



Senate

General Assembly

File No. 265

February Session, 2004

Substitute Senate Bill No. 500

Senate, March 25, 2004

The Committee on Commerce reported through SEN. LEBEAU of the 3rd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING THE IMPACT OF CERTAIN STATE TAX CREDITS.

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

1 Section 1. Section 32-1i of the general statutes, as amended by
2 section 1 of public act 03-197, is repealed and the following is
3 substituted in lieu thereof (*Effective October 1, 2004*):

4 (a) The Commissioner of Economic and Community Development
5 shall, by July 1, 1995, develop improved objectives, measures of
6 program success and standards for granting of financial and
7 nonfinancial assistance under programs administered by said
8 commissioner. Not later than January 1, 2004, and annually thereafter,
9 the commissioner shall prepare a report analyzing the performance of
10 such programs during the preceding fiscal year in accordance with
11 such objectives, measures and standards and submit the report, in
12 accordance with section 11-4a, to the joint standing committees of the
13 General Assembly having cognizance of matters relating to commerce,

14 appropriations and finance, revenue and bonding. Not later than
15 January 1, 2006, the Commissioner of Economic and Community
16 Development shall develop improved measures of the impact and
17 program success for the granting of economic development tax credits
18 administered by said commissioner. Not later than January 1, 2007,
19 and annually thereafter, the commissioner shall prepare a report
20 analyzing the performance and impact of the economic development
21 tax credits administered by the commissioner in accordance with such
22 measures and submit the report, in accordance with section 11-4a to
23 the joint standing committees of the General Assembly having
24 cognizance of matters relating to commerce, appropriations and
25 finance, revenue and bonding. The Department of Revenue Services
26 shall provide the Commissioner of Economic and Community
27 Development with any information needed by said commissioner to
28 evaluate the impact of such economic development tax credit
29 programs. Nothing in this section shall be construed to authorize the
30 Commissioner of Economic and Community Development to name or
31 list any individual taxpayer who has received a tax credit under a
32 program administered by the commissioner.

33 (b) Not later than January 1, 2004, and biennially thereafter, the
34 report prepared pursuant to subsection (a) of this section shall include
35 an economic analysis of the performance of programs administered by
36 the commissioner, based on the following criteria, in addition to any
37 objectives, measures of program success and standards for granting of
38 financial and nonfinancial assistance developed in accordance with
39 subsection (a) of this section: (1) The extent to which recipients of
40 assistance in amounts greater than one million dollars have (A)
41 directly or indirectly increased property values in the municipalities in
42 which the recipients are located; (B) contributed to an increased state
43 gross product; (C) contributed to increased state productivity; (D)
44 enhanced other state-funded economic development projects; (E)
45 directly or indirectly created jobs in the state; and (F) stopped or
46 decreased the loss of jobs from the state; (2) the extent to which
47 employees of recipients of assistance participate in health benefit plans
48 offered by such recipients; (3) the extent to which recipients of

49 assistance offer unique economic, social, cultural or aesthetic attributes
50 to the municipalities in which the recipients are located or to the state;
51 and (4) any other qualitative criteria for granting financial and
52 nonfinancial assistance that said commissioner deems appropriate.

53 (c) The commissioner shall make the [report] reports required under
54 subsection (a) of this section available electronically by posting such
55 report on the Department of Economic and Community
56 Development's website not later than thirty days after the date such
57 report is submitted to the joint standing committees of the General
58 Assembly having cognizance of matters relating to commerce,
59 appropriations and finance, revenue and bonding.

| | |
|--|------------------------|
| This act shall take effect as follows: | |
| Section 1 | <i>October 1, 2004</i> |

CE *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-Effect | FY 05 \$ | FY 06 \$ |
|--|-------------|----------|----------|
| Department of Economic & Community Development | GF - Cost | Minimal | Minimal |
| Revenue Serv., Dept. | GF - Cost | None | None |

Note: GF=General Fund

Municipal Impact: None

Explanation

Requiring the Commissioner of Economic and Community Development to develop improved impact measures concerning economic development tax credits and annually report the data not later than January 1, 2007, will minimally increase costs to the agency. It is anticipated that 5-10% of a full-time development agent diverted from other duties, or additional funds in the amount of \$2,000-\$5,000 a year, will be necessary to carry out these functions.

The provisions of the legislation are not anticipated to have any fiscal impact on the Department of Revenue Services.

OLR Bill Analysis

sSB 500

AN ACT CONCERNING THE IMPACT OF CERTAIN STATE TAX CREDITS**SUMMARY:**

This bill requires the Department of Economic and Community Development (DECD) commissioner to annually assess how the business tax credit programs he administers benefit the economy. The law authorizes tax credits for many different purposes, but in some cases requires businesses to obtain the commissioner's approval before they can claim them on their tax returns. These latter credits include those for businesses in enterprise zones and other designated areas that create jobs or develop facilities.

The commissioner must develop standards for measuring the programs' impact and success by January 1, 2006 and report annually to the Commerce; Appropriations; and Finance Revenue, and Bonding committees on the extent to which the programs meet those standards. The first report is due January 1, 2007.

The bill requires the Department of Revenue Services commissioner to provide any information the DECD commissioner needs to evaluate the programs' impact, but bars him from naming or listing any business taxpayer who received a credit under the programs.

EFFECTIVE DATE: October 1 2004

BACKGROUND***Economic Development Tax Credits***

The law authorizes credits for many different economic development-related purposes, including research and development, job training, and capital investments. Table 1 lists the economic development tax credits and identifies those requiring the commissioner's approval.

Table 1: Economic Development Business Tax Credits

| Popular Name | Description | Eligibility | | |
|---|---|--|------------------------|---|
| | | Business Sector | DECD Approval Required | Project or Activity |
| Enterprise Zone (EZ) and Enterprise Corridor Zone (ECZ) | Ten-year, 50% credit in state approved EZs and ECZs | Manufacturers, financial services, and biotech in towns with major research university | Yes | Create at least 150 jobs or fill 30% of new jobs (regardless of total) with zone or city residents eligible for federal job training |
| Railroad Depots | Same as above | Manufacturers and financial services | Yes | Renovating abandoned or underutilized depots and creating jobs meeting same criteria that applies to EZ businesses |
| Defense Plants | Benefits are the same as above but available in all towns except distressed municipalities | Defense firms hurt by defense cuts and manufacturers occupying vacant defense plants | Yes | Renovating or expanding plant for non-defense production and creating jobs meeting criteria that apply to EZ businesses |
| Targeted Investment Communities (TIC) | Benefits are the same as above but available outside of EZs in towns with EZ (at the DECD commissioner's discretion) | Manufacturers, financial services, and biotech firms in towns with major research university | Yes | New or rehabilitated plants and new machinery and equipment |
| EZ Startups | Three-year, 100% credit followed by seven-year, 50% credit in EZs | All sectors | No | Business start-ups creating specified number of jobs for zone or town residents eligible for federal job training |
| Entertainment Districts | 50% credit in towns with enterprise zones that have also designated entertainment districts | Specified entertainment businesses | Yes | Same as EZs |
| Incremental R&D Tax Credit | 20% credit against increase in R&D expenditure over prior year, with 15-year carry-forward for unused credits; available statewide | All sectors | No | R&D spending |
| Rolling R&D Tax Credit | Credit calculated based on two-step formula; credits available statewide | All sectors | Yes | R&D spending |
| Non incremental R&D Tax Credits for Small Businesses | Credit against R&D expenditure by qualified small businesses (under \$ 100 million annual revenue); available statewide | All sectors | No | R&D spending |
| Incremental Credit for Capital Goods | 10% for companies with fewer than 250 full-time employees, 5% for those with between 250 and 500; available statewide | All sectors | No | Increased spending on capital goods-credit applies to the increase in the money spent on capital goods over the prior years |
| Non incremental tax credits for fixed capital and human capital investments | 4% for 1999, 5% for 2000 and thereafter; available statewide | All sectors | No | Fixed capital acquired from unrelated person, having depreciable life of at least four years meeting statutory criteria, and meeting other statutory criteria Human capital includes job training, day care facilities, and contributions to colleges and universities |
| Financial Services and Information Technology Firms Tax Credit | Credit determined by statutory schedule; available to firms in enterprise zone towns building facilities within the town but outside the zone | Financial services and information technology firms | Yes | Credit amounts range from 15% for creating between 300-599 jobs and 50% for creating 2,000 or more jobs |
| Financial Institutions | 10-year, 50% credits available | Financial institutions | Yes | Constructing facilities and |

| Popular Name | Description | Eligibility | | |
|--|---|--|------------------------|--|
| | | Business Sector | DECD Approval Required | Project or Activity |
| Tax Credits | statewide | | | creating specified number of jobs |
| Tax credit for data processing equipment | 100% credit on property taxes paid on data processing equipment, available statewide | All sectors | Yes | Property tax payments on data processing equipment |
| Insurance Reinvestment Fund Credits | Credit applies to total investment spread over 10 years: investors can claim 3% credit in years four through six and 10% for next four years; available statewide | Investments in Connecticut-based insurance companies | Yes | Investments in a fund dedicated exclusively for investing in Connecticut-based insurance companies |
| Guarantee Fee Tax Credit | Credit for Small Business Administration fees; available statewide | Small businesses | No | Applying for Small Business Administration financing |
| Urban and Industrial Sites Remediation Program | Up to \$100 million in credits for investing in new facilities in designated TICs and distressed municipalities or cleaning up contaminated sites anywhere in state | Business | Yes | To channel investment to urban areas |

Related Bill

SB 602, which the Finance Committee heard on March 15, requires companies claiming any tax credits to annually report to the revenue services commissioner on the number of jobs they created and the number they eliminated in Connecticut during the period for which they claim the credits. It also requires the commissioner to summarize and report this data annually to the Finance Committee, beginning January 1, 2005. The bill takes effect upon passage.

COMMITTEE ACTION

Commerce Committee

Joint Favorable Substitute

Yea 26 Nay 0