



House of Representatives

General Assembly

File No. 561

January Session, 2003

Substitute House Bill No. 6629

House of Representatives, April 28, 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 THE RESEARCH AND DEVELOPMENT TAX CREDIT EXCHANGE PROGRAM.

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

1 Section 1. Subsection (a) of section 12-217ee of the general statutes is
2 repealed and the following is substituted in lieu thereof (*Effective from*
3 *passage, and applicable to income years commencing on or after January 1,*
4 *2002*):

5 (a) Any taxpayer that (1) is a qualified small business, (2) qualifies
6 for a credit under section 12-217j or section 12-217n, and (3) cannot
7 take such credit in the taxable year in which the credit could otherwise
8 be taken as a result of having no tax liability under this chapter may
9 elect to carry such credit forward under this chapter or may apply to
10 the commissioner as provided in subsection (b) of this section to
11 exchange such credit with the state for a credit refund equal to sixty-
12 five per cent of the value of the credit. Any amount of credit refunded

13 under this section shall be refunded to the taxpayer under the
14 provisions of this chapter, except that such credit refund shall not be
15 subject to the provisions of section 12-227. Payment of the minimum
16 tax of two hundred fifty dollars under section 12-219 or 12-223c or
17 payment of the capital base tax under section 12-219 for a year that the
18 taxpayer reports no net income, as defined in section 12-213, shall not
19 be considered a tax liability for purposes of this section.

This act shall take effect as follows:	
Section 1	<i>from passage, and applicable to income years commencing on or after January 1, 2002</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

State Impact:

Agency Affected	Fund-Type	FY 04 \$	FY 05 \$
Revenue Serv., Dept.	GF	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill corrects an oversight created as a result of PA 02-1 (MSS). It permits corporations that file their corporation business tax return using the capital base method to continue to be eligible to exchange unused R&D credits for a cash refund. This will preclude a reduction in cash refunds of approximately \$15 million per year beginning in FY 04 (most applications for refunds of unused 2002 tax credits will be refunded in FY 04).

It should be noted that OFA’s estimate for PA 02-1 (MSS) assumed that corporations paying under the capital base method would be eligible to exchange their credits.

OLR Bill Analysis

sHB 6629

***AN ACT CONCERNING THE RESEARCH AND DEVELOPMENT
TAX CREDIT EXCHANGE PROGRAM*****SUMMARY:**

By law, companies with \$70 million or less in annual gross revenue and no corporation tax liability other than the \$250 minimum tax are entitled to cash refunds for 65% of the value of unused corporation tax credits for research and development (R&D) expenses, up to certain limits. This bill reinstates R&D credit refund eligibility for otherwise qualified companies that pay the alternative capital base tax for a year when they report no net income. Although they formerly qualified for refunds, 2002 changes in the minimum corporation tax made companies paying the alternative capital base tax ineligible. The bill is retroactive to the 2002 income year.

The law requires nonfinancial services companies to calculate their corporation taxes on both net income and capital base and to pay the higher of the two. Thus, a company's minimum annual tax is either \$250 or the alternative capital base tax, whichever is greater.

EFFECTIVE DATE: Upon passage and applicable to income years starting on or after January 1, 2002.

BACKGROUND***R&D Credit Refunds and the Minimum Corporation Tax***

The R&D credit refund program began in 2000 and was available to qualifying companies with no corporation tax liability. A 2002 law barred companies from using corporation tax credits to reduce annual corporation tax liability below the \$250 minimum, thereby making it impossible for a company to have no tax liability. A subsequent 2002 law allowed qualifying companies that pay only the \$250 minimum tax to remain eligible for the R&D credit refund program, but did not address companies with greater minimum liability under the alternative capital base tax.

Alternative Capital Base For Corporation Tax

The capital base is the sum of the average value of a company's issued and outstanding capital stock, surplus and undivided profit, and surplus reserves, less the average value of deficits and stockholdings in private corporations. The capital base tax is 3.1 mills per dollar of capital base holdings.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 44 Nay 0