



House of Representatives

General Assembly

File No. 560

February Session, 2006

Substitute House Bill No. 5317

House of Representatives, April 19, 2006

The Committee on Finance, Revenue and Bonding reported through REP. STAPLES of the 96th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT ESTABLISHING PILOT PROGRAMS EXEMPTING HUBZONE BUSINESSES FROM THE SALES TAX.

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

1 Section 1. (NEW) (*Effective July 1, 2006*) (a) The Commissioner of
2 Economic and Community Development, in consultation with the
3 Commissioner of Revenue Services, shall establish three pilot
4 programs exempting from the application of the sales tax, imposed
5 under chapter 219 of the general statutes, purchases of tangible
6 personal property or services by certified HUBZone small businesses
7 located in an area that qualifies as an historically underutilized
8 business zone pursuant to Title VI (HUBZone Act of 1997) of the Small
9 Business Reorganization Act of 1997 (P.L. 105-135). The commissioner
10 shall establish one such pilot program in a municipality located in
11 Hartford county, one in a municipality located in Fairfield county and
12 one in a municipality located in New Haven county. The pilot
13 programs shall terminate on June 30, 2011.

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 07 \$	FY 08 \$
Department of Economic & Community Development	GF - Cost	See Below	See Below
Department of Revenue Services	GF - Revenue Loss	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill will result in an indeterminate revenue loss from the Sales and Use Tax to the General Fund. The revenue loss is from the sales tax exemption given to certified HUBZone businesses established in this bill. The revenue loss is indeterminate because it is unknown what businesses are going to receive the sales tax exemption.

Requiring the Department of Economic and Community Development (DECD) to establish and administer 3 HUBZone pilot programs, will increase costs to the DECD. It is estimated that the DECD will require an Economic Development Specialist with an annual salary in FY 07 of \$65,000 plus fringe benefits¹ and associated other expense costs of \$5,000 - \$10,000 to establish and administer the program.

¹ The fringe benefit costs for state employees are budgeted centrally in the Miscellaneous Accounts administered by the Comptroller. The estimated first year fringe benefit rate as a percentage of payroll is 23.6%, effective July 1, 2005. The first year fringe benefit costs for new positions do not include pension costs. The state's pension contribution is based upon the prior year's certification by the actuary for the State Employees Retirement System (SERS). The SERS 2005-06 fringe benefit rate is 34.7%, which when combined with the non pension fringe benefit rate would total 58.3%.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis**sHB 5317*****AN ACT ESTABLISHING PILOT PROGRAMS EXEMPTING HUBZONE BUSINESSES FROM THE SALES TAX.*****SUMMARY:**

This bill requires the Department of Economic and Community Development (DECD) commissioner, in consultation with the revenue services commissioner, to set up pilot programs in three municipalities to exempt certified HUBZone businesses (see below) from paying state sales tax on taxable services or items they buy. The programs must be in three municipalities, one each in Hartford, New Haven, and Fairfield counties. They must terminate on June 30, 2011. The DECD commissioner must report on the programs annually by each October 1, starting in 2007, and continuing for the program's duration to the Commerce and Finance, Revenue and Bonding committees.

A HUBZone is a "historically under utilized business" zone established by the federal Small Business Administration. To become certified for the program under the federal law, a business must be located in a HUBZone and be owned or controlled by U.S. citizens. At least 35% of its employees must live in the zone.

EFFECTIVE DATE: July 1, 2006

COMMITTEE ACTION

Commerce Committee

Joint Favorable Substitute Change of Reference
Yea 29 Nay 0 (03/14/2006)

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 48 Nay 2 (04/04/2006)