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Testifying on SB 11
AN ACT CONCERNING CONNECTICUT'S RESPONSE TO FEDERAL TAX REFORM

Good afternoon Senator Fonfara, Senator Frantz, Representative Rojas, Representative Davis and members of the Finance, Revenue & Bonding Committee. My name is Eric Gjede and I am counsel at the Connecticut Business and Industry Association (CBIA), which represents thousands of large and small companies throughout the state of Connecticut.

CBIA appreciates the proponent's goal of reviewing the state's tax code and making changes in response to federal tax reform that will allow Connecticut to remain a competitive, more predictable place to do business. In a simpler world where we did not have to live with the consequences of our past spending, the easiest method of remaining competitive would be to respond to federal reforms by reducing taxes in Connecticut. In lieu of tax reductions, some of the proposals set forth in SB 11, if determined to be legally sufficient, could be a reasonable alternative.

Sections 1 to 9 of this bill propose a method of mitigating the impact of federal caps on deductibility of state and local taxes on personal income that will hit many pass-through businesses in the state. Pass-through entities will essentially pay a new business entity tax that will be offset by a credit in the equivalent amount on the personal income tax. If this proposal is legally sufficient to mitigate the impact of the federal cap, then it certainly merits further review. However, we urge the committee to look at whether corporate partners should be required to pay this new tax, especially given that due to their structure and liability, corporate partners may be unable to realize the state tax credit.

Sections 11 and 12 decouple the state from federal rules related to depreciation of capital assets. Decoupling state and federal depreciation rates adds expense to businesses. Simply put, when there are two different depreciation rates in effect, tax filings become more complicated and businesses spend more resources preparing them. Further, this decoupling is one more example of the state undermining the sense of fiscal predictability Connecticut businesses need to invest here with confidence.

If Connecticut has a lower rate of depreciation deductibility than allowed by the federal government or our neighboring states, there becomes a disincentive for businesses to purchase capital assets for their Connecticut-based locations. Given that our lackluster recovery from the recession has lagged our neighboring states, our tax policy must be aimed at promoting business and job growth.

Thank you for the opportunity to comment on SB 11. We encourage the committee to consider the impact any changes to the state tax code will have on our ability to remain competitive as a state, and pursue policies that promote economic growth and job creation.