FINANCE, REVENUE AND BONDING COMMITTEE – MARCH 3, 2022

TESTIMONY OF KEN GIRARDIN, DIRECTOR OF POLICY & RESEARCH

SB 27 - AN ACT INCREASING AND EXPANDING THE PROPERTY TAX CREDIT

Connecticut has, for more than a generation, toyed with tax credits and other general fund subsidies to reduce the burden that local property taxes place on homeowners. It is one of state government's most predictable—and least productive—habits.

Governor Lamont's proposal would give some residents between $100 and $300 in tax relief. To put this in context, during the middle of the 2010s, Connecticut's median home property tax bill climbed at a rate of about $131 per year.[i] This essentially means the added $100 credit wouldn't be enough to cover a single year's property tax increase. For those getting $300, it would not cover the increases most homeowners have incurred since the governor proposed this approach in 2018.

The General Assembly should reject the governor's proposal to expand the property tax credit, which will place significant pressure on general fund priorities. This is a half-measure that would continually risk being cut or eliminated—as the credit was in 2003 and 2011.

Lawmakers should instead create a property tax cap that restricts the rate at which local tax levies—that is, the total amount of revenue raised from property taxes—may increase to 2 percent or the rate of inflation, whichever is lower. Unlike a tax credit, a property tax cap costs nothing to implement and would not be in danger in leaner times. A tax cap can be tailored to respect local control without discouraging tax base growth.

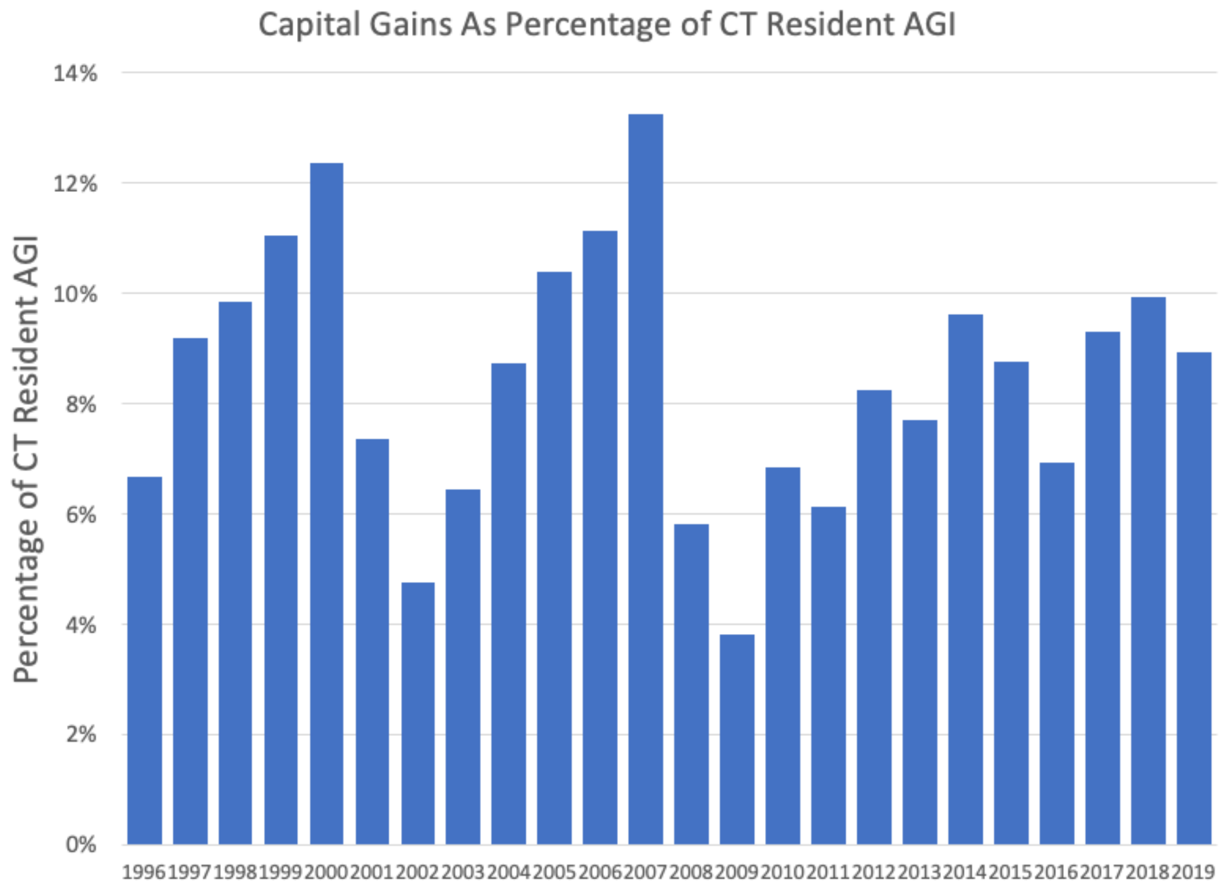
Tax caps have had measurable effects in recent decades in both New York and Massachusetts. Connecticut would do well to replicate their success.

SB 28 – AN ACT ESTABLISHING A CAPITAL GAINS SURCHARGE

Connecticut since 1991 has treated capital gains as ordinary income for personal income tax purposes, and has never taxed capital gains at a rate over 7 percent.

SB 28, in pushing the top marginal tax rate on capital gains to 7.99 percent, would increase the state's reliance on a type of revenue that has twice since 2000 dropped by more than half over a two-year period (Figure 1).

Figure 1



Source: Internal Revenue Service

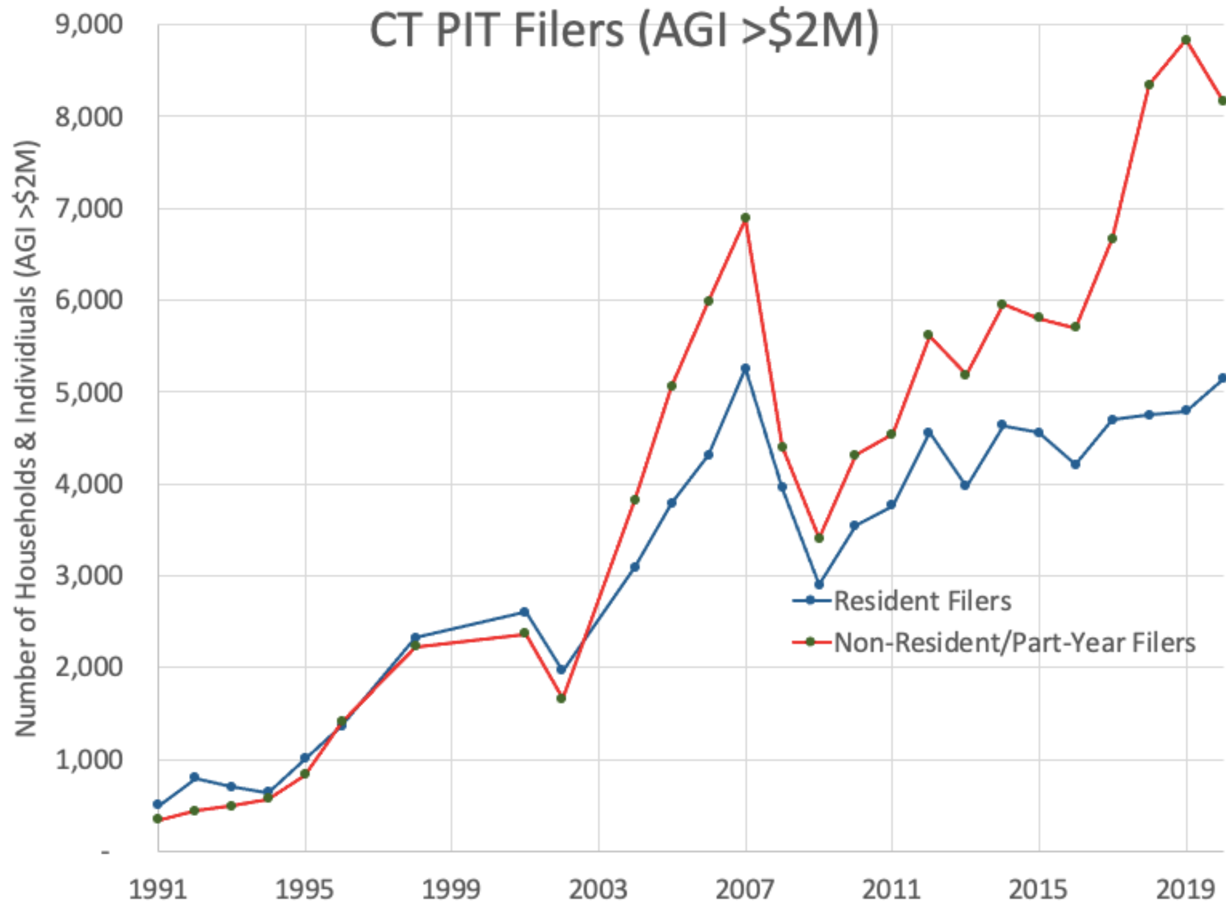
The state's volatility cap steers a portion of its tax revenue from investment income into the Budget Reserve Fund and helps the state weather fiscal turbulence.

However, the substance of SB 28 is routinely associated with calls to use the revenues to create or expand state programs. The pressure this spending would cause on the general fund, combined with the volatility of capital gains, could far exceed the tempering effect of the volatility cap.

Meanwhile, the state's efforts to make its income tax system more progressive have coincided with what appear to be a trend among high-earning individuals and households limiting their

time in Connecticut and thus avoiding paying state income tax on their entire income (as full-time residents). It bears noting that Connecticut in 2020 still had fewer resident households and individuals in its top income band (AGI over $2M) than it did in 2007 even as the number of part-year residents and non-residents climbed far above pre-financial crisis levels (Figure 2). This is to say, a portion of the part-year residents and non-residents might have otherwise been full-time residents.

Figure 2



Source: Department of Revenue Services; Note: records unavailable for some pre-2004 tax years

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[i] "Median Real Estate Taxes Paid," 2019 5-year average versus 2014 5-year average, American Community Survey, U.S. Census Bureau