Testimony on Senate Bill 1136 (an act, *inter alia*, imposing a surcharge on capital gains earnings)

Submitted by Scott Shepard, Policy Director

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Good afternoon. My name is Scott Shepard. I am the Policy & Research Director for the Yankee Institute for Public Policy, Connecticut's free-market think tank. I submit this note in opposition to **Senate Bill 1136**.

At various points in this session some administration or legislative bill has proposed raising the tax on nearly everything. We are, at this late date, hard-pressed to find any new ways to explain it: Connecticut cannot bear any new or higher taxes. High taxpayers are leaving, the middle class is being crushed, essentially no payers of significant taxes are migrating to Connecticut from other American states – all of which leaves fewer taxpayers to pay for the state's needs and fewer businesses to hire anyone.

Some members of the legislature refuse to admit this reality, but that doesn't change the facts. We are surrounded, constantly, by structural market demonstrations (particularly the across-the-board failure of house prices to recover from the Great Recession, more than a decade later, in almost all Connecticut municipalities and at almost all price levels) that already far-too-high levels of taxation have ruined Connecticut as a dynamo of prosperity and are destroying our tax base and our economic vitality. Here are just a handful of stories from just the last few days illustrating the flight from Connecticut and failure to draw interstate migrants; the clear causes of the flight and unattractiveness; and the real-world, real-time effects:

https://www.courant.com/business/hc-biz-march-home-sales-connecticut-warren-20190424-iqtzqrxvorgttmb6qdrcz6lwp4-story.html

https://www.mansionglobal.com/articles/wealthy-greenwich-home-sellers-give-in-to-market-realities-125453 (This story was originally in the WSJ here (https://www.wsj.com/articles/wealthy-greenwich-home-sellers-give-in-to-market-realities-11555348468.)

https://www.cnbc.com/2019/04/17/retirees-are-flocking-to-these-3-states-and-fleeing-these-3-states.html

https://finance.yahoo.com/news/taxes-best-and-worst-states-125830381.html

https://www.kiplinger.com/tool/taxes/T055-S001-kiplinger-tax-map/index.php http://www.hartfordbusiness.com/article/20190418/NEWS01/190419929

We cannot save Connecticut by raising taxes further on those who have the highest capacity to leave, and the most reason to do so, while maintaining any reasonable hope of their staying. And even a small further outflow would be devastating. If we were to lose just one-tenth of the 357 families that pay the highest taxes in the state, we would lose more state income-tax revenue than if we were to lose *all* of the income-tax revenue gathered from the city of Bridgeport.[1] *Thirty-six* departures would swamp the whole revenue from Bridgeport, while reducing state costs not at all. Meanwhile, we cannot push Connecticut further into the very highest echelons of high-tax jurisdictions and expect anyone to come here. Almost no one is coming here as it is. As a result, *every high-tax family that leaves blows another irreparable hole in the budget.*

It will not do to claim that this new tax can be justified because Connecticut's highest taxpayers received a significant tax cut from the 2018 federal tax reform package, much of which can now be siphoned off by the state without consequence. First, the very premise is wrong. As the government of Connecticut bemoaned mightily at the time, but some legislative leaders seem now conveniently to have forgotten, the 2018 reform package included a significant curtailment of the state and local tax ("SALT") deduction, the effect of which fell almost entirely on high-tax-paying families. That and other deduction limitations offset in part, and in many cases more than offset, the rate cut. There is no windfall to raid. And even if there were, what is causing people to leave Connecticut, and not to move here, is not just an *absolute* value of taxation, but a value *relative* to other jurisdictions. What is being proposed – there's no way to dress this up or gloss it over – is a *nearly 20 percent increase* in the already very high income tax on Connecticut's highest taxpayers. This will trigger another wealth flight – history is our proof – leaving the state even more financially crippled.

A poorly crafted capital-gains surcharge, meanwhile, will also punish middle-class savers who have done everything right – lived modestly; bought a home or built a small business; and saved diligently for their own retirements. These people, when they sell their business or their house to provide themselves with liquidity in their old age, will be hit with this surcharge in the year in which they realize their savings. We want *everyone* to be saving for their retirements and to be as self-sufficient as possible. We certainly don't want to punish savers for their far-sightedness and frugality. And we absolutely cannot afford to make this state even more toxic for the types of middle-class savers who are the backbone of any thriving modern economy.

There are no justifications left. There are no excuses left. There are no intellectual dodges left. This state is being done to death with taxes, and every day brings more and clearer evidence. It has to stop. We must cut spending so that we can *cut* taxes to a level at which high earners will be willing to stay here and to move here. There is no way to avoid it any more.

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[1] *See* Department of Revenue Services, Connecticut Tax Incidence (Dec. 2014), at 25 (highest 357 taxpaying families pay $682.6 million in income tax annually), *available at* https://portal.ct.gov/-/media/DRS/Research/DRSTaxIncidenceReport2014pdf.pdf?la=en; CT Data, CT Personal Income Collections by Town (Bridgeport in aggregate pays $63.9 million annually), *available at* https://data.ct.gov/Tax-and-Revenue/Personal-Income-Tax-By-Town/pvqv-e235/data.