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CONTACT:  
KEVIN MALONEY (203) 710-3486  
RON THOMAS (203) 430-5537

## **CCM ASSERTS: STATE GOVERNMENT'S STUDY OF STATE & LOCAL TAXES CONFIRMS PROPERTY TAX IS BIGGEST BURDEN**

The Connecticut Conference of Municipalities (CCM) today (Tuesday, February 3) said that the recent – and long awaited – state report on state and local taxes presented by the State Department of Revenue Services (DRS) confirmed:

- CCM's long-standing position that the property tax is the most burdensome and regressive tax on Connecticut residents and businesses and;
- CCM's 2015 state legislative priorities presented by its 156-member towns and cities provide the best road map to provide relief and reform of the property tax -- as towns and cities await the Governor's proposed state budget on February 18.

"This report reaffirms the long standing policy position of CCM and its member towns and cities -- the over-reliance on the property tax is inadequate for funding local government services in Connecticut, particularly PreK-12 public education, and is no longer advisable nor sustainable," said Matthew Galligan, Town Manager of South Windsor and CCM President. "And our central cities and poorer small communities suffer disproportionately from the current property tax system. We cannot allow these municipalities in particular to continue to flounder. For their stability, this antiquated local-revenue system must be reformed."

The new DRS report addresses the overall incidence of the Personal Income Tax, Sales and Excise Taxes, Corporation Business Tax, Property Tax, Gift and Estate Tax, Insurance Taxes and the Real Estate Conveyance Tax, in addition to analyzing each tax separately.

Here are some key highlights from the recent "tax incidence" report presented by DRS:

- **Total liability by Tax – property tax is first at \$9.45 billion**
- **Taxes as a Percent of Total 2011 Tax Revenue – property tax is tops at 44.9 percent**
- **2011 Overall CT Household Tax Incidence – property tax is first at \$7.3 billion**
- **2011 Overall CT Household Tax Incidence by Tax Type – property tax is tops at 41.9 percent**
- **With the property tax providing the greatest burden, nearly half of all CT households (those making up to \$48,000 in income) have an overall effective tax rate of 23.6 percent (that is more than double the statewide average of 11.5 percent and nearly four time greater than the overall effective tax rate of the highest income group at 6.3 percent.)**
- **The property tax is a regressive tax. In fact, of all taxes levied, only excise taxes are more regressive, though those taxes are just one-tenth the size of the Property Tax and their impact is less widespread.**
- **The property tax has the largest overall effective tax rate of all taxes at 4.84%. The effective tax rates of the other taxes are as follows.**
  - **Personal Income Tax: 3.86%**
  - **Sales and Use Tax: 1.70%**
  - **Excise Taxes: 0.47%**
  - **Gross Earnings Tax: 0.31%**

- **Corporation Business Tax: 0.13%**
- **Insurance Tax: 0.11%**
- **Gift and Estate Tax: 0.10%**
- **Real Estate Conveyance Tax: 0.05%**
- **Residential property owners pay two-thirds of the property tax, while 17.4% of the tax is shifted onto labor. Owners of motor vehicles pay 6.9% of the property tax.**

Click on this link for the complete DRS report -- <http://advocacy.ccm-ct.org/Resources.ashx?id=1e5e2638-8e93-44c7-89c9-b8e6a166f4e9>

According to the DRS report:

“Tax incidence is a method of analysis that examines the impact of taxation. This tax incidence report is concerned with the ultimate impact on Connecticut households. There are two guiding principles to understanding tax incidence. First, tax liability is not the same as tax incidence. Second, tax liabilities are shifted within Connecticut between businesses and consumers.”

“A household’s tax liability would be comprised of income, sales and property taxes, to name a few. A business’ tax liability would be comprised of taxes such as the corporation business tax, sales tax and property tax but, for pass-through entities, also the personal income tax. Households tend to bear the full impact of their tax liabilities. Businesses distribute their tax impact through consumer pricing, or workforce-related practices.”

**And here are key components of CCM’s call for meaningful property tax reform:**

- ✚ Hold harmless residential and business property taxpayers by **funding both statutorily and non-statutorily-set municipal aid, at least at current levels.**
- ✚ **Restore the groundbreaking shared-tax allocations** (state sales tax and state real estate conveyance tax) **to towns and cities from the Municipal Revenue Sharing Account**, which replaced critical MM&E funds, in order to provide local property tax relief.
- ✚ Increase funding to **fully reimburse municipalities for state-mandated property tax exemptions**, such as the payments-in-lieu-of-taxes programs for colleges and hospitals, state property, low- and moderate- income housing, and other exemptions.
- ✚ Enact meaningful mandates reform, including (a) a Constitutional amendment or statutory **prohibition against new unfunded and underfunded state mandates**, (b) ensuring **legislative oversight regarding draft changes to the Stormwater Sewer Systems (MS4 permit)**, (c) modifying the requirements for **posting legal notices in newspapers**, (c) modifying **state-mandated compulsory binding arbitration laws**, (d) amending the State’s **prevailing wage rate mandate**, (e) amending the **Municipal Employee Retirement System (MERS)**.
- ✚ Ensure that no new unfunded state mandates are enacted (e.g., **workers’ compensation mental stress benefits**).
- ✚ Correct state underfunding of regular education programs by (a) **increasing the ECS foundation level to reflect the actual cost educating students**. The ECS formula should reflect not only an

equitable funding mechanism, but an adequate one as identified in the *CCJEF v. Reil* lawsuit; (b) **increasing both the income and property wealth adjustment factors**, from 1.5 to 2.0, and weighing the factors equally; (c) **reforming the Minimum Budget Requirement (MBR)**; and (d) committing to **phasing-in full funding of the ECS grant** on an expedited schedule.

- ✚ Correct state underfunding of special education programs by (a) **the State eventually taking on 100 percent of special education costs** and (b) **adopting the federal standards pertaining to the “burden of proof”** for special education services.