

NEWS

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IF NOT NOW, WHEN:

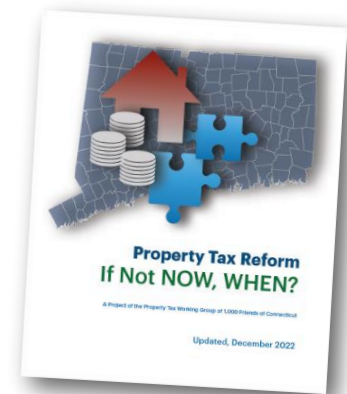
State's Fiscal Status is Perfect Opportunity to Reform Regressive, Inequitable Property Tax

Connecticut has a rare opportunity, in light of its robust annual budget surpluses and explosive revenue growth, to correct the greatest inadequacy and inequity in its tax structure: the longstanding overreliance on the local property tax.

Using that imperative as its launching point and with the start of the 2023 legislative session just weeks away, an updated comprehensive report, "Property Tax Reform – If Not NOW WHEN?", is being provided this week to the General Assembly and Lamont administration, and shared with the public.

Offered by a coalition of current and former elected and fiscal officials, it is an updated plan to overhaul Connecticut's property tax system that undermines economic growth, is regressive, lacks equity, and is inefficient.

The detailed 40-page report calls on legislators and Gov. Ned Lamont to correct the serious flaws associated with this tax, which now constitutes the major source of funding for municipalities, and makes up 43.2% of the total tax burden for Connecticut residents, more than the personal income tax, sales tax, corporation tax and excise tax.



Funding Necessary Reforms is Achievable Now

Written by the Property Tax Working Group as a project of 1000 Friends of Connecticut, a nonprofit advocacy organization, the report emphasizes that new state revenue is not essential to implement property tax reform because there is more than sufficient surplus revenue generated by the state's revenue system and budget allocations to completely fund the reform package.

It warns that if Connecticut fails to correct the inequities in the system, the state will continue down a path of widely disparate educational opportunity, fractured and inefficient delivery of needed services, hollowed out cities, widening racial and economic disparities, sprawling suburbs, fleeing businesses and an out-migration of talent.

"Our report draws on two decades of bipartisan, blue-ribbon analyses, every one of which concludes that the property tax system in Connecticut is detrimental to our economic competitiveness, increases housing costs to the breaking point, and pressures towns to curtail services that residents need," said Bill Cibes, a former state budget director and legislator. "It weighs most heavily on low- and moderate-income residents. We have an opportunity in this

legislative session to cure many of its defects, and rebalance the revenue system to reduce the disproportionate share of the total tax burden which property taxes constitute.”

Recent data highlighted in the report reflects that municipalities in Connecticut realized an average of 71.8% of their revenues from the local property tax (FY2020), and as a percentage of state-local revenue, the property tax is the third highest in the nation (2018).

Rebalancing Brings Multiple Long-Term Benefits

The report calls on officials to “choose real change, with long-term benefits – not gimmicks,” and makes a distinction between property tax relief and rebalancing the tax structure, stating that the latter is what’s needed.

Relief means lessening the financial weight of property tax payments made by families by reducing those payments. Rebalancing means reducing the burden of property taxes by changing the structure of the state-local fiscal relationship so that municipalities need to rely less on property taxes to pay for essential needs.

The report calls for immediate action to respond to two fundamental flaws in Connecticut’s property tax system:

- *Horizontal inequity*: owners of property with similar values are taxed at different rates depending on which town they live in, and owners paying similar tax rates receive widely different services.
- *Vertical inequity*: low and moderate-income households are subjected to far higher effective property tax rates than high-income households.”


In addition to fixing the structural inequities, the “Framework for Property Tax Reform” includes recommendations to close the needs-capacity gap for municipalities, close the cost-capacity gap for education, and commit to regional and collaborative solutions for the delivery of state and local services. The report also recommends providing policymakers with up-to-date facts and independent nonpartisan analyses, which has consistently been lacking in Connecticut.

Ending Overreliance on Property Tax is Essential for Municipalities

The report explains that rebalancing Connecticut’s tax system will encourage a robust economy fueled by increased demand for goods and services by low- and moderate-income families; effective local government; strong communities; and a healthy environment.

The report also points out that high property taxes on businesses in high property tax towns make interstate and international businesses less competitive and tend to spur the relocation of businesses and jobs to lower property tax states. Thus, the overreliance on the property tax fosters the fragmentation of services and discourages municipalities from thinking beyond their borders to act regionally or in a shared approach.

“Our report urges state policymakers to deploy a significant portion of the state’s budget surpluses to restructure Connecticut’s excessive reliance on regressive property taxes in our state-local fiscal relationship with the same robust commitment that used these surpluses over the last four years to restructure the state’s pension debt structure,” said former Norwalk Mayor




REBALANCING THE PROPERTY TAX SYSTEM TO CORRECT THE CURRENT INEQUITIES WILL REQUIRE SIGNIFICANT CHANGES TO THE WAY THE STATE CONTRIBUTES TO THE FINANCIAL WELLBEING OF CITIES AND TOWNS.

and legislator Alex Knopp. “Just as these pension debt prepayments saved state taxpayers millions of dollars, reforming the state-local budget relationship to reduce or eliminate local property tax payments for programs like special education or unfunded payments-in-lieu-of-taxes can rescue local taxpayers from their unfair tax burdens.”

Structural Reform is an Attainable Objective

The report details that the cost to reform the property tax system and correct the needs-capacity gap and the cost-capacity is in excess of \$1 billion annually. That is money which the report’s authors assert “can be found within the state’s existing budget and revenue framework.”

The report’s authors conclude that restructuring the state’s property tax system for 2023-24 should be viewed as analogous to the successful program enacted by policymakers in 2017-18 to restructure Connecticut’s pension debt.



“THERE IS MORE THAN
SUFFICIENT SURPLUS
REVENUE...”

The report references the 2021 Connecticut CREATES Report commissioned by Gov. Lamont which states that there may be as much as \$1.1 billion in revenue owed to the state that is not now being collected. The Department of Revenue Services recognizes that additional revenue can be generated simply by increasing its audit rate to the average rate in most other states, in part by hiring additional auditors who each can generate about \$2 million per year.

Education is cited in the report as among the essential municipal services adversely impacted by the overreliance on property taxes, pointing out that many communities are not able to raise enough revenue from property taxes to support their schools or services, and “cannot raise mill rates so high to where the town becomes an unaffordable place to live or own a business.”

“It is long past time for Connecticut to come to grips with the harm to taxpayers, municipalities, the environment and our state’s future resulting from the property tax,” said John Filchak, lead author as a member of the Property Tax Working Group. “We have an opportunity, right now, to correct our property tax system with comprehensive reform. If we miss this opportunity, we will continue to unfairly overburden taxpayers, harm our cities and towns, and inhibit our prospects for sustainable economic growth.”

To see the full list of individuals participating in 1000 Friends of CT Property Tax Working Group, please go to: www taxpolicyct.org.