



# House of Representatives

General Assembly

**File No. 732**

*January Session, 2003*

Substitute House Bill No. 6626

*House of Representatives, May 19, 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 A TAX DEDUCTION FOR CONTRIBUTIONS TO THE CONNECTICUT HIGHER EDUCATION TRUST FUND.***

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

1 Section 1. Subparagraph (B) of subdivision (20) of subsection (a) of  
2 section 12-701 of the general statutes is repealed and the following is  
3 substituted in lieu thereof (*Effective July 1, 2003, and applicable to taxable*  
4 *years commencing on or after January 1, 2004*):

5 (B) There shall be subtracted therefrom (i) to the extent properly  
6 includable in gross income for federal income tax purposes, any  
7 income with respect to which taxation by any state is prohibited by  
8 federal law, (ii) to the extent allowable under section 12-718, exempt  
9 dividends paid by a regulated investment company, (iii) the amount of  
10 any refund or credit for overpayment of income taxes imposed by this  
11 state, or any other state of the United States or a political subdivision  
12 thereof, or the District of Columbia, to the extent properly includable

13 in gross income for federal income tax purposes, (iv) to the extent  
14 properly includable in gross income for federal income tax purposes,  
15 any tier 1 railroad retirement benefits, (v) with respect to any natural  
16 person who is a shareholder of an S corporation which is carrying on,  
17 or which has the right to carry on, business in this state, as said term is  
18 used in section 12-214, the amount of such shareholder's pro rata share  
19 of such corporation's nonseparately computed items, as defined in  
20 Section 1366 of the Internal Revenue Code, that is subject to tax under  
21 chapter 208, in accordance with subsection (c) of section 12-217,  
22 multiplied by such corporation's apportionment fraction, if any, as  
23 determined in accordance with section 12-218, (vi) to the extent  
24 properly includable in gross income for federal income tax purposes,  
25 any interest income from obligations issued by or on behalf of the state  
26 of Connecticut, any political subdivision thereof, or public  
27 instrumentality, state or local authority, district or similar public entity  
28 created under the laws of the state of Connecticut, (vii) to the extent  
29 properly includable in determining the net gain or loss from the sale or  
30 other disposition of capital assets for federal income tax purposes, any  
31 gain from the sale or exchange of obligations issued by or on behalf of  
32 the state of Connecticut, any political subdivision thereof, or public  
33 instrumentality, state or local authority, district or similar public entity  
34 created under the laws of the state of Connecticut, in the income year  
35 such gain was recognized, (viii) any interest on indebtedness incurred  
36 or continued to purchase or carry obligations or securities the interest  
37 on which is subject to tax under this chapter but exempt from federal  
38 income tax, to the extent that such interest on indebtedness is not  
39 deductible in determining federal adjusted gross income and is  
40 attributable to a trade or business carried on by such individual, (ix)  
41 ordinary and necessary expenses paid or incurred during the taxable  
42 year for the production or collection of income which is subject to  
43 taxation under this chapter but exempt from federal income tax, or the  
44 management, conservation or maintenance of property held for the  
45 production of such income, and the amortizable bond premium for the  
46 taxable year on any bond the interest on which is subject to tax under  
47 this chapter but exempt from federal income tax, to the extent that

48 such expenses and premiums are not deductible in determining federal  
49 adjusted gross income and are attributable to a trade or business  
50 carried on by such individual, (x) (I) for a person who files a return  
51 under the federal income tax as an unmarried individual whose  
52 federal adjusted gross income for such taxable year is less than fifty  
53 thousand dollars, or as a married individual filing separately whose  
54 federal adjusted gross income for such taxable year is less than fifty  
55 thousand dollars, or for a husband and wife who file a return under  
56 the federal income tax as married individuals filing jointly whose  
57 federal adjusted gross income for such taxable year is less than sixty  
58 thousand dollars or a person who files a return under the federal  
59 income tax as a head of household whose federal adjusted gross  
60 income for such taxable year is less than sixty thousand dollars, an  
61 amount equal to the Social Security benefits includable for federal  
62 income tax purposes; and (II) for a person who files a return under the  
63 federal income tax as an unmarried individual whose federal adjusted  
64 gross income for such taxable year is fifty thousand dollars or more, or  
65 as a married individual filing separately whose federal adjusted gross  
66 income for such taxable year is fifty thousand dollars or more, or for a  
67 husband and wife who file a return under the federal income tax as  
68 married individuals filing jointly whose federal adjusted gross income  
69 from such taxable year is sixty thousand dollars or more or for a  
70 person who files a return under the federal income tax as a head of  
71 household whose federal adjusted gross income for such taxable year  
72 is sixty thousand dollars or more, an amount equal to the difference  
73 between the amount of Social Security benefits includable for federal  
74 income tax purposes and the lesser of twenty-five per cent of the Social  
75 Security benefits received during the taxable year, or twenty-five per  
76 cent of the excess described in Section 86(b)(1) of the Internal Revenue  
77 Code, (xi) to the extent properly includable in gross income for federal  
78 income tax purposes, any amount rebated to a taxpayer pursuant to  
79 section 12-746, (xii) to the extent properly includable in the gross  
80 income for federal income tax purposes of a designated beneficiary,  
81 any distribution to such beneficiary from any qualified state tuition  
82 program, as defined in Section 529(b) of the Internal Revenue Code,

83 established and maintained by this state or any official, agency or  
 84 instrumentality of the state, (xiii) to the extent properly includable in  
 85 the gross income for federal income tax purposes, an amount up to five  
 86 thousand dollars for contributions to any qualified state tuition  
 87 program, as defined in Section 529(b) of the Internal Revenue Code,  
 88 established and maintained by the state or any official, agency or  
 89 instrumentality of the state, (xiv) to the extent properly includable in  
 90 gross income for federal income tax purposes, the amount of any  
 91 Holocaust victims' settlement payment received in the taxable year by  
 92 a Holocaust victim, and [(xiv)] (xv) to the extent properly includable in  
 93 gross income for federal income tax purposes of an account holder, as  
 94 defined in section 31-51ww, interest earned on funds deposited in the  
 95 individual development account, as defined in section 31-51ww, of  
 96 such account holder.

This act shall take effect as follows:	
Section 1	<i>July 1, 2003, and applicable to taxable years commencing on or after January 1, 2004</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:

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**OFA Fiscal Note**

**State Impact:**

<b>Agency Affected</b>	<b>Fund-Type</b>	<b>FY 04 \$</b>	<b>FY 05 \$</b>
Revenue Serv., Dept.	GF - Revenue Loss	None	5.8 million

Note: GF=General Fund

**Municipal Impact:** None

**Explanation**

The estimate is based on the following information/assumptions:

1. There are currently 31,000 CHET (Connecticut Higher Education Trust) accounts;
2. An average annual deposit into each CHET account of \$4,000 per year;
3. Marginal tax rate of 4.7% (combination of 3% rate, 5% rate, and the property tax credit).

**OLR Bill Analysis**

sHB 6626

**AN ACT CONCERNING A TAX DEDUCTION FOR CONTRIBUTIONS TO THE CONNECTICUT HIGHER EDUCATION TRUST FUND****SUMMARY:**

This bill allows Connecticut taxpayers to deduct up to \$5,000 in annual contributions to the Connecticut Higher Education Trust (CHET) when calculating Connecticut adjusted gross income (AGI) for state income tax purposes, thus exempting such contributions from state income taxes.

CHET is the state's college tuition savings plan. Federal tax law exempts interest and other investment earnings on contributions to qualified state college savings plans (known as "529 Plans") from federal AGI, thus excluding those earnings from both federal and Connecticut income taxes. In addition, distributions to a 529 plan beneficiary are not federally taxable, as long as they are used for tuition or qualified related expenses at an eligible educational institution. CHET distributions to beneficiaries are also exempt from Connecticut income tax under the same conditions.

EFFECTIVE DATE: July 1, 2003 and applicable to tax years beginning on or after January 1, 2004.

**COMMITTEE ACTION**

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 27 Nay 17