

\$2.56 Billion in Tax Increases

The legislature's Finance Committee approved a tax package (**Senate Bill 946**) that increases taxes by \$2.56 billion over the next two fiscal years. The proposal increases state sales and use taxes, corporate taxes and the personal income tax.

NEW TAXABLE SERVICES

CPAs
Accounting
Architectural
Computer and Data Processing (sales tax increase)
Engineering
Drafting
Building inspection
Geophysical and other surveying and mapping
Interior design
Industrial design
Administrative management and general management consulting
Human resources consulting
Marketing consulting
Process, physical distribution, and logistics
Scientific and technical consulting,
Direct mail advertising
Advertising material distribution
Marketing research and public opinion polling,
Translation and interpretation
Veterinary
All other professional, scientific, and technical services
Golf courses and country clubs
Dry cleaning and laundry (except coin-operated).

SALES & USE TAX

Increases the state's sales and use tax

- ▶ **Eliminates** exemptions and expands the sales tax to most business and professional services. (See "New Taxable Services" list at left)
- ▶ **Increases** sales tax on computer and data processing; and world wide web
- ▶ **Maintains** the overall sales tax rate at 6.35% until its scheduled reduction to 5.35% on July 1, 2016. These rates include 0.5% to be diverted to municipalities
- ▶ **Only three states** broadly tax business services--Hawaii, New Mexico and South Dakota
- ▶ **Nearly half** of all sales taxes are paid by businesses

CORPORATE TAXES

Erodes the value of tax credits

- ▶ **Cuts** the use of tax credits such as for R&D, fixed capital and electronic & data processing in any one year from 70% to 50%.
- ▶ **Only three states** have permanent restrictions on the use of credits; nearly all offer credits; Only investments in Connecticut can earn tax credits, and can be claimed only if a company stays here

Reduces the use of net operating loss carryforward

- ▶ **Restricts** the offset from NOLs to a maximum of 50% of a company's liability per year.
- ▶ **Makes** Connecticut less competitive; All states with an income tax have NOLs, only 2 states have permanent restriction on their use; Will discourage start-ups, retroactively increase taxes, and harms businesses' ability to recover

Increases corporate business taxes

- ▶ **Imposes Combined Reporting** (Unitary Tax) – significantly increases the administrative burden for Connecticut's headquarters companies
- ▶ **Extends the Corporate Business Tax Surcharge** for two additional years at 20% and a third year at 10%, impacts Connecticut's flagship job creators; the 20% surcharge makes state's tax rate 9%
- ▶ **Only four states** have a higher corporate business tax rate.

PERSONAL INCOME TAX

Increases the personal income tax

- ▶ **Impacts** many small businesses that pay business taxes through the income tax
- ▶ **Increases** the top marginal rate to 6.99% for Single filers with Connecticut Adjusted Gross Income of \$500,000 or more, \$800,000 for Heads of Households, and \$1,000,000 for Married Filing Jointly filers.
- ▶ **Establishes** a 2% capital gains tax for single filers with CT Adjusted Gross Income of \$500,000 or more, \$800,000 for heads of households, and \$1,000,000 for married filing jointly filers.

OTHER CHANGES

- ▶ **Reduces** the \$250 business entity tax to \$125 effective Jan. 1, 2016, but increases by 5 times the annual filing fee for entities such as S corps, LLCs, LLPs and sole proprietorships
- ▶ **Extends** the temporary cap on the maximum insurance premium tax liability an insurer may offset through tax credits
- ▶ **Extends** the moratorium on new claims for film production tax credits;
- ▶ **Delays** scheduled expiration of lower tiers of caps on credit utilization against the tax.

\$1.5 Billion in Spending Increases

State Budget and Spending Cap

The two-year state budget approved by the Appropriations Committee (HB 6824):

- ▶ Dramatically increases spending by more than \$1.5 billion over the next two years
- ▶ Blows through the state's constitutional spending cap by removing more than \$2 billion a year in contribution to pension and other retirement programs (citing an opinion that long-term debt may be exempted from the cap)

Levels of Spending

The Appropriations Committee budget proposal:

- ▶ Spends \$19.9 billion in the first fiscal year (2016) and \$20.6 billion in the second (2017)
- ▶ Increases spending by 4.6% and 3.3%, respectively, over the current state budget year (2015).
- ▶ Outspends Gov. Malloy's budget plan by approximately \$514 million in new revenue FY 2016, and \$278 million FY 2017.

