Senate

General Assembly **File No. 703**

January Session, 2003 Substitute Senate Bill No. 1160

Senate, May 15, 2003

The Committee on Finance, Revenue and Bonding reported through SEN. DAILY of the 33rd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING REVENUE ADJUSTMENTS.

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

Section 1. Subdivisions (6) and (7) of subsection (a) of section 12-700 of the general statutes, as amended by section 22 of public act 03-2, are repealed and the following is substituted in lieu thereof (*Effective from passage and applicable to taxable years commencing on or after January 1, 2003*):

(6) For taxable years commencing on or after January 1, 2003, but prior to January 1, 2007, in accordance with the following schedule:

(A) For any person who files a return under the federal income tax for such taxable year as an unmarried individual **[**or as a married individual filing separately**]** and for trusts or estates:

Connecticut Taxable Income	Rate of Tax
Not over $10,000	3.0%
Over $10,000 but not over $265,000	$300.00, plus 5.0% of the excess over $10,000
Over $265,000 but not over $531,500	$13,075, plus 5.5% of the excess over $265,500
Over $531,500 but not over $1,062,500	$27,705, plus 5.75% of the excess over $531,500
Over $1,062,500	$58,237.50, plus 5.9% of the excess over $1,062,500

(B) For any person who files a return under the federal income tax for such taxable year as a head of household, as defined in Section 2(b) of the Internal Revenue Code:

Connecticut Taxable Income	Rate of Tax
Not over $16,000	3.0%
Over $16,000 but not over $396,000	$480.00, plus 5.0% of the excess over $16,000
Over $396,000 but not over $792,000	$19,480, plus 5.5% of the excess over $396,000
Over $792,000 but not over $1,580,000	$41,260, plus 5.75% of the excess over $792,000
Over $1,580,000	$86,570, plus 5.9% of the excess over $1,580,000

(C) For any husband and wife who file a return under the federal income tax for such taxable year as married individuals filing jointly or any person who files a return under the federal income tax for such taxable year as a surviving spouse, as defined in Section 2(a) of the Internal Revenue Code:

Connecticut Taxable Income	Rate of Tax
Not over $20,000	3.0%
Over $20,000 but not over $500,000	$600.00, plus 5.0% of the excess over $20,000
Over $500,000 but not over $1,000,000	$24,600, plus 5.5% of the excess over $500,000
Over $1,000,000 but not over $2,000,000	$52,100, plus 5.75% of the excess over $1,000,000
Over $2,000,000	$109,600, plus 5.9% of the excess over $2,000,000

(D) **[**For trusts or estates, the rate of tax shall be 5.0% of the Connecticut taxable income.**]** For any person who files a return under the federal income tax for such taxable year as a married individual filing separately:

Connecticut Taxable Income	Rate of Tax
Not over $10,000	3.0%
Over $10,000 but not over $250,000	$300.00, plus 5.0% of the excess over $10,000
Over $250,000 but not over $500,000	$12,300, plus 5.5% of the excess over $250,000
Over $500,000 but not over $1,000,000	$26,050, plus 5.75% of the excess over $500,000
Over $1,000,000	$54,800, plus 5.9% of the excess over $1,000,000

(7) For taxable years commencing on or after January 1, 2007, in accordance with the following schedule:

(A) For any person who files a return under the federal income tax for such taxable year as an unmarried individual or as a married individual filing separately:

Connecticut Taxable Income	Rate of Tax
Not over $10,000	3.0%
Over $10,000	$300.00, plus 5.0% of the excess over $10,000

(B) For any person who files a return under the federal income tax for such taxable year as a head of household, as defined in Section 2(b) of the Internal Revenue Code:

Connecticut Taxable Income	Rate of Tax
Not over $16,000	3.0%
Over $16,000	$480.00, plus 5.0% of the excess over $16,000

(C) For any husband and wife who file a return under the federal income tax for such taxable year as married individuals filing jointly or any person who files a return under the federal income tax for such taxable year as a surviving spouse, as defined in Section 2(a) of the Internal Revenue Code:

Connecticut Taxable Income	Rate of Tax
Not over $20,000	3.0%
Over $20,000	$600.00, plus 5.0% of the

T52		excess over $20,000

(D) For trusts or estates, the rate of tax shall be 5.0% of the Connecticut taxable income.

[(7)**]** (8) The provisions of this subsection shall apply to resident trusts and estates and, wherever reference is made in this subsection to residents of this state, such reference shall be construed to include resident trusts and estates, provided any reference to a resident's Connecticut adjusted gross income derived from sources without this state or to a resident's Connecticut adjusted gross income shall be construed, in the case of a resident trust or estate, to mean the resident trust or estate's Connecticut taxable income derived from sources without this state and the resident trust or estate's Connecticut taxable income, respectively.

Sec. 2. Section 12-704c of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage and applicable to taxable years commencing on or after January 1, 2003*):

(a) Any resident of this state, as defined in subdivision (1) of subsection (a) of section 12-701, subject to the tax under this chapter for any taxable year shall be entitled to a credit in determining the amount of tax liability under this chapter, for all or a portion, as permitted by this section, of the amount of property tax, as defined in this section, first becoming due and actually paid during such taxable year by such person on such person's primary residence or motor vehicle in accordance with this section, provided in the case of a person who files a return under the federal income tax for such taxable year as an unmarried individual, a married individual filing separately or a head of household, one motor vehicle shall be eligible for such credit and in the case of a husband and wife who file a return under federal income tax for such taxable year as married individuals filing jointly, no more than two motor vehicles shall be eligible for a credit under the provisions of this section.

(b) The credit allowed under this section shall not exceed two hundred fifteen dollars for the taxable year commencing on or after January 1, 1997, and prior to January 1, 1998; for taxable years commencing on or after January 1, 1998, but prior to January 1, 1999, three hundred fifty dollars; for taxable years commencing on or after January 1, 1999, but prior to January 1, 2000, four hundred twenty-five dollars; [and] for taxable years commencing on or after January 1, 2000, but prior to January 1, 2003, five hundred dollars; and for taxable years commencing on or after January 1, 2003, three hundred seventy-five dollars. In the case of any husband and wife who file a return under the federal income tax for such taxable year as married individuals filing a joint return, the credit allowed, in the aggregate, shall not exceed such amounts for each such taxable year.

(c) (1) (A) For taxable years commencing prior to January 1, 2000, in the case of any such taxpayer who files under the federal income tax for such taxable year as an unmarried individual whose Connecticut adjusted gross income exceeds fifty-two thousand five hundred dollars, the amount of the credit that exceeds one hundred dollars shall be reduced by ten per cent for each ten thousand dollars, or fraction thereof, by which the taxpayer's Connecticut adjusted gross income exceeds said amount.

(B) For taxable years commencing on or after January 1, 2000, but prior to January 1, 2001, in the case of any such taxpayer who files under the federal income tax for such taxable year as an unmarried individual whose Connecticut adjusted gross income exceeds fifty-three thousand five hundred dollars, the amount of the credit that exceeds one hundred dollars shall be reduced by ten per cent for each ten thousand dollars, or fraction thereof, by which the taxpayer's Connecticut adjusted gross income exceeds said amount.

(C) For taxable years commencing on or after January 1, 2001, but prior to January 1, [2004] 2003, in the case of any such taxpayer who files under the federal income tax for such taxable year as an unmarried individual whose Connecticut adjusted gross income exceeds fifty-four thousand five hundred dollars, the amount of the credit that exceeds one hundred dollars shall be reduced by ten per cent for each ten thousand dollars, or fraction thereof, by which the taxpayer's Connecticut adjusted gross income exceeds said amount.

(D) For taxable years commencing on or after January 1, 2003, but prior to January 1, 2004, in the case of any such taxpayer who files under the federal income tax for such taxable year as an unmarried individual whose Connecticut adjusted gross income exceeds fifty-four thousand five hundred dollars, the amount of the credit that exceeds seventy-five dollars shall be reduced by ten per cent for each ten thousand dollars, or fraction thereof, by which the taxpayer's Connecticut adjusted gross income exceeds said amount.

[(D)] (E) For taxable years commencing on or after January 1, 2004, but prior to January 1, 2005, in the case of any such taxpayer who files under the federal income tax for such taxable year as an unmarried individual whose Connecticut adjusted gross income exceeds fifty-five thousand five hundred dollars, the amount of the credit that exceeds [one hundred] seventy-five dollars shall be reduced by ten per cent for each ten thousand dollars, or fraction thereof, by which the taxpayer's Connecticut adjusted gross income exceeds said amount.

[(E)] (F) For taxable years commencing on or after January 1, 2005, but prior to January 1, 2006, in the case of any such taxpayer who files under the federal income tax for such taxable year as an unmarried individual whose Connecticut adjusted gross income exceeds fifty-six thousand five hundred dollars, the amount of the credit that exceeds [one hundred] seventy-five dollars shall be reduced by ten per cent for each ten thousand dollars, or fraction thereof, by which the taxpayer's Connecticut adjusted gross income exceeds said amount.

[(F)] (G) For taxable years commencing on or after January 1, 2006, but prior to January 1, 2007, in the case of any such taxpayer who files under the federal income tax for such taxable year as an unmarried individual whose Connecticut adjusted gross income exceeds fifty-eight thousand five hundred dollars, the amount of the credit that exceeds [one hundred] seventy-five dollars shall be reduced by ten per cent for each ten thousand dollars, or fraction thereof, by which the taxpayer's Connecticut adjusted gross income exceeds said amount.

[(G)] (H) For taxable years commencing on or after January 1, 2007, but prior to January 1, 2008, in the case of any such taxpayer who files under the federal income tax for such taxable year as an unmarried individual whose Connecticut adjusted gross income exceeds sixty thousand five hundred dollars, the amount of the credit that exceeds [one hundred] seventy-five dollars shall be reduced by ten per cent for each ten thousand dollars, or fraction thereof, by which the taxpayer's Connecticut adjusted gross income exceeds said amount.

[(H)] (I) For taxable years commencing on or after January 1, 2008, but prior to January 1, 2009, in the case of any such taxpayer who files under the federal income tax for such taxable year as an unmarried individual whose Connecticut adjusted gross income exceeds sixty-two thousand five hundred dollars, the amount of the credit that exceeds [one hundred] seventy-five dollars shall be reduced by ten per cent for each ten thousand dollars, or fraction thereof, by which the taxpayer's Connecticut adjusted gross income exceeds said amount.

[(I)] (J) For taxable years commencing on or after January 1, 2009, in the case of any such taxpayer who files under the federal income tax for such taxable year as an unmarried individual whose Connecticut adjusted gross income exceeds sixty-four thousand five hundred dollars, the amount of the credit that exceeds [one hundred] seventy-five dollars shall be reduced by ten per cent for each ten thousand dollars, or fraction thereof, by which the taxpayer's Connecticut adjusted gross income exceeds said amount.

(2) In the case of any such taxpayer who files under the federal income tax for such taxable year as a married individual filing separately whose Connecticut adjusted gross income exceeds fifty thousand two hundred fifty dollars, the amount of the credit that exceeds [one hundred] seventy-five dollars shall be reduced by ten per cent for each five thousand dollars, or fraction thereof, by which the

taxpayer's Connecticut adjusted gross income exceeds said amount.

(3) In the case of a taxpayer who files under the federal income tax for such taxable year as a head of household whose Connecticut adjusted gross income exceeds seventy-eight thousand five hundred dollars, the amount of the credit that exceeds [one hundred] seventy-five dollars shall be reduced by ten per cent for each ten thousand dollars or fraction thereof, by which the taxpayer's Connecticut adjusted gross income exceeds said amount.

(4) In the case of a taxpayer who files under federal income tax for such taxable year as married individuals filing jointly whose Connecticut adjusted gross income exceeds one hundred thousand five hundred dollars, the amount of the credit that exceeds [one hundred] seventy-five dollars shall be reduced by ten per cent for each ten thousand dollars, or fraction thereof, by which the taxpayer's Connecticut adjusted gross income exceeds said amount.

(d) The credit allowed under the provisions of this section shall be available for any person leasing a motor vehicle pursuant to a written agreement for a term of more than one year. Such lessee shall be entitled to the credit in accordance with the provisions of this section for the taxes actually paid by the lessor or lessee on such leased vehicle, provided the lessee was lawfully in possession of the motor vehicle at such time when the taxes first became due. The lessor shall provide the lessee with documentation establishing, to the satisfaction of the Commissioner of Revenue Services, the amount of property tax paid during the time period in which the lessee was lawfully in possession of the motor vehicle. The lessor of the motor vehicle shall not be entitled to a credit under the provisions of this section.

(e) The credit may only be used to reduce such qualifying taxpayer's tax liability for the year for which such credit is applicable and shall not be used to reduce such tax liability to less than zero.

(f) The amount of tax due pursuant to sections 12-705 and 12-722 shall be calculated without regard to this credit.

(g) For the purposes of this section: (1) "Property tax" means the amount of property tax exclusive of any interest, fees or charges thereon for which a taxpayer is liable, or in the case of any husband and wife who file a return under the federal income tax for such taxable year as married individuals filing a joint return, for which the husband or wife or both are liable, to a Connecticut political subdivision on the taxpayer's primary residence or motor vehicles; (2) "motor vehicle" means a motor vehicle, as defined in section 14-1, which is privately owned or leased; and (3) property tax first becomes due, if due and payable in a single installment, on the date designated by the legislative body of the municipality as the date on which such installment shall be due and payable and, if due and payable in two or more installments, on the date designated by the legislative body of the municipality as the date on which such installment shall be due and payable or, at the election of the taxpayer, on the date designated by the legislative body of the municipality as the date on which any earlier installment of such tax shall be due and payable.

Sec. 3. Subdivision (1) of section 12-408 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2003, and applicable to sales occurring on or after July 1, 2003*):

(1) For the privilege of making any sales, as defined in subdivision (2) of subsection (a) of section 12-407, at retail, in this state for a consideration, on or after July 1, 2003, but prior to July 1, 2007, a tax is hereby imposed on all retailers at the rate of six and one-half per cent of the gross receipts of any retailer from the sale of all tangible personal property sold at retail or from the rendering of any services constituting a sale in accordance with subdivision (2) of subsection (a) of section 12-407, and for the privilege of making any such sales on or after July 1, 2007, said tax shall be at a rate of six per cent, except, in lieu of said rate of six per cent or six and one-half per cent, as the case may be, (A) at a rate of twelve per cent with respect to each transfer of occupancy, from the total amount of rent received for such occupancy of any room or rooms in a hotel or lodging house for the first period not exceeding thirty consecutive calendar days, (B) with respect to the

sale of a motor vehicle to any individual who is a member of the armed forces of the United States and is on full-time active duty in Connecticut and who is considered, under 50 App USC 574, a resident of another state, or to any such individual and the spouse thereof, at a rate of four and one-half per cent of the gross receipts of any retailer from such sales, provided such retailer requires and maintains a declaration by such individual, prescribed as to form by the commissioner and bearing notice to the effect that false statements made in such declaration are punishable, or other evidence, satisfactory to the commissioner, concerning the purchaser's state of residence under 50 App USC 574, (C) (i) with respect to the sales of computer and data processing services occurring on or after July 1, 1997, and prior to July 1, 1998, at the rate of five per cent, on or after July 1, 1998, and prior to July 1, 1999, at the rate of four per cent, on or after July 1, 1999, and prior to July 1, 2000, at the rate of three per cent, on or after July 1, 2000, and prior to July 1, 2001, at the rate of two per cent, on or after July 1, 2001, **[**and prior to July 1, 2004,**]** at the rate of one per cent, **[**and on and after July 1, 2004, such services shall be exempt from such tax,**]** (ii) with respect to sales of Internet access services, on and after July 1, 2001, such services shall be exempt from such tax, (D) with respect to the sales of labor that is otherwise taxable under subparagraph (C) or (G) of subdivision (2) of subsection (a) of section 12-407 on existing vessels and repair or maintenance services on vessels occurring on and after July 1, 1999, such services shall be exempt from such tax, and (E) with respect to patient care services for which payment is received by the hospital on or after July 1, 1999, and prior to July 1, 2001, and with respect to such services for which payment is received by the hospital on or after July 1, 2003, at the rate of five and three-fourths per cent. The rate of tax imposed by this chapter shall be applicable to all retail sales upon the effective date of such rate, except that a new rate which represents an increase in the rate applicable to the sale shall not apply to any sales transaction wherein a binding sales contract without an escalator clause has been entered into prior to the effective date of the new rate and delivery is made within ninety days after the effective date of the new rate. For the purposes of payment of the tax imposed under this section, any retailer of services taxable under subparagraph (I) of subdivision (2) of subsection (a) of section 12-407, who computes taxable income, for purposes of taxation under the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as from time to time amended, on an accounting basis which recognizes only cash or other valuable consideration actually received as income and who is liable for such tax only due to the rendering of such services may make payments related to such tax for the period during which such income is received, without penalty or interest, without regard to when such service is rendered.

Sec. 4. Subdivision (3) of section 12-408 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2003, and applicable to sales occurring on or after July 1, 2003*):

(3) For the purpose of adding and collecting the tax imposed by this chapter, or an amount equal as nearly as possible or practicable to the average equivalent thereof, by the retailer from the consumer the following bracket system shall be in force and effect as follows:

T53	Amount of Sale	Amount of Tax
T54	$0.00 to $0.08 inclusive	No Tax
T55	.09 to .24 inclusive	1 cent
T56	.25 to .41 inclusive	2 cents
T57	.42 to .58 inclusive	3 cents
T58	.59 to .74 inclusive	4 cents
T59	.75 to .91 inclusive	5 cents
T60	.92 to 1.08 inclusive	6 cents

On all sales above $1.08, on or after July 1, 2003, but prior to July 1, 2007, the tax shall be computed at the rate of six and one-half per cent. On all such sales on or after July 1, 2007, the tax shall be computed at the rate of six per cent.

Sec. 5. Subdivision (1) of section 12-411 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2003, and applicable to sales occurring on or after July 1, 2003*):

(1) An excise tax is hereby imposed on the storage, acceptance, consumption or any other use in this state of tangible personal property purchased from any retailer for storage, acceptance, consumption or any other use in this state, the acceptance or receipt of any services constituting a sale in accordance with subdivision (2) of subsection (a) of section 12-407, purchased from any retailer for consumption or use in this state, or the storage, acceptance, consumption or any other use in this state of tangible personal property which has been manufactured, fabricated, assembled or processed from materials by a person, either within or without this state, for storage, acceptance, consumption or any other use by such person in this state, to be measured by the sales price of materials, at the rate of six <u>and one-half</u> per cent of the sales price of such property or services <u>on and after July 1, 2003, but prior to July 1, 2007, and on and after July 1, 2007, said tax shall be at the rate of six per cent</u>, except, in lieu of said rate of six <u>per cent or six and one-half</u> per cent, <u>as the case may be,</u> (A) at a rate of twelve per cent of the rent paid for occupancy of any room or rooms in a hotel or lodging house for the first period of not exceeding thirty consecutive calendar days, (B) with respect to the storage, acceptance, consumption or use in this state of a motor vehicle purchased from any retailer for storage, acceptance, consumption or use in this state by any individual who is a member of the armed forces of the United States and is on full-time active duty in Connecticut and who is considered, under 50 App USC 574, a resident of another state, or to any such individual and the spouse of such individual at a rate of four and one-half per cent of the sales price of such vehicle, provided such retailer requires and maintains a declaration by such individual, prescribed as to form by the commissioner and bearing notice to the effect that false statements made in such declaration are punishable, or other evidence, satisfactory to the commissioner, concerning the purchaser's state of residence under 50 App USC 574, (C) with respect to the acceptance or

receipt in this state of labor that is otherwise taxable under subparagraph (C) or (G) of subdivision (2) of subsection (a) of section 12-407 on existing vessels and repair or maintenance services on vessels occurring on and after July 1, 1999, such services shall be exempt from such tax, (D) (i) with respect to the acceptance or receipt in this state of computer and data processing services purchased from any retailer for consumption or use in this state occurring on or after July 1, 1997, and prior to July 1, 1998, at the rate of five per cent of such services, on or after July 1, 1998, and prior to July 1, 1999, at the rate of four per cent of such services, on or after July 1, 1999, and prior to July 1, 2000, at the rate of three per cent of such services, on or after July 1, 2000, and prior to July 1, 2001, at the rate of two per cent of such services, on and after July 1, 2001, **[**and prior to July 1, 2004,**]** at the rate of one per cent of such services, **[**and on and after July 1, 2004, such services shall be exempt from such tax,**]** and (ii) with respect to the acceptance or receipt in this state of Internet access services, on or after July 1, 2001, such services shall be exempt from tax, and (E) with respect to the acceptance or receipt in this state of patient care services purchased from any retailer for consumption or use in this state for which payment is received by the hospital on or after July 1, 1999, and prior to July 1, 2001, and with respect to acceptance or receipt in this state of such services for which payment is received by the hospital on or after July 1, 2003, at the rate of five and three-fourths per cent.

Sec. 6. Subsection (b) of section 12-214 of the general statutes, as amended by section 32 of public act 03-2, is repealed and the following is substituted in lieu thereof (*Effective from passage and applicable to income years commencing on or after January 1, 2004*):

(b) (1) With respect to income years commencing on or after January 1, 1989, and prior to January 1, 1992, any company subject to the tax imposed in accordance with subsection (a) of this section shall pay, for each such income year, an additional tax in an amount equal to twenty per cent of the tax calculated under said subsection (a) for such income year, without reduction of the tax so calculated by the amount of any credit against such tax. The additional amount of tax determined under this subsection for any income year shall constitute a part of the tax imposed by the provisions of said subsection (a) and shall become due and be paid, collected and enforced as provided in this chapter.

(2) With respect to income years commencing on or after January 1, 1992, and prior to January 1, 1993, any company subject to the tax imposed in accordance with subsection (a) of this section shall pay, for each such income year, an additional tax in an amount equal to ten per cent of the tax calculated under said subsection (a) for such income year, without reduction of the tax so calculated by the amount of any credit against such tax. The additional amount of tax determined under this subsection for any income year shall constitute a part of the tax imposed by the provisions of said subsection (a) and shall become due and be paid, collected and enforced as provided in this chapter.

(3) With respect to income years commencing on or after January 1, 2003, and prior to January 1, 2004, any company subject to the tax imposed in accordance with subsection (a) of this section shall pay, for each such income year, an additional tax in an amount equal to twenty per cent of the tax calculated under said subsection (a) for such income year, without reduction of the tax so calculated by the amount of any credit against such tax. The additional amount of tax determined under this subsection for any income year shall constitute a part of the tax imposed by the provisions of said subsection (a) and shall become due and be paid, collected and enforced as provided in this chapter.

<u>(4) With respect to income years commencing on or after January 1, 2004, and prior to January 1, 2006, any company subject to the tax imposed in accordance with subsection (a) of this section shall pay, for each such income year, an additional tax in an amount equal to ten per cent of the tax calculated under said subsection (a) for such income year, without reduction of the tax so calculated by the amount of any credit against such tax. The additional amount of tax determined under this subsection for any income year shall constitute a part of the tax imposed by the provisions of said subsection (a) and shall become due and be paid, collected and enforced as provided in this chapter.</u>

Sec. 7. Subsection (b) of section 12-284b of the general statutes, as amended by section 33 of public act 03-2, is repealed and the following is substituted in lieu thereof (*Effective from passage and applicable to taxable years commencing on or after January 1, 2004*):

(b) Each limited liability company, limited liability partnership, limited partnership and S corporation shall annually, on or before the fifteenth day of the fourth month following the close of its taxable year, pay to the Commissioner of Revenue Services a tax in the amount of two hundred fifty dollars. With respect to taxable years commencing on or after January 1, 2003, and prior to January 1, 2004, any company subject to the tax imposed in accordance with this subsection shall pay, for each such taxable year, an additional tax in an amount equal to twenty per cent of the tax imposed under this subsection for such taxable year. With respect to taxable years commencing on or after January 1, 2004, and prior to January 1, 2006, any company subject to the tax imposed in accordance with this subsection shall pay, for each such taxable year, an additional tax in an amount equal to ten per cent of the tax imposed under this subsection for such taxable year. The additional amount of tax for the taxable year commencing on or after January 1, 2003, shall constitute a part of the tax imposed by the provisions of this subsection and shall become due and be paid, collected and enforced as provided by in this section.

Sec. 8. Subsection (b) of section 12-219 of the general statutes, as amended by section 34 of public act 03-2, is repealed and the following is substituted in lieu thereof (*Effective from passage and applicable to income years commencing on or after January 1, 2004*):

(b) (1) With respect to income years commencing on or after January 1, 1989, and prior to January 1, 1992, the additional tax imposed on any company and calculated in accordance with subsection (a) of this section shall, for each such income year, except when the tax so calculated is equal to two hundred fifty dollars, be increased by adding thereto an amount equal to twenty per cent of the additional tax so calculated for such income year, without reduction of the additional tax so calculated by the amount of any credit against such tax. The increased amount of tax payable by any company under this section, as determined in accordance with this subsection, shall become due and be paid, collected and enforced as provided in this chapter.

(2) With respect to income years commencing on or after January 1, 1992, and prior to January 1, 1993, the additional tax imposed on any company and calculated in accordance with subsection (a) of this section shall, for each such income year, except when the tax so calculated is equal to two hundred fifty dollars, be increased by adding thereto an amount equal to ten per cent of the additional tax so calculated for such income year, without reduction of the tax so calculated by the amount of any credit against such tax. The increased amount of tax payable by any company under this section, as determined in accordance with this subsection, shall become due and be paid, collected and enforced as provided in this chapter.

(3) With respect to income years commencing on or after January 1, 2003, and prior to January 1, 2004, the additional tax imposed on any company and calculated in accordance with subsection (a) of this section shall, for each such income year, be increased by adding thereto an amount equal to twenty per cent of the additional tax so calculated for such income year, without reduction of the tax so calculated by the amount of any credit against such tax. The increased amount of tax payable by any company under this section, as determined in accordance with this subsection, shall become due and be paid, collected and enforced as provided in this chapter.

<u>(4) With respect to income years commencing on or after January 1, 2004, and prior to January 1, 2006, the additional tax imposed on any company and calculated in accordance with subsection (a) of this section shall, for each such income year, be increased by adding thereto an amount equal to ten per cent of the additional tax so calculated for such income year, without reduction of the tax so calculated by the amount of any credit against such tax. The increased amount of tax payable by any company under this section, as</u>

determined in accordance with this subsection, shall become due and be paid, collected and enforced as provided in this chapter.

Sec. 9. (NEW) (*Effective from passage and applicable to income years commencing on or after January 1, 2003*) Notwithstanding any provision of the general statutes, the amount of tax credit or credits otherwise allowable against the tax imposed under chapter 207 of the general statutes for any income year shall not exceed seventy per cent of the amount of tax due from such taxpayer under said chapter 207 with respect to such income year of the taxpayer prior to the application of such credit or credits.

Sec. 10. Subsections (d) and (e) of section 12-344 of the general statutes are repealed and the following is substituted in lieu thereof (*Effective from passage and applicable to transfers from estates of decedents who die on or after January 1, 2003*):

(d) The tax under this section applicable to the net taxable estate of any transferor, whose death occurs on or after January 1, 1999, passing to a class B beneficiary shall be imposed as follows: (1) If the death of the transferor occurs on or after January 1, 1999, but prior to January 1, 2000, at the rate of (A) six per cent on the amount in excess of two hundred thousand dollars in value to and including two hundred fifty thousand dollars, (B) seven per cent on the amount in excess of two hundred fifty thousand dollars in value to and including four hundred thousand dollars, (C) eight per cent on the amount in excess of four hundred thousand dollars in value to and including six hundred thousand dollars, (D) nine per cent on the amount in excess of six hundred thousand dollars in value to and including one million dollars, and (E) ten per cent on the amount in excess of one million dollars in value, (2) if the death of the transferor occurs on or after January 1, 2000, but prior to January 1, 2001, at the rate of (A) eight per cent on the amount in excess of four hundred thousand dollars in value to and including six hundred thousand dollars, (B) nine per cent on the amount in excess of six hundred thousand dollars in value to and including one million dollars, and (C) ten per cent on the amount in excess of one million dollars in value, (3) if the death of the transferor occurs on or after January 1, 2001, but prior to January 1, [2003] 2005, at the rate of (A) nine per cent on the amount in excess of six hundred thousand dollars in value to and including one million dollars, and (B) ten per cent on the amount in excess of one million dollars in value, (4) if the death of the transferor occurs on or after January 1, [2003] 2005, but prior to January 1, [2004] 2006, at the rate of eight per cent on the amount in excess of one million five hundred thousand dollars in value, and (5) if the death of the transferor occurs on or after January 1, [2004] 2006, the net taxable estate passing to a class B beneficiary shall not be subject to tax under this chapter.

(e) The tax under this section applicable to the net taxable estate of any transferor, whose death occurs on or after January 1, 2001, passing to a class C beneficiary shall be imposed as follows: (1) If the death of the transferor occurs on or after January 1, 2001, but prior to January 1, [2003] 2005, at the rate of (A) ten per cent on the amount in excess of two hundred thousand dollars in value to and including two hundred fifty thousand dollars, (B) eleven per cent on the amount in excess of two hundred fifty thousand dollars in value to and including four hundred thousand dollars, (C) twelve per cent on the amount in excess of four hundred thousand dollars in value to and including six hundred thousand dollars, (D) thirteen per cent on the amount in excess of six hundred thousand dollars in value to and including one million dollars, and (E) fourteen per cent on the amount in excess of one million dollars in value, (2) if the death of the transferor occurs on or after January 1, [2003] 2005, but prior to January 1, [2004] 2006, at the rate of (A) twelve per cent on the amount in excess of four hundred thousand dollars in value to and including six hundred thousand dollars, (B) thirteen per cent on the amount in excess of six hundred thousand dollars in value to and including one million dollars, and (C) fourteen per cent on the amount in excess of one million dollars in value, (3) if the death of the transferor occurs on or after January 1, [2004] 2006, but prior to January 1, [2005] 2007, at the rate of (A) thirteen per cent on the amount in excess of six hundred thousand dollars in value to and including one million dollars, and (B) fourteen per cent on the amount in excess of one million dollars in value, (4) if the death of the transferor occurs on or after January 1, **[**2005**]** 2007, but prior to January 1, **[**2006**]** 2008, at the rate of fourteen per cent on the amount in excess of one million five hundred thousand dollars in value, and (5) if the death of the transferor occurs on or after January 1, **[**2006**]** 2008, the net taxable estate passing to a class C beneficiary shall not be subject to tax under this chapter.

Sec. 11. Section 12-390a of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage and applicable to transfers occurring on or after January 1, 2003*):

The terms "generation-skipping transfer", "taxable distribution", and "taxable termination" have the same meaning as defined in Chapter 13 of Subtitle B of the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, **[**as from time to time amended**]** in effect as of January 1, 2001.

Sec. 12. Section 12-390b of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage and applicable to transfers occurring on or after January 1, 2003*):

(a) A tax is hereby imposed upon every generation-skipping transfer, where the original transferor is a resident of this state at the date of the original transfer. The amount of the tax shall be the amount of the federal credit allowable for generation-skipping transfer tax paid to any state under the provisions of the federal internal revenue code in **[**force at the date of such generation-skipping transfer**]** effect as of January 1, 2001, in respect to any property included in the generation-skipping transfer. If any such property is real or tangible personal property located outside this state and is subject to generation-skipping transfer taxes by any state or states other than the state of Connecticut for which such federal credit is allowable, the amount of tax due under this section shall be reduced by the lesser of (1) the amount of any such taxes paid to such other state or states and allowed as a credit against the federal generation-skipping transfer tax in effect as of January 1, 2001; or (2) an amount computed by multiplying such federal credit by a fraction, (A) the numerator of which is the value of all transferred real and tangible personal property which is subject to generation-skipping transfer taxes and over which such other state or states have jurisdiction for generation-skipping transfer tax purposes to the same extent to which this state would exert jurisdiction for generation-skipping transfer tax purposes under this chapter with respect to the residents of such other state or states, and (B) the denominator of which is the value of all transferred property which is subject to generation-skipping transfer taxes, wherever located.

(b) A tax is hereby imposed upon every generation-skipping transfer, where the original transferor is not a resident of this state at the date of the original transfer but where the generation-skipping transfer includes real or tangible personal property located in this state. The amount of the tax shall be computed by multiplying (1) the federal credit allowable for generation-skipping transfer tax paid to any state or states under the provisions of the federal internal revenue code in **[**force at the date of such generation-skipping transfer**]** effect as of January 1, 2001, in respect to any property included in the generation-skipping transfer by (2) a fraction, (A) the numerator of which is the value of all transferred real and tangible personal property which is subject to generation-skipping transfer taxes, which is located in this state and over which this state has jurisdiction for generation-skipping transfer tax purposes, and (B) the denominator of which is the value of all transferred property which is subject to generation-skipping transfer taxes, wherever located.

(c) For purposes of subsections (a) and (b) of this section, property shall have the same value that it has for federal generation-skipping transfer tax purposes as provided in the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, in effect as of January 1, 2001.

Sec. 13. Subsections (a) to (c), inclusive, of section 12-391 of the general statutes are repealed and the following is substituted in lieu thereof (*Effective from passage and applicable to estates of decedents who die* *on or after January 1, 2003*):

(a) A tax is imposed upon the transfer of the estate of each person who at the time of death was a resident of this state. The amount of the tax shall be the amount of the federal credit allowable for estate, inheritance, legacy and succession taxes paid to any state or the District of Columbia under the provisions of the federal internal revenue code in **[**force at the date of such decedent's death**]** effect as of January 1, 2001, in respect to any property owned by such decedent or subject to such taxes as part of or in connection with the estate of such decedent. If real or tangible personal property of such decedent is located outside of this state and is subject to estate, inheritance, legacy, or succession taxes by any state or states, other than the state of Connecticut, or by the District of Columbia for which such federal credit is allowable, the amount of tax due under this section shall be reduced by the lesser of: (1) The amount of any such taxes paid to such other state or states or said district and allowed as a credit against the federal estate tax in effect as of January 1, 2001; or (2) an amount computed by multiplying such federal credit by a fraction, (A) the numerator of which is the value of that part of the decedent's gross estate over which such other state or states or said district have jurisdiction for estate tax purposes to the same extent to which this state would assert jurisdiction for estate tax purposes under this chapter with respect to the residents of such other state or states or said district, and (B) the denominator of which is the value of the decedent's gross estate. Property of a resident estate over which this state has jurisdiction for estate tax purposes includes real property situated in this state, tangible personal property having an actual situs in this state, and intangible personal property owned by the decedent, regardless of where it is located. The amount of any estate tax imposed under this subsection shall also be reduced, but not below zero, by the amount of any tax that is imposed under chapter 216 and that is actually paid to this state.

(b) A tax is imposed upon the transfer of the estate of each person who at the time of death was a nonresident of this state, the amount of which shall be computed by multiplying (1) the federal credit allowable for estate, inheritance, legacy, and succession taxes paid to any state or states or the District of Columbia under the provisions of the federal internal revenue code in **[**force at the date of such decedent's death**]** effect as of January 1, 2001, in respect to any property owned by such decedent or subject to such taxes as a part of or in connection with the estate of such decedent by (2) a fraction, (A) the numerator of which is the value of that part of the decedent's gross estate over which this state has jurisdiction for estate tax purposes, and (B) the denominator of which is the value of the decedent's gross estate. Property of a nonresident estate over which this state has jurisdiction for estate tax purposes includes real property situated in this state and tangible personal property having an actual situs in this state. The amount of any estate tax imposed under this subsection shall also be reduced, but not below zero, by the amount of any tax that is imposed under chapter 216 and that is actually paid to this state.

(c) For purposes of subsections (a) and (b) of this section, "gross estate" means the gross estate, for federal estate tax purposes as provided in the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, in effect as of January 1, 2001.

Sec. 14. Section 12-256 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2003, and applicable to gross earnings on sales occurring on or after July 1, 2003*):

Each person carrying on an express business on railroads, each person conducting a telegraph or cable business, **[**and**]** each person operating a community antenna television system under chapter 289 and each person operating a business that provides one-way transmission to subscribers of video programming by satellite, shall pay an annual tax upon the gross earnings from (1) the routes in this state in the case of any person carrying on such an express business, (2) the lines in this state in the case of any person conducting a telegraph or cable business, provided in the case of a person conducting a telegraph business the tax imposed under this section shall only be applicable with respect to a person conducting such business, and the services offered by such person, subject to tax under this section on January 1, 1986, [and] (3) the lines, facilities, apparatus and auxiliary equipment in this state in the case of any person operating a community antenna television system, and (4) the transmission to subscribers in this state in the case of a person operating a business that provides one-way transmission to subscribers of video programming by satellite. No deduction shall be allowed from such gross earnings from operations for commissions, rebates or other payments, except such refunds as arise from errors or overcharges. Each such person shall, on or before April first, annually, render to the Commissioner of Revenue Services a return signed by the treasurer, or the person performing the duties of treasurer, or an authorized agent or officer of the business or system operated by such person, on forms prescribed or furnished by the commissioner specifying: The name and location within this state of such business or system or, if it has no location within this state, where such business or system is located; the total amount of gross earnings subject to the tax imposed under this section for the year ending the thirty-first day of December next preceding or for each lesser period of consecutive time during such year, each such year or period being in this chapter and chapter 212a called a "tax year", in which business or operations were carried on in this state; the total miles of railway routes which each of the persons doing an express business was entitled to operate under contracts with railroad companies and the number of miles of such railway routes within this state on the first day and on the last day of the tax year; the total miles of wires operated by each of the persons conducting a telegraph or cable business or operating a community antenna television system and the total miles of such wires operated within this state on the first day and on the last day of the tax year; the total number of subscribers, and the number of subscribers in this state, served by each person operating a business that provides one-way transmission to subscribers of video programming by satellite.

Sec. 15. Section 12-258 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2003, and applicable to gross earnings on sales occurring on or after July 1, 2003*):

Each person included in section 12-256, as amended by this act, shall be taxed upon the amount of the gross earnings in each tax year from the lines, routes, or lines, facilities, apparatus and auxiliary equipment operated by it in this state, or from the transmission of video programming to this state, as the case may be, at the rates provided in this section. Gross earnings for any tax year, for the purposes of assessment and taxation, shall be as follows: In the case of a person carrying on the business wholly within the limits of this state, the entire amount of the gross earnings subject to the tax imposed under section 12-256, as amended by this act; in the case of a person also carrying on the business outside of this state, a portion of the entire amount of the gross earnings subject to the tax imposed under section 12-256, as amended by this act, apportioned to this state as follows: In the case of a person carrying on an express business on railroads, such portion of the gross earnings of such person from the railway routes operated by it as is represented by the ratio of the total number of miles of railway routes in this state which such person was entitled to operate under contracts with railroad companies on the first day and on the last day of such tax year to the total number of miles of such railway routes within and without this state on said dates; in the case of a person conducting telegraph or cable business, such portion of the total gross earnings from the lines operated by it as is represented by the ratio of the total number of miles of wires operated by such person within this state on the first day and on the last day of such tax year to the total number of miles of wires operated by such person both within and without this state on said dates; in the case of a person operating a community antenna television system, such portion of the total gross earnings from the lines, facilities, apparatus and auxiliary equipment operated by it as is represented by the total number of miles of lines operated by such person within this state on the first day and on the last day of such tax year to the total number of miles of lines operated by such person both within and without the state on said dates; in the case of a person operating a business that provides one-way transmission to subscribers of video programming by satellite, such portion of the total gross earnings from the transmission to subscribers in this state as is represented by the total number of subscribers served by such person within this state on the first day and on the last day of such tax year to the total number of subscribers served by such person both within and without the state on said dates. The rates of tax on the gross earnings as determined in this section shall be as follows: (1) Persons carrying on an express business, two per cent of such gross earnings; (2) persons conducting a telegraph or cable business, four and one-half per cent of such gross earnings; (3) persons operating a community antenna television system and persons operating a business that provides one-way transmission to subscribers of video programming by satellite, five per cent of such gross earnings, reduced by any assessments made pursuant to section 16-49 which are attributable to the year in which such tax is assessed.

Sec. 16. Subsection (a) of section 12-642 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage and applicable to taxable years commencing on or after January 1, 2003*):

(a) (1) With respect to calendar years commencing prior to January 1, 2001, the tax imposed by section 12-640 for the calendar year shall be at a rate of the taxable gifts made by the donor during the calendar year set forth in the following schedule:

Amount of Taxable Gifts	Rate of Tax
Not over $25,000	1%
Over $25,000	$250, plus 2% of the excess
but not over $50,000	over $25,000
Over $50,000	$750, plus 3% of the excess
but not over $75,000	over $50,000
Over $75,000	$1,500, plus 4% of the excess
but not over $100,000	over $75,000

Over $100,000 but not over $200,000	$2,500, plus 5% of the excess over $100,000
Over $200,000	$7,500, plus 6% of the excess over $200,000

(2) With respect to the calendar years commencing January 1, 2001, January 1, 2002, **[**and**]** January 1, 2003, January 1, 2004, and January 1, 2005, the tax imposed by section 12-640 for each such calendar year shall be at a rate of the taxable gifts made by the donor during the calendar year set forth in the following schedule:

Amount of Taxable Gifts	Rate of Tax
Over $25,000 but not over $50,000	$250, plus 2% of the excess over $25,000
Over $50,000 but not over $75,000	$750, plus 3% of the excess over $50,000
Over $75,000 but not over $100,000	$1,500, plus 4% of the excess over $75,000
Over $100,000 but not over $675,000	$2,500, plus 5% of the excess over $100,000
Over $675,000	$31,250, plus 6% of the excess over $675,000

(3) With respect to the calendar year commencing January 1, **[**2004**]** 2006, the tax imposed by section 12-640 for the calendar year shall be at a rate of the taxable gifts made by the donor during the calendar year set forth in the following schedule:

Amount of Taxable Gifts	Rate of Tax
Over $50,000	$750, plus 3% of the excess

but not over $75,000	over $50,000
Over $75,000	$1,500, plus 4% of the excess
but not over $100,000	over $75,000
Over $100,000	$2,500, plus 5% of the excess
but not over $700,000	over $100,000
Over $700,000	$32,500, plus 6% of the excess
	over $700,000

(4) With respect to the calendar year commencing January 1, **[**2005**]** 2007, the tax imposed by section 12-640 for the calendar year shall be at a rate of the taxable gifts made by the donor during the calendar year set forth in the following schedule:

Amount of Taxable Gifts	Rate of Tax
Over $75,000	$1,500, plus 4% of the excess
but not over $100,000	over $75,000
Over $100,000	$2,500, plus 5% of the excess
but not over $700,000	over $100,000
Over $700,000	$32,500, plus 6% of the excess
	over $700,000

(5) With respect to the calendar year commencing January 1, **[**2006**]** 2008, the tax imposed by section 12-640 for the calendar year shall be at a rate of the taxable gifts made by the donor during the calendar year set forth in the following schedule:

Amount of Taxable Gifts	Rate of Tax
Over $100,000	$2,500, plus 5% of the excess
but not over $850,000	over $100,000
Over $850,000	$40,000, plus 6% of the excess

	over $850,000

(6) With respect to the calendar year commencing January 1, **[**2007**]** 2009, the tax imposed by section 12-640 for the calendar year shall be at a rate of the taxable gifts made by the donor during the calendar year set forth in the following schedule:

Amount of Taxable Gifts	Rate of Tax
Over $950,000	$45,000, plus 6% of the excess over $950,000

(7) With respect to the calendar year commencing January 1, **[**2008**]** 2010, and each calendar year thereafter, the tax imposed by section 12-640 for the calendar year shall be at a rate of the taxable gifts made by the donor during the calendar year set forth in the following schedule:

Amount of Taxable Gifts	Rate of Tax
Over $1,000,000	$47,500, plus 6% of the excess over $1,000,000

Sec. 17. Section 4-28e of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2003*):

(a) There is created a Tobacco Settlement Fund which shall be a separate nonlapsing fund. Any funds received by the state from the Master Settlement Agreement executed November 23, 1998, shall be deposited into the fund.

(b) (1) The Treasurer is authorized to invest all or any part of the Tobacco Settlement Fund, all or any part of the Tobacco and Health Trust Fund created in section 4-28f and all or any part of the

Biomedical Research Trust Fund created in section 19a-32c. The interest derived from any such investment shall be credited to the resources of the fund from which the investment was made.

(2) Notwithstanding sections 3-13 to 3-13h, inclusive, the Treasurer shall invest the amounts on deposit in the Tobacco Settlement Fund, the Tobacco and Health Trust Fund and the Biomedical Research Trust Fund in a manner reasonable and appropriate to achieve the objectives of such funds, exercising the discretion and care of a prudent person in similar circumstances with similar objectives. The Treasurer shall give due consideration to rate of return, risk, term or maturity, diversification of the total portfolio within such funds, liquidity, the projected disbursements and expenditures, and the expected payments, deposits, contributions and gifts to be received. The Treasurer shall not be required to invest such funds directly in obligations of the state or any political subdivision of the state or in any investment or other fund administered by the Treasurer. The assets of such funds shall be continuously invested and reinvested in a manner consistent with the objectives of such funds until disbursed in accordance with this section, section 4-28f or section 19a-32c.

[(c) (1) For the fiscal year ending June 30, 2001, disbursements from the Tobacco Settlement Fund shall be made as follows: (A) To the General Fund in the amount identified as "Transfer from Tobacco Settlement Fund" in the General Fund revenue schedule adopted by the General Assembly; (B) to the Department of Mental Health and Addiction Services for a grant to the regional action councils in the amount of five hundred thousand dollars; and (C) to the Tobacco and Health Trust Fund in an amount equal to nineteen million five hundred thousand dollars.

(2) For the fiscal year ending June 30, 2002, and each fiscal year thereafter, disbursements from the Tobacco Settlement Fund shall be made as follows: (A) To the Tobacco and Health Trust Fund in an amount equal to twelve million dollars; (B) to the Biomedical Research Trust Fund in an amount equal to four million dollars; (C) to the

General Fund in the amount identified as "Transfer from Tobacco Settlement Fund" in the General Fund revenue schedule adopted by the General Assembly; and (D) any remainder to the Tobacco and Health Trust Fund.

(d) For the fiscal year ending June 30, 2000, five million dollars shall be disbursed from the Tobacco Settlement Fund to a tobacco grant account to be established in the Office of Policy and Management. Such funds shall not lapse on June 30, 2000, and shall continue to be available for expenditure during the fiscal year ending June 30, 2001.

(e) Tobacco grants shall be made from the account established pursuant to subsection (d) of this section by the Secretary of the Office of Policy and Management in consultation with the speaker of the House of Representatives, the president pro tempore of the Senate, the majority leader of the House of Representatives, the majority leader of the Senate, the minority leader of the House of Representatives, the minority leader of the Senate, and the cochairpersons and ranking members of the joint standing committees of the General Assembly having cognizance of matters relating to public health and appropriations and the budgets of state agencies, or their designees. Such grants shall be used to reduce tobacco abuse through prevention, education, cessation, treatment, enforcement and health needs programs.**]**

(c) For the fiscal year ending June 30, 2004, and each fiscal year thereafter, disbursements from the Tobacco Settlement Fund shall be to the General Fund in the amount identified as "Transfer from Tobacco Settlement Fund" in the General Fund revenue schedule adopted by the General Assembly.

Sec. 18. (*Effective July 1, 2003*) Section 12-407d of the general statutes is repealed.

This act shall take effect as follows:

Section 1	*from passage and applicable to taxable years commencing on or after January 1, 2003*
Sec. 2	*from passage and applicable to taxable years commencing on or after January 1, 2003*
Sec. 3	*July 1, 2003, and applicable to sales occurring on or after July 1, 2003*
Sec. 4	*July 1, 2003, and applicable to sales occurring on or after July 1, 2003*
Sec. 5	*July 1, 2003, and applicable to sales occurring on or after July 1, 2003*
Sec. 6	*from passage and applicable to income years commencing on or after January 1, 2004*
Sec. 7	*from passage and applicable to taxable years commencing on or after January 1, 2004*
Sec. 8	*from passage and applicable to income years commencing on or after January 1, 2004*
Sec. 9	*from passage and applicable to income years commencing on or after January 1, 2003*
Sec. 10	*from passage and applicable to transfers from estates of decedents who die on or after January 1, 2003*
Sec. 11	*from passage and applicable to transfers occurring on or after January 1, 2003*
Sec. 12	*from passage and applicable to transfers occurring on or after January 1, 2003*
Sec. 13	*from passage and applicable to estates of decedents who die on or after January 1, 2003*
Sec. 14	*July 1, 2003, and applicable to gross earnings on sales occurring on or after July 1, 2003*
Sec. 15	*July 1, 2003, and applicable to gross earnings on sales occurring on or after July 1, 2003*
Sec. 16	*from passage and applicable to taxable years commencing on or after January 1, 2003*
Sec. 17	*July 1, 2003*
Sec. 18	*July 1, 2003*

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 & OLR Bill Analysis

State Impact:

Agency Affected	Fund-Type	FY 04 $	FY 05 $
Revenue Serv., Dept.	GF - Revenue Impact	See Below	See Below
Revenue Serv., Dept.	TF - Revenue Gain	See Below	See Below
Revenue Serv., Dept.	GF - Cost	See Below	See Below

Note: GF=General Fund; TF=Transportation Fund

Municipal Impact: None

Explanation

SUMMARY

The bill increases taxes and makes other revenue adjustments as shown below.

Provision	*Fiscal Impact*	
	FY 04	*FY 05*
	($-Millions)	
Income Tax		
• Increases tax rates from 5% to 5.5%, 5.75%, and 5.9% for joint filers with incomes over $500,000, $1,000,000, and $2,000,000, respectively. • Applies the new rates to other categories of filers with correspondingly high-income brackets. • Applies higher rates and new brackets from January 1, 2003 to January 1, 2007.	256.4 (18 months of revenue)	170.9 (12 months of revenue)
• Reduces the maximum property tax credit from $500 to $375 and the minimum from $100 to $75.	86.5	90.0
Sales and Use Tax		
• Increases the tax rate from 6% to 6.5% from July 1, 2003 through June 30, 2007.	250.0 GF 5.6 TF	273.0 GF 5.7 TF

Provision	*Fiscal Impact*	
	FY 04	*FY 05*
	($-Millions)	
• Eliminates the final step of the tax phase-out for computer and data processing services, maintaining the tax rate on such services at 1%.	-	10.8
• Eliminates the annual August sales-tax-free week for clothing and footwear costing under $300.	3.1	3.3
Business Taxes		
• Imposes a 10% annual surcharge for 2004 and 2005 on the corporation tax and on the annual tax on LLCs, LLPs, LPs, and S corporations.	21.4	39.0
• Limits annual credits against the insurance premium tax to 70% of liability without the credits.	2.5	2.5
• Imposes a 5% gross earnings tax on subscription satellite TV services.	3.0	3.0
Miscellaneous Taxes		
• Delays the remaining steps of the succession tax phase-out for Class B and C heirs for two years, thus maintaining current tax rates until January 1, 2005.	6.5	23.5
• Sets estate and generation-skipping transfer tax rates at the amount of the federal credit for such state taxes as of January 1, 2001 instead of as of the death or transfer date, thus increasing the taxes.	56.0	100.0
• Delays the remaining steps of the phase-out of the tax on gifts under $1 million for two years, thus maintaining current tax rates until January 1, 2006.	-	1.0
Tobacco Settlement Fund Transfers		
• Eliminates annual transfers from the Tobacco Settlement Fund to the Tobacco and Health and Biomedical Research funds and requires the settlement fund to send money only to the General Fund starting in FY 2003-04.	16.0	16.0

Provision	Fiscal Impact	
	FY 04	FY 05
	($-Millions)	
Total	701.4 GF	733.0 GF
Total	5.6 TF	5.7 TF

In addition to the revenue impact outline in the table above the Department of Revenue Services is anticipated to incur primarily one-time costs of $500,000 to administer the tax changes. These costs are likely to be incurred at the end of FY 03 and beginning of FY 04.

EFFECTIVE DATE: Various, see below.

A section-by-section fiscal impact and bill analysis appears below.

INCOME TAX

Rate Increases and Additional Brackets (§1)

Fiscal Impact

	FY 04	FY 05
Revenue Gain	$256.4 million (18 months of Revenue)	$170.9 million (12 months of Revenue)

Effective 1/1/03, and assumes that the Department of Revenue Services will adjust withholding tables 7/1/03.

OLR Analysis

For four tax years, from January 1, 2003 through December 31, 2006, the bill increases the number of income tax brackets from two to five by adding three new brackets for taxable incomes over $500,000 for joint filers; $265,000 for single filers; $250,000 for married people filing separately, and $396,000 for heads of household. It increases the tax rate on these higher income brackets from a flat 5.0% to 5.5%, 5.75%, and 5.9%.

During the same four-year period, the bill also eliminates the flat

5.0% income tax rate on trusts and estates and instead subjects their taxable income to the same tax rates as apply to single filers. Finally, the bill establishes new tax brackets for married people filing separately instead of applying the singles' brackets to such filers. The bill sets income levels for each tax bracket for married separate filers at 50% of the income levels applicable to the comparable bracket for joint filers (see Table 1).

Starting January 1, 2007, income tax rates and brackets revert to current levels.

TABLE 1: CURRENT AND PROPOSED (FOR 2003-2007) TAX RATES AND BRACKETS

TAX RATES		CT. TAXABLE INCOME (Income Exceeding Applicable Exemption)			
		Married Filing Jointly or as Surviving Spouse		*Single and Trusts & Estates*	
Current and as of 1/1/07	*Bill 1/1/03-12/31/06*	*From*	*To*	*From*	*To*
3.0% (Trusts & estates: 5%)	3.0%	$1	$20,000	$1	$10,000
5.0%	5.0	20,001	500,000	10,001	265,000
	5.5	500,001	1,000,000	265,001	531,500
	5.75	1,000,001	2,000,000	531,501	1,062,500
	5.9	Over $2,000,000		Over $1,062,500	
TAX RATES		*Head of Household*		*Married Filing Separately*	
Current and as of 1/1/07	*Bill 1/1/03-12/31/06*	*From*	*To*	*From*	*To*
3.0% (Trusts & estates: 5%)	3.0%	$1	$16,000	$1	$10,000
5.0%	5.0	16,001	396,000	10,001	250,000
	5.5	396,001	792,000	250,001	500,000
	5.75	792,001	1,580,000	500,001	1,000,000
	5.9	Over $1,580,000		Over $1,000,000	

Each tax rate shown applies only to the taxable income that falls within the corresponding income bracket and not to a taxpayer's taxable income above or below the bracket. Current and proposed rates apply to each person's taxable income, not his entire Connecticut adjusted gross income (AGI). Taxable income is Connecticut AGI minus exempt income. For 2003, the maximum exemptions are $12,000 for married people filing separately, $12,500 for singles, $19,000 for heads of household, and $24,000 for married couples filing jointly. Exemptions are phased out at higher incomes. Taxpayers with Connecticut AGIs above $71,000 for joint filers, $56,000 for heads of household, $36,000 for singles, and $35,000 for married separate filers receive no exemptions.

EFFECTIVE DATE: Upon passage and applicable to tax years starting on or after January 1, 2003.

Property Tax Credit (§2)

Fiscal Impact

	FY 04	FY 05
Revenue Gain	$86.5 million	$90.0 million

OLR Analysis

The bill reduces the maximum property tax credit against the income tax from $500 to $375 and the minimum credit from $100 to $75, starting in the 2003 tax year. As under current law, the maximum credit is reduced by 10% of the difference between the minimum and maximum credits for each $10,000 of a taxpayer's Connecticut AGI (10% for each $5,000 for married people filing separately) above specified levels. But under the bill, the credit reductions occur in increments of $30 rather than $40 to reflect the bill's 25% reduction in the minimum and maximum credits.

The current and proposed maximum credits for each filing category are shown in Table 2.

TABLE 2: CURRENT AND PROPOSED MAXIMUM PROPERTY TAX CREDITS

MAXIMUM CREDIT		CT ADJUSTED GROSS INCOME			
		Married Filing Jointly		*Single (for 2003 only)*	
Current	*Bill*	*From*	*To*	*From*	*To*
$500	$375	$24,001	$100,500	$12,501	$54,500
460	345	100,501	110,500	54,501	64,500
420	315	110,501	120,500	64,501	74,500
380	285	120,501	130,500	74,501	84,500
340	255	130,501	140,500	84,501	94,500
300	225	140,501	150,500	94,501	104,500
260	195	150,501	160,500	104,501	114,500
220	165	160,501	170,500	114,501	124,500
180	135	170,501	180,500	124,501	134,500
140	105	180,501	190,500	134,501	144,500
100	75	Over $190,500		Over $144,500	
MAXIMUM CREDIT		***Head of Household***		***Married Filing Separately***	
Current	*Bill*	*From*	*To*	*From*	*To*
$500	$375	$19,001	$78,500	$12,001	$50,250
460	345	78,501	88,500	50,251	55,250
420	315	88,501	98,500	55,251	60,250
380	285	98,501	108,500	60,251	65,250
340	255	108,501	118,500	65,251	70,250
300	225	118,501	128,500	70,251	75,250
260	195	128,501	138,500	75,251	80,250
220	165	138,501	148,500	80,251	85,250
180	135	148,501	158,500	85,251	90,250
140	105	158,501	168,500	90,251	95,250
100	75	Over $168,500		Over $92,250	

The income levels at which the maximum credit reduction starts for singles shown in Table 2 apply for the 2003 tax year. Starting January 1, 2004, the income at which the reduction starts for single filers is scheduled to increase every year until January 1, 2009, when it reaches $64,501.

EFFECTIVE DATE: Upon passage and applicable to tax years starting on or after January 1, 2003.

SALES AND USE TAX

Rate Increase (§§ 3-5)

Fiscal Impact

	FY 04	FY 05
General Fund - Revenue Gain	$250.0 million	$273.0 million
Transportation Fund – Revenue Gain	$5.6 million	$5.7 million

OLR Analysis

For a four-year period, from July 1, 2003 through June 30, 2007, the bill increases the sales and use tax rates from 6% to 6.5%.

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

Computer and Data Processing Services (§§ 3 & 5)

Fiscal Impact

	FY 04	FY 05
Revenue Gain	None	$10.8 million

OLR Analysis

The bill repeals a the final step of a scheduled phase-out of the 1% sales and use tax on computer and data processing services currently set to take effect July 1, 2004, thus maintaining the 1% tax on such services indefinitely.

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

Sales-Tax-Free-Week (§ 18)

Fiscal Impact

	FY 04	FY 05
Revenue Gain	$3.1 million	$3.3 million

OLR Analysis

The bill eliminates a sales tax exemption for clothing and footwear costing less than $300 that applies during the fourth week of August (the third Sunday of the month to the following Saturday) every year. The exemption is known as the "sales-tax-free week."

EFFECTIVE DATE: July 1, 2003

CORPORATION AND OTHER BUSINESS TAX SURCHARGES (§§ 6, 7, 8)

Fiscal Impact

	FY 04	FY 05
Revenue Gain	$21.4 million	$39.0 million

OLR Analysis

For tax years 2004 and 2005, the bill imposes a 10% annual surcharge on the corporation tax and the annual $250 tax on limited liability companies (LLCs), limited liability partnerships (LLPs), limited partnerships (LPs), and S corporations. The surcharge is due, payable, and collectible as part of each company's total tax for the year.

Companies subject to the corporation tax must calculate their surcharges based on their tax liability excluding credits. The surcharge applies to corporations paying the tax on their net income or on the alternative capital base.

Corporations, LLCs, LLPs, LPs, and S corporations are already subject to a 20% tax surcharge for the 2003 tax year.

EFFECTIVE DATE: Upon passage and applicable to income and taxable years starting on or after January 1, 2004.

PREMIUM TAX CREDIT LIMIT (§ 9)

Fiscal Impact

	FY 04	FY 05
Revenue Gain	$2.5 million	$2.5 million

OLR Analysis

The bill limits the total value of the credits an insurance company or HMO may take against the 1.75% premium tax in any year to 70% of its tax liability for that year without the credits. This limit already applies to credits against the corporation tax.

EFFECTIVE DATE: Upon passage and applicable to income years starting on or after January 1, 2003.

SUCCESSION TAX PHASE-OUT (§ 10)

Fiscal Impact

	FY 04	FY 05
Revenue Gain	$6.5 million	$23.5 million

OLR Analysis

The bill delays the remaining steps of the phase-out of the succession tax by two years and, by reversing the rate reduction that took effect on January 1, 2003, maintains the 2002 tax rates through the end of 2004.

The bill affects estates of people who die on or after January 1, 2003 that exceed certain values, and that pass either to collateral descendants, such as brothers, sisters, nephews, and nieces (Class B heirs) or to other, more remote, heirs (Class C heirs). Estates passing to surviving spouses (Class AA heirs) or immediate family members and direct descendants, such as children and grandchildren (Class A heirs), are tax-exempt under both current law and the bill.

The succession tax is currently scheduled for elimination as of January 1, 2004 for Class B heirs and as of January 1, 2006 for Class C heirs. The bill delays elimination for Class B heirs to January 1, 2006 and for Class C heirs to January 1, 2008. Table 3 shows when remaining succession tax rates are effective under current law and under the bill for each class of heirs. (Rates given below include applicable surcharges of 10% plus 30% imposed under CGS § 12-344a.)

TABLE 3: CURRENT AND PROPOSED SUCCESSION TAX RATE EFFECTIVE DATES

CLASS B		
EFFECTIVE		*Estate Size & Tax Rate (including surcharges)*
Current Law	*Bill*	
Death Date: January 1, 2002 to January 1, 2003	**Death Date:** January 1, 2002 to January 1, 2005	• $600,000 or less: no tax • $600,000 to $1,000,000: 11.7% • More than $1,000,000: 14.3%
Death Date: January 1, 2003 to January 1, 2004	**Death Date:** January 1, 2005 to January 1, 2006	• $1,500,000 or less: no tax • More than $1,500,000: 11.44%
Death Date: January 1, 2004 or after	**Death Date:** January 1, 2006 or after	no tax
CLASS C		
EFFECTIVE		*Estate Sizes & Tax Rate (including surcharges)*
Current Law	*Bill*	
Death Date: January 1, 2002 to January 1, 2003	**Death Date:** January 1, 2002 to January 1, 2005	• $200,000 or less: no tax • $200,001 to $250,000: 14.3% • $250,001 to $400,000: 15.73% • $400,001 to $600,000: 17.16% • $600,001 to $1,000,000: 18.59% • More than $1,000,000: 20.02%
Death Date: January 1, 2003 to January 1, 2004	**Death Date:** January 1, 2005 to January 1, 2006	• $400,000 or less: no tax • $400,001 to $600,000: 17.16% • $600,001 to $1,000,000: 18.59% • More than $1,000,000: 20.02%

Death Date: January 1, 2004 to January 1, 2005	**Death Date:** January 1, 2006 to January 1, 2007	• $600,000 or less: no tax • $600,001 to $1,000,000: 18.59% • More than $1,000,000: 20.02%
Death Date: January 1, 2005 to January 1, 2006	**Death Date:** January 1, 2007 to January 1, 2008	• $1,500,000 or less: no tax • More than $1,500,000: 20.02%
Death Date: January 1, 2006 or after	**Death Date:** January 1, 2008 or after	no tax

EFFECTIVE DATE: Upon passage and applicable to transfers from estates of those who die on or after January 1, 2003.

ESTATE AND GENERATION-SKIPPING TRANSFER TAXES (§§ 11, 12, 13)

Fiscal Impact

	FY 04	FY 05
Revenue Gain	$56.0 million	$100.0 million

OLR Analysis

The bill decouples the state generation-skipping transfer and estate taxes from the federal ones by setting the state tax rates at the amount of the federal credit for such state taxes as of January 1, 2001, rather than that allowable as of the date of the transfer or death. It also fixes the value of property subject to the taxes at the value prescribed under the federal tax law in effect as of January 1, 2001. Under current law, the state taxes are linked to the corresponding federal taxes in effect on the transfer or death date, and the state tax rates are set to absorb the maximum amount of the federal credit at the time of the transfer or death.

Connecticut's generation-skipping transfer tax applies to transfers to beneficiaries more than one generation below that of the transferor, whether made directly or through a trust or similar arrangement. Connecticut's tax applies to every such transfer when the original transferor is a state resident on the date of the original transfer or the transfer includes real or tangible personal property located in Connecticut.

Connecticut currently levies an estate tax when the total federal estate tax credit for state taxes exceeds the Connecticut inheritance tax paid. The 2001 federal tax relief act phases out the federal credit for state taxes from 2002 through 2005 at the rate of 25% per year, thereby eliminating the basis of the current Connecticut estate tax. The federal law replaces the estate tax credit after 2005 with a federal estate tax deduction for state taxes paid and eliminates both the federal estate and generation-skipping transfer taxes entirely as of January 1, 2010.

EFFECTIVE DATE: Upon passage and applicable to transfers and the estates of people who die on or after January 1, 2003.

GROSS EARNINGS TAX ON SATELLITE TV SERVICE (§§ 14, 15)

Fiscal Impact

	FY 04	FY 05
Revenue Gain	$3.0 million	$3.0 million

OLR Analysis

The bill imposes a 5% tax on gross earnings from businesses providing one-way transmission of video programs to Connecticut subscribers by satellite. The tax already applies to cable television companies. The bill requires each satellite TV service's taxable gross earnings to be apportioned to Connecticut based on the proportion of its Connecticut subscribers on the first and last day of each tax year to its total subscribers. It requires services to report their total number of subscribers and their Connecticut subscribers to the Department of Revenue Services (DRS) on their tax returns, which must be filed every year by April 1.

EFFECTIVE DATE: July 1, 2003 and applicable to gross earnings on sales starting on or after that date.

GIFT TAX PHASE-OUT (§ 16)

Fiscal Impact

	FY 04	FY 05
Revenue Gain	None	$1.0 million

OLR Analysis

The bill delays the remaining steps of the phase-out of the tax on gifts between $25,000 and $1 million by two years, thus maintaining the current gift tax rates until January 1, 2006. Under the bill, the phase-out resumes as of that date and runs until January 1, 2010. The phase-out is currently scheduled to run from January 1, 2004 to January 1, 2008 (see Table 4).

TABLE 4: CURRENT AND PROPOSED GIFT TAX PHASE-OUT

IN EFFECT DURING		GIFT AMOUNT	TAX
Current Law	*Bill*		
2003	2003 2004 2005	$25,000 or less	None
		$25,001-$50,000	$250 plus 2% of the amount over $25,000
		$50,001-$75,000	$750 plus 3% of the amount over $50,000
		$75,001-$100,000	$1,500 plus 4% of the amount over $75,000
		$100,001-$675,000	$2,500 plus 5% of the amount over $100,000
		Over $675,000	$31,250 plus 6% of the amount over $675,000
2004	2006	$50,000 or less	None
		$50,001-$75,000	$750 plus 3% of the amount over $50,000
		$75,001-$100,000	$1,500 plus 4% of the amount over $75,000
		$100,001-$700,000	$2,500 plus 5% of the amount over $100,000

		Over $700,000	$32,500 plus 6% of the amount over $700,000
2005	2007	$75,000 or less	None
		$75,001-$100,000	$1,500 plus 4% of the amount over $75,000
		$100,001-$700,000	$2,500 plus 5% of the amount over $100,000
		Over $700,000	$32,500 plus 6% of the amount over $700,000
2006	2008	$100,000 or less	None
		$100,001-$850,000	$2,500 plus 5% of the amount over $100,000
		Over $850,000	$40,000 plus 6% of the amount over $850,000
2007	2008	$950,000 or less	None
		Over $950,000	$45,000 plus 6% of the amount over $950,000
2008 and after	2010 and after	$1,000,000 or less	None
		Over $1,000,000	$47,500 plus 6% of the amount over $1,000,000

EFFECTIVE DATE: Upon passage and applicable starting on or after January 1, 2003.

TOBACCO SETTLEMENT FUND DISBURSEMENTS (§17)

Fiscal Impact

	FY 04	FY 05
Revenue Gain	$16 million	$16.0 million

OLR Analysis

Starting in FY 2003-04, the bill eliminates $16 million in required annual payments from the Tobacco Settlement Fund to the Tobacco and Health Trust Fund and the Biomedical Research Trust Fund. Under current law, the settlement fund must transfer $12 million per year to the trust fund and $4 million per year to the biomedical fund. The bill requires annual disbursements only to the General Fund.

The bill also eliminates (1) obsolete language concerning required settlement fund disbursements in FY 1999-00 and FY 2000-01 and (2) a tobacco grant program administered by the Office of Policy and Management, in consultation with legislative leaders and the chairmen and ranking members of the Public Health and Appropriations committees. The grant program was funded by a $5 million disbursement from the settlement fund for FY 1999-00 and grants had to be used to reduce tobacco abuse through prevention, education, cessation, treatment, enforcement, and health needs programs.

EFFECTIVE DATE: July 1, 2003

BACKGROUND

Tobacco and Health Trust Fund

The Tobacco and Health Trust Fund is a separate nonlapsing fund that can accept transfers from the Tobacco Settlement Fund and apply for and accept gifts, grants, or donations from public or private sources. Its purpose is to (1) support and encourage programs to reduce tobacco abuse through prevention, education, and cessation; (2) support and encourage program development for substance abuse reduction; and (3) develop and implement programs to meet the state's unmet physical and mental health needs.

Biomedical Research Trust Fund

The Biomedical Research Trust Fund is a separate nonlapsing fund can accept transfers from the Tobacco Settlement Fund and gifts, grants, or donations from public or private sources. The health commissioner may make grants from the fund to nonprofit, tax-exempt colleges and universities and to hospitals to conduct research on heart disease, cancer, and other tobacco-related diseases.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 26 Nay 18

OLR Bill Analysis
sSB 1160

AN ACT CONCERNING REVENUE ADJUSTMENTS

SUMMARY:
The OLR bill analysis for sSB 1160 is incorporated into the fiscal note (see above).

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 26 Nay 18