



House of Representatives

General Assembly

File No. 120

January Session, 2001

Substitute House Bill No. 5005

House of Representatives, April 3, 2001

The Committee on Commerce reported through REP. SAMOWITZ of the 129th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING CORPORATION TAX CREDITS FOR EDUCATIONAL TAX SCHOLARSHIPS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 (NEW) (a) As used in this section, "business firm" means any
2 business entity authorized to do business in this state and subject to
3 the corporation business tax imposed under chapter 208 of the general
4 statutes, any company subject to a tax imposed under chapter 207 of
5 the general statutes, any air carrier subject to the air carriers tax
6 imposed under chapter 209 of the general statutes, any railroad
7 company subject to the railroad companies tax imposed under chapter
8 210 of the general statutes, any regulated telecommunications service,
9 express, telegraph, cable or community antenna television company
10 subject to the regulated telecommunications service, express,
11 telegraph, cable and community antenna television companies tax
12 imposed under chapter 211 of the general statutes or any utility
13 company subject to the utility companies tax imposed under chapter
14 212 of the general statutes.

15 (b) There shall be allowed as a credit against the tax imposed by
16 chapter 207, 208, 209, 210, 211 or 212 of the general statutes in any
17 income year an amount equal to the amount paid during such income
18 year by a business firm into a revolving loan fund established to
19 provide loans for scholarships to students for study on a full-time or
20 part-time basis at any public or private institution of higher learning
21 within the state approved or accredited by the Board of Governors of
22 Higher Education or by the State Board of Education for
23 postsecondary study.

24 (c) The Board of Governors of Higher Education shall adopt
25 regulations, in accordance with the provisions of chapter 54 of the
26 general statutes, for establishment and operation of revolving loan
27 funds eligible for the credit provided in this section. Such regulations
28 shall (1) establish standards for student eligibility, (2) specify expenses
29 for which loans may be made, (3) provide documentation and
30 procedures necessary for a business firm to qualify for the tax credit,
31 and (4) include provisions for evaluation of programs offered by such
32 business firms for mentoring, internships and summer employment
33 for high school and college students.

34 (d) Any business firm claiming the credit allowed by this section
35 shall submit documentation to the Commissioner of Revenue Services
36 that the revolving loan fund complies with regulations for revolving
37 loan funds established by the board pursuant to subsection (c) of this
38 section.

39 (e) Nothing in this section shall be construed to prevent two or more
40 business firms from participating jointly in one or more programs
41 under the provisions of this section. Such joint programs shall be
42 submitted, and acted upon, as a single program by the business firms
43 involved.

44 (f) Any business firm which desires to apply for the credit allowed
45 by this section shall submit the documentation required under

46 subsection (d) of this section to the board on or before November first
47 of each year. The Board of Governors of Higher Education shall
48 randomly select from among all qualified business firms, those firms
49 allowed said credit. The credit shall be claimed on the tax return for
50 the income year during which the selected business firm made
51 payment into the revolving loan fund. The sum of all tax credits
52 granted pursuant to the provisions of this section shall not exceed one
53 hundred thousand dollars annually per business firm. In no event shall
54 the total amount of all tax credits allowed to all business firms
55 pursuant to the provisions of this section exceed one million dollars in
56 any one fiscal year.

57 (g) No tax credit shall be granted to any bank, bank and trust
58 company, insurance company, trust company, national bank, savings
59 association or building and loan association or any other business
60 entity for activities that are a part of its normal course of business.

61 (h) Any tax credit not used in the period during which the
62 investment was made may be carried forward or backward for the five
63 immediately succeeding or preceding income years until the full credit
64 has been allowed. For income years commencing on or after January 1,
65 2005, if the board determines that sixty per cent or more of a revolving
66 loan fund has not been loaned as provided in this section by a business
67 firm on or before the date that is three years after the date that a
68 revolving loan fund is established pursuant to this section by such
69 business firm, the board of governors shall notify such firm and the
70 Commissioner of Revenue Services that the authority has determined
71 that sixty per cent or more of the fund has not been loaned as provided
72 in this section, and such firm shall be required to recapture the credits
73 previously granted under this section, to the extent provided for in
74 regulations adopted under chapter 54 of the general statutes, on the
75 first tax return required to be filed on or after the date of such notice
76 for a tax imposed by chapter 207, 208, 209, 210, 211 or 212 of the
77 general statutes. If any amount of such recaptured credit has not been

78 paid to the commissioner on or before the due date of such return,
79 such amount shall bear interest at the rate of one per cent per month or
80 fraction thereof from such due date to the date of payment.

Statement of Legislative Commissioners:

In subsection (c) "and" was deleted before "(3)" and the phrase ", and (4) include provisions for" replaced "which shall include" for clarity, and in subsection (h) the reference to repealed chapter "210a" was deleted and "211" inserted for consistency with subsections (a) and (b) and the "board of governors" replaced the "authority" for accuracy of reference.

CE ***JOINT FAVORABLE SUBST.-LCO***

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact: Revenue Loss, Cost

Affected Agencies: Departments of Higher Education and Revenue Services

Municipal Impact: None

Explanation

State Impact:

Passage of the bill would result in a General Fund revenue loss of up to \$1 million per year (the bill caps the total amount of the credits that can be claimed annually at \$1 million). It should be noted that the bill does not specify the first income year that businesses are permitted to claim the credit. Therefore, it is unclear whether the state would experience a revenue loss in FY 02.

Businesses that establish revolving loan funds for student scholarships as described in the bill, must apply to Department of Higher Education (DHE) for the tax credits. According to the bill, DHE is responsible for the administration of the program, which includes the development of regulations, the evaluation of businesses, the selection of eligible applicants, the awarding of credits and the recapture of credits for those businesses that fail to meet the program's requirements. To the extent that a significant number of businesses seek to take advantage of this opportunity, passage of the bill would

result in a cost of \$100,000 to \$200,000 for DHE. These funds are not currently included in the agency's budget. It is anticipated that the development and maintenance of such a program would initially require 2 to 3 additional staff.

While DHE has a budget of over \$50 million, 95% of the budget is currently dedicated to various financial aid and grant programs including the Minority Advancement Program, the Minority Teacher Incentive Program, the Capitol Scholarship Program, the Connecticut Independent College Student Grant Program and the Connecticut Aid for Public College Students Grant Program.

OLR BILL ANALYSIS

sHB 5005

AN ACT CONCERNING CORPORATION TAX CREDITS FOR EDUCATIONAL TAX SCHOLARSHIPS.

SUMMARY:

This bill authorizes up to \$1 million per year in tax credits for businesses that pay into revolving loan funds for student scholarships. Individual businesses can claim credits for payments up to \$100,000 each year. The funds must lend the money to students attending state-approved Connecticut public and private institutes of higher learning.

Businesses must apply to the Board of Governors of Higher Education (BGHE) for the credits. The bill specifies the requirements for obtaining credits and the conditions under which the state can reclaim them. The BGHE must award credits to eligible applicants by selecting them at random.

EFFECTIVE DATE: October 1, 2001

STUDENT SCHOLARSHIP REVOLVING LOAN FUNDS

The bill authorizes business tax credits for businesses that pay into revolving loan funds for student scholarships. Businesses must lend the money to full- or part-time students attending public or private institutes of higher learning in Connecticut that were approved or certified by the BGHE or the State Board of Education. Businesses must apply to the BGHE for the credits.

The BGHE must adopt regulations specifying how organizations can establish and operate the revolving funds. The regulations must specify:

1. standards for determining if a student qualifies for a loan;
2. how students can spend the loan funds;

3. the procedures businesses must follow to qualify for a credit;
4. documents needed to show this; and
5. how the BGHE will evaluate businesses' mentoring, internship, and summer employment programs for high school and college students.

Two or more businesses can jointly contribute to one or more funds, but the board must treat them as a single fund.

CREDIT LIMITS

The bill places annual caps on credit amounts. A business qualifies for a credit equal to the amount it pays annually into the fund up to \$100,000. The bill caps the total amount available annually for all businesses at \$1 million.

ELIGIBLE BUSINESSES

The credits are available to businesses paying the following taxes: corporate business; insurance companies, hospitals, medical services corporations; air carriers; railroad companies; regulated telecommunications services, express, telegraph, cable, and community antenna television companies; and utilities.

No business can claim credits for scholarship loans it makes as part of normal business activities. This exclusion explicitly applies to banks, national banks, bank and trust companies, insurance companies, trust companies, savings associations, building and loan associations.

OBTAINING CREDITS

Businesses must apply to the BGHE for credits by November 1 annually. They must submit the required documents to it and the revenue services commissioner. The BGHE must identify the eligible applicants and award credits to those it randomly selects from this group.

These businesses must claim their credits on the returns they file for the income year during which they made payments to revolving funds. Businesses can carry unused credits forward or backward for the five immediately succeeding or preceding years until they use up the full credit amount.

RECAPTURE

The bill requires the commissioner to “recapture” the credits to the extent the BGHE’s regulations require. A business that fails to lend at least 60% of the fund within three years after establishing it must add the recaptured amount to its tax liability on its next tax return. It must pay interest at 1% per month on the amount due if it fails to do so.

The BGHE must notify the business and the commissioner about this requirement, which it must begin to enforce on income years beginning on or after January 1, 2005.

COMMITTEE ACTION

Commerce Committee

Joint Favorable Report
Yea 24 Nay 2