implement DRS lean process improvement project for tax rulings.
- Establish DRS external editorial advisory group for forms & publications.
- Implement DECD-led on-line “business portal.”
- Offer an annual informational program for state legislators on the inter-relationship of state business tax & economic policies.

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