# Better Choices for Connecticut

## State Budget Proposal

February 2, 2009

# Executive Summary

Better Choices for Connecticut is a broad-based community coalition working to help Connecticut make the budgetary choices that reflect the priorities and values of its citizens. While Governor Rell has promised that her upcoming biennial budget will include deep cuts affecting every agency of the Connecticut government, Better Choices believes that reliance on spending cuts is both unwise and unnecessary. Slashing public programs in the midst of this recession places the Connecticut economy in grave danger. With smarter choices, Connecticut has the capacity to protect our schools, our transit, our infrastructure, our social services, and our public safety agencies.

**We propose a multi-part revenue package that would balance the budget without cutting any of our state's vital services.**

First, increase income taxes for those who can best afford it – the state's wealthiest residents. Second, fix flaws in corporate tax rules that allow many large corporations to avoid paying taxes. Third, increase the sales tax by a single percentage point and couple this with a State Earned Income Tax Credit to stimulate the labor market and protect low-income workers from the effects of the increase. In conjunction with the sales tax increase, implement a significant small business property tax credit. Fourth, scale back lavish public subsidies to the entertainment industry. Fifth, increase excise taxes on alcohol and cigarettes.

| **Projected Budget Shortfall for FY 2010** | **-$2.6 BN*** |
|---|---|
| (1) Increase income taxes for those who can best afford it | +$0.8 to 1.2 BN |
| (2) Reform corporate tax rules so corporations pay their fair share of taxes | +$130 to 150 MN |
| (3) Increase the sales tax from 6.0 to 7.0 percent | +$575 to 625 MN |
| ➢ Offset this increase and stimulate the labor market with a State Earned Income Tax Credit | -$50 MN |
| ➢ Create a Small Business Property Tax Credit | -$100 MN |
| (4) Scale back public subsidies to the entertainment industry | +$90 to 100 MN |
| (5) Increase cigarette and alcohol taxes | +$78 to 80 MN |
| **Estimated revenue raised by this plan** | +$1.7 BN |
| **Assumed size of Federal Stimulus package** | +$0.7 BN |
| **Additional deficit reduction from Rainy Day Fund** | +$0.5 BN |
| **Total deficit reduction** | +$2.9 BN |

## Part I: Introduction

Connecticut's citizens value our high quality of life and depend on a vibrant public sector to meet the needs of our state's residents. State revenues – taxes, fees, and other income – are the collective investments that support our communities and maintain the high standards we all expect and enjoy. Our public structures – good schools, safe roads, quality health care programs, and strong public safety agencies are vital to preserving this quality of life and to ensuring Connecticut's economic vitality.

Unfortunately, an imbalanced and antiquated revenue system, combined with a national economic downturn, threaten the continued funding of these critical public support structures. The state budget can be balanced by making pragmatic reforms to our tax system so that it is more stable, adequate, and fair. To sustain our quality of life; to meet the needs of our families; and to protect the future of our children, our elderly, and our workforce, we must reexamine the system of taxation and make better choices about how to improve it.

### Our Mission

*Better Choices for Connecticut* is a community coalition working to help Connecticut make smarter choices on ways to improve the state's imbalanced revenue system so that it:

- advances opportunity for shared prosperity for all Connecticut residents
- preserves services for children, families and the elderly
- creates and sustains good jobs
- reinvests in the middle class and our communities

## Part II: Cuts to Public Services: A Poor Choice for Connecticut

As Connecticut enters 2009, its imbalanced and antiquated revenue system has combined with a national recession to create a significant fiscal crisis. The looming deficit is only partly the product of a poor economic outlook. Connecticut also faces a longer-term fiscal challenge. The state revenue shortfall has been produced in part by poor budget choices – the use of one-time revenues to cover budget shortfalls, over-reliance on borrowing, rapidly growing tax subsidies for corporations without accountability for job creation, and a failure to modernize the tax code as Connecticut's economy has changed. We need to take responsibility for these fundamental problems and engage in strategic, long-term planning to fix these problems with the structure of our tax system.

Governor Rell has argued that deep program cuts that "affect every agency, every program, and every service provided by state government" will be required to balance the state budget.[1] However, not only are there pragmatic and better alternatives to across the board, massive cuts, but severe cuts to our public structures would be dangerous for Connecticut's economy. In a demand-driven recession, cutting programs and services is the worst response. President Obama and Congress are proposing a major stimulus package precisely because economists have demonstrated that the government must act as a counter-cyclical force during a recession. Connecticut should eliminate the deficit using methods that will be the least harmful to the state's economy and the least painful for Connecticut's families.

## Severe Cuts: Dangerous for Connecticut's Economy

Across the board, severe cuts will exacerbate the economic crisis in this state. Cutting government spending in the depth of a recession will harm the economy when it is most vulnerable. According to Nobel Prize winning economist Joseph Stiglitz and Peter Orszag, the new Director of the Office of Management and Budget, these cuts in government programs and services are the most damaging way to balance the budget during a recession: "Reductions in government spending on goods and services, or reductions in transfer payments to lower-income families, are likely to be more damaging to the economy in the short run than tax increases focused on higher-income families, since lower-income families are more likely to spend any additional income than higher-income families."[2]

- **Cutting public expenditures directly reduces economic demand.** Public agencies and programs purchase goods and services from businesses all around the state – which subsequently use that revenue to make purchases of their own. Cutting these programs immediately eliminates that component of the Connecticut economy.

- **Cutting government services reduces employment**. If Connecticut lays off government employees or stops hiring contractors, those people will immediately be without work. Not only does that mean real financial pain for these workers and their families, but it means they will have to save every last penny they own, pulling back on as much personal spending as possible. This, too, will decrease overall demand and hurt the state's economy.

- **Reduction in public support programs, like health benefits, rental assistance, and fuel aid – pulls money out of the hands of people most likely to spend it.** Although upper- and middle-income residents are often able to save some of their monthly income, working class people who are dependent on government support generally spend almost all of their income. This spending is valuable for the economy.

- **Connecticut's economic prosperity relies on the public structures we have created.** Individual effort, expertise and entrepreneurship can only succeed when various critical structures are in place to enable and support those energies –from highway systems, to court and legal systems to resolve disputes and establish the rules of fair play, to regulations that keep our communications systems organized and functional. And building new public structures to meet emerging needs – from early childhood education to affordable public college systems – is necessary if we are to keep our state vital and competitive.

### Severe Cuts: Dangerous for Connecticut's Families

During a recession, the demand for public services dramatically escalates, meaning that budgetary cuts deny services where they are needed the most. Many of these cuts have adverse long-term consequences to people and the state that far exceed their short-term savings. Across the board, severe cuts will create longer lines at our emergency rooms; leave fewer police to patrol our streets and fewer fire fighters to respond to emergencies; and deprive families of heating assistance that keeps our children warm at night. Such cuts will send our roads and bridges into deeper disrepair, harming our economy and our environment; and shut down our libraries and after-school programs, leaving our kids with nowhere to go at the end of the day. These cuts will force cities and towns to increase school class sizes and to defer critical maintenance of our children's school buildings, undermining the essential educational investments necessary to a prosperous and healthy Connecticut.

During a demand-driven recession, carefully crafted, pragmatic revenue enhancements will inflict less damage on the state economy than cuts in vital government services. Revenue enhancements can be carefully focused on the people and businesses with the greatest ability to pay, while maintaining or lowering the tax rates for those people who are most vulnerable, and on small businesses which are the key to job creation in our state. Better Choices for Connecticut also urges the state to find efficiencies, to improve the coordination of services, and find ways to "spend smarter." The benefits of smarter government, however, have limits: at best, these efficiency gains will allow Connecticut to merely keep pace with the growing demand for public services. To resolve this budget crisis, the state will require pragmatic, comprehensive revenue solutions.

## Part III: Five Better Choices for Connecticut

Connecticut can make better choices. Connecticut currently has an imbalanced, inadequate, and inequitable system of taxation. Connecticut's revenue problem needs to be addressed with a revenue solution. Although this economic and budget crisis is severe, it offers us the opportunity to substantially improve the structure of our revenue system. In the long-term, these revenue changes will also help to build the resources necessary to improve long-standing problems facing the state, such as the need for property tax and education reform.

Last week, Governor Rell explained that it's easy for critics “to stand there and say no we can't do this, we can't do that, we shouldn't do this, and we shouldn't do that. But you have to have an alternative.”[3] We agree, and in this report, we offer five specific revenue enhancements that the legislature and Governor can implement in order to close the budget shortfall.

**Table 1. Five Revenue Proposals for a Balanced Budget**

| **Projected Budget Shortfall for FY 2010** | **-$2.6 BN*** |
|---|---|
| (1) Increase income taxes for those who can best afford it | +$0.8 to 1.2 BN |
| (2) Reform corporate tax rules so corporations pay their fair share of taxes | +$130 to 150 MN |
| (3) Increase the sales tax from 6.0 to 7.0 percent | +$575 to 625 MN |
| ➢ Offset this increase and stimulate the labor market with a State Earned Income Tax Credit | -$50 MN |
| ➢ Create a Small Business Property Tax Credit | -$100 MN |
| (4) Scale back public subsidies to the entertainment industry | +$90 to 100 MN |
| (5) Increase cigarette and alcohol taxes | +$78 to 80 MN |
| **Estimated revenue raised by this plan** | +$1.7 BN |
| **Assumed size of Federal Stimulus package** | +$0.7 BN |
| **Additional deficit reduction from Rainy Day Fund** | +$0.5 BN |

*The projected shortfall is expected to be revised to reflect continued deterioration in the revenue outlook. Future iterations of this document will reflect these downward revisions and include revenue estimates for these proposals for FY 2011.

In the final section of this paper, we provide detailed explanations and justifications for the proposals listed in this table.

**Connecticut has the fiscal capacity to maintain its quality of life.** Connecticut residents currently contribute a relatively low share of their income for state and local priorities. Connecticut’s ranks third lowest (48th) among states in terms of “own source” revenue as a share of its total personal income.[4] Connecticut has ample flexibility to seek additional revenue without risking losing residents to neighboring states (See Table 2 in following section for an interstate comparison of Connecticut’s tax rates).

Moreover, Connecticut is not alone in this fiscal crisis: Connecticut’s projected 14.5% FY 2010 deficit (as of November 2008) falls in the middle of the 39 states now projecting FY 2010 deficits. Nearby states all project substantial General

Fund deficits: New York (24.3%), Vermont (13.6%), New Jersey (12.3%), and Rhode Island (13.7%).[5] Connecticut's neighbors will almost certainly adopt revenue increases to obtain balance.

These five choices represent the first stage in a comprehensive effort to improve Connecticut's tax system. Better Choices for Connecticut believes that the adoption of the proposals in this paper will promote the bedrock principles of fair taxation and good government:

(1) **Adequacy.** The tax system should provide sufficient revenue to fund essential public services, which include not only current services but also presently unmet essential needs.
(2) **Fairness.** The tax system should be fair, demanding the least of those least able to pay, and the most of those most able, not just as a dollar amount, but as a percentage of their income and assets.
(3) **Stability.** Since demand for public services rises when the economy sinks, a tax system should be somewhat resistant to cyclical economic changes.
(4) **Accountability.** The tax system, including business tax credits and exemptions, should promote job-creation and broad-based economic growth.
(5) **Optimization.** The tax system should optimize around the benefits of the federal system (e.g., take into account which state taxes are deductible on the federal income tax return). The tax system should be regularly reviewed and adjusted to adapt to changing circumstances.
(6) **Practicality.** Major alterations to the current tax system need to be carefully phased in over time.
(7) **Responsibility.** The Connecticut tax system must reflect the state's responsibility to municipalities and localities.
(8) **Cohesion.** A tax system should be cohesive; its parts should interact in a manner that reflects and advances these seven other principles.

## Part IV: Details of Proposed Revenue Enhancements

**(1) Increase income taxes for those who can best afford it – the state's wealthiest residents ($0.8-$1.2 billion).** We propose the creation of additional brackets for top earners. Specifically, we offer the following new brackets for married couples filing jointly:

- Marginal rate of 6.0 percent on taxable income greater than $200,000.
- Marginal rate of 7.0 percent on taxable income greater than $500,000.
- Marginal rate of 8.0 percent on taxable income greater than $1 million.

The tax brackets for taxpayers filing as singles, married couples filing separately, and heads of household would maintain the same ratio in relation to the brackets for married couples filing jointly.

**A more progressive income tax will protect Connecticut's economy better than the alternatives.** According to Nobel Prize winning economist Joseph Stiglitz and Peter Orszag, the incoming Director of the Office of Management and Budget, "tax increases on higher-income families are the least damaging mechanism for closing state fiscal deficits in the short run. Reductions in government spending on goods and services, or reductions in transfer payments to lower-income families, are likely to be more damaging to the economy in the short run than tax increases focused on higher-income families."[6]

High earnings families are able to save a substantially greater proportion of their income than low- and middle-income families. Based on data from the Survey of Consumer Finance, the Federal Reserve estimated that households in the top decile of the income distribution were 48 percent more likely to have saved any income in the prior year than households in the middle quintile. Households in the top income decile were nearly 2.4 times more likely to have saved any income in the prior year compared with households in the bottom quintile.[7] Thus, increased contributions from high-income families that are used to protect public services will actually contribute to Connecticut's GDP in the near term, whereas tax increases targeted at families further down on the income spectrum are more likely to represent the mere reallocation of funds that would otherwise enter the stream of commerce.

**Under this progressive income tax proposal, Connecticut's marginal rates for high income families would remain significantly lower than those of most neighboring states (Table 2).** Of all 41 states with income taxes, only seven have a lower top marginal rate than Connecticut.

**Table 2. Marginal Rates at Various Taxable Income Thresholds for a Married Couple Filing Jointly (2008).**[8]

| State/Locality | $85K | $100K | $150K | $200K | $500K | $1M |
|---|---|---|---|---|---|---|
| **New York City** | 10.4 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 |
| **New Jersey** | 5.3 | 5.3 | 6.4 | 6.4 | 9.0 | 9.0 |
| **Rhode Island** | 7.0 | 7.0 | 8.0 | 8.0 | 9.9 | 9.9 |
| **CT (proposed)** | 5.0 | 5.0 | 5.0 | 6.0 | 7.0 | 8.0 |
| **CT (current)** | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| **Massachusetts*** | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 |

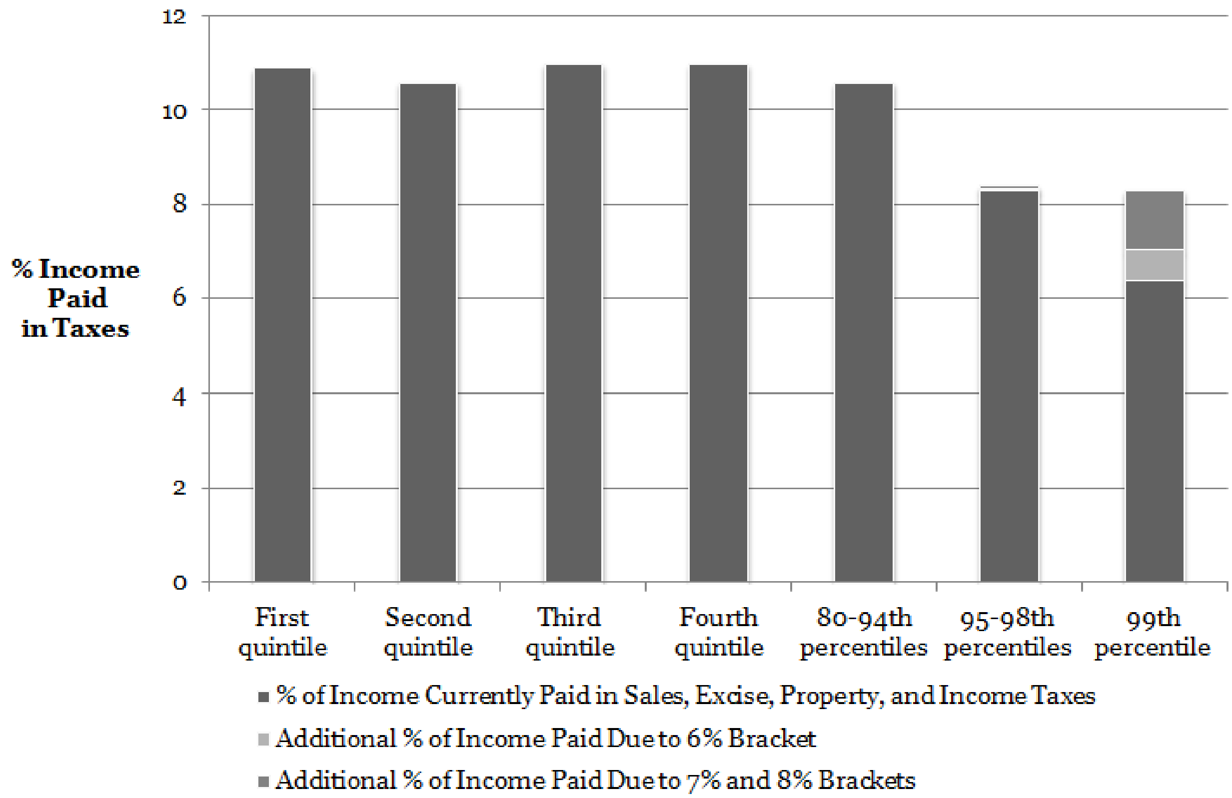
*In addition to a flat 5.3% income tax, Massachusetts applies a 12% rate to income from short-term capital gains, long- and short-term capital gains on collectibles, and pre-1996 installment sales classified as capital gain income for Massachusetts purposes. Taxpayers have the choice of paying an optional higher rate of 5.85% that is applied to both earned income and capital gains.

**Connecticut's state and local tax system is unfair to middle- and low-income residents.** These middle-income and low-income residents pay close to 11 percent of their income in state and local taxes, while the richest families pay less than 7 percent. Figure 1 presents data on the distribution of tax burdens across families with different incomes in 2006. Based on data from the Institute on Taxation and Economic Policy, this analysis illustrates that the highest income families in Connecticut pay a lower proportional share of their income in state and local taxes when sales, excise, property, and income taxes are reviewed collectively. Given the regressive nature of sales, excise, and property taxes, Connecticut's relatively flat income tax structure is fundamentally unfair. Our proposal would increase the progressivity of the income tax in order to make Connecticut's entire state and local tax system more fair.

Figure 1 indicates how a progressive income tax would affect the percentage of income going to total state and local taxes from different income groups.[9] Even with increased income taxes on the highest-income residents, the top five percent of taxpayers would still pay a smaller share of their income in state and local taxes than the rest of Connecticut's households. In 2006, the income thresholds for the listed percentiles in Figure 1 were as follows:

- Bottom quintile: income less than $25,000
- Second quintile: income between $25,000 and $42,000
- Third quintile: income between $42,000 and $69,000
- Fourth quintile: income between $69,000 and $111,000
- 80-94th percentiles: income between $111,000 and $287,000
- 95-98th percentiles: income between $287,000 and $1,013,000
- 99th percentile: income greater than $1,013,000

**Figure 1. Percentage of Income Paid in State and Local Taxes (2006)**[10]




**(2) Reform corporate business tax rules so that corporations pay their fair share of taxes (net effect of $130-150 million).** Current corporate tax rules enable many large and profitable corporations to avoid paying their fair share and shift the responsibility for taxes onto in-state businesses and individuals. Connecticut should reform these policy flaws and broaden the base of the corporation business tax to raise revenue and promote fairness.

**Implement mandatory "combined reporting" to prevent multi-state companies from evading tax responsibility by artificially shifting profits to subsidiaries in other states or foreign countries ($100-120 million).**[11] Many multi-state corporations exploit flaws in our tax code that allow them to artificially shift profits to their subsidiaries in other states to avoid paying their fair share of taxes. Implementing "combined reporting" – as twenty-two other states do (including New York and Massachusetts) – would mean that companies could not use creative accounting to shield themselves from taxes. Combined reporting "treats a business composed of a parent corporation and one or more subsidiaries as a single corporation for tax purposes."[12] Combined reporting will counteract the erosion of Connecticut's corporate tax base[13] that occurs under "creative accounting" by multi-state corporations who artificially shift profits to subsidiaries operating in states that do not tax businesses.[14] Profit-shifting is accomplished through a host of sophisticated mechanisms:

- Assigning income to a subsidiary in a tax haven (e.g., royalty income, licensing income);

- Transferring appreciated assets to a subsidiary in a tax haven;
- Avoiding the inclusion of a subsidiary's employees in state apportionment formulas through the use of "captive employee leasing compan[ies]";
- Selling account receivables at a substantial "loss" to subsidiaries in a tax haven; and
- Creating a rental deduction through the use of Captive Real Estate Investment Trusts (REITs).[15]

Single-entity reporting states have managed to close certain corporate loopholes on a case-by-case basis. However, "[t]he main shortcoming of this approach is that in the absence of combined reporting, multi-state corporations will always be able to develop new methods of transferring profits from high-tax to low-tax states."[16] Combined reporting represents an approach to enforcement that is resistant to innovations in corporate tax avoidance, thereby promoting a stable corporate tax base for Connecticut's future. Combined reporting also promotes fairness between in-state small businesses and multi-state corporations. At least twenty-two states require combined reporting for corporate tax returns,[17] with Massachusetts, Michigan, New York, Vermont, West Virginia, and Texas representing the newest converts.[18]

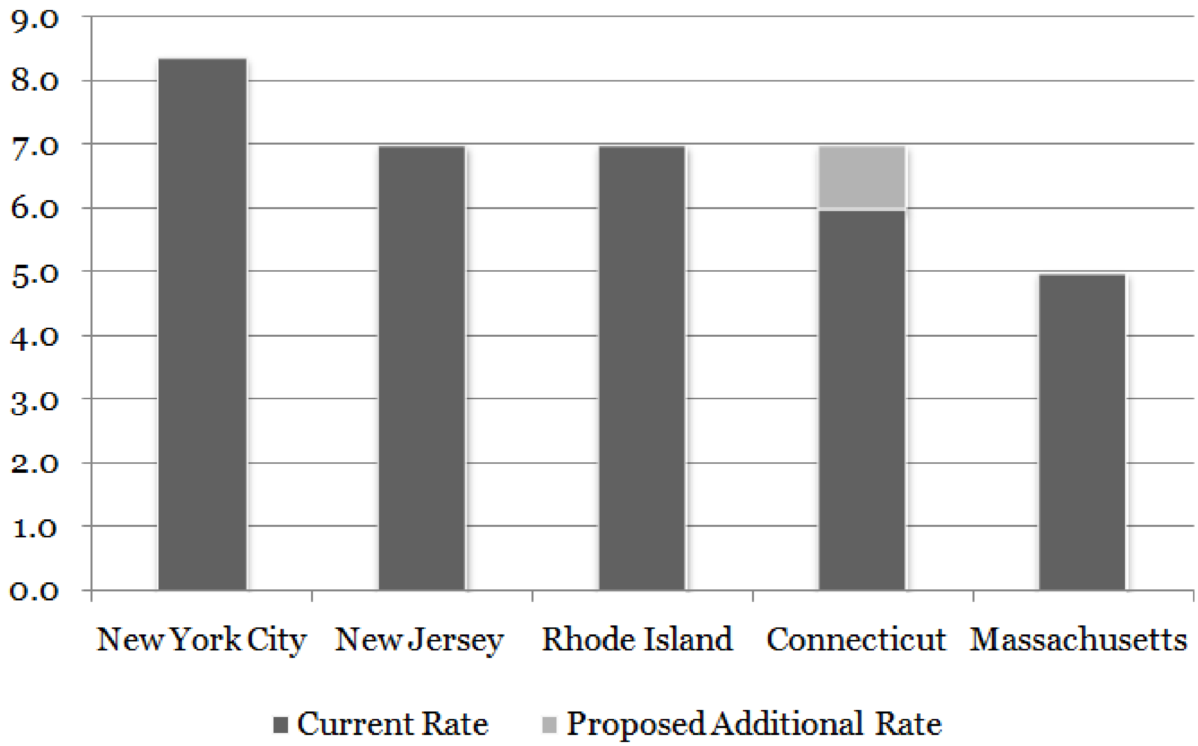
**Re-apply the corporation business tax to "S-Corporations" with graduated rates to protect small businesses ($20-30 million).[19]** Because of exceptions in our tax law, many large corporations do not pay corporation business taxes. In 1996, Connecticut phased-out the corporation business tax on S-Corporations.[20] Many of these S-Corporations and other businesses exempt from the corporation business tax are large and profitable businesses. According to the Program Review and Investigation Committee, in 2003, 18 of the state's 100 largest business paid only a $250 business entity tax, which applies to these S-Corporations and certain other classes of businesses (such as LLCs, LPs, and LLPs). Requiring that large businesses pay the corporation business tax, and establishing lower, graduated rates for small businesses, will result in a more fair and broad-based tax system.

**(3) Increase the sales tax by one percentage point (net effect of $425-475 million).**

- **Offset regressivity and stimulate the labor market with a State Earned Income Tax Credit (cost of $50 million)**
- **Implement a Small Business Property Tax Credit to help stimulate the economy and offset the impact of the sales tax increase (cost of $100 million)**

**Connecticut's sales tax rate would remain competitive with neighboring states.** Figure 2 provides the sales tax rates for Connecticut's neighboring jurisdictions. A single percentage point increase in the sales tax would place Connecticut at or below the sales tax rate of most neighboring localities.

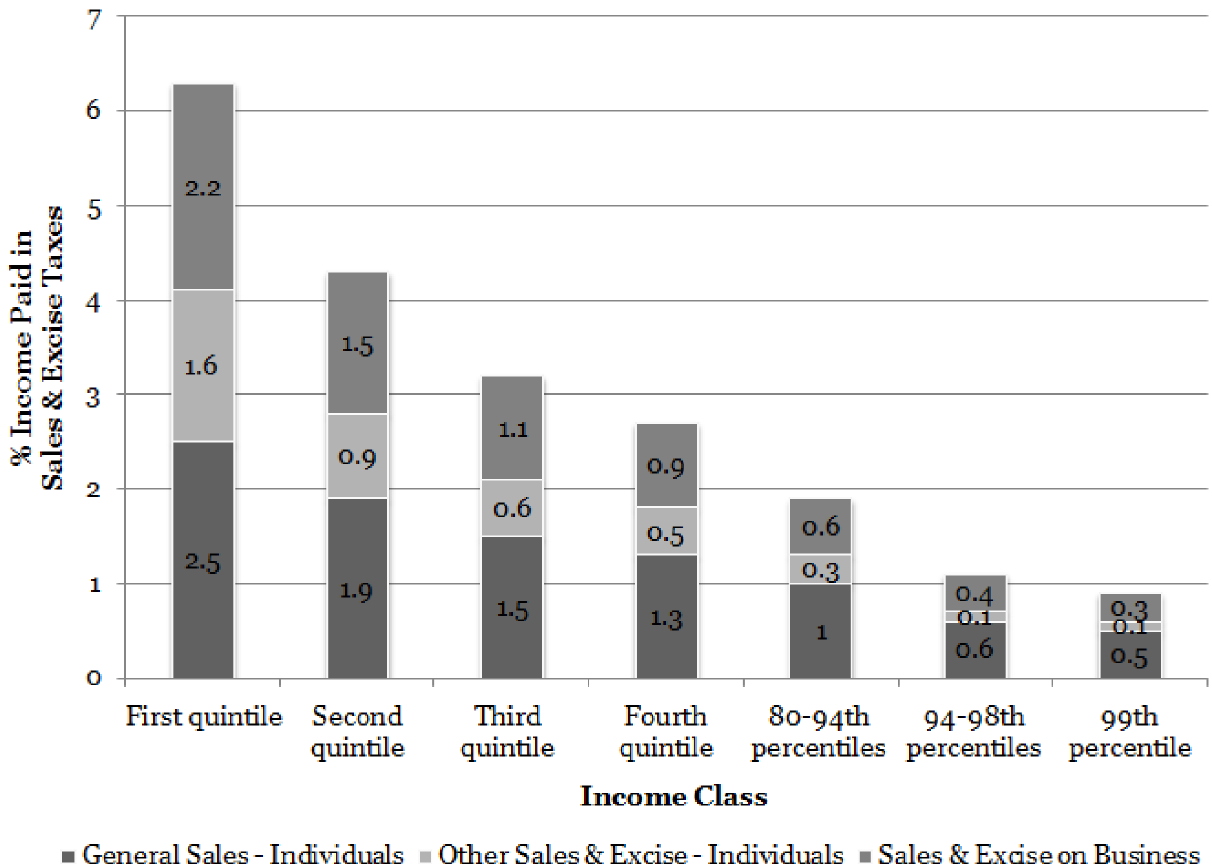
**Figure 2. Sales Tax Rates by State or Locality (2008)[21] ***




* Sales tax for New York State residents are a combination of state and local sales taxes. There is no uniform statewide rate. Local rates range from 7.00% to 8.75%.

**Alleviate negative impacts associated with a sales tax expansion through a State Earned Income Tax Credit.** Lower income families pay a higher share of their income in sales taxes than higher income households who are able to save more of their income. Recent data reveal that the poorest fifth of Connecticut's population pay an average of 6.4 percent of their income in sales and excise taxes, whereas the wealthiest fifth spend only 0.9 to 1.9 percent of their income on sales and excise taxes. Figure 3 outlines the impact of the sales tax on different income groups. Since increasing the amount of revenue raised from the sales tax has a greater impact on lower-income residents, we propose a refundable State Earned Income Tax Credit (EITC). State EITC programs reward work and have proven to be one of the single most effective anti-poverty programs.

**Figure 3. Sales and Excise Tax Burdens by Income Group (2006).**[22]




Twenty-four states have already successfully enacted state EITC programs. Connecticut should join its neighbors: New York, New Jersey, Rhode Island, and Massachusetts already operate refundable EITC programs.[23] We assume a state EITC program with a cost of $50 million. This state EITC would be calibrated to a set fraction of the federal EITC.

**(4) Scale back public subidies to the entertainment industry ($90-100 million)**. In Fiscal Year 2009, the state will lose an estimated $117.5 million in revenues to the television and film industry through a series of film and television tax credits.[24] There is currently no cap on how much revenue Connecticut can lose through these subsidies. Also, these tax credits don't simply reduce the taxes an entertainment company owes. For example, the state may pay for up to 30% of the cost of producing movies in the state, regardless of the taxes a company might owe. Even if the company owes no state taxes, they can and do sell (or "transfer") their tax credits to other, totally unrelated companies, such as banks or department stores. Establishing caps on revenues lost through these tax credits and ending the ability to transfer them to other companies are first steps to restoring some controls and better strategic planning for business tax credits. State Senators Toni N. Harp (D-New Haven) and Eileen M. Daily (D-Westbrook), Senate Chairs of the General Assembly's two budget committees, have begun a detailed review of these ill-conceived credits.

**(5) Increase Cigarette Taxes and Alcohol Excise Taxes ($78-80 million).** This estimate assumes the imposition of a $2.50 per carton tax on cigarettes, applied to 80% of projected sales. Increasing cigarette taxes will not only raise revenue, it will discourage smoking, particularly among Connecticut's children and youth, thereby reducing long-term health costs.

## SUPPLEMENTAL SOURCES

**Transfer money from the Rainy Day Fund:** $500 million in FY 2010, saving the balance for FY 2011. This Fund was set up for just this purpose -- to help cover budget gaps in difficult economic times.

**Maximize use of dollars from the Federal Stimulus:** Current discussions describe an enormous stimulus package that includes direct aid to states, particularly for capital projects. Our package currently presumes that $660 million of federal aid will be available to offset General Fund expenditures, although the final total is not yet known. New federal grants could help Connecticut to cover health, education, infrastructure, and other costs. The Governor and the General Assembly must work together to ensure that Connecticut fulfills federal requirements for access to these funds, which may include maintaining eligibility thresholds for Medicaid and certain spending levels for education.

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[1] Governor Jodi Rell, 2009 State of the State Address, available at: http://www.ct.gov/governorrell/cwp/view.asp?A=3675&Q=431362. *See also* Christopher Keating, Mark Pazniokas, and Daniela Altimari, *Rell: Deep Cuts Needed To Balance State Budget*, HARTFORD COURANT, Jan. 8, 2009

[2] PETER ORSZAG AND JOSEPH STIGLITZ, CTR. ON BUDGET & POLICY PRIORITIES, BUDGET CUTS VS. TAX INCREASES AT THE STATE LEVEL: IS ONE MORE COUNTER-PRODUCTIVE THAN THE OTHER DURING A RECESSION? (2001), http://www.cbpp.org/10-30-01sfp.pdf.

[3] Christopher Keating and Mark Pazniokas, *Rell Vows No New Taxes To Eliminate Deficits*, HARTFORD COURANT, January 29, 2009, available at: http://www.courant.com/news/politics/hc-budget0129.artjan29,0,6520442.story.

[4] SHELLEY GEBALLE, CONN. VOICES FOR CHILDREN, PUBLIC INVESTMENT FOR A MEDIOCRE FUTURE: WHERE CONNECTICUT STANDS ON STATE AND LOCAL REVENUES (2008), *available at*: http://www.ctkidslink.org/publications/bud08wherectstands.pdf.

[5] ELIZABETH MCNICHOL & IRIS LAV, CTR. ON BUDGET & POLICY PRIORITIES, STATE BUDGET TROUBLES WORSEN, (2009).

[6] PETER ORSZAG AND JOSEPH STIGLITZ, CTR. ON BUDGET & POLICY PRIORITIES, BUDGET CUTS VS. TAX INCREASES AT THE STATE LEVEL: IS ONE MORE COUNTER-PRODUCTIVE THAN THE OTHER DURING A RECESSION? (2001), http://www.cbpp.org/10-30-01sfp.pdf.

[7] Author's calculations based on Brian K. Bucks, Arthur B. Kennickell, and Kevin B. Moore, Federal Reserve, *Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances* (2006), Table 1, *available at*: http://www.federalreserve.gov/Pubs/OSS/oss2/2004/bull0206.pdf.

[8] Author's calculations from: Tax Foundation, State Individual Income Tax Rates, 2000-2009, *available at*: http://www.taxfoundation.org/files/state_individualincome_rates-20090106.xls; 2008 NJ-1040 Tax Rate Schedules, *available at*: http://www.state.nj.us/treasury/taxation/

pdf/other_forms/tgi-ee/2008/njtaxratesch08.pdf; 2008 Rhode Island Tax Computation Worksheet, *available at*: http://www.tax.state.ri.us/forms/2008/Personal/2008%20Tax%20Computation%20Worksheet.pdf; New York City Tax Rate Schedule, *available at* http://www.tax.state.ny.us/pdf/2008/inc/nyc_tax_rate_150_201.pdf.

[9] Note that this preliminary estimate refers to the distributional effects if the marginal rate increases we propose had been applied in 2006. This estimate does not include the distributional effects of the proposed increase in the sales tax and the introduction of a state EITC, the former of which would be regressive and the latter of which would be progressive.

[10] Preliminary calculations based on DOUGLAS HALL AND SHELLEY GEBALLE, CONN. VOICES FOR CHILDREN, "WHO PAYS?" HOW OUR STATE AND LOCAL TAX SYSTEM BURDEN'S CONNECTICUT'S POOR AND MIDDLE CLASS (2008), *available at:* http://www.ctkidslink.org/publications/bud08whopays.pdf.

[11] This preliminary estimate is based on recent revenue projections from Iowa, Maryland, Massachusetts, New York, and Wisconsin for similar proposals. Note that Connecticut may also need to revise its method for apportionment to effectively attain the revenue goals of this proposal.

[12] MICHAEL MAZEROV, CTR. ON BUDGET & POLICY PRIORITIES, STATE CORPORATE TAX SHELTERS AND THE NEED FOR "COMBINED REPORTING" (2007), http://www.cbpp.org/10-26-07sfp.pdf.

[13] William F. Fox, LeAnn Luca, & Matthew N. Murray, *Emerging State Business Tax Policy: More of the Same, or Fundamental Change?*, STATE TAX NOTES, May 2007, at 393, 394.

[14] Mazerov, *supra* note 12.

[15] For a detailed description of the tax avoidance strategies discussed here, see ROBERT G. LYNCH, ET AL., MASS. BUDGET & POLICY CTR. & ECON. POLICY INST., BUILDING A STRONG ECONOMY: THE EVIDENCE ON COMBINED REPORTING, PUBLIC INVESTMENTS, AND ECONOMIC GROWTH (2007), http://www.massbudget.org/file_storage/documents/BuildingStrongEconomyJune07.pdf.

[16] INST. ON TAXATION & ECON. POLICY, COMBINED REPORTING OF STATE CORPORATE INCOME TAXES: A PRIMER (2008), http://www.itepnet.org/pb24comb.pdf.

[17] *See* Mazerov, *supra* note 12 (reporting that twenty-one states require combined reporting); Press Release, Governor of Massachusetts, Governor Patrick Signs Law to Close Corporate Loopholes (July 3, 2008), http://www.mass.gov/?pageID=gov3pressrelease&L=1&L0=Home&sid=Agov3&b=pressrelease&f=080703_taxfairness&csid=Agov3 (announcing Massachusetts' adoption of combined reporting).

[18] LYNCH, ET AL, *supra* note 15, at 9.; Arden Dale, *Massachusetts Joints States Curbing Firms' Tax Tactics*, WALL ST. J., July 23, 2008.

[19] The Office of Fiscal Analysis estimated that the FY 2009 revenue loss from the exemption of S Corporations alone constituted $26.0 million. That analysis did not include the revenue loss from the exclusion of LLCs, LPs, and LLPs. *See* OFFICE OF FISCAL ANALYSIS, CONNECTICUT TAX EXPENDITURE REPORT 9 (2008).

[20] SHELLEY GEBALLE, CONN. VOICES FOR CHILDREN, THE CASE FOR REFORMING, NOT ELIMINATING, CONNECTICUT'S BUSINESS ENTITY TAX (2008).

[21] FEDERATION OF TAX ADMINISTRATORS, STATE SALES TAX RATES (2008), *available at* http://www.taxadmin.org/fta/rate/sales.html.

[22] HALL AND GEBALLE, *supra* note 10.

[23] JASON LEVITIS AND JEREMY KOULISH, CTR. ON BUDGET & POLICY PRIORITIES, STATE EARNED INCOME TAX CREDITS: 2008 LEGISLATIVE UPDATE, http://www.cbpp.org/6-6-08sfp.pdf.

[24] See generally, SHELLEY GEBALLE, CONN. VOICES FOR CHILDREN, STARSTRUCK? CONNECTICUT'S BLOCK-BUSTING SPENDING ON ENTERTAINMENT INDUSTRY TAX CREDITS, PART 1: THE CREDITS AND WHO IS CLAIMING THEM, (2008), *available at*: http://www.ctkidslink.org/publications/bud08enttaxcreditpart1.pdf.