



House of Representatives

General Assembly

File No. 569

January Session, 2003

Substitute House Bill No. 6624

House of Representatives, April 29, 2003

The Committee on Finance, Revenue and Bonding reported through REP. STILLMAN of the 38th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING VARIOUS TAXES ADMINISTERED BY THE DEPARTMENT OF REVENUE SERVICES.

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

1 Section 1. Subsection (b) of section 12-39t of the general statutes is
2 repealed and the following is substituted in lieu thereof (*Effective from*
3 *passage*):

4 (b) In any case under Title 11 of the United States Code,
5 commencing on or after [October 1, 1999] July 1, 2003, the running of
6 any period of time specified in this title for the Commissioner of
7 Revenue Services to make an assessment shall be suspended for the
8 time period during which [the commissioner is prohibited by reason of
9 such case from making such assessment] such case is pending under
10 said Title 11 and for [sixty] one hundred twenty days thereafter.

11 Sec. 2. Section 12-217j of the general statutes is repealed and the
12 following is substituted in lieu thereof (*Effective from passage*):

13 (a) There shall be allowed as a credit against the tax imposed on any
14 corporation under this chapter, [(1)] with respect to income years of
15 such corporation commencing on or after [January 1, 1993, and prior
16 to] January 1, 1994, an amount equal to [ten] twenty per cent of the
17 amount spent by such corporation directly on research and
18 experimental expenditures, as defined in Section 174 of the Internal
19 Revenue Code of 1986, or any subsequent corresponding internal
20 revenue code of the United States, as from time to time amended,
21 which are conducted in this state and which exceeds the amount spent
22 by such corporation during the preceding [taxable] income year of
23 such corporation for such expenditures. [and (2) with respect to any
24 taxable year of such corporation commencing on or after January 1,
25 1994, an amount equal to twenty per cent of the amount spent by such
26 corporation on such expenditures which exceeds the amount spent by
27 such corporation during the preceding taxable year of such
28 corporation for such expenditures. A]

29 (b) (1) With respect to any income year commencing on or after
30 January 1, 2000, a credit or any portion of a credit that is allowed under
31 this section [, with respect to any taxable year commencing on or after
32 January 1, 2000,] but that is not used by a taxpayer because the amount
33 of the credit exceeds the tax due and owing by the taxpayer shall be
34 carried forward to each of the successive income years until such
35 credit, or applicable portion of the credit, is fully taken. In no case shall
36 a credit, or any portion of a credit, that is not used by a taxpayer be
37 carried forward for a period of more than fifteen years.

38 (2) (A) With respect to any income year commencing on or after
39 January 1, 1997, and prior to January 1, 2000, a credit or any portion of
40 a credit that is allowed under this section but that is not used by a
41 biotechnology company because the amount of the credit exceeds the
42 tax due and owing by the taxpayer shall be carried forward to each of
43 the successive income years until such credit, or applicable portion of
44 the credit, is fully taken. In no case shall a credit, or any portion of a
45 credit, that is not used by a biotechnology company be carried forward
46 for a period of more than fifteen years.

47 (B) For purposes of this subsection, "biotechnology company" means
48 a company engaged in the business of applying technologies, such as
49 recombinant DNA techniques, biochemistry, molecular and cellular
50 biology, genetics and genetic engineering, biological cell fusion
51 techniques, and new bioprocesses, using living organisms, or parts of
52 organisms, to produce or modify products, to improve plants or
53 animals, to develop microorganisms for specific uses, to identify
54 targets for small molecule pharmaceutical development, or to
55 transform biological systems into useful processes and products.

56 Sec. 3. Subsection (b) of section 12-285 of the general statutes is
57 repealed and the following is substituted in lieu thereof (*Effective*
58 *January 1, 2002*):

59 (b) For the purposes of part I and part II only of this chapter:

60 (1) "Cigarette" means and includes [(A)] any roll for smoking made
61 wholly or in part of tobacco, irrespective of size or shape and
62 irrespective of whether the tobacco is flavored, adulterated or mixed
63 with any other ingredient, where such roll has a wrapper or cover
64 made of paper or any other material, except where such wrapper is
65 wholly or in the greater part made of tobacco and such roll weighs
66 over three pounds per thousand, provided, if any roll for smoking has
67 a wrapper made of homogenized tobacco or natural leaf tobacco, and
68 the roll is a cigarette size so that it weighs three pounds or less per
69 thousand, such roll is a cigarette and subject to the tax imposed by part
70 I and part II of this chapter; and [(B) each nine one-hundredths of an
71 ounce of roll-your-own tobacco;]

72 (2) "Unstamped cigarette" means any package of cigarettes to which
73 the proper amount of Connecticut cigarette tax stamps have not been
74 affixed. [; and

75 (3) "Roll-your-own tobacco" means any tobacco which, because of its
76 appearance, type, packaging or labeling, is suitable for use and likely
77 to be offered to, or purchased by, consumers as tobacco for making
78 cigarettes.]

79 Sec. 4. Section 12-292 of the general statutes is repealed and the
80 following is substituted in lieu thereof (*Effective July 1, 2003*):

81 Any written advertisement in this state for the sale of untaxed
82 cigarettes for use and consumption in this state shall contain the
83 following words [.] in not less than fourteen point reverse type in block
84 form: "These cigarettes are subject to the payment of the Connecticut
85 cigarette use tax and the Connecticut use tax and may be subject to
86 seizure as contraband goods." In the case of any such advertisement
87 being announced verbally, such announcement shall be immediately
88 followed by the words above enclosed in quotation marks. Any person
89 engaged in the business of selling cigarettes, whether or not issued a
90 license by the commissioner under the provisions of this part, violating
91 the provisions of this section shall be fined five hundred dollars for
92 each offense.

93 Sec. 5. Section 12-294 of the general statutes is repealed and the
94 following is substituted in lieu thereof (*Effective July 1, 2003*):

95 (a) If a distributor or dealer removes his or her business from one
96 location to another during the period in which the license is in force,
97 the commissioner shall transfer the license to the new location without
98 an additional fee.

99 (b) (1) If any distributor liable for any amount due under this
100 chapter sells out his or her business or stock of goods or quits the
101 business, such distributor's successors or assigns shall withhold a
102 sufficient amount of the purchase price to pay the amount due under
103 this chapter from the distributor until the distributor provides to such
104 successor or assignee a receipt from the commissioner showing that
105 such amount has been paid or a certificate stating that no amount is
106 due.

107 (2) If any such successor or assignee fails to withhold the purchase
108 price as required, such successor or assignee shall be personally liable
109 for the payment of the amount required to be withheld by such
110 successor or assignee to the extent of the purchase price, valued in

111 money.

112 (c) (1) No later than the sixtieth day after the latest of the dates
113 specified in subdivision (2) of this subsection, the commissioner shall
114 either issue the certificate stating that no amount is due or mail notice
115 of the amount that must be paid as a condition of issuing the
116 certificate. Such notice shall be mailed to such successor or assignee at
117 such successor's or assignee's address as it appears on the records of
118 the commissioner.

119 (2) For purposes of subdivision (1) of this subsection, the latest of
120 the following dates shall apply: (A) The date the commissioner
121 receives a written request from the successor or assignee for a
122 certificate; (B) the date of the sale of the business or stock of goods; or
123 (C) the date the former owner's records are made available for audit.

124 (d) Failure of the commissioner to mail the notice referred to in
125 subsection (c) of this section shall release the successor or assignee
126 from any further obligation to withhold the purchase price as provided
127 in subsection (b) of this section. The period within which the obligation
128 of the successor or assignee may be enforced shall commence on the
129 date the person sells out his or her business or stock of goods or quits
130 the business or on the date that the assessment against such person
131 becomes final, whichever event occurs later, and shall end three years
132 after such date.

133 (e) The certificate provided for in subsection (c) of this section may
134 be issued after the payment of all amounts due under this chapter,
135 according to the records of the department as of the date of the
136 certificate, or after the payment of the amounts is secured to the
137 satisfaction of the commissioner.

138 (f) The obligation of the successor or assignee shall be enforced by
139 servicing a notice of successor liability on the successor or assignee. The
140 notice shall be served in the manner prescribed under section 12-309
141 for service of a notice of assessment, not later than three years after the
142 date the commissioner is notified by the successor or assignee of the

143 purchase of the business or stock of goods. The successor or assignee
144 may protest the assessment in the manner provided in section 12-311.
145 Sixty days after the date on which a notice of assessment is mailed, an
146 assessment shall become final except for any amount as to which the
147 successor or assignee has filed a written protest with the
148 commissioner, as provided in section 12-311.

149 Sec. 6. Section 12-330a of the general statutes is repealed and the
150 following is substituted in lieu thereof (*Effective January 1, 2002*):

151 As used in this chapter: (1) "Commissioner" means the
152 Commissioner of Revenue Services; (2) "tobacco products" means
153 cigars, cheroots, stogies, periques, granulated, plug cut, crimp cut,
154 ready rubbed and other smoking tobacco, snuff tobacco products,
155 cavendish, plug and twist tobacco, fine cut and other chewing
156 tobaccos, shorts, refuse scraps, clippings, cuttings and sweepings of
157 tobacco and all other kinds and forms of tobacco, prepared in such
158 manner as to be suitable for chewing or smoking in a pipe or otherwise
159 or for both chewing and smoking, but shall not include any cigarette,
160 as defined in section 12-285, as amended by this act; [or any roll-your-
161 own tobacco, as defined in section 12-285;] (3) "distributor" means (A)
162 any person in this state engaged in the business of manufacturing
163 tobacco products, (B) any person who purchases tobacco products at
164 wholesale from manufacturers or other distributors for sale, or (C) any
165 person who imports into this state tobacco products, at least seventy-
166 five per cent of which are to be sold; (4) "unclassified importer" means
167 any person, other than a distributor, who imports, receives or acquires
168 tobacco products from outside this state for use or consumption in this
169 state; (5) "sale" or "sell" includes or applies to gifts, exchanges and
170 barter; (6) "wholesale sales price" means, in the case of a manufacturer
171 of tobacco products, the price set for such products or, if no price has
172 been set, the wholesale value of such products, and, in the case of a
173 distributor who is not a manufacturer of tobacco products, the price at
174 which the distributor purchased such products, and, in the case of an
175 unclassified importer of tobacco products, the price at which the
176 unclassified importer purchased such products; and (7) "snuff tobacco

177 products" means only those snuff tobacco products that have
178 imprinted on the packages the designation "snuff" or "snuff flour", or
179 the federal tax designation "Tax Class M", or both.

180 Sec. 7. Subdivision (5) of section 12-410 of the general statutes is
181 repealed and the following is substituted in lieu thereof (*Effective*
182 *October 1, 2003, and applicable to sales occurring on or after said date*):

183 (5) (A) For the purpose of the proper administration of this chapter
184 and to prevent evasion of the sales tax, a sale of any service described
185 in subparagraph (I) of subdivision (2) of subsection (a) of section 12-
186 407 shall be considered a sale for resale only if the service to be resold
187 is an integral, inseparable component part of a service described in
188 said subparagraph (I) which is to be subsequently sold by the
189 purchaser to an ultimate consumer. The purchaser of the service for
190 resale shall maintain, in such form as the commissioner requires,
191 records which substantiate: ~~[(A)]~~ (i) From whom the service was
192 purchased and to whom the service was sold, ~~[(B)]~~ (ii) the purchase
193 price of the service, and ~~[(C)]~~ (iii) the nature of the service to
194 demonstrate that the services were an integral, inseparable component
195 part of a service described in subparagraph (I) of subdivision (2) of
196 subsection (a) of section 12-407 which was subsequently sold to a
197 consumer.

198 (B) Notwithstanding the provisions of subparagraph (A) of this
199 subdivision, no sale of a service described in subparagraph (I) of
200 subdivision (2) of subsection (a) of section 12-407 by a seller shall be
201 considered a sale for resale if such service is to be subsequently sold by
202 the purchaser to an ultimate consumer that is affiliated with the
203 purchaser in the manner described in subparagraph (A) of subdivision
204 (62) of subsection (a) of section 12-412.

205 (6) For the purpose of the proper administration of this chapter and
206 to prevent evasion of the sales tax, no sale of any service by a seller
207 shall be considered a sale for resale if such service is to be
208 subsequently sold by the purchaser, without change, to an ultimate
209 consumer that is affiliated with the purchaser in the manner described

210 in subparagraph (A) of subdivision (62) of subsection (a) of section 12-
211 412.

212 Sec. 8. Subdivision (14) of section 12-411 of the general statutes is
213 repealed and the following is substituted in lieu thereof (*Effective*
214 *October 1, 2003, and applicable to purchases occurring on or after said date*):

215 (14) (A) For the purpose of the proper administration of this
216 chapter and to prevent evasion of the use tax, a purchase of any service
217 described in subparagraph (I) of subdivision (2) of subsection (a) of
218 section 12-407 shall be considered a [sale] purchase for resale only if
219 the service to be resold is an integral, inseparable component part of a
220 service described in said subparagraph (I) which is to be subsequently
221 sold by the purchaser to an ultimate consumer. The purchaser of the
222 service for resale shall maintain, in such form as the commissioner
223 requires, records which substantiate: [(A)] (i) From whom the service
224 was purchased and to whom the service was sold; [(B)] (ii) the
225 purchase price of the service; and [(C)] (iii) the nature of the service to
226 demonstrate that the service was an integral, inseparable component
227 part of a service described in subparagraph (I) of subdivision (2) of
228 subsection (a) of section 12-407 which was subsequently sold to a
229 consumer.

230 (B) Notwithstanding the provisions of subparagraph (A) of this
231 subdivision, no purchase of a service described in subparagraph (I) of
232 subdivision (2) of subsection (a) of section 12-407 by a purchaser shall
233 be considered a purchase for resale if such service is to be
234 subsequently sold by the purchaser to an ultimate consumer that is
235 affiliated with the purchaser in the manner described in subparagraph
236 (A) of subdivision (62) of subsection (a) of section 12-412.

237 (15) For the purpose of the proper administration of this chapter
238 and to prevent evasion of the use tax, no purchase of any service by a
239 purchaser shall be considered a purchase for resale if such service is to
240 be subsequently sold by the purchaser, without change, to an ultimate
241 consumer that is affiliated with the purchaser in the manner described
242 in subparagraph (A) of subdivision (62) of subsection (a) of section 12-

243 412.

244 Sec. 9. Subdivision (40) of section 12-412 of the general statutes is
245 repealed and the following is substituted in lieu thereof (*Effective*
246 *October 1, 2003, and applicable to sales occurring on or after said date*):

247 (40) (A) Sales of and the storage, use or other consumption of any
248 vessel [, as defined in section 15-127, used] exclusively for use in
249 commercial fishing and any machinery or equipment exclusively for
250 use on a commercial fishing vessel by a fisherman engaged in
251 commercial fishing as a trade or business and to whom the
252 Department of Revenue Services has issued a fisherman tax exemption
253 permit, provided [in the purchaser's taxable year ending immediately
254 preceding the taxable year during which any such sale, storage, use or
255 other consumption occurred] (i) for the immediately preceding taxable
256 year, or (ii) on average, for the two immediately preceding taxable
257 years, not less than fifty per cent of the gross income of the purchaser,
258 as reported for federal income tax purposes, shall have been derived
259 from commercial fishing, subject to proof satisfactory to the
260 Commissioner of Revenue Services.

261 [(B) (i) Sales of and the storage, use or other consumption of any
262 vessel used exclusively in commercial fishing and any machinery or
263 equipment for use on a commercial fishing vessel, where in the
264 purchaser's taxable year ending immediately preceding the taxable
265 year during which any such sale, storage, use or other consumption
266 occurred, less than fifty per cent of gross income of the purchaser, as
267 reported for federal income tax purposes, shall have been derived from
268 commercial fishing, provided such purchaser has satisfied the
269 commissioner that the purchaser intends to carry on commercial
270 fishing as a trade or business for at least two years after the date of
271 such purchase.]

272 (B) The commissioner shall adopt regulations, in accordance with
273 the provisions of chapter 54, requiring periodic registration for
274 purposes of the issuance of fisherman tax exemption permits,
275 including (i) a procedure related to the application for such permit,

276 which application shall include a declaration, in a form prescribed by
277 the commissioner and bearing notice to the effect that false statements
278 made in such declaration are punishable, to be signed by the applicant,
279 and (ii) a form of notice concerning the penalty for misuse of such
280 permit.

281 (C) (i) The Commissioner of Revenue Services may issue a
282 fisherman tax exemption permit to an applicant, provided such
283 applicant has satisfied the commissioner that the applicant intends to
284 carry on commercial fishing as a trade or business for at least two
285 years, notwithstanding the fact that the applicant was not engaged in
286 commercial fishing as a trade or business in the immediately preceding
287 taxable year or, if the applicant was engaged in commercial fishing as a
288 trade or business in such immediately preceding taxable year,
289 notwithstanding the fact that, for such immediately preceding taxable
290 year, or, on average, for the two immediately preceding taxable years,
291 less than fifty per cent of the gross income of the applicant, as reported
292 for federal income tax purposes, was derived from commercial fishing.

293 (ii) Such [purchaser] applicant shall be liable for the tax otherwise
294 imposed, during the period commencing upon the [purchase of such
295 vessel, machinery or equipment] issuance of the permit and ending
296 two years after the date of [such purchase] issuance of the permit, if
297 commercial fishing is not carried on as a trade or business by such
298 applicant during such entire period.

299 (iii) Such [purchaser] applicant shall also be liable for the tax
300 otherwise imposed, during the period commencing upon the
301 [purchase of such vessel, machinery or equipment] issuance of the
302 permit and ending two years after the date of [such purchase] issuance
303 of the permit, if less than fifty per cent of the gross income of such
304 [purchaser] applicant, as reported for federal income tax purposes,
305 shall have been derived from such commercial fishing for the
306 immediately preceding taxable year, [immediately preceding the
307 taxable year during which such two-year period ends or if,] or, on
308 average, [less than fifty per cent of the gross income of such purchaser,

309 as reported for federal income tax purposes, shall have been derived
310 from commercial fishing for the two taxable years immediately
311 preceding the taxable year during which such two-year period ends]
312 for the two immediately preceding taxable years.

313 (iv) Any [purchaser] applicant liable for tax under clause (ii) or (iii)
314 of this subparagraph shall not be eligible to [make another purchase]
315 be issued another permit under clause (i) of this subparagraph.

316 (D) The Commissioner of Revenue Services may issue a fisherman
317 tax exemption permit to an applicant, notwithstanding the fact that, in
318 the applicant's immediately preceding taxable year, less than fifty per
319 cent of the gross income of the applicant, as reported for federal
320 income tax purposes, was derived from commercial fishing, provided
321 (i) such applicant purchased, during the applicant's current or
322 immediately preceding taxable year, a commercial fishing trade or
323 business from a seller who was issued a fisherman tax exemption
324 permit by said commissioner at the time of such purchase, and (ii) such
325 commercial fishing shall be carried on as a trade or business by such
326 applicant during the period commencing upon the purchase and
327 ending two years after the date of purchase. Such applicant shall be
328 liable for the tax otherwise imposed, during the period commencing
329 upon such purchase and ending two years after the date of purchase, if
330 such applicant does not carry on such commercial fishing as a trade or
331 business during the period commencing upon such purchase and
332 ending two years after the date of purchase.

333 [(C)] (E) For purposes of this [subsection, commercial fishing
334 vessels] subdivision, "commercial fishing vessel" shall include any
335 vessel with a certificate of documentation issued by the United States
336 Coast Guard for coastwise fishery.

337 Sec. 10. Subdivision (89) of section 12-412 of the general statutes is
338 repealed and the following is substituted in lieu thereof (*Effective from*
339 *passage*):

340 (89) Sales of and the storage, use or other consumption of

341 machinery, equipment, tools, materials, supplies and fuel used directly
342 in the biotechnology industry. For the purposes of this [subsection]
343 subdivision, "biotechnology" means the application of technologies,
344 such as recombinant DNA techniques, biochemistry, molecular and
345 cellular biology, genetics and genetic engineering, biological cell fusion
346 techniques, and new bioprocesses, using living organisms, or parts of
347 organisms, to produce or modify products, to improve plants or
348 animals, [to develop microorganisms for specific uses,] to identify
349 targets for small molecule pharmaceutical development, to transform
350 biological systems into useful processes and products or to develop
351 microorganisms for specific uses.

352 Sec. 11. Subsection (a) of section 12-459 of the general statutes is
353 repealed and the following is substituted in lieu thereof (*Effective from*
354 *passage*):

355 (a) The payment of the tax provided for by section 12-458 shall be
356 subject to refund as provided herein when such fuel has been sold for
357 use of any of the following: (1) Any person, other than one engaged in
358 the business of farming, when such fuel is used other than in motor
359 vehicles licensed or required to be licensed to operate upon the public
360 highways of this state, except that no tax paid on fuel which is taken
361 out of this state in a fuel tank connected with the engine of a motor
362 vehicle and which is consumed without this state shall be refunded; (2)
363 any person engaged in the business of farming, when such fuel is used
364 other than in motor vehicles licensed or required to be licensed to
365 operate upon the public highways of this state or such fuel is used in
366 motor vehicles registered exclusively for farming purposes, except that
367 no tax paid on fuel which is taken out of this state in a fuel tank
368 connected with the engine of a motor vehicle and which is consumed
369 without this state shall be refunded; (3) the United States; (4) a
370 Connecticut motor bus company, as defined in subsection (e) of section
371 12-455a, engaged in the business of carrying passengers for hire in this
372 state in common carrier motor vehicles, or any person, association or
373 corporation engaged in the business of operating taxicabs in this state
374 pursuant to a certificate under chapter 244a, when such fuel is used in

375 such common carrier motor vehicle or taxicab on roads in this state,
376 except that with respect to such fuel used in a taxicab only fifty per
377 cent of the tax paid on any purchase of fuel applicable to mileage on
378 any roads in this state shall be refunded; (5) any person, association or
379 corporation engaged in the business of operating a motor vehicle in
380 livery service pursuant to a permit issued under chapter 244b, or a
381 motor bus over highways within this state and between points within
382 and without this state pursuant to a permit issued under chapter 244,
383 when such fuel is used in such motor bus on roads in this state for the
384 exclusive purpose of transporting passengers for hire to or from
385 airport facilities, except that with respect to any such motor vehicle in
386 livery service pursuant to a permit issued under chapter 244b only fifty
387 per cent of the tax paid on any purchase of fuel applicable to mileage
388 on any roads in this state shall be refunded; (6) this state or a
389 municipality of this state, when such fuel is used in vehicles owned
390 and operated, or leased and operated, by this state or municipality for
391 governmental purposes; (7) any school bus, as defined in section 14-
392 275; (8) a hospital, when such fuel is used in an ambulance owned by
393 such hospital; (9) a nonprofit civic organization approved by the
394 commissioner, when such fuel is used in an ambulance owned by such
395 organization; (10) a transit district formed under chapter 103a or any
396 special act, when such fuel is used in vehicles owned and operated, or
397 leased and operated, by such transit district for the purposes of such
398 transit district; (11) a corporation or an employee of a corporation or of
399 the United States, this state or a municipality of this state, when such
400 fuel is used in a high-occupancy commuter vehicle on roads in this
401 state, which vehicle is owned or leased by such corporation or such
402 employee, [which] seats at least ten but not more than fifteen
403 passengers and [which] has a minimum average daily passenger usage
404 of nine persons to and from work, for the purpose of transporting such
405 passengers to and from work daily; (12) a person, corporation or
406 association operating a motor vehicle in livery service which is
407 registered in accordance with the provisions of section 13b-83, when
408 such fuel is used in such motor vehicle in livery service on roads in this
409 state; and (13) a federally funded nutrition program approved by the

410 commissioner, when such fuel is used in a delivery vehicle [that is
411 used exclusively for the delivery of] on roads in this state for the
412 exclusive purpose of delivering meals to senior citizens.

413 Sec. 12. Section 12-587a of the general statutes is repealed and the
414 following is substituted in lieu thereof (*Effective from passage*):

415 (a) ~~(1)~~ Any company, as such term is used in section 12-587, liable
416 for the tax imposed under subsection (b) of said section 12-587 on
417 gross earnings from the first sale of petroleum products within this
418 state, which products the purchaser thereof subsequently sells for
419 exportation and sale [of] or use outside this state, shall be allowed a
420 credit against any tax for which such company is liable in accordance
421 with subsection (b) of said section 12-587, in the amount of tax paid to
422 the state with respect to the sale of such products, provided [(1)] (A)
423 such purchaser has submitted certification to such company, in such
424 form as prescribed by the Commissioner of Revenue Services, that
425 such products were sold or used outside this state, [(2)] (B) such
426 certification and any additional information related to such sale or use
427 by such purchaser, which said commissioner may request, have been
428 submitted to said commissioner, and [(3)] (C) such company makes a
429 payment to such purchaser, related to such products sold or used
430 outside this state, in the amount equal to the tax imposed under said
431 section 12-587 on gross earnings from the first sale to such purchaser
432 within the state.

433 (2) In addition, such company shall be allowed such credit when
434 there has been any sale of such products subsequent to the sale by such
435 company but prior to sale or use outside this state, provided [(1)] (A)
436 each purchaser receives payment, related to such products sold or
437 used outside this state, equal to the tax imposed under said section 12-
438 587, on gross earnings from the first sale of such products within this
439 state, and [(2)] (B) the purchaser selling or using such products outside
440 this state complies with the requirements in this section related to a
441 purchaser of such products from the company liable for such tax.

442 (b) Any company liable for the tax imposed under subsection (c) of

443 section 12-587 on the consideration given or contracted to be given for
444 petroleum products which it imports or causes to be imported
445 [petroleum products] into this state for [its own] sale, use or
446 consumption in this state, shall be allowed a credit against tax under
447 subsection (c) of section 12-587 [on the consideration given or
448 contracted to be given for all deliveries] if the company subsequently
449 exports such petroleum products for sale or use outside this state, in
450 the amount of tax paid to the state with respect to the sale, use or
451 consumption in this state of such products.

452 Sec. 13. Subparagraph (B) of subdivision (20) of subsection (a) of
453 section 12-701 of the general statutes is repealed and the following is
454 substituted in lieu thereof (*Effective for taxable years commencing on or*
455 *after January 1, 2003*):

456 (B) There shall be subtracted therefrom (i) to the extent properly
457 includable in gross income for federal income tax purposes, any
458 income with respect to which taxation by any state is prohibited by
459 federal law, (ii) to the extent allowable under section 12-718, exempt
460 dividends paid by a regulated investment company, (iii) the amount of
461 any refund or credit for overpayment of income taxes imposed by this
462 state, or any other state of the United States or a political subdivision
463 thereof, or the District of Columbia, to the extent properly includable
464 in gross income for federal income tax purposes, (iv) to the extent
465 properly includable in gross income for federal income tax purposes
466 and not otherwise subtracted from federal adjusted gross income
467 pursuant to clause (x) of this subparagraph in computing Connecticut
468 adjusted gross income, any tier 1 railroad retirement benefits, (v) [with
469 respect to any natural person who is a shareholder of an S corporation
470 which is carrying on, or which has the right to carry on, business in
471 this state, as said term is used in section 12-214, the amount of such
472 shareholder's pro rata share of such corporation's nonseparately
473 computed items, as defined in Section 1366 of the Internal Revenue
474 Code, that is subject to tax under chapter 208, in accordance with
475 subsection (c) of section 12-217, multiplied by such corporation's
476 apportionment fraction, if any, as determined in accordance with

477 section 12-218] to the extent any additional allowance for depreciation
478 under Section 168(k) of the Internal Revenue Code, as provided by
479 Section 101 of the Job Creation and Worker Assistance Act of 2002, for
480 property placed in service after December 31, 2001, but prior to
481 September 10, 2004, was added to federal adjusted gross income
482 pursuant to subparagraph (A) (ix) of this subdivision in computing
483 Connecticut adjusted gross income for a taxable year ending after
484 December 31, 2001, twenty-five per cent of such additional allowance
485 for depreciation in each of the four succeeding taxable years, (vi) to the
486 extent properly includable in gross income for federal income tax
487 purposes, any interest income from obligations issued by or on behalf
488 of the state of Connecticut, any political subdivision thereof, or public
489 instrumentality, state or local authority, district or similar public entity
490 created under the laws of the state of Connecticut, (vii) to the extent
491 properly includable in determining the net gain or loss from the sale or
492 other disposition of capital assets for federal income tax purposes, any
493 gain from the sale or exchange of obligations issued by or on behalf of
494 the state of Connecticut, any political subdivision thereof, or public
495 instrumentality, state or local authority, district or similar public entity
496 created under the laws of the state of Connecticut, in the income year
497 such gain was recognized, (viii) any interest on indebtedness incurred
498 or continued to purchase or carry obligations or securities the interest
499 on which is subject to tax under this chapter but exempt from federal
500 income tax, to the extent that such interest on indebtedness is not
501 deductible in determining federal adjusted gross income and is
502 attributable to a trade or business carried on by such individual, (ix)
503 ordinary and necessary expenses paid or incurred during the taxable
504 year for the production or collection of income which is subject to
505 taxation under this chapter but exempt from federal income tax, or the
506 management, conservation or maintenance of property held for the
507 production of such income, and the amortizable bond premium for the
508 taxable year on any bond the interest on which is subject to tax under
509 this chapter but exempt from federal income tax, to the extent that
510 such expenses and premiums are not deductible in determining federal
511 adjusted gross income and are attributable to a trade or business

512 carried on by such individual, (x) (I) for a person who files a return
513 under the federal income tax as an unmarried individual whose
514 federal adjusted gross income for such taxable year is less than fifty
515 thousand dollars, or as a married individual filing separately whose
516 federal adjusted gross income for such taxable year is less than fifty
517 thousand dollars, or for a husband and wife who file a return under
518 the federal income tax as married individuals filing jointly whose
519 federal adjusted gross income for such taxable year is less than sixty
520 thousand dollars or a person who files a return under the federal
521 income tax as a head of household whose federal adjusted gross
522 income for such taxable year is less than sixty thousand dollars, an
523 amount equal to the Social Security benefits includable for federal
524 income tax purposes; and (II) for a person who files a return under the
525 federal income tax as an unmarried individual whose federal adjusted
526 gross income for such taxable year is fifty thousand dollars or more, or
527 as a married individual filing separately whose federal adjusted gross
528 income for such taxable year is fifty thousand dollars or more, or for a
529 husband and wife who file a return under the federal income tax as
530 married individuals filing jointly whose federal adjusted gross income
531 from such taxable year is sixty thousand dollars or more or for a
532 person who files a return under the federal income tax as a head of
533 household whose federal adjusted gross income for such taxable year
534 is sixty thousand dollars or more, an amount equal to the difference
535 between the amount of Social Security benefits includable for federal
536 income tax purposes and the lesser of twenty-five per cent of the Social
537 Security benefits received during the taxable year, or twenty-five per
538 cent of the excess described in Section 86(b)(1) of the Internal Revenue
539 Code, (xi) to the extent properly includable in gross income for federal
540 income tax purposes, any amount rebated to a taxpayer pursuant to
541 section 12-746, (xii) to the extent properly includable in the gross
542 income for federal income tax purposes of a designated beneficiary,
543 any distribution to such beneficiary from any qualified state tuition
544 program, as defined in Section 529(b) of the Internal Revenue Code,
545 established and maintained by this state or any official, agency or
546 instrumentality of the state, (xiii) to the extent properly includable in

547 gross income for federal income tax purposes, the amount of any
548 Holocaust victims' settlement payment received in the taxable year by
549 a Holocaust victim, and (xiv) to the extent properly includable in gross
550 income for federal income tax purposes of an account holder, as
551 defined in section 31-51ww, interest earned on funds deposited in the
552 individual development account, as defined in section 31-51ww, of
553 such account holder.

554 Sec. 14. Subsection (c) of section 12-724 of the general statutes is
555 repealed and the following is substituted in lieu thereof (*Effective from*
556 *passage*):

557 (c) (1) (A) In the case of a specified terrorist victim, the tax imposed
558 by this chapter shall not apply with respect to the taxable year in
559 which falls the date of his or her death, and no returns shall be
560 required on behalf of such individual or his or her estate for such year.
561 The tax for any such taxable year that is unpaid at the date of death,
562 including interest, additions to tax and penalties, if any, shall not be
563 assessed and, if assessed, the assessment shall be abated and, if
564 collected, shall be refunded to the legal representative of such estate.

565 [(2) Subdivision] (B) Subparagraph (A) of subdivision (1) of this
566 subsection shall not apply to the amount of any tax imposed by this
567 chapter that would be computed by only taking into account the items
568 of income, gain or other amounts attributable to [(A)] (i) deferred
569 compensation that would have been payable after death if the
570 individual had died other than as a specified terrorist victim, or [(B)]
571 (ii) amounts payable in the taxable year that would not have been
572 payable in such taxable year but for an action taken after September 11,
573 2001.

574 [(3)] (C) This [subsection] subdivision shall apply to taxable years
575 commencing on or after January 1, 2001, but prior to January 1, 2002.

576 (2) (A) In the case of a specified terrorist victim who, pursuant to
577 section 12-704, was allowed a credit against the tax otherwise due
578 under this chapter for an income tax imposed on such individual for a

579 taxable year commencing on or after January 1, 2000, but prior to
580 January 1, 2001, by another state of the United States or a political
581 subdivision thereof or the District of Columbia on income which was
582 derived from sources therein and which was also subject to tax under
583 this chapter, and whose tax liability to such other jurisdiction is abated,
584 credited or refunded because such individual died as a specified
585 terrorist victim, the additional tax imposed by this chapter attributable
586 to the difference between the amount of tax of such other jurisdiction
587 that the individual is finally required to pay and the amount of tax of
588 such other jurisdiction used to determine the credit allowed to such
589 individual under section 12-704 shall not apply.

590 (B) This subdivision shall apply to taxable years commencing on or
591 after January 1, 2000, but prior to January 1, 2001.

592 Sec. 15. Subsection (h) of section 38a-866 of the general statutes is
593 repealed and the following is substituted in lieu thereof (*Effective for*
594 *calendar years commencing on or after January 1, 2001*):

595 (h) (1) Each insurer paying an assessment under sections 38a-858 to
596 38a-875, inclusive, may offset one hundred per cent of the amount of
597 such assessment against its premium tax liability to this state under
598 chapter 207. Such offset shall be taken over a period of the five
599 successive tax years following the year of payment of the assessment,
600 at the rate of twenty per cent per year of the assessment paid to the
601 association. Each insurer to which has been refunded by the
602 association, pursuant to subsection (f) of this section, all or a portion of
603 an assessment previously paid to the association by the insurer shall be
604 required to pay to the Department of Revenue Services an amount
605 equal to the total amount that has been claimed as an offset against the
606 premiums tax liability on the premiums tax return or returns, as the
607 case may be, filed by such insurer and that is attributable to such
608 refunded assessment, provided the amount required to be paid to said
609 department shall not exceed the amount of the refunded assessment. If
610 the amount of the refunded assessment exceeds the total amount that
611 has been claimed as an offset against the premiums tax liability on the

612 premiums tax return or returns filed by such insurer and that is
613 attributable to such refunded assessment, such excess may not be
614 claimed as an offset against the premiums tax liability on a premiums
615 tax return or returns filed by such insurer or, if the offset has been
616 transferred to another person pursuant to subdivision (2) of this
617 subsection, by such other person. For purposes of [the] this
618 subdivision, if the offset has been transferred to another person
619 pursuant to subdivision (2) of this subsection, the total amount that has
620 been claimed as an offset against the premiums tax liability on the
621 premiums tax return or returns filed by such insurer includes the total
622 amount that has been claimed as an offset against the premiums tax
623 liability on the premiums tax return or returns filed by such other
624 person. The association shall promptly notify the Commissioner of
625 Revenue Services of the name and address of the insurers to which
626 such refunds have been made, the amount of such refunds, and the
627 date on which such refunds were mailed to each such insurer. If the
628 amount that an insurer is required to pay to the Department of
629 Revenue Services has not been so paid on or before the forty-fifth day
630 after the date of mailing of such refunds, the insurer shall be liable for
631 interest on such amount at the rate of one per cent per month, or
632 [portion] fraction thereof, from such forty-fifth day to the date of
633 payment.

634 (2) An insurer, in this subdivision called "the transferor", may
635 transfer any offset provided under subdivision (1) of this subsection to
636 an affiliate, as defined in section 38a-1, of the transferor. Any such
637 transfer of the offset by the transferor, and any subsequent transfer or
638 transfers of the same offset, shall not affect the obligation of the
639 transferor to pay to the Department of Revenue Services any sums
640 which are acquired by refund from the association pursuant to
641 subsection (f) of this section and which are required to be paid to the
642 Department of Revenue Services pursuant to subdivision (1) of this
643 subsection. Such offset may be taken by any transferee only against the
644 transferee's premium tax liability to this state under chapter 207. The
645 Commissioner of Revenue Services shall not allow such offset to a
646 transferee against its premium tax liability unless the transferor, the

647 affiliate to which the offset was originally transferred, each subsequent
 648 transferor and each subsequent transferee have filed such information
 649 as may be required on forms provided by said commissioner with
 650 respect to any such transfer or transfers on or before the due date of
 651 the premium tax return on which such offset would have been taken
 652 by the transferor, if no transfer had been made by the transferor.

This act shall take effect as follows:	
Section 1	<i>from passage</i>
Sec. 2	<i>from passage</i>
Sec. 3	<i>January 1, 2002</i>
Sec. 4	<i>July 1, 2003</i>
Sec. 5	<i>July 1, 2003</i>
Sec. 6	<i>January 1, 2002</i>
Sec. 7	<i>October 1, 2003, and applicable to sales occurring on or after said date</i>
Sec. 8	<i>October 1, 2003, and applicable to purchases occurring on or after said date</i>
Sec. 9	<i>October 1, 2003, and applicable to sales occurring on or after said date</i>
Sec. 10	<i>from passage</i>
Sec. 11	<i>from passage</i>
Sec. 12	<i>from passage</i>
Sec. 13	<i>for taxable years commencing on or after January 1, 2003</i>
Sec. 14	<i>from passage</i>
Sec. 15	<i>for calendar years commencing on or after January 1, 2001</i>

FIN *Joint Favorable Subst.*

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 and OLR Bill Summary

State Impact: See Explanation Below

Municipal Impact: None

Explanation**OFA FISCAL IMPACT**

The fiscal impact of the bill has been provided before the description of each section.

OLR SUMMARY:

This bill:

1. gives the Department of Revenue Services (DRS) commissioner more time to assess taxes against taxpayers who file for bankruptcy on or after July 1, 2003, but eliminates extra time she currently has to make assessments against taxpayers who file for bankruptcy between the bill's passage and July 1, 2003;
2. clarifies the carry-forward provisions of the research and development (R&D) credit against the corporation tax for biotechnology companies; partial
3. subjects roll-your-own tobacco to the tobacco products tax rather than the cigarette tax;
4. specifies a minimum type size for tax warnings in ads for untaxed cigarettes that appear in Connecticut;
5. requires someone buying a cigarette distributor's business or inventory to withhold money from the purchase price to cover any

- unpaid cigarette taxes;
- 6. disallows the “sale for resale” sales and use tax exemptions when a purchaser of taxable services resells them to an affiliate;
- 7. relaxes qualifications for fishermen’s sales tax exemptions;
- 8. restricts certain motor fuel tax refunds to taxes paid on fuel used in Connecticut;
- 9. eliminates overlapping state income tax deductions for Social Security and railroad retirement benefits;
- 10. to match federal law, phases down required annual depreciation add-backs to Connecticut adjusted gross income for those with business or partnership income subject to the personal income tax;
- 11. exempts terrorist victims from liability for addition income tax due in 2001 attributable to the 2000 tax year; and
- 12. eliminates obsolete provisions and makes technical changes.

A section-by-section analysis follows.

EFFECTIVE DATE: Various. See below.

§1 - TIME LIMIT FOR MAKING TAX ASSESSMENTS IN BANKRUPTCY CASES

OFA Fiscal Impact

Currently, the Department of Revenue Services (DRS) has 1,280 claims amounting to approximately \$48 million in its bankruptcy inventory. Under provision of this section the Commissioner of DRS would have an increased opportunity to file a claim in bankruptcy court (particularly in an out-of-state court), which could ultimately result in additional revenue.

OLR Analysis:

The bill gives the revenue services commissioner more time to make tax assessments against any taxpayer who files for bankruptcy under Title 11 of the federal code on or after July 1, 2003. Under current law, which applies to Title 11 bankruptcy cases that begin on or after October 1, 1999, statutory time limits for making tax assessments are suspended while a case is pending and prevents the commissioner from making an assessment, and for 60 days afterwards. Under this bill, time limits do not run while the case is pending and for 120 days afterwards.

Since the elimination of current time limit suspensions applicable to bankruptcy cases filed on or after October 1, 1999 takes effect on passage and the new, longer suspensions apply only to cases filed on or after July 1, 2003, the commissioner would have no extra time to make tax assessments against taxpayers who file for bankruptcy between its passage and July 1, 2003.

EFFECTIVE DATE: Upon passage

§ 2 - R&D CREDIT FOR BIOTECHNOLOGY COMPANIES

OFA Fiscal Impact

No fiscal impact

OLR Analysis:

By law, companies receive corporation tax credits for 20% of increased R&D expenditures over the previous year. This bill makes it clear that biotechnology companies that were eligible to carry forward unused R&D credits from the 1997 through 1999 income years for up to 15 years may still do so. It does so by restoring provisions of a 1996 law that allowed the carry-forwards.

In 1996, the General Assembly gave biotechnology companies the 15-year carry forward starting with the 1997 income year (PA 96-252). In 1998, the legislature extended the carry-forward provision to all

types of companies starting with the 2000 income year but, in the process, eliminated pre-2000 carry-forward provisions concerning biotechnology companies (PA 98-110).

EFFECTIVE DATE: Upon passage

§§ 3 & 6 - TAX ON ROLL YOUR OWN TOBACCO

OFA Fiscal Impact

Currently, "roll your own" tobacco is being taxed under the tobacco products tax since DRS and the industry have not been able to arrive at a method to "tax roll your own" tobacco under the cigarette tax statutes. Therefore, the change codifies current practice in statute and has no fiscal impact.

OLR Analysis:

The bill subjects roll-your-own tobacco to the tobacco products tax rather than the cigarette tax, thus reversing the effect of PA 01-6, June Special Session, which switched roll-your-own tobacco to the cigarette tax as of January 1, 2002. Under current law, each .09 ounces of roll-your-own tobacco is considered one cigarette. The cigarette tax is 75.5 mills per cigarette. The tobacco products tax is 20% of the wholesale price.

The bill is retroactive to January 1, 2002.

EFFECTIVE DATE: January 1, 2002

§ 4 - TAX WARNINGS IN ADS FOR UNTAXED CIGARETTES

OFA Fiscal Impact

No fiscal impact

OLR Analysis:

Written advertisements that appear in Connecticut offering to sell untaxed cigarettes for use or consumption here must include a

warning that the cigarettes are subject to state use and cigarette use taxes and can be seized as contraband. The bill requires that the warning be printed in at least 14-point reverse type and in block form. (In comparison, this analysis is printed in 12-point type.) Cigarette sellers who violate the advertising requirements are fined \$500 per offense.

EFFECTIVE DATE: July 1, 2003

§ 5 - SUCCESSOR LIABILITY FOR CIGARETTE TAXES

OFA Fiscal Impact

The provisions of this section may result in a revenue gain to the state if cigarette taxes that are otherwise due would and are not paid are remitted upon transfer of stock to a successor company.

OLR Analysis:

Requirements for Successors

The bill requires someone buying a cigarette distributor's business or entire stock of goods to withhold enough money from the purchase price to pay any cigarette taxes the distributor owes. (A distributor is a cigarette manufacturer, wholesaler, or retailer who operates five or more retail outlets or 25 or more cigarette vending machines.) The buyer must withhold the money until the seller provides either a DRS receipt showing he has paid all cigarette taxes due or a DRS certificate stating that no taxes are due. If the buyer fails to withhold the money, he becomes personally liable for the unpaid taxes, up to the purchase price.

DRS Responsibilities

The bill requires the DRS commissioner to issue a certificate stating that no taxes are owed or mail notice of the amount owed to the purchaser within 60 days of the latest of (1) the date the commissioner receives the purchaser's written request for a certificate, (2) the sale

date, or (3) the date the former owner's records are made available for audit.

If the commissioner fails to mail the notice to the purchaser by the deadline, the purchaser is not required to withhold money from the purchase price. If there are taxes owed, the commissioner may issue a certificate after all taxes are either paid or payments are secured to the commissioner's satisfaction.

Enforcing Successor Liability

The bill allows the commissioner to enforce the successor's obligation for three years after either the sale date or the date the assessment against the seller becomes final, whichever is later. The commissioner must serve notice of successor liability on the purchaser in the same way as he serves notice of a cigarette tax assessment, i.e., through a tax warrant and a lien against the taxpayer's real estate in the state. The successor has 60 days from the date the notice is delivered or mailed to challenge the assessment by making a written request to the commissioner for a hearing. The assessment becomes final 60 days after the notice is mailed, except for any amount subject to a written challenge.

EFFECTIVE DATE: July 1, 2003

§§ 7 & 8 - SALES FOR RESALE OF TAXABLE SERVICES BETWEEN AFFILIATES

OFA Fiscal Impact

This section would reduce the potential for revenue losses, which could be significant.

OLR Analysis:

The bill places restrictions on sales and use tax exemptions for resales of taxable services between affiliated companies. Under current law, taxable services are exempt when sold as an integral and inseparable part of a taxable service that the purchaser will resell to a

third party.

The bill disallows this exemption for (1) specifically enumerated services, such as computer and data processing, management, advertising, maintenance, and public relations services, sold to a purchaser that will resell them in any form to an affiliate and (2) all other taxable services, such as telecommunications and cable TV service, sold to a purchaser that will resell them, unchanged, to an affiliate.

Under the bill, entities are considered affiliates when one owns a controlling interest in the other or the same parent owns a controlling interest in both.

EFFECTIVE DATE: October 1, 2003 and applicable to sales and purchases occurring on or after that date.

§ 9 - FISHERMEN'S SALES TAX EXEMPTION

OFA Fiscal Impact

The section could result in a minimal revenue loss since it relaxes the conditions that a person must meet to qualify for the sales tax exemption for fisherman.

OLR Analysis:

Exemption Qualifications

By law, vessels, machinery, and equipment used exclusively for commercial fishing are exempt from the sales tax. The bill relaxes the conditions a fisherman must meet to qualify for the exemption.

To qualify under current law, a fisherman must derive at least 50% the total income reported on his federal tax return in the preceding year from commercial fishing. The bill also allows a fisherman to qualify if his income from commercial fishing averaged at least 50% of his total income over the preceding two years.

Under current law, the commissioner can grant an exemption to a fisherman who earned less than the required 50% of his income from commercial fishing in the preceding year if he satisfies the commissioner that he intends to carry on a commercial fishing business for at least two years. This bill also allows the commissioner to issue an exemption to a person who was not previously engaged in the commercial fishing business if (1) in his current taxable year or the preceding one, he buys a commercial fishing business from someone who has an exemption permit and (2) carries on that business for two years after buying it.

Failure to Maintain Eligibility

As under current law, a commercial fisherman is liable for back taxes if he fails to stay in the business for a two-year period. Under the bill, for a person qualifying based on income earned from the business, the two years run from the date the commissioner issues an exemption permit rather than from the date the fisherman buys the boat or equipment as under current law. For new fishermen, the two years runs from the date they buy an existing commercial fishing business. As under current law, a new fisherman who fails to stay in the commercial fishing business for at least two years or any fisherman who fails to earn the minimum amount from commercial fishing over two years is ineligible for a new exemption.

DRS Regulations

The bill requires fishermen to get exemption permits from DRS and requires the DRS commissioner to adopt regulations that require fishermen to register periodically for the permits. The regulations must include a procedure for applying for a permit that (1) requires an applicant to sign a declaration under penalty of false statement and (2) contains notice of the penalty for misusing a permit.

EFFECTIVE DATE: October 1, 2003 and applicable to sales on or after that date.

§ 11 - MOTOR FUEL TAX REFUNDS

OFA Fiscal Impact

This section has no fiscal impact because it makes technical changes that clarify current DRS practices.

OLR Analysis:

Motor fuel taxes are refundable for fuel used in (1) vanpool vehicles carrying between 10 and 15 people to and from work each day, (2) vehicles operated by livery services registered with the motor vehicles commissioner, and (3) vehicles delivering meals to senior citizens under a federally funded nutrition program approved by the DRS commissioner. This bill specifies that, to receive the refund, the fuel must be used within Connecticut.

EFFECTIVE DATE: Upon passage

§ 13 - INCOME TAX**OFA Fiscal Impact**

Limiting the deduction of railroad retirement benefits to the amount not subtracted under the Social Security deduction will result in a minimal revenue increase of less than \$100,000. The IRS code defines Social Security benefits to include benefits from railroad retirement.

OLR Analysis:**Social Security and Railroad Retirement Benefits**

The bill eliminates overlapping deductions for Social Security and Tier I railroad retirement benefits under the state income tax. When calculating Connecticut AGI for state income tax purposes, the law allows a taxpayer to subtract certain types of income included in his federal adjusted gross income (AGI). Among the allowable deductions are (1) Tier I Railroad Retirement benefits and (2) for single filers with federal AGIs under \$50,000 and joint filers with federal AGIs under \$60,000, Social Security benefits. This bill limits the deduction for

railroad retirement benefits to the amount not subtracted under the Social Security deduction.

Bonus Depreciation Deduction

PA 02-3, May Special Session, required individuals with business or partnership income subject to the personal income tax to add back to their Connecticut AGI the amount of a federal bonus depreciation allowance on certain new property placed in service between January 1, 2002 and September 9, 2004. This bill allows a taxpayer to deduct 25% of the required add-back for each of the four taxable years after the first year to correspond to the annual reductions in the bonus depreciation specified in the federal law (*Job Creation and Worker Assistance Act of 2002*, Sec. 101).

Obsolete Language

The bill eliminates obsolete language for apportioning S corporation income between the corporation tax and the personal income tax. The apportionment applied while corporation tax liability for S corporations was being phased out. The phase-out was completed on January 1, 2001.

EFFECTIVE DATE: For taxable years starting on or after January 1, 2003.

§ 14 - TERRORIST VICTIMS - RELIEF FROM ADDITIONAL TAX DUE FROM 2000 TAX YEAR

OFA Fiscal Impact

No fiscal impact

OLR Analysis:

PA 02-126 exempted victims of the September 11, 2001 terrorist attacks and the 2001 anthrax attacks from Connecticut income taxes for 2001. If such a victim owed taxes for the 2000 tax year to another state that were abated, credited, or refunded because the person was a

terrorist victim, this bill also exempts the victim from any Connecticut tax or interest due on the difference between the amount he is finally required to pay to the other state for 2000 and the amount of the credit he took against his 2000 Connecticut tax liability for taxes paid to that state.

EFFECTIVE DATE: Upon passage

§§ 10, 12 & 15 - TECHNICAL CHANGES

OFA Fiscal Impact

No fiscal Impact

OLR Analysis:

Section 10 deletes a redundant phrase (effective on passage).

Section 12 makes technical changes to update petroleum products gross earnings tax provisions (effective on passage).

Section 15 reenacts a provision of PA 01-6, June Special Session, concerning offsets against the insurance premium tax for insurance guaranty association assessments. The amendments enacted in PA 01-6 failed to take effect because PA 01-67 had already deleted the underlying provision (effective for calendar years beginning on or after January 1, 2001).

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 42 Nay 2

OLR Bill Analysis

sHB 6624

***AN ACT CONCERNING VARIOUS TAXES ADMINISTERED BY THE
DEPARTMENT OF REVENUE SERVICES***

SUMMARY:

The OLR analysis for sHB 6624 is incorporated in the fiscal note (see above).

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 42 Nay 2