



NFIB
304 W. Main St., #205
Avon, CT 06001
NFIB.com/CT

**TESTIMONY OF
NATIONAL FEDERATION OF INDEPENDENT BUSINESS (NFIB)
SUPPORTING
HB-5549, AA RESTORING THE RATE OF THE CREDIT AGAINST THE AFFECTED BUSINESS
ENTITY TAX
FINANCE, REVENUE & BONDING COMMITTEE
FEBRUARY 26, 2025**

NFIB is the leading small business association in the nation with thousands of members in Connecticut representing a cross-section of the state's economy. For more than 75 years, NFIB has been advocating on behalf of America's small and independent business owners, both in Washington, D.C., and in all 50 state capitals. NFIB is nonprofit, nonpartisan, and member-driven. Since our founding in 1943, NFIB has been exclusively dedicated to small and independent businesses and remains so today. On behalf of those small- and independent- job-providers here in Connecticut, NFIB offers the following comments:

NFIB strongly supports HB-5549 because this legislation would provide for a restoration of the credit against the state's Pass-through Entity Tax (PET) back to the "full" value of 93.01%, as it was originally designed and established upon passage of Public Act 18-49, rather than the current 87.5% credit. Thank you to the leadership of the Finance Committee for the opportunity to hear and consider this important pro-small business revenue provision.

When the PET was originally proposed, it was intended to be a rather novel tax policy at the time. It was ultimately deemed permissible by the Department of Treasury and the IRS and subsequently emulated by many states, as tax policy that assisted a majority of small business owners who are set up as pass-through entities with the problems resulting from the \$10,000 deduction limit for state and local taxes (the "SALT" cap) imposed under federal tax reform passed by Congress (the 2017 "TCJA"). When originally proposed and passed in 2018, the PET's intended impact on the state budget was essentially revenue neutral – because the new 6.99% PET was offset by the 93.01% tax credit. This PET and attendant offsetting credit simply allowed the state to assess and collect the personal income tax liability of pass-through business owners through their legal business entity, rather than individually, in response to the "SALT" cap. After changes were made to reduce the offsetting credit to the current rate of 87.5% in 2019, however, the net effect of the PET was no longer revenue neutral and instead represented a revenue gain to the state of approximately \$50 million annually – essentially a tax "increase" or perhaps considered a "double taxation" on a portion of the state income of certain small business owners organized as pass-through entities. Restoration of the full PET credit would allow for the tax treatment of affected small business owners to be in line with the PET's original intent.

Thank you for the opportunity to comment and for your consideration of NFIB's support for the full restoration of the pass through entity tax credit. For any questions or additional information, please contact Andy Markowski, NFIB's State Director in Connecticut.