

**Testimony Regarding the Aims of the Governor's Task Force**

Wade Gibson, J.D.

Governor's Business Tax Policy Review Task Force

Monday, April 9, 2012

Distinguished Members of the Governor's Task Force:

My name is Wade Gibson, and I am the Senior Fellow at Connecticut Voices in charge of tax and budget policy. I would like to take a moment to place the aims of this Task Force in perspective. Connecticut's is a quarter-*trillion*-dollar-a-year economy. The state budget, at about \$20 *billion*, is 8% of that. State business taxes, meanwhile, come to about \$5 billion, which is a bit over 3% of private sector GDP.

There are two clear takeaways. First, business taxes are a small share of business output—3%—but a large share of the state budget—about a quarter. How we tax business, therefore, holds major ramifications for government revenues.

Second, since business taxes represent only one thirtieth of private sector GDP, and since we are mainly considering making changes within this thirtieth, focus is crucial. In the grand scheme of things, our efforts aren't so large. Our economic strategy's success hinges on how well we focus on a few areas where our investments can have maximum impact.

To achieve maximum impact, we must structure our system of business taxation so that it is tilted in favor of the state's future economy, rather than its past. Our present tax code reflects those businesses that had influence in the past, not necessarily those that will grow and create jobs in the future.

Our system defaults to the past, and defaults have tremendous power. In Germany, people must actively choose to be organ donors, and 12% of citizens opt *in*. In Austria, people start out as organ donors and can choose to opt *out*; 99% of citizens are donors. The default—whether citizens start as organ donors or not—matters hugely, even though they have the same choice both ways.

A crucial question is how we can make the system that sets business taxation default to the future, rather than the past. This Task Force should consider ways to change the ground rules so that the tax code moves *with* our economic strategy, rather than against it. To achieve this goal, we should institute regular reporting of which priorities our tax code, taken as a whole, is in fact advancing, and then work to match these with our strategic priorities. That will include policies such as:

- Conducting regular tax incidence analyses to determine which types and sizes of businesses are paying which effective rates on which types of business activity
- Bringing non-DECD tax expenditures under the same sort of scrutiny as DECD tax expenditures, to ensure they too are advancing the state's strategic plan

- Capping the annual amounts allowed under certain sales, personal income, and corporation business tax expenditures to reflect the strategic importance of the activities being supported
- Combining all of our economic development incentives, whether in the form of grants, loans, tax credits, preferential rates, etc. into a consolidated budget for regular strategic review

Such policies, and others, will be key to making sure Connecticut's system of business taxation reflects our strategy for the future, rather than the accumulated policies of the past.

As a postscript, I would add that a non-partisan committee has begun meeting on the property tax, the largest tax on business in Connecticut, and that its work dovetails with that of the Task Force. We are eager to consider future coordination between the committee and this Task Force.