

Finance, Revenue and Bonding Committee

JOINT FAVORABLE REPORT

Bill No.: Senate Bill 443

AN ACT CONCERNING THE TAX INCIDENCE REPORT, TAX INCIDENCE ANALYSES AND THE DISCLOSURE OF RETURNS AND RETURN

Title: INFORMATION.

Vote Date: 4/5/2022

Vote Action: Joint Favorable Substitute

PH Date: 3/21/2022

File No.: 565

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SPONSORS OF BILL:

Finance, Revenue and Bonding Committee

Co-Sponsors:

Rep. Josh Elliott, 88th District

Rep. Michael A. Winkler, 56th District

Rep. Kate Farrar, 20th District

Rep. John "Jack" F. Hennessy, 127th District

Sen. Marilyn V. Moore, 22nd District

REASONS FOR BILL:

This bill (1) requires additional data to be included in the tax incidence report, (2) requires the Commissioner of Revenue Services to provide incidence impact analyses of certain legislative bills or proposals, and (3) authorizes the disclosure of returns or return information to certain members of the General Assembly.

Real-time analysis of tax incidence during the legislative process would lead to improved understanding of policy impacts prior to policy changes.

RESPONSE FROM ADMINISTRATION/AGENCY:

None expressed.

NATURE AND SOURCES OF SUPPORT:

The following people testified in support of the bill, stating that Connecticut is the wealthiest state in the country, but is unfortunately among the most unequal. They reference the 2014 state tax incidence analysis performed by the Department of Revenue Services (DRS) showing

that the bottom 50% of earners in the state contribute 23.6% of their income in taxes, however, the top 1% contribute only 7.5%. A follow up report released earlier this year showed that low-income households now pay up to 26% of their income in taxes, middle-income households are also paying more – as much as 15.5%, yet the ultra-wealthy's effective tax rate has remained flat. They testified that Connecticut's tax system is even more regressive now than it was in 2014, thus proving that tax fairness in Connecticut is getting worse and that it is important that the state act soon.

[Jody Barr, Executive Director, AFSCME Council 4](#)

[Thomas Connolly, Member, Connecticut Communist Party](#)

[Ed Hawthorne, President, Connecticut AFL-CIO, Member, Recovery For All Coalition](#)

[Margaret Henderson, Co-President of the Board of Trustees, Unitarian Universalist Congregation of Danbury, Member, Recovery For All Coalition](#)

[Josh Pawelek, Reverend, Unitarian Universalist Society, Member, Recovery For All Coalition](#)

[Travis Woodward, President, CSEA SEIU Local 2001, Member, Recovery For All Coalition](#)

[John Filchak, Executive Director, Northeastern Connecticut Council of Governments](#) testified in support of the bill, stating, "tax incidence studies provide policymakers with the information to understand comprehensively how proposed changes in their tax laws would affect the amount of taxes owed by different income groups in their populations or how total tax obligations are distributed across income groups at a particular point in time. Without this type of analysis states are limited to an understanding of determining how much proposed tax cuts will cost or tax increases will raise and estimating the total amount of revenue that will be generated by their current tax structure. Recently, the Department of Revenue Services released Connecticut's second ever tax incidence study, which you were briefed on by DRS. The recently released report confirms the disparities shown in the 2014 report - providing a very valuable resource. Notably and although in accordance with current law, the new tax incidence study does not address, as the 2014 study did, the gross earnings tax, insurance tax, estate and gift tax and the insurance tax. The Commissioner noted in his briefing on the new tax incidence study that Minnesota is the "gold standard" for tax incidence studies. Their approach is one that Connecticut should emulate and learn from as a means to garner the most information possible on our tax system and its impacts. Senate Bill 443 would move our state strongly in that direction."

[Seth Freeman, Professor, Capital Community College, President, Congress of Connecticut Community Colleges](#) testified in support of the bill, stating, "the purpose of a tax incidence report is to provide lawmakers with historical data to enable reasonably accurate forecasting and inform tax policy decisions. The General Assembly can make real transformational progress in addressing Connecticut's inequities by using coherent, historical data and forecasting to inform their tax policy decision making. Senate Bill 443 will ensure that future tax incidence reports are detailed and uniform, giving policymakers the tools they need to right size Connecticut's unequal tax burdens."

[Patrick Gibson, Deputy Executive Director for Data, Policy, and Special Projects, School and State Finance](#) testified in support of the bill, stating, "The School and State Finance Project supports the proposed new tax incidence analysis for legislative proposals contained in Senate Bill 443, which will provide real-time analysis of tax incidence during the legislative process and lead to improved understanding of policy impacts prior to policy changes. We support additional statutory requirements to 1) specify the timeline to which the Department of Revenue Services should adhere when fulfilling this type of request, and 2) in the interest of transparency and effective policymaking, to publicly share such analyses, when complete, on the website of the Connecticut General Assembly in a manner similar to the publication of "fiscal notes" prepared by the Office of Fiscal Analysis."

[Alex Knopp, Retired State Representative, Connecticut General Assembly](#) testified in support of the bill, and requested that the committee consider adding a new recommendation to the incidence factors to include, "the incidence impact of any relevant "federal tax offset" in any future tax incidence analysis. Analyzing the impact of the federal tax system on the incidence of the Connecticut revenue system is necessary and important because the Connecticut tax system does not exist in isolation. According to the Minnesota Tax Incidence Study, the "incidence" of a tax is determined not by who pays it in the first instance, but by who bears the burden of the tax's final resting place after any tax shifting has occurred. The Connecticut report similarly calls this the "Final Incidence" of any tax....Tax-making policy in Connecticut has always been significantly influenced by attempting to maximize federal transfers...By itemizing their state and local tax deductions (called the SALT deduction), taxpayers will have successfully "shifted" part of the "final incidence" of these taxes to the federal government, thereby reducing their net or final state tax burden."

[Bette Marafino, President, Connecticut Alliance for Retired Americans](#) testified in support of the bill, stating, "I draw your attention to lines 17 to 19 of this bill which, singles out the need to report the tax burden on senior citizens. As you already know, seniors live on a fixed income...The Connecticut Alliance hears from members that the most often reason for leaving the state is not a warmer climate, but the promise of lower taxes. One of my retired friends told me before she moved to North Carolina that she'd rather stay here in Connecticut because her children and grandchildren are here, but her fixed income will serve her better in a state where taxes aren't so high. We don't begrudge that Connecticut has billionaires and multi-millionaires, but we do believe that attention should be paid to a deep analyses and disclosure of tax returns and disclosure information."

[Patrick R. O'Brien, PhD, Research and Policy Fellow, Connecticut Voices for Children](#) testified in support of the bill, stating, "while we support Senate Bill 443 as written, we have three recommendations to strengthen the bill and further increase tax transparency. We recommend: (1) requiring the DRS to include in the tax incidence report all taxes that generate more than \$20 million in revenue; (2) requiring the DRS to include in future tax incidence reports (A) an estimate of the impact of Connecticut's tax gap on the average effective tax rate by income decile, and (B) an estimate of the overall size of Connecticut's tax gap; (3) requiring the DRS to develop the tax incidence report entirely in-house or release a report detailing the additional capacity that is necessary."

[Stuart Savelkoul, Chief of Staff, American Federation of Teachers, Connecticut](#) testified in support of the bill, stating, "extreme income inequality and a lack of fairness in our state's tax system represent significant obstacles for Connecticut residents to achieve any measure of

shared prosperity. Senate Bill 443 seeks to ensure that going forward, legislators will have easy access to the facts and figures that will allow them to make decisions on these economic issues that have proven to be controversial. Perhaps that controversy will dissipate when legislators are armed with the relevant evidence that paints a detailed and accurate picture of Connecticut's economic landscape."

NATURE AND SOURCES OF OPPOSITION:

[Donald Antilla, Resident, Southbury, Connecticut](#) testified in opposition to the bill in the strongest terms possible. Mr. Antilla thinks this bill is a slow and steady intrusion into the private status and affairs of citizens.

[Linda Dalessio, EdD ACNP, BC](#) testified that, "this committee has no right to any of my or others private Federal or State income data."

[Eric Gjede, Vice President of Government Affairs, Connecticut Business Industry Association](#) opposed Section 3, stating, "Section 3 would allow certain lawmakers, upon written request, to obtain individual tax return information for the purpose of evaluating and formulating tax policy. While well-formulated tax policy is in the interest of the state, allowing access to individual returns would undermine taxpayer privacy and the confidentiality of a voluntary tax reporting system. Further, access to individual return information could be used out of context to target specific taxpayers."

[David Godbout, Connecticut Resident](#) opposed the bill on the grounds that the current session of the Connecticut General Assembly is illegal, in breach of Article 3, Section 16 of the State Constitution.

[Carol Platt Liebau, President, Yankee Institute](#) testified, "the proposal contained in section 3—allowing state lawmakers to inspect individual personal income tax returns—would facilitate unjustifiable invasions of privacy. There is no useful information that lawmakers can glean from individual tax returns that cannot already be provided by the Department of Revenue Service or the Office of Fiscal Analysis in the form of statistical reports. Consultation with other state tax administrators will show that Connecticut would be an extreme outlier in granting access to tax records of this nature, which is otherwise tightly controlled in every instance. Election to public office does not bring with it an entitlement to the most personal details about one's fellow citizens. And legislation that enables politicians to obtain such access is profoundly flawed, opening the door to abuse and weaponization of sensitive information, with the concomitant chilling of free speech rights."

[Kathleen Randall, Resident, Avon, Connecticut](#) was opposed to Senate Bill 443 because, "it would allow legislators to access private citizens' tax returns. Not only is this bill an infringement on our individual liberties, but it could also contribute to fraud and identity theft, as social security numbers, bank account numbers, financial information, and email addresses are included on tax returns. Tax policy should not be targeted to specific taxpayers or devised in response to individual returns."

Reported by: Jean Holloway

Date: 4/19/22