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**Testimony Concerning:**  
**SB 656, An Act Concerning the Tax on Affected Businesses**  
**SB 658, An Act Concerning a Study of Unitary Reporting for Corporations**  
**HB 5884, An Act Concerning a Study of a Business Activity Tax for Corporations**

Shelley Geballe, JD, MPH  
Finance, Revenue and Bonding Committee  
March 11, 2008

Dear Senator Daily, Representative Staples, and distinguished Members of the Finance, Revenue and Bonding Committee:

I am President of Connecticut Voices for Children, a research-based public education and advocacy organization that works statewide to promote the well-being of Connecticut's children, youth and families. We submit this testimony because the manner in which Connecticut raises and spends its revenues is of great importance to the state's children and families, just as it is to Connecticut's businesses.

**CT Voices partially supports SB 656, An Act Concerning the Tax on Affected Businesses.** We oppose the *elimination* of the \$250/year Business Entity Tax because:

- **A \$20.83/month tax is not excessive.** Any business operating in the state benefits from the public investment Connecticut makes in its infrastructure – its roads, its courts, its workforce, etc. Because Connecticut requires a balanced budget, a reduction in the taxes of one group of taxpayers results in an increase in some other taxpayers' taxes, a reduction in state-funded services, or both. Requiring even small businesses to make such a modest contribution to the costs of maintaining the infrastructure essential to their success is not *per se* excessive.
- **To target help to small businesses, it would be fairer to create graduated tax rates in the Business Entity Tax.** Entities with less than \$50,000/year in gross business receipts or with less than \$50,000 in assets, for example, could pay a smaller tax than \$250/year for the privilege of operating a business in Connecticut, while very profitable firms could be required to pay more. This could assure that *all* business entities contribute *something* to the costs of maintaining the infrastructure that supports their businesses or investments, but in a revenue-neutral way.
- **Connecticut's Business Entity Tax is not anti-competitive; it is more modest than comparable taxes in neighboring states.<sup>1</sup>** For example, New York imposes a tax on each *member* or *partner* of the entity, so for any business with multiple members/partners the total tax would exceed a single tax on the entity itself. New Jersey and New Hampshire's entity tax is based on the net income of the entity. Rhode Island, like Connecticut, imposes a business entity tax, but Rhode Island's tax is twice ours at \$500/year.

**However, if this Committee believes it important to provide relief from this tax for small businesses, CT Voices supports the proposal in SB 656 to exempt those business entities with annual revenues of \$50,000 or less from the tax, but urges that the bill be clarified to *continue* the \$250/year tax on entities now subject to the tax that are not operating a "business" at all.** Some of Connecticut's LLCs, for example, serve as legal vehicles to hold property or other assets to protect the assets of very wealthy

individuals from personal liability. Surely, such “business” entities can afford \$20.83/month in tax for such protection. To assure they continue to pay this tax, Section 1(a)(6) could be amended to define an “affected business entity” as any entity “that has revenues *or assets* of more than fifty thousand dollars in the taxable year for which a return is required to be filed.” Alternatively, since this change could subject a start up company with modest assets but very little revenue to the tax, the bill could be amended to clarify that the tax applies to *all* entities that are not, in fact, operating any business.

**Alternatively, we would urge the Committee to leave the Business Entity Tax just as it is, pending the analysis and recommendations of a comprehensive study of Connecticut’s business taxes as a whole.** This is proposed by both SB 658, An Act Concerning a Study of Unitary Reporting for Corporations and HB 5884, An Act Concerning a Study of a Business Activity Tax for Corporations. CT Voices supports the sentiment behind these bills, since a close and very thorough examination of our business taxes is long overdue. As the recent discussion about the Business Entity Tax has highlighted, Connecticut’s policy on business taxes has become, in many respects, simply illogical when eighteen of our largest companies (by sales) pay only \$250/year in tax because of how they have chosen to structure themselves legally.

**CT Voices believes that reform of Connecticut’s business tax code is needed to assure a more level playing field among *all* Connecticut businesses.** Changes in apportionment formulas (that allow certain large, multi-state firms to shift income out of state) and the enactment of multiple new tax credits, exemptions and deductions have narrowed Connecticut’s business tax base and created distortions in the market. Further, there is a need to create greater equity among Connecticut’s businesses – both between businesses operating wholly in Connecticut and Connecticut’s multi-state/multi-national corporations and also between Connecticut’s large profitable corporations and its small start ups.

Such greater equity could be achieved by requiring unified combined reporting, extending the business tax to *all* businesses (regardless of legal form), repealing preferential tax expenditures, and then adopting a progressive rate structure that imposes higher taxes on larger, more profitable firms than on smaller and start-up companies. By so broadening the base of the tax, the business tax rate could be reduced -- making Connecticut more competitive for *all* businesses.

This is the type of very fundamental reform that was proposed by the December 28, 2007 Final Report of the Commonwealth of Massachusetts’ Study Commission on Corporate Taxation. It recommended, *inter alia*, a mandatory combined reporting system combined, potentially, with a reduction in corporate tax rate to “provide a material tax benefit to all corporate taxpayers, including smaller taxpayers, taxpayers wholly in Massachusetts, and other taxpayers who cannot or do not benefit from income-shifting or other tax planning techniques that have been utilized by large multistate taxpayers.”<sup>2</sup>

CT Voices strongly supports the concept of a comprehensive study of Connecticut’s business taxes. We urge that the study include not only the components outlined in SB 658 and HB 5884, but also examine how to assure consistency with DECD’s new Economic Strategic Plan and greater transparency and accountability in the economic development encouraged through our tax code (as is now being required for appropriated spending under the Results-Based Accountability process).

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<sup>1</sup> See B. Ely, S. Grisson, and M. Houser, *State Tax Treatment of Limited Liability Companies and Limited Liability Partnerships*. 2007 STT 142-2 (State Tax Notes, Tax Analysts, 2007).

<sup>2</sup> Commonwealth of Massachusetts, Final Report of the Study Commission on Corporate Taxation (December 28, 2007), p. 9. Available at: [www.mass.gov/Ador/docs/dor/Publ/PDFS/Study%20Commission%20on%20Corporate%20Taxation%20-%20Final%20Report.pdf](http://www.mass.gov/Ador/docs/dor/Publ/PDFS/Study%20Commission%20on%20Corporate%20Taxation%20-%20Final%20Report.pdf). The Commission had a broad mandate: “to study the modernization and simplification of the current business tax laws of the Commonwealth, to promote tax fairness and equity, encourage business growth and innovation, and strengthen the Commonwealth’s global competitiveness.”