

**Testimony of Sarah White,
Connecticut Co-Chair of the National Association of Consumer Advocates,
in Opposition to Imposing Sales Tax on Legal Services, SB 877**

My name is Sarah White, and I am an attorney and the Connecticut Co-Chair of the National Association of Consumer Advocates (NACA). NACA is a national, non-profit association of attorneys and consumer advocates committed to promoting justice for consumers. Connecticut NACA members assist consumers on a range of legal issues, such as abusive sales and collection practices, racial discrimination in lending, and inaccurate credit reporting that keeps consumers from getting a new home or job. We make a difference in our clients' lives and serve the public interest by redressing unfair practices likely to harm many in Connecticut.

We are concerned that a sales tax on legal services will impact consumers' ability to retain counsel and bring cases to redress harmful business practices and civil rights violations. Nearly all consumer protection and civil rights statutes provide for fee-shifting, meaning the other side has to pay the consumer's attorney's fees if they win. The public policy behind fee-shifting is to encourage litigation that's in the public interest but may not otherwise be financially viable. This is accomplished by enabling lawyers to take cases where the client can't afford to pay or where the amount of money the consumer is likely to receive is disproportionate to the time and resources the lawyer will need to expend to obtain it.

For example, a consumer may receive meaningful, non-monetary relief (like the cancellation of debt, resolution of a foreclosure, or correction of a credit report) but only a few thousand dollars as a monetary settlement. Because of fee-shifting statutes, the defendant has to pay the consumer's attorney for the work put into the case, an amount that may be larger than the consumer's cash settlement (e.g. \$2,000 for the consumer and \$18,000 for attorney's fees).

A sales tax on legal services would have a chilling effect on consumer protection and civil rights litigation because the consumer would be responsible for paying sales tax on the attorney's fee award, regardless of how little money the consumer actually received. In the example above, the sales tax on attorney's fees would be around \$1,100, more than half of what the consumer got. Because fee-shifting statutes, by design, permit attorney's fees awards based on the actual work put into the case, not the amount of money the consumer receives, **a sales tax on legal services may even create tax liability in excess of the consumer's recovery, which our low- and moderate-income clients would struggle to pay.**

The proposed sales taxes on legal services is counter-productive in that it would **discourage consumers from bringing consumer protection or civil rights cases**, since even a successful case might leave them with nothing (or in the hole) because of their tax liability. **The tax would harm the public at large**, since it would discourage litigation in the public interest to redress societal ills such as unlawful discrimination and abusive business practices. **It would also unfairly penalize a consumer** (through increased sales tax liability) for a defendant's unwillingness to timely resolve a meritorious claim or use of aggressive litigation tactics that increase the amount of work for the consumer's attorney. I therefore urge you not to impose a sales tax on legal services that would harm consumers' ability to seek justice.