Governor’s Business Tax Policy Review Taskforce

Connecticut Business Taxes

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Commissioner
Department of Revenue Services
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**BUSINESS TAX OVERVIEW**

- *All taxes* impact businesses, but the primary business taxes in Connecticut are:
  - Corporation Business Tax (including credits)
  - Business Entity Tax (BET)
  - Pass-Through Entities Personal Income Tax
  - Personal Income Tax
  - Sales and Use Tax
  - Property Tax
  - Business Tax Expenditures
Connecticut has taxed net income since 1915.

At its highest point in FY89, corporation tax revenue was 14.4% of General Fund revenue ($800.9M).

In FY 2011, corporation tax revenue was 3.8% of General Fund revenue ($683.9M).

37,800 Connecticut businesses are corporate business tax filers.

For just 2004-2007, over 96,800 Connecticut LLCs were formed compared to just under 8,900 new C corporations.

Traditional C corporation is a vanishing breed.
SALES & USE TAXES

- For FY 2011, state collected $3.4 billion in sales and use taxes
- Sales of tangible personal property and specifically enumerated services
- General rate – 6.35%
- Other rates
  - 7% - “Luxury” rate
  - 9.35% - rental or leasing of a passenger motor vehicle for a period of 30 consecutive calendar days or less
  - 15% - Room Occupancy Tax
- See also excise taxes (fuel)
PASS-THROUGH BUSINESSES: PERSONAL INCOME TAX

- Growth of pass-through entities as preferred business formation (S corporations, LLCs and partnerships)
  - Phase-out of Corporation Business Tax on S Corps (1997-2000)
- Personal income tax on distributions to shareholders or other beneficial owners individually.
- Biennial BET $250 “fee” paid by 140,200 business entities
PERSONAL INCOME TAX

- From one-third to over half of total state taxes in 20 years
- Simple federal AGI piggyback
  - Withholding
  - Estimated & final
  - Capital gains, dividends & interest
- Volatility
- See also Estate & Gift Tax
PROPERTY TAX

- Real property
- Personal property
- Assessment (valuation)
  - Differentials
BUSINESS TAX EXPENDITURES

- Exclusions
- Exemptions
- Credits
- Assessments
- Abatements
ISSUES . . . .

- Tax policy & strategic economic policy?
- DRS as service agency?
- Fairness?
- Efficiency?
- Predictability?
- Simplicity?
- Competitiveness?
- Costs & benefits?
### MEASURING UP

- **Council on State Taxation: Total effective (gross state product) state & local business taxes (FY10 LO-HI)**

<table>
<thead>
<tr>
<th>State</th>
<th>Rate</th>
<th>Rank</th>
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<tbody>
<tr>
<td>CONNECTICUT</td>
<td>3.3%</td>
<td>50th</td>
</tr>
<tr>
<td>MARYLAND</td>
<td>4.3%</td>
<td></td>
</tr>
<tr>
<td>NEW JERSEY</td>
<td>4.9%</td>
<td></td>
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<tr>
<td>NEW YORK</td>
<td>6.2%</td>
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<tr>
<td>PENNSYLVANIA</td>
<td>4.8%</td>
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<tr>
<td>NORTH CAROLINA</td>
<td>3.7%</td>
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<tr>
<td>NATIONAL STATE AVERAGE</td>
<td>5.0%</td>
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- **Tax Foundation: Tax climate (FY11 HI-LO)**

<table>
<thead>
<tr>
<th></th>
<th>TOTAL</th>
<th>CORP</th>
<th>INCOME</th>
<th>SALES</th>
<th>PROPERTY</th>
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<td>25th</td>
<td>31st</td>
<td>41st</td>
<td>6th</td>
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- **Council on State Taxation: Business Investment (FY11 LO-HI)**

<table>
<thead>
<tr>
<th></th>
<th>MATURE BUSINESS</th>
<th>NEW BUSINESS</th>
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<tbody>
<tr>
<td>RANK</td>
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