

House Republican Press Release

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How About a Budget Without a Tax Hike?



By John Hetherington

While I continue to enjoy this job tremendously, I sometimes wish that I had better news to report from our State Capitol. Not that I expect all challenges to be resolved, which actually would make Hartford far less interesting, but now and then it appears that there are too many negatives to talk about and too few positives to pursue. In the last two weeks that has changed, at least with respect the budget.

Apparently grasping the proposition that you can't beat something with nothing, the scrappy Connecticut House Republicans have offered a detailed budget of their own. In contrast to the budget proposed by their beloved Governor Rell and the budget put forth by the majority Democrats, both of which would boost the income tax by at least 10%, the GOP plan calls for no tax increase at all. At the same time, the Republicans commit to maintaining all existing programs at no less than current funding while actually adding key initiatives.

The different budget proposals have significant consequences for us in New Canaan and Wilton. For example, in additional school aid for FY 2008, New Canaan receives \$616,893 (Wilton \$629,951) under Governor's budget and \$32,565 (Wilton \$33,574) under the Democrats' budget. Under the GOP's budget, New Canaan's share would rise by \$723,131 (Wilton \$906,586). On the tax side, under the Rell budget or that proposed by the Democrats New Canaan residents could expect to pay upwards of \$17 million more in income tax while Wilton residents would be looking at around another \$10 million. By the way, the Democrat's income tax increase is designed to be retroactive to January 1, 2007. Both Governor Rell and Republicans in the Legislature would phase out the estate tax and end the so-called cliff effect while the majority Democrats would keep the estate tax and raise the top rates.

The budget plan announced by the small Republican minority in fact would increase education money for every town and city in Connecticut. Also, there is a 3% cost-of-living increase for non-profit providers that furnish a variety of social services for the state, an increase of \$87 million in Medicaid rates for hospitals and \$50 million for other health care providers such as doctors and dentists. The teachers' retirement fund would be fully funded for the next two years and the rainy day reserve would stay in tact at over \$1 billion.

It is logical to ask how the minority would carry out its plan without increasing revenues. The answer is that revenues will increase, more than projected, just as they have for most of the last fourteen years. Except for the economic shock caused by 9/11, revenues have almost always been underestimated as Connecticut's wealth continues to grow. In fact, it now looks like we may end FY 2007 with a *surplus* of perhaps \$800 million. Aside from the puzzle of why we need to increase taxes when we are running a large surplus, the magnitude of that surplus itself illustrates how we have consistently low-balled our revenue projections. Adjusting those projections even cautiously brings new possibilities into view.

The majority Democrats have initially responded by claiming that their budget would lower taxes for the middle class. Under their plan, the income tax becomes sharply more progressive, with the marginal tax rate going to 6.95% in 2008. The increase would start to bite at \$79,700 for singles and \$150,000 for joint filers. You might save money below that if you own a home and qualify for the full \$500 tax credit. You might also save money if you don't buy clothes because the sales tax exemption for clothing costing less than \$50 would be gone. So would the sales tax exemption for funerals costing less than \$2,500, resulting in a kind of estate tax for poor people. An irony in eliminating these two sales tax exemptions is that the effect actually is to increase total taxes on the working poor that pay no state income tax. The car tax stays and the real estate conveyance tax becomes permanent. The levy on a pack of cigarettes goes up by 49 cents, not a bad thing if it discourages smoking but still a certain cost to one segment of the population. At the end of the day it becomes harder and harder to see the relief for the middle class.

I am frankly excited that our caucus is offering its own plan. At the very least it should start a useful dialogue and prompt good questions about the need for a massive tax increase. I urge you to learn more about the plan at www.housegop.ct.gov and to contact legislators to let them know your views. Like my colleagues on the Republican side of the aisle, I do not believe the most heavily taxed people in the nation need to be taxed even more. We need your support. We are trying to hold the pass and we have some Spartans, but we don't even number 300.