

The State of Small Business: Connecticut

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Joseph J. Cherico

Small business owners in Connecticut say there are both pros and cons of doing business in the state. On one hand, they enjoy a close proximity to major cities such as New York and Boston, as well as access to a highly skilled workforce and a favorable labor market. Perhaps most important, entrepreneurs in Connecticut operate alongside the wealthiest population in the nation: Connecticut's per capita personal income in 2015 was nearly \$20,000 higher than the national average. While the cost of living is significant, the per capita personal income is so elevated that, in many areas, people hold more disposable income, which often means more patronage for small businesses.

Favorable labor market

Connecticut has a slightly higher-than-average unemployment rate, and it's been rising for the past several months, according to the U.S. Bureau of Labor Statistics. As of March 2016, the rate stood at 5.7 percent. In part because of growth in the state's labor force, the labor market is particularly favorable to entrepreneurs looking to fill open positions. Employment has consistently grown along with the labor force, but so has unemployment. This trend has created competition for open positions and allows small business owners to be selective during the hiring process. "Businesses across the state can recruit highly qualified employees from a number of top-level universities located here," said Joseph Cherico, managing partner at law firm McCarter & English Stamford branch. "And employees still find Connecticut to be a desirable place to live."

High taxes

Most of the Connecticut small business owners we spoke with complained of high taxes. Coupled with the already-high cost of living, the elevated taxes make it difficult for many entrepreneurs to turn a profit. The state maintains a six-tiered progressive income tax rate that tops out at 6.99 percent, a flat corporate income tax rate of 9 percent, a 6.35 percent sales tax and property taxes that vary from municipality to municipality. "There are some challenges, but also a recognition by the executive and legislative branches that a commerce-friendly landscape for small businesses is important to the state's overall economy," Cherico said. "Along with that recognition is the motivation to take steps to create an environment in which small businesses can succeed."

Slow economic growth

Connecticut has experienced extremely sluggish economic growth since the 2008 financial crisis. In 2014, the state's economy grew

by just 1 percent. Even compared to the national economy's 2.2 percent growth, Connecticut is falling short of expectations. Over the past 10 years, the state's compound annual growth rate was just 0.1 percent, according to the BEA. Moreover, entrepreneurs and professionals are concerned about the state government's looming deficit, which is generating uncertainty throughout the business community.

"As are many states, Connecticut is still recovering from the 2008 recession," Cherico said. "The governor and state legislature are working to close a nearly \$1 billion gap in the budget for the fiscal year that begins July 1, with much larger deficits looming two and three years out."