



Senate

General Assembly

File No. 548

February Session, 2006

Substitute Senate Bill No. 676

Senate, April 19, 2006

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 REVENUES OF THE STATE.

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

1 Section 1. Subparagraph (B) of subdivision (20) of subsection (a) of
2 section 12-701 of the 2006 supplement to the general statutes is
3 repealed and the following is substituted in lieu thereof (*Effective July*
4 *1, 2006, and applicable to taxable years commencing on or after January 1,*
5 *2006*):

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

15 properly includable in gross income for federal income tax purposes
16 and not otherwise subtracted from federal adjusted gross income
17 pursuant to clause (x) of this subparagraph in computing Connecticut
18 adjusted gross income, any tier 1 railroad retirement benefits, (v) to the
19 extent any additional allowance for depreciation under Section 168(k)
20 of the Internal Revenue Code, as provided by Section 101 of the Job
21 Creation and Worker Assistance Act of 2002, for property placed in
22 service after December 31, 2001, but prior to September 10, 2004, was
23 added to federal adjusted gross income pursuant to subparagraph (A)
24 (ix) of this subdivision in computing Connecticut adjusted gross
25 income for a taxable year ending after December 31, 2001, twenty-five
26 per cent of such additional allowance for depreciation in each of the
27 four succeeding taxable years, (vi) to the extent properly includable in
28 gross income for federal income tax purposes, any interest income
29 from obligations issued by or on behalf of the state of Connecticut, any
30 political subdivision thereof, or public instrumentality, state or local
31 authority, district or similar public entity created under the laws of the
32 state of Connecticut, (vii) to the extent properly includable in
33 determining the net gain or loss from the sale or other disposition of
34 capital assets for federal income tax purposes, any gain from the sale
35 or exchange of obligations issued by or on behalf of the state of
36 Connecticut, any political subdivision thereof, or public
37 instrumentality, state or local authority, district or similar public entity
38 created under the laws of the state of Connecticut, in the income year
39 such gain was recognized, (viii) any interest on indebtedness incurred
40 or continued to purchase or carry obligations or securities the interest
41 on which is subject to tax under this chapter but exempt from federal
42 income tax, to the extent that such interest on indebtedness is not
43 deductible in determining federal adjusted gross income and is
44 attributable to a trade or business carried on by such individual, (ix)
45 ordinary and necessary expenses paid or incurred during the taxable
46 year for the production or collection of income which is subject to
47 taxation under this chapter but exempt from federal income tax, or the
48 management, conservation or maintenance of property held for the
49 production of such income, and the amortizable bond premium for the

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

85 any distribution to such beneficiary from any qualified state tuition
86 program, as defined in Section 529(b) of the Internal Revenue Code,
87 established and maintained by this state or any official, agency or
88 instrumentality of the state, (xiii) to the extent allowable under section
89 3 of this act, contributions to accounts established pursuant to any
90 qualified state tuition program, as defined in Section 529(b) of the
91 Internal Revenue Code, established and maintained by this state or
92 any official, agency or instrumentality of the state, (xiv) to the extent
93 properly includable in gross income for federal income tax purposes,
94 the amount of any Holocaust victims' settlement payment received in
95 the taxable year by a Holocaust victim, [and (xiv)] (xv) to the extent
96 properly includable in gross income for federal income tax purposes of
97 an account holder, as defined in section 31-51ww, interest earned on
98 funds deposited in the individual development account, as defined in
99 section 31-51ww, of such account holder, and (xvi) the amount paid by
100 a taxpayer during the taxable year for premiums on a long-term care
101 policy, as defined in section 38a-501 or 38a-528, or a long-term care
102 policy issued pursuant to section 38a-475, under which policy the
103 taxpayer is insured during the taxable year.

104 Sec. 2. Subparagraph (B) of subdivision (20) of subsection (a) of
105 section 12-701 of the 2006 supplement to the general statutes, as
106 amended by section 71 of public act 05-221, is repealed and the
107 following is substituted in lieu thereof (*Effective July 1, 2006, and*
108 *applicable to taxable years commencing on or after January 1, 2008*):

109 (B) There shall be subtracted therefrom (i) to the extent properly
110 includable in gross income for federal income tax purposes, any
111 income with respect to which taxation by any state is prohibited by
112 federal law, (ii) to the extent allowable under section 12-718, exempt
113 dividends paid by a regulated investment company, (iii) the amount of
114 any refund or credit for overpayment of income taxes imposed by this
115 state, or any other state of the United States or a political subdivision
116 thereof, or the District of Columbia, to the extent properly includable
117 in gross income for federal income tax purposes, (iv) to the extent
118 properly includable in gross income for federal income tax purposes

119 and not otherwise subtracted from federal adjusted gross income
120 pursuant to clause (x) of this subparagraph in computing Connecticut
121 adjusted gross income, any tier 1 railroad retirement benefits, (v) to the
122 extent any additional allowance for depreciation under Section 168(k)
123 of the Internal Revenue Code, as provided by Section 101 of the Job
124 Creation and Worker Assistance Act of 2002, for property placed in
125 service after December 31, 2001, but prior to September 10, 2004, was
126 added to federal adjusted gross income pursuant to subparagraph
127 (A)(ix) of this subdivision in computing Connecticut adjusted gross
128 income for a taxable year ending after December 31, 2001, twenty-five
129 per cent of such additional allowance for depreciation in each of the
130 four succeeding taxable years, (vi) to the extent properly includable in
131 gross income for federal income tax purposes, any interest income
132 from obligations issued by or on behalf of the state of Connecticut, any
133 political subdivision thereof, or public instrumentality, state or local
134 authority, district or similar public entity created under the laws of the
135 state of Connecticut, (vii) to the extent properly includable in
136 determining the net gain or loss from the sale or other disposition of
137 capital assets for federal income tax purposes, any gain from the sale
138 or exchange of obligations issued by or on behalf of the state of
139 Connecticut, any political subdivision thereof, or public
140 instrumentality, state or local authority, district or similar public entity
141 created under the laws of the state of Connecticut, in the income year
142 such gain was recognized, (viii) any interest on indebtedness incurred
143 or continued to purchase or carry obligations or securities the interest
144 on which is subject to tax under this chapter but exempt from federal
145 income tax, to the extent that such interest on indebtedness is not
146 deductible in determining federal adjusted gross income and is
147 attributable to a trade or business carried on by such individual, (ix)
148 ordinary and necessary expenses paid or incurred during the taxable
149 year for the production or collection of income which is subject to
150 taxation under this chapter but exempt from federal income tax, or the
151 management, conservation or maintenance of property held for the
152 production of such income, and the amortizable bond premium for the
153 taxable year on any bond the interest on which is subject to tax under

154 this chapter but exempt from federal income tax, to the extent that
155 such expenses and premiums are not deductible in determining federal
156 adjusted gross income and are attributable to a trade or business
157 carried on by such individual, (x) (I) for a person who files a return
158 under the federal income tax as an unmarried individual whose
159 federal adjusted gross income for such taxable year is less than fifty
160 thousand dollars, or as a married individual filing separately whose
161 federal adjusted gross income for such taxable year is less than fifty
162 thousand dollars, or for a husband and wife who file a return under
163 the federal income tax as married individuals filing jointly whose
164 federal adjusted gross income for such taxable year is less than sixty
165 thousand dollars or a person who files a return under the federal
166 income tax as a head of household whose federal adjusted gross
167 income for such taxable year is less than sixty thousand dollars, an
168 amount equal to the Social Security benefits includable for federal
169 income tax purposes; and (II) for a person who files a return under the
170 federal income tax as an unmarried individual whose federal adjusted
171 gross income for such taxable year is fifty thousand dollars or more, or
172 as a married individual filing separately whose federal adjusted gross
173 income for such taxable year is fifty thousand dollars or more, or for a
174 husband and wife who file a return under the federal income tax as
175 married individuals filing jointly whose federal adjusted gross income
176 from such taxable year is sixty thousand dollars or more or for a
177 person who files a return under the federal income tax as a head of
178 household whose federal adjusted gross income for such taxable year
179 is sixty thousand dollars or more, an amount equal to the difference
180 between the amount of Social Security benefits includable for federal
181 income tax purposes and the lesser of twenty-five per cent of the Social
182 Security benefits received during the taxable year, or twenty-five per
183 cent of the excess described in Section 86(b)(1) of the Internal Revenue
184 Code, (xi) to the extent properly includable in gross income for federal
185 income tax purposes, any amount rebated to a taxpayer pursuant to
186 section 12-746, (xii) to the extent properly includable in the gross
187 income for federal income tax purposes of a designated beneficiary,
188 any distribution to such beneficiary from any qualified state tuition

189 program, as defined in Section 529(b) of the Internal Revenue Code,
190 established and maintained by this state or any official, agency or
191 instrumentality of the state, (xiii) to the extent allowable under section
192 3 of this act, contributions to accounts established pursuant to any
193 qualified state tuition program, as defined in Section 529(b) of the
194 Internal Revenue Code, established and maintained by this state or
195 any official, agency or instrumentality of the state, (xiv) to the extent
196 properly includable in gross income for federal income tax purposes,
197 the amount of any Holocaust victims' settlement payment received in
198 the taxable year by a Holocaust victim, [(xiv)] (xv) to the extent
199 properly includable in gross income for federal income tax purposes of
200 an account holder, as defined in section 31-51ww, interest earned on
201 funds deposited in the individual development account, as defined in
202 section 31-51ww, of such account holder, (xvi) the amount paid by a
203 taxpayer during the taxable year for premiums on a long-term care
204 policy, as defined in section 38a-501 or 38a-528, or a long-term care
205 policy issued pursuant to section 38a-475, under which policy the
206 taxpayer is insured during the taxable year, and [(xv)] (xvii) to the
207 extent properly included in gross income for federal income tax
208 purposes, fifty per cent of the income received from the United States
209 government as retirement pay for a retired member of (I) the Armed
210 Forces of the United States, as defined in Section 101 of Title 10 of the
211 United States Code, or (II) the National Guard, as defined in Section
212 101 of Title 10 of the United States Code.

213 Sec. 3. (NEW) (*Effective July 1, 2006, and applicable to taxable years*
214 *commencing on or after January 1, 2006*) The maximum annual
215 modification under subparagraph (B)(xiii) subdivision (20) of
216 subsection (a) of section 12-701 of the 2006 supplement of the general
217 statutes, as amended by this act, shall be equal to the amount of
218 contributions to all accounts established pursuant to any qualified
219 state tuition program, as defined in Section 529(b) of the Internal
220 Revenue Code, established and maintained by this state or any official,
221 agency or instrumentality of the state, but shall not exceed five
222 thousand dollars for each individual taxpayer, or ten thousand dollars
223 for taxpayers filing a joint return. Any amount of a contribution that is

224 not subtracted by the taxpayer in the year for which the contribution is
225 made, on or after January 1, 2006, may be carried forward as a
226 subtraction from income for the succeeding five years; provided the
227 amount subtracted shall not exceed the maximum allowed in each
228 subsequent taxable year. Transfers into such accounts from another
229 state's qualified tuition program which were made on or after January
230 1, 2006, shall be treated as contributions for purposes of the
231 subtraction. Any distributions taken by a distributee during a tax year
232 in which the distributee also makes a deductible contribution which
233 are not excluded from adjusted gross income in the taxable year under
234 Section 529 of the Internal Revenue Code shall be included in
235 Connecticut adjusted gross income.

236 Sec. 4. Subsection (a) of section 4-30a of the general statutes is
237 repealed and the following is substituted in lieu thereof (*Effective July*
238 *1, 2006*):

239 (a) After the accounts for the General Fund have been closed for
240 each fiscal year and the Comptroller has determined the amount of
241 unappropriated surplus in said fund, after any amounts required by
242 provision of law to be transferred for other purposes have been
243 deducted, the amount of such surplus shall be transferred by the State
244 Treasurer in three equal parts. One-third shall be transferred to a
245 special fund to be known as the Budget Reserve Fund. When the
246 amount in said fund equals ten per cent of the net General Fund
247 appropriations for the fiscal year in progress, no further transfers shall
248 be made by the Treasurer to said fund and the amount [of such surplus
249 in excess of that transferred to said fund shall be deemed to be
250 appropriated] remaining of such one-third of such surplus shall be
251 included in the remaining two-thirds. Such two-thirds shall be divided
252 equally, with one-half deemed appropriated to the State Employees
253 Retirement Fund, in addition to the contributions required pursuant to
254 section 5-156a, but not exceeding five per cent of the unfunded past
255 service liability of the system as set forth in the most recent actuarial
256 valuation certified by the Retirement Commission. The remaining
257 third shall be deemed appropriated to the Teachers' Retirement Fund,

258 in addition to the contributions required pursuant to section 10-183z,
259 but not exceeding five per cent of the unfunded past service liability of
260 the system as set forth in the most recent actuarial valuation certified
261 by the Teachers' Retirement Board. Such surplus in excess of the
262 amounts transferred to the Budget Reserve Fund, [and] the state
263 employees retirement system, and the Teachers' Retirement Fund shall
264 be deemed to be appropriated for: (1) Redeeming prior to maturity any
265 outstanding indebtedness of the state selected by the Treasurer in the
266 best interests of the state; (2) purchasing outstanding indebtedness of
267 the state in the open market at such prices and on such terms and
268 conditions as the Treasurer shall determine to be in the best interests of
269 the state for the purpose of extinguishing or defeasing such debt; (3)
270 providing for the defeasance of any outstanding indebtedness of the
271 state selected by the Treasurer in the best interests of the state by
272 irrevocably placing with an escrow agent in trust an amount to be used
273 solely for, and sufficient to satisfy, scheduled payments of both interest
274 and principal on such indebtedness; or (4) any combination of these
275 methods. Pending the use or application of such amount for the
276 payment of interest and principal, such amount may be invested in (A)
277 direct obligations of the United States government, including state and
278 local government treasury securities that the United States Treasury
279 issues specifically to provide state and local governments with
280 required cash flows at yields that do not exceed Internal Revenue
281 Service arbitrage limits, (B) obligations guaranteed by the United
282 States government, and (C) securities backed by United States
283 government obligations as collateral and for which interest and
284 principal payments on the collateral generally flow immediately
285 through to the security holder.

286 Sec. 5. (NEW) (*Effective July 1, 2006, and applicable to taxable years*
287 *commencing on or after January 1, 2006*) Any person who qualifies for and
288 claims the earned income credit allowable under Section 32 of the
289 Internal Revenue Code, for any taxable year shall be entitled to a credit
290 in determining the amount of tax liability under chapter 229 of the
291 general statutes for such taxable year. The credit allowed under this
292 section shall equal ten per cent of the credit allowed under Section 32 of

293 said Internal Revenue Code for the taxable year. If the amount of the
294 credit allowed under this section exceeds the taxpayer's liability, the
295 Commissioner of Revenue Services shall treat such excess as an
296 overpayment and shall pay the taxpayer the amount of such excess,
297 without interest.

298 Sec. 6. (NEW) (*Effective July 1, 2006, and applicable to income years*
299 *commencing on or after January 1, 2006*) (a) As used in this section:

300 (1) "Qualified production" means the process of producing any type
301 of entertainment content which shall include motion pictures;
302 documentaries; long-form, specials, mini-series, series, music videos
303 and interstitials television programming; interactive television;
304 interactive games; videogames; commercials; infomercials; any format
305 of digital media created primarily for distribution or exhibition to the
306 general public; and any trailer, pilot, video teaser or demo created
307 primarily to stimulate the sale, marketing, promotion or exploitation of
308 future investment in either a product or a qualified production via any
309 means and media in any digital media format, film or videotape,
310 provided such program meets all the underlying criteria of a qualified
311 production. "Qualified production" shall not include (A) any ongoing
312 program created primarily as news, weather or financial market
313 reports, except for an initial pilot, demo or prototype presentation or
314 informational series programming relating to any qualified
315 production, or (B) any production containing obscene material or
316 performances for which records are required to be maintained with
317 respect to any performer in such production pursuant to 18 USC 2257.

318 (2) "Eligible production company" means a corporation, partnership,
319 limited liability company, or other business entity engaged in the
320 business of producing qualified productions on a one-time or ongoing
321 basis, and qualified by the Secretary of the State to engage in business
322 in the state.

323 (3) "Production expenses or costs" means all cash expenditures
324 clearly and demonstrably incurred in the state in the development,
325 preproduction, production or postproduction costs of a qualified

326 production, including:

327 (A) Expenditures for optioning or purchase of any intellectual
328 property including, but not limited to, books, scripts, music or
329 trademarks relating to the development or purchase of a script,
330 screenplay or format, provided (i) the holder of the intellectual
331 property is either a company authorized to do business in the state or
332 an individual who is a resident of the state, (ii) seventy-five per cent of
333 the qualified production based on such intellectual property is
334 produced in the state, and (iii) the production expenses or costs for
335 such optioning or purchase are less than thirty-five per cent of the
336 actual cash expenditures within the budget allocated for the
337 production of the qualified production in the state. Such expenses or
338 costs shall include all expenditures generally associated with the
339 optioning or purchase of intellectual property, including option
340 money, agent fees and attorney fees relating to the transaction, but
341 shall not include any and all deferrals, deferments, royalties, profit
342 participation or recourse or nonrecourse loans which the eligible
343 production company may negotiate in order to obtain the rights to the
344 intellectual property;

345 (B) Expenditures in the form of either compensation or purchases
346 paid directly to individuals or companies authorized to do business in
347 the state, including production work, production equipment,
348 production software, postproduction work, postproduction
349 equipment, postproduction software, set design, set construction,
350 props, lighting, wardrobe, makeup, makeup accessories, special
351 effects, visual effects, audio effects, film processing, music, sound
352 mixing, editing, location fees, soundstages and any and all other costs
353 or services directly incurred in the state in connection with a state-
354 certified qualified production;

355 (C) Expenditures for distribution, including preproduction,
356 production or postproduction costs relating to the creation of trailers,
357 marketing videos, commercials, point-of-purchase videos and any and
358 all content created on film or digital media, including the duplication

359 of films, videos, CDs, DVDs and any and all digital files now in
360 existence and those yet to be created for mass consumer consumption;
361 the purchase, by a company in the state, of any and all equipment
362 relating to the duplication or mass market distribution of any content
363 from within the state by any digital media format which is now in use
364 and those formats yet to be created for mass consumer consumption;

365 (D) Any other production expense or cost as may be determined by
366 the office; and

367 (E) "Production expenses or costs" does not include the following: (i)
368 The amount of compensation to a single person that is over one million
369 dollars; (ii) media buys, promotional events or gifts or public relations
370 associated with the promotion or marketing of any qualified
371 production; (iii) deferred, leveraged or profit participation costs
372 relating to any and all personnel associated with any and all aspects of
373 the production, including, but not limited to, producer fees, director
374 fees, talent fees and writer fees; (iv) costs relating to the transfer of the
375 production tax credits; and (v) any amounts paid to persons or
376 businesses as a result of their participation in profits from the
377 exploitation of the qualified production.

378 (4) "State-certified qualified production" means a qualified
379 production produced by an eligible production company that is in
380 compliance and is authorized to conduct business in the state, and that
381 has been approved by the office as qualifying for a production tax
382 credit under this section.

383 (5) "Office" means the Office of Digital Media and Motion Pictures.

384 (b) The Office of Digital Media and Motion Pictures shall allow an
385 eligible production company producing a qualified production in
386 Connecticut to receive a production tax credit against the tax imposed
387 under chapter 208 of the general statutes as follows: (1) For a qualified
388 production incurring fifty thousand dollars to one million dollars,
389 inclusive, of production expenses or costs, a credit of twenty-five per
390 cent of such costs, and (2) for a qualified production incurring over one

391 million dollars of production expenses or costs, a credit of thirty per
392 cent of such costs. Any credit allowed pursuant to this section shall be
393 applied within three years of issuance and may be sold, assigned or
394 otherwise transferred, in whole or in part, to one or more taxpayers.

395 (c) The production tax credit allowed under this section shall be
396 against the actual tax imposed under chapter 208 of the general
397 statutes for the income year in which final certification for the state-
398 certified qualified production is made by the office pursuant to this
399 section. Any such credit not applied in any year may be carried
400 forward and used to offset income tax in the succeeding three years,
401 except where otherwise noted. Any production tax credit allowed
402 under this section shall not be used to reduce any taxpayer's liability to
403 less than zero.

404 Sec. 7. Section 12-81 of the 2006 supplement to the general statutes is
405 amended by adding subdivision (76) as follows (*Effective July 1, 2006*):

406 (NEW) (76) Effective for assessment years commencing on or after
407 October 1, 2011, new machinery and equipment or newly-acquired
408 machinery and equipment, including machinery and equipment used
409 in connection with biotechnology. For purposes of this subdivision,
410 "machinery" and "equipment", and "biotechnology" shall have the
411 same meaning as in subdivision (72) of this section, as amended by this
412 act. Any person claiming the exemption provided under this
413 subdivision shall not be eligible to claim the exemption provided
414 under subdivision (60) or (70) of this section for the same machinery
415 and equipment.

416 Sec. 8. Subparagraph (A) of subdivision (72) of section 12-81 of the
417 2006 supplement to the general statutes is repealed and the following
418 is substituted in lieu thereof (*Effective July 1, 2006, and applicable to*
419 *assessment years commencing on or after October 1, 2006*):

420 (72) (A) Effective for assessment years commencing on or after
421 October 1, 2002, but prior to assessment years commencing on or after
422 October 1, 2011, new machinery and equipment, as defined in this

423 subdivision, acquired after October 1, 1990, and prior to October 1,
424 2011, and newly-acquired machinery and equipment, as defined in this
425 subdivision, acquired on or after July 1, 1992, and prior to October 1,
426 2011, by the person claiming exemption under this subdivision,
427 provided this exemption shall only be applicable in the five full
428 assessment years following the assessment year in which such
429 machinery or equipment is acquired, subject to the provisions of
430 subparagraph (B) of this subdivision. Machinery and equipment
431 acquired on or after July 1, 1996, and prior to October 1, 2011, and used
432 in connection with biotechnology shall qualify for the exemption
433 under this subsection. For the purposes of this subdivision: (i)
434 "Machinery" and "equipment" means tangible personal property which
435 is installed in a manufacturing facility and claimed on the owner's
436 federal income tax return as either five-year property or seven-year
437 property, as those terms are defined in Section 168(e) of the Internal
438 Revenue Code of 1986, or any subsequent corresponding internal
439 revenue code of the United States, as from time to time amended, and
440 the predominant use of which is for manufacturing, processing or
441 fabricating; for research and development, including experimental or
442 laboratory research and development, design or engineering directly
443 related to manufacturing; for the significant servicing, overhauling or
444 rebuilding of machinery and equipment for industrial use or the
445 significant overhauling or rebuilding of other products on a factory
446 basis; for measuring or testing or for metal finishing; or used in the
447 production of motion pictures, video and sound recordings.
448 "Machinery" means the basic machine itself, including all of its
449 component parts and contrivances such as belts, pulleys, shafts,
450 moving parts, operating structures and all equipment or devices used
451 or required to control, regulate or operate the machinery, including,
452 without limitation, computers and data processing equipment,
453 together with all replacement and repair parts therefor, whether
454 purchased separately or in conjunction with a complete machine, and
455 regardless of whether the machine or component parts thereof are
456 assembled by the taxpayer or another party. "Equipment" means any
457 device separate from machinery but essential to a manufacturing,

458 processing or fabricating process. (ii) "Manufacturing facility" means
459 that portion of a plant, building or other real property improvement
460 used for manufacturing, processing or fabricating, for research and
461 development, including experimental or laboratory research and
462 development, design or engineering directly related to manufacturing,
463 for the significant servicing, overhauling or rebuilding of machinery
464 and equipment for industrial use or the significant overhauling or
465 rebuilding of other products on a factory basis, for measuring or
466 testing or for metal finishing. (iii) "Manufacturing" means the activity
467 of converting or conditioning tangible personal property by changing
468 the form, composition, quality or character of the property for ultimate
469 sale at retail or use in the manufacturing of a product to be ultimately
470 sold at retail. Changing the quality of property shall include any
471 substantial overhaul of the property that results in a significantly
472 greater service life than such property would have had in the absence
473 of such overhaul or with significantly greater functionality within the
474 original service life of the property, beyond merely restoring the
475 original functionality for the balance of the original service life. (iv)
476 "Fabricating" means to make, build, create, produce or assemble
477 components or tangible personal property work in a new or different
478 manner, but does not include the presorting, sorting, coding, folding,
479 stuffing or delivery of direct or indirect mail distribution services. (v)
480 "Processing" means the physical application of the materials and labor
481 in a manufacturing process necessary to modify or change the
482 characteristics of tangible personal property. (vi) "Measuring or
483 testing" includes both nondestructive and destructive measuring or
484 testing, and the alignment and calibration of machinery, equipment
485 and tools, in the furtherance of the manufacturing, processing or
486 fabricating of tangible personal property. (vii) "Biotechnology" means
487 the application of technologies, including recombinant DNA
488 techniques, biochemistry, molecular and cellular biology, genetics and
489 genetic engineering, biological cell fusion techniques, and new
490 bioprocesses, using living organisms, or parts of organisms, to produce
491 or modify products, to improve plants or animals, to develop
492 microorganisms for specific uses, to identify targets for small molecule

493 pharmaceutical development, or to transform biological systems into
494 useful processes and products.

495 Sec. 9. Section 12-63 of the general statutes is repealed and the
496 following is substituted in lieu thereof (*Effective July 1, 2006*):

497 (a) (1) The present true and actual value of land classified as farm
498 land pursuant to section 12-107c, as amended, as forest land pursuant
499 to section 12-107d, as amended, or as open space land pursuant to
500 section 12-107e, as amended, shall be based upon its current use
501 without regard to neighborhood land use of a more intensive nature,
502 provided in no event shall the present true and actual value of open
503 space land be less than it would be if such open space land comprised
504 a part of a tract or tracts of land classified as farm land pursuant to
505 section 12-107c, as amended. The present true and actual value of all
506 other property shall be deemed by all assessors and boards of
507 assessment appeals to be the fair market value thereof and not its value
508 at a forced or auction sale.

509 (2) The following schedule of depreciation shall be applicable with
510 respect to machinery and equipment used in the manufacturing
511 process:

T1	<u>Assessment Year</u>	<u>Depreciated Value</u>
T2	<u>Following Acquisition</u>	<u>As Percentage</u>
T3		<u>Of Acquisition Cost Basis</u>
T4	<u>First year</u>	<u>Ninety per cent</u>
T5	<u>Second year</u>	<u>Eighty per cent</u>
T6	<u>Third year</u>	<u>Seventy per cent</u>
T7	<u>Fourth year</u>	<u>Sixty per cent</u>
T8	<u>Fifth year</u>	<u>Fifty per cent</u>
T9	<u>Sixth year</u>	<u>Forty per cent</u>
T10	<u>Seventh year</u>	<u>Thirty per cent</u>
T11	<u>Eighth year and thereafter</u>	<u>Twenty per cent</u>

512 (b) (1) For the purposes of this subsection, (A) "electronic data

513 processing equipment" means computers, printers, peripheral
514 computer equipment, bundled software and any computer-based
515 equipment acting as a computer, as defined in Section 168 of the
516 Internal Revenue Code of 1986, or any subsequent corresponding
517 internal revenue code of the United States, as from time to time
518 amended; (B) "leased personal property" means tangible personal
519 property which is the subject of a written or oral lease or loan on the
520 assessment date, or any such property which has been so leased or
521 loaned by the then current owner of such property for three or more of
522 the twelve months preceding such assessment date; and (C) "original
523 selling price" means the price at which tangible personal property is
524 most frequently sold in the year that it was manufactured.

525 (2) Any municipality may, by ordinance, adopt the provisions of
526 this subsection to be applicable for the assessment year commencing
527 October first of the assessment year in which a revaluation of all real
528 property required pursuant to section 12-62 is performed in such
529 municipality, and for each assessment year thereafter. If so adopted,
530 the present true and actual value of tangible personal property, other
531 than motor vehicles, shall be determined in accordance with the
532 provisions of this subsection. If such property is purchased, its true
533 and actual value shall be established in relation to the cost of its
534 acquisition, including transportation and installation, and shall reflect
535 depreciation in accordance with the schedules set forth in subdivisions
536 (3) to [(6)] (5), inclusive, of this subsection. If such property is
537 developed and produced by the owner of such property for a purpose
538 other than wholesale or retail sale or lease, its true and actual value
539 shall be established in relation to its cost of development, production
540 and installation and shall reflect depreciation in accordance with the
541 schedules provided in subdivisions (3) to [(6)] (5), inclusive, of this
542 subsection. The provisions of this subsection shall not apply to
543 property owned by a public service company, as defined in section 16-
544 1, as amended.

545 (3) The following schedule of depreciation shall be applicable with
546 respect to electronic data processing equipment:

547 (A) Group I: Computer and peripheral hardware, including, but not
 548 limited to, personal computers, workstations, terminals, storage
 549 devices, printers, scanners, computer peripherals and networking
 550 equipment:

T12		Depreciated Value
T13	Assessment Year	As Percentage
T14	Following Acquisition	Of Acquisition Cost Basis
T15	First year	Seventy per cent
T16	Second year	Forty per cent
T17	Third year	Twenty per cent
T18	Fourth year and thereafter	Ten per cent

551 (B) Group II: Other hardware, including, but not limited to, mini-
 552 frame and main-frame systems with an acquisition cost of more than
 553 twenty-five thousand dollars.

T19		Depreciated Value
T20	Assessment Year	As Percentage
T21	Following Acquisition	Of Acquisition Cost Basis
T22	First year	Ninety per cent
T23	Second year	Sixty per cent
T24	Third year	Forty per cent
T25	Fourth year	Twenty per cent
T26	Fifth year and thereafter	Ten per cent

554 (4) The following schedule of depreciation shall be applicable with
 555 respect to copiers, facsimile machines, medical testing equipment, and
 556 any similar type of equipment that is not specifically defined as
 557 electronic data processing equipment, but is considered by the assessor
 558 to be technologically advanced:

T27		Depreciated Value
T28	Assessment Year	As Percentage

T29	Following Acquisition	Of Acquisition Cost Basis
T30	First year	Ninety-five per cent
T31	Second year	Eighty per cent
T32	Third year	Sixty per cent
T33	Fourth year	Forty per cent
T34	Fifth year and thereafter	Twenty per cent

559 [(5) The following schedule of depreciation shall be applicable with
560 respect to machinery and equipment used in the manufacturing
561 process:

T35		Depreciated Value
T36	Assessment Year	As Percentage
T37	Following Acquisition	Of Acquisition Cost Basis
T38	First year	Ninety per cent
T39	Second year	Eighty per cent
T40	Third year	Seventy per cent
T41	Fourth year	Sixty per cent
T42	Fifth year	Fifty per cent
T43	Sixth year	Forty per cent
T44	Seventh year	Thirty per cent
T45	Eighth year and thereafter	Twenty per cent]

562 [(6)] (5) The following schedule of depreciation shall be applicable
563 with respect to all tangible personal property other than that described
564 in [subdivisions (3) to (5), inclusive,] subdivision (2) of subsection (a)
565 of this section and subdivisions (3) and (4) of this subsection:

T46		Depreciated Value
T47	Assessment Year	As Percentage
T48	Following Acquisition	Of Acquisition Cost Basis
T49	First year	Ninety-five per cent
T50	Second year	Ninety per cent
T51	Third year	Eighty per cent

T52	Fourth year	Seventy per cent
T53	Fifth year	Sixty per cent
T54	Sixth year	Fifty per cent
T55	Seventh year	Forty per cent
T56	Eighth year and thereafter	Thirty per cent

566 [(7)] (6) The present true and actual value of leased personal
567 property shall be determined in accordance with the provisions of this
568 subdivision. Such value for any assessment year shall be established in
569 relation to the original selling price for self-manufactured property or
570 acquisition cost for acquired property and shall reflect depreciation in
571 accordance with the schedules provided in subdivisions (3) to [(6)] (5),
572 inclusive, of this subsection. If the assessor is unable to determine the
573 original selling price of leased personal property, the present true and
574 actual value thereof shall be its current selling price.

575 [(8)] (7) With respect to any personal property which is prohibited
576 by law from being sold, the present true and actual value of such
577 property shall be established with respect to such property's original
578 manufactured cost increased by a ratio the numerator of which is the
579 total proceeds from the manufacturer's salable equipment sold and the
580 denominator of which is the total cost of the manufacturer's salable
581 equipment sold. Such value shall then be depreciated in accordance
582 with the appropriate schedule in this subsection.

583 [(9)] (8) The schedules of depreciation set forth in subdivisions (3) to
584 [(6)] (5), inclusive, of this subsection shall not be used with respect to
585 videotapes, horses or other taxable livestock or electric cogenerating
586 equipment.

587 [(10)] (9) If the assessor determines that the value of any item of
588 personal property produced by the application of the schedules set
589 forth in this subsection does not accurately reflect the present true and
590 actual value of such item, the assessor shall adjust such value to reflect
591 the present true and actual value of such item.

592 [(11)] (10) Nothing in this subsection shall prevent any taxpayer
593 from appealing any assessment made pursuant to this subsection if
594 such assessment does not accurately reflect the present true and actual
595 value of any item of such taxpayer's personal property.

596 Sec. 10. Section 12-94b of the general statutes is repealed and the
597 following is substituted in lieu thereof (*Effective July 1, 2006*):

598 On or before March fifteenth, annually, commencing March 15,
599 1998, and ending March 15, 2011, the assessor or board of assessors of
600 each municipality shall certify to the Secretary of the Office of Policy
601 and Management, on a form furnished by said secretary, the amount of
602 exemptions approved under the provisions of subdivisions (72) and
603 (74) of section 12-81, as amended by this act, together with such
604 supporting information as said secretary may require including the
605 number of taxpayers with approved claims under said subdivisions
606 (72) and (74) and the original copy of the applications filed by them.
607 Said secretary shall review each such claim as provided in section 12-
608 120b. Not later than December first next succeeding the conclusion of
609 the assessment year for which the assessor approved such exemption,
610 the secretary shall notify each claimant of the modification or denial of
611 the claimant's exemption, in accordance with the procedure set forth in
612 section 12-120b. Any claimant aggrieved by the results of the
613 secretary's review shall have the rights of appeal as set forth in section
614 12-120b. With respect to property first approved for exemption under
615 the provisions of subdivisions (72) and (74) of section 12-81, as
616 amended by this act, for the assessment years commencing on or after
617 October 1, 2000, the grant payable for such property to any
618 municipality under the provisions of this section shall be equal to
619 eighty per cent of the property taxes which, except for the exemption
620 under the provisions of subdivisions (72) and (74) of section 12-81, as
621 amended by this act, would have been paid. The secretary shall, on or
622 before December fifteenth, annually, certify to the Comptroller the
623 amount due each municipality under the provisions of this section,
624 including any modification of such claim made prior to December first,
625 and the Comptroller shall draw an order on the Treasurer on or before

626 the twenty-fourth day of December following and the Treasurer shall
627 pay the amount thereof to such municipality on or before the thirty-
628 first day of December following. If any modification is made as the
629 result of the provisions of this section on or after the December
630 fifteenth following the date on which the assessor has provided the
631 amount of the exemption in question, any adjustments to the amount
632 due to any municipality for the period for which such modification
633 was made shall be made in the next payment the Treasurer shall make
634 to such municipality pursuant to this section. [The] With respect to the
635 exemptions approved under the provisions of subdivision (74) of
636 section 12-81, the amount of the grant payable to each municipality in
637 any year in accordance with this section shall be reduced
638 proportionately in the event that the total of such grants in such year
639 exceeds the amount appropriated for the purposes of this section with
640 respect to such year. As used in this section, "municipality" means each
641 town, city, borough, consolidated town and city and consolidated
642 town and borough and each district, as defined in section 7-324, and
643 "next succeeding" means the second such date.

644 Sec. 11. (NEW) (*Effective July 1, 2006, and applicable to assessment years*
645 *commencing on and after October 1, 2006*) (a) For purposes of this section,
646 (1) "machinery" and "equipment" shall have the same meaning as in
647 subdivision (72) of section 12-81 of the 2006 supplement to the general
648 statutes, as amended by this act, and (2) "municipality" means each
649 town, city, borough, consolidated town and city and consolidated
650 town and borough and each district, as defined in section 7-324 of the
651 general statutes.

652 (b) The state shall provide a payment to each municipality
653 representing a percentage of the property tax due on machinery and
654 equipment, when such machinery and equipment is not receiving a
655 payment in lieu of taxes pursuant to section 12-94b of the general
656 statutes, as amended by this act. The taxpayer shall continue to be
657 responsible for the remainder of the property tax. For all such
658 machinery and equipment, the state shall pay to the municipality (1)
659 for the assessment year commencing October 1, 2006, twenty per cent

660 of the property tax due, and the taxpayer shall pay eighty per cent; (2)
661 for the assessment year commencing October 1, 2007, forty per cent of
662 the property tax due, and the taxpayer shall pay sixty per cent; (3) for
663 the assessment year commencing October 1, 2008, sixty per cent of the
664 property tax due, and the taxpayer shall pay forty per cent; (4) for the
665 assessment year commencing October 1, 2009, eighty per cent of the
666 property tax due, and the taxpayer shall pay twenty per cent; and (5)
667 for the assessment year commencing October 1, 2010, one hundred per
668 cent of the property tax due.

669 (c) Municipalities receiving a payment in lieu of taxes for machinery
670 and equipment pursuant to subdivision (72) of section 12-81 of the
671 2006 supplement to the general statutes, as amended by this act, and
672 section 12-94b of the general statutes, as amended by this act, and
673 section 12-94c of the general statutes, shall continue to receive such
674 payment for five years from the date such machinery and equipment
675 became eligible to receive such payment. As such machinery and
676 equipment ceases to be eligible for such payment, the state shall pay a
677 percentage of the property tax due to the municipality, in accordance
678 with the following schedules:

679 (1) For machinery and equipment first included in a payment in lieu
680 of taxes made pursuant to section 12-94b of the general statutes, as
681 amended by this act, for assessment years commencing October 1,
682 2002, the state shall make a payment in lieu of taxes to the municipality
683 for the assessment year commencing October 1, 2006. For the
684 assessment year commencing October 1, 2007, the state shall provide a
685 payment to each municipality representing a percentage of the
686 property tax due on such machinery and equipment. The taxpayer
687 shall continue to be responsible for the remainder of the property tax.
688 The state shall pay to the municipality (A) for the assessment year
689 commencing October 1, 2007, forty per cent of the property tax due,
690 and the taxpayer shall pay sixty per cent; (B) for the assessment year
691 commencing October 1, 2008, sixty per cent of the property tax due,
692 and the taxpayer shall pay forty per cent; (C) for the assessment year
693 commencing October 1, 2009, eighty per cent of the property tax due,

694 and the taxpayer shall pay twenty per cent; and (D) for the assessment
695 year commencing October 1, 2010, one hundred per cent of the
696 property tax due.

697 (2) For machinery and equipment first included in a payment in lieu
698 of taxes made pursuant to section 12-94b of the general statutes, as
699 amended by this act, for assessment years commencing October 1,
700 2003, the state shall make a payment in lieu of taxes to the municipality
701 for the assessment years commencing October 1, 2006, and October 1,
702 2007. For the assessment year commencing October 1, 2008, the state
703 shall provide a payment to each municipality representing a
704 percentage of the property tax due on such machinery and equipment.
705 The taxpayer shall continue to be responsible for the remainder of the
706 property tax. The state shall pay to the municipality (A) for the
707 assessment year commencing October 1, 2008, sixty per cent of the
708 property tax due, and the taxpayer shall pay forty per cent; (B) for the
709 assessment year commencing October 1, 2009, eighty per cent of the
710 property tax due, and the taxpayer shall pay twenty per cent; and (C)
711 for the assessment year commencing October 1, 2010, one hundred per
712 cent of the property tax due.

713 (3) For machinery and equipment first included in a payment in lieu
714 of taxes made pursuant to section 12-94b of the general statutes, as
715 amended by this act, for assessment years commencing October 1,
716 2004, the state shall make a payment in lieu of taxes to the municipality
717 for the assessment years commencing October 1, 2006, October 1, 2007,
718 and October 1, 2008. For the assessment year commencing October 1,
719 2009, the state shall provide a payment to each municipality
720 representing a percentage of the property tax due on such machinery
721 and equipment. The taxpayer shall continue to be responsible for the
722 remainder of the property tax. The state shall pay to the town (A) for
723 the assessment year commencing October 1, 2009, eighty per cent of
724 the property tax due, and the taxpayer shall pay twenty per cent; and
725 (B) for the assessment year commencing October 1, 2010, one hundred
726 per cent of the property tax due.

727 (4) For machinery and equipment first included in a payment in lieu
728 of taxes made pursuant to section 12-94b of the general statutes, as
729 amended by this act, for assessment years commencing October 1,
730 2005, the state shall make a payment in lieu of taxes to the municipality
731 for the assessment years commencing October 1, 2006, October 1, 2007,
732 October 1, 2008, and October 1, 2009. For the assessment year
733 commencing October 1, 2010, the state shall provide a payment to each
734 municipality representing one hundred per cent of the property tax
735 due on such machinery and equipment.

736 (d) On or before November fifteenth, annually, commencing
737 November 15, 2006, the assessor or board of assessors of each
738 municipality shall certify to the Secretary of the Office of Policy and
739 Management, on a form furnished by said secretary, the amount of
740 property tax due on all machinery and equipment located in such
741 municipality that is no longer eligible for the payment in lieu of taxes
742 pursuant to section 12-94b of the general statutes, as amended by this
743 act. The depreciation schedule required pursuant to section 12-63 of
744 the general statutes, as amended by this act, shall apply to all such
745 machinery and equipment. The secretary shall, on or before thirty days
746 prior to the date such tax is due to the municipality, certify to the
747 Comptroller the amount due to each town under the provisions of this
748 section. The Comptroller shall draw an order on the Treasurer on or
749 before fourteen days prior to the date such tax is due to the
750 municipality, and the Treasurer shall pay such amount to such town
751 on or before five days prior to the date such tax is due to the
752 municipality. If for any reason any modification is made to the amount
753 of tax due, any adjustments to the tax due to any municipality for the
754 period for which such modification was made shall be made in the
755 next payment the Treasurer shall make to such municipality pursuant
756 to this section.

757 (e) All municipal valuation and enforcement procedures pursuant to
758 chapters 203, 204 and 205 of the general statutes shall continue to
759 apply to machinery and equipment covered by this section. The
760 assessment of any machinery and equipment for which a state

761 payment is being made pursuant to this section may be appealed by
762 the taxpayer in the same manner in which any taxpayer may appeal an
763 assessment to the board of assessment appeals pursuant to chapter 203
764 of the general statutes.

765 Sec. 12. (NEW) (*Effective July 1, 2006, and applicable to assessment years*
766 *commencing on or after October 1, 2006*) (a) As used in this section,
767 "machinery" and "equipment" shall have the same meaning as in
768 subdivision (72) of section 12-81, of the 2006 supplement to the general
769 statutes, as amended by this act, and "municipality" means each town,
770 city, borough, consolidated town and city and consolidated town and
771 borough and each district, as defined in section 7-324 of the general
772 statutes.

773 (b) Not later than January 1, 2013, the Secretary of the Office of
774 Policy and Management shall determine the amount due to each
775 municipality in the state, in accordance with this subsection, as a state
776 grant in lieu of taxes with respect to manufacturing machinery or
777 equipment. The grant payable to any municipality under the
778 provisions of this section in the state fiscal year commencing July 1,
779 2013, and in each fiscal year thereafter, shall be equal to one hundred
780 per cent of the property taxes which, except for the exemption
781 provided pursuant to subdivision (72) of section 12-81 of the 2006
782 supplement to the general statutes, as amended by this act, would
783 have been paid with respect to such machinery and equipment on the
784 assessment list in such municipality for the assessment year
785 commencing October 1, 2011.

786 Sec. 13. Section 12-704c of the 2006 supplement to the general
787 statutes is repealed and the following is substituted in lieu thereof
788 (*Effective July 1, 2006, and applicable to taxable years commencing on or after*
789 *January 1, 2006*):

790 (a) Any resident of this state, as defined in subdivision (1) of
791 subsection (a) of section 12-701, as amended, subject to the tax under
792 this chapter for any taxable year shall be entitled to a credit in
793 determining the amount of tax liability under this chapter, for all or a

794 portion, as permitted by this section, of the amount of property tax, as
795 defined in this section, first becoming due and actually paid during
796 such taxable year by such person on such person's primary residence
797 or motor vehicle in accordance with this section, provided in the case
798 of a person who files a return under the federal income tax for such
799 taxable year as an unmarried individual, a married individual filing
800 separately or a head of household, one motor vehicle shall be eligible
801 for such credit and in the case of a husband and wife who file a return
802 under federal income tax for such taxable year as married individuals
803 filing jointly, no more than two motor vehicles shall be eligible for a
804 credit under the provisions of this section.

805 (b) The credit allowed under this section shall not exceed two
806 hundred fifteen dollars for the taxable year commencing on or after
807 January 1, 1997, and prior to January 1, 1998; for taxable years
808 commencing on or after January 1, 1998, but prior to January 1, 1999,
809 three hundred fifty dollars; for taxable years commencing on or after
810 January 1, 1999, but prior to January 1, 2000, four hundred twenty-five
811 dollars; for taxable years commencing on or after January 1, 2000, but
812 prior to January 1, 2003, five hundred dollars; for taxable years
813 commencing on or after January 1, 2003, three hundred fifty dollars;
814 for taxable years commencing on or after January 1, 2005, but prior to
815 January 1, 2006, three hundred fifty dollars; and for taxable years
816 commencing on or after January 1, 2006, [~~four~~] five hundred dollars. In
817 the case of any husband and wife who file a return under the federal
818 income tax for such taxable year as married individuals filing a joint
819 return, the credit allowed, in the aggregate, shall not exceed such
820 amounts for each such taxable year.

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

828 exceeds said amount.

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

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

845 (D) For taxable years commencing on or after January 1, 2004, but
846 prior to January 1, [2007] 2006, in the case of any such taxpayer who
847 files under the federal income tax for such taxable year as an
848 unmarried individual whose Connecticut adjusted gross income
849 exceeds fifty-five thousand dollars, the amount of the credit shall be
850 reduced by ten per cent for each ten thousand dollars, or fraction
851 thereof, by which the taxpayer's Connecticut adjusted gross income
852 exceeds said amount.

853 (E) For taxable years commencing on or after January 1, [2007, but
854 prior to January 1, 2008] 2006, in the case of any such taxpayer who
855 files under the federal income tax for such taxable year as an
856 unmarried individual whose Connecticut adjusted gross income
857 exceeds [fifty-five thousand five hundred] seventy-five thousand
858 dollars, the amount of the credit shall be reduced by ten per cent for
859 each ten thousand dollars, or fraction thereof, by which the taxpayer's
860 Connecticut adjusted gross income exceeds said amount.

861 [(F) For taxable years commencing on or after January 1, 2008, but
862 prior to January 1, 2009, in the case of any such taxpayer who files
863 under the federal income tax for such taxable year as an unmarried
864 individual whose Connecticut adjusted gross income exceeds fifty-six
865 thousand five hundred dollars, the amount of the credit shall be
866 reduced by ten per cent for each ten thousand dollars, or fraction
867 thereof, by which the taxpayer's Connecticut adjusted gross income
868 exceeds said amount.

869 (G) For taxable years commencing on or after January 1, 2009, but
870 prior to January 1, 2010, in the case of any such taxpayer who files
871 under the federal income tax for such taxable year as an unmarried
872 individual whose Connecticut adjusted gross income exceeds fifty-
873 eight thousand five hundred dollars, the amount of the credit shall be
874 reduced by ten per cent for each ten thousand dollars, or fraction
875 thereof, by which the taxpayer's Connecticut adjusted gross income
876 exceeds said amount.

877 (H) For taxable years commencing on or after January 1, 2010, but
878 prior to January 1, 2011, in the case of any such taxpayer who files
879 under the federal income tax for such taxable year as an unmarried
880 individual whose Connecticut adjusted gross income exceeds sixty
881 thousand five hundred dollars, the amount of the credit shall be
882 reduced by ten per cent for each ten thousand dollars, or fraction
883 thereof, by which the taxpayer's Connecticut adjusted gross income
884 exceeds said amount.

885 (I) For taxable years commencing on or after January 1, 2011, but
886 prior to January 1, 2012, in the case of any such taxpayer who files
887 under the federal income tax for such taxable year as an unmarried
888 individual whose Connecticut adjusted gross income exceeds
889 sixty-two thousand five hundred dollars, the amount of the credit shall
890 be reduced by ten per cent for each ten thousand dollars, or fraction
891 thereof, by which the taxpayer's Connecticut adjusted gross income
892 exceeds said amount.

893 (J) For taxable years commencing on or after January 1, 2012, in the

894 case of any such taxpayer who files under the federal income tax for
895 such taxable year as an unmarried individual whose Connecticut
896 adjusted gross income exceeds sixty-four thousand five hundred
897 dollars, the amount of the credit shall be reduced by ten per cent for
898 each ten thousand dollars, or fraction thereof, by which the taxpayer's
899 Connecticut adjusted gross income exceeds said amount.]

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

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

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

921 (d) The credit allowed under the provisions of this section shall be
922 available for any person leasing a motor vehicle pursuant to a written
923 agreement for a term of more than one year. Such lessee shall be
924 entitled to the credit in accordance with the provisions of this section
925 for the taxes actually paid by the lessor or lessee on such leased
926 vehicle, provided the lessee was lawfully in possession of the motor

927 vehicle at such time when the taxes first became due. The lessor shall
928 provide the lessee with documentation establishing, to the satisfaction
929 of the Commissioner of Revenue Services, the amount of property tax
930 paid during the time period in which the lessee was lawfully in
931 possession of the motor vehicle. The lessor of the motor vehicle shall
932 not be entitled to a credit under the provisions of this section.

933 (e) The credit may only be used to reduce such qualifying taxpayer's
934 tax liability for the year for which such credit is applicable. [and shall
935 not be used to reduce such tax liability to less than zero] If the amount
936 of the credit allowed under this section exceeds the taxpayer's liability,
937 the Commissioner of Revenue Services shall treat such excess as an
938 overpayment and shall pay the taxpayer the amount of such excess,
939 without interest.

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

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

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2006, and applicable to taxable years commencing on or after January 1, 2006</i>	12-701(a)(20)(B)
Sec. 2	<i>July 1, 2006, and applicable to taxable years commencing on or after January 1, 2008</i>	12-701(a)(20)(B)
Sec. 3	<i>July 1, 2006, and applicable to taxable years commencing on or after January 1, 2006</i>	New section
Sec. 4	<i>July 1, 2006</i>	4-30a(a)
Sec. 5	<i>July 1, 2006, and applicable to taxable years commencing on or after January 1, 2006</i>	New section
Sec. 6	<i>July 1, 2006, and applicable to income years commencing on or after January 1, 2006</i>	New section
Sec. 7	<i>July 1, 2006</i>	12-81
Sec. 8	<i>July 1, 2006, and applicable to assessment years commencing on or after October 1, 2006</i>	12-81(72)(A)
Sec. 9	<i>July 1, 2006</i>	12-63
Sec. 10	<i>July 1, 2006</i>	12-94b
Sec. 11	<i>July 1, 2006, and applicable to assessment years commencing on and after October 1, 2006</i>	New section
Sec. 12	<i>July 1, 2006, and applicable to assessment years commencing on or after October 1, 2006</i>	New section
Sec. 13	<i>July 1, 2006, and applicable to taxable years commencing on or after January 1, 2006</i>	12-704c

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 and OLR Bill Analysis

sSB-676

AN ACT CONCERNING REVENUES OF THE STATE.

OFA SUMMARY IMPACT:

State Impact:

Agency Affected	Fund-Effect	FY 07 \$	FY 08 \$	FY 09 \$
Department of Revenue Services	GF - Revenue Loss	258,800,000	291,500,000	297,800,000
Policy & Mgmt., Off.	GF - Cost	None	26,600,000	55,800,000
Department of Revenue Services	GF - Cost	700,000	500,000	500,000

Note: GF=General Fund

Municipal Impact:

The bill will have no net fiscal impact to municipalities because the loss of property tax revenue associated with phase-out of the tax on manufacturing equipment will be offset by the state reimbursing towns for their lost revenue.

OFA SUMMARY:

The bill is anticipated to result in a General Fund revenue loss of \$258.8 million in FY 07 and \$291.5 million in FY 08. The bill will also result in a General Fund cost of approximately \$26.6 million in FY 08 as result of the property tax exemption for manufacturing machinery and equipment.

The Department of Revenue Services is anticipated to require \$700,000 in FY 07 and \$500,000 in FY 08 and subsequent years to implement and administer the provisions of the bill.

OLR SUMMARY:

This bill:

1. increases the maximum property tax credit against the state income tax, makes the credit refundable when the credit amount exceeds tax liability, and raises the income thresholds for phasing out the credit;
2. allows income tax deductions for contributions to the Connecticut Higher Education Trust (CHET), the state-run college savings plan, and for long-term care insurance premiums;
3. establishes a state earned income tax credit equal to 10% of the federal credit;
4. exempts all manufacturing machinery and equipment (MME) from local property taxes after a five-year phase-in, provides an additional state payment to towns to reimburse them for revenue lost from the new exemption, and requires the state to fully fund the existing 80% PILOT for new and newly acquired MME that is exempt from property tax for the first five years after acquisition;
5. establishes transferable corporation tax credits for movie and digital media production in the state; and
6. requires unappropriated General Fund surpluses to be allocated equally among the Budget Reserve (“Rainy Day”) Fund and the unfunded liability of State Employees and Teachers Retirement funds, rather than first to the Budget Reserve Fund and, when that is fully funded, to the State Employees Retirement Fund.

EFFECTIVE DATE: Various, see below.

§§ 1-3 – INCOME TAX DEDUCTIONS**OFA Fiscal Impact**

These sections are anticipated to result in a revenue loss to the

Personal Income Tax of \$15.6 million in FY 07 and \$16.5 million in FY 08. The deduction for CHET account contributions is anticipated to result in a revenue loss of \$6.6 million in FY 07 and \$7.5 million in FY 08 and the deduction for premiums on long-term care insurance is anticipated to result in a revenue loss of \$9 million in FY 07 and \$9 million in FY 08.

OLR Analysis

Contributions to CHET Accounts

The bill allows taxpayers to deduct contributions to CHET, which is Connecticut's state-sponsored college savings plan, from their Connecticut AGI for state income tax purposes. It limits annual CHET deductions to \$5,000 for single filers and \$10,000 for joint filers. It allows taxpayers to carry forward any unused deductions for the five following years as long as each deduction does not exceed the annual maximums.

Transfers into CHET from another state's college savings program are considered deductible contributions under the bill, as long as the transfer occurs on or after January 1, 2006. Any federally taxable distributions from a CHET account are subject to state income tax, even if taxpayer makes a deductible CHET contribution in the same year.

EFFECTIVE DATE: July 1, 2006 and applicable to tax years starting on or after January 1, 2006.

Premiums on Long-Term Care Insurance

The bill allows taxpayers to deduct the cost of their annual long-term care insurance premiums from their Connecticut AGI, thus exempting the premiums from the state income tax.

EFFECTIVE DATE: July 1, 2006 and applicable to tax years starting on or after January 1, 2006.

§ 4 – USE OF SURPLUS REVENUE

OFA Fiscal Impact

Currently, surplus funds are: (1) deposited into the Budget Reserve Fund (BRF) until the fund's balance equals 10% of net General Fund appropriations for fiscal year in progress, and (2) used to pay outstanding debt.

Therefore, the bill will likely result in a reduction in future transfers to the BRF and an increase in revenue to the Teachers and State Employees Retirement systems.

Currently, the unfunded past service liability for State Employees Retirement system is \$6.9 billion and \$5.2 billion for the Teachers' Retirement system.

OLR Analysis

The bill requires that, after the General Fund accounts are closed each year and the comptroller determines the unappropriated surplus, the surplus be equally divided among the Teachers and the State Employees retirement systems and the Budget Reserve ("Rainy Day") Fund. Under current law, unappropriated surpluses are allocated first to the Budget Reserve Fund and then, if there is any excess money, to the State Employees Retirement Fund.

Current law limits transfers to the Budget Reserve Fund and the State Employees Retirement System to 10% of net General Fund appropriations for the current fiscal year and 5% of unfunded past service liability, respectively. The bill maintains these limits and also limits the maximum surplus contribution to the Teachers' Retirement Fund to 5% of its unfunded past service liability.

The bill requires one-third of the surplus to be appropriated to the Budget Reserve Fund until it reaches the 10% limit. Then, any remainder of that third is added to the other two-thirds. That two-thirds is split between the State Employees Retirement and Teachers Retirement funds until the contributions reach 5% of each fund's unfunded past service liability. Under both current law and the bill, any surplus funds that exceed these required contributions must be used to retire state bonds.

EFFECTIVE DATE: Upon passage

§ 5 – EARNED INCOME TAX CREDIT

OFA Fiscal Impact

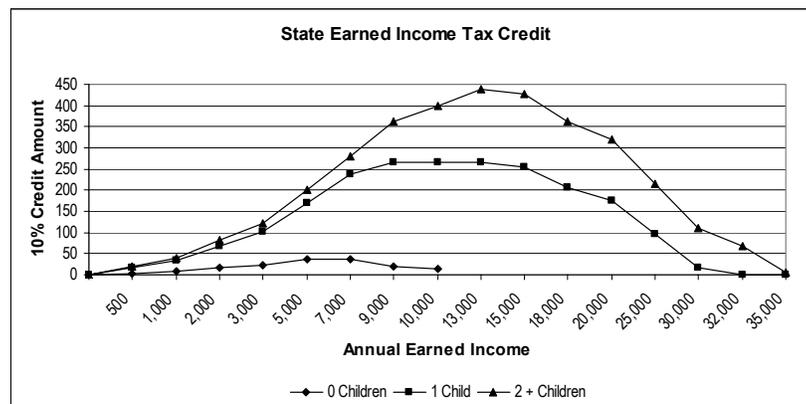
This section is anticipated to result in a revenue loss (through refunds of taxes) to the Personal Income Tax of \$30.5 million in FY 07 and \$31 million in FY 08 and in subsequent years.

OLR Analysis

This bill gives people who qualify for, and claim, the federal earned income tax credit a credit against their state income tax liability equal to 10% of their federal credit for the same income year.

Under federal law, people who work and earn incomes below certain levels qualify for credits. Credit amounts vary according to a taxpayer’s income and the number of children he has. Income limits and credit amounts are adjusted annually for inflation (26 USCA § 32). For the 2005 income year, taxpayers receive a credit if they have (1) no children and incomes under \$11,750; (2) one child, and incomes under \$33,050; and (3) two or more children, and incomes under \$37,250. No more than \$2,700 of the income can come from investments.

The graph shows the state credit amounts under this bill for selected income



levels for the 2005 income year. The maximum state credit would be \$40 for a taxpayer with no children and an annual earned income of \$5,200 to \$8,500; \$266 for a taxpayer with one child and an earned income of \$7,800 to \$16,400; and \$440 for a taxpayer with two or more children and an earned income of \$11,000 to \$15,100.

Under the bill, if the state credit exceeds the taxpayer's state income tax liability, the bill requires the revenue services commissioner to refund the difference to the taxpayer. Refunds must be treated the same as other income tax refunds, except that they are not subject to the 0.66% monthly interest payable on late tax refunds.

EFFECTIVE DATE: Upon passage and applicable to tax years starting on or after January 1, 2006.

§ 6 – TAX CREDIT FOR MOVIE AND DIGITAL MEDIA PRODUCTION

OFA Fiscal Impact

Establishing corporation business tax credits for digital media and motion picture developed in Connecticut will result in a revenue loss to the degree that such activities occur in the state. However, it should be noted that without these tax credits the production companies might not choose to shoot in Connecticut so the state would not have the opportunity to collect the revenue.

Further Explanation

While the number and budget of future in-state productions cannot be determined, the table below illustrates the potential impact of a \$10.0 million production. The information is based on an analysis prepared by Rhode Island legislature on a 2005 bill with similar provisions. It shows that such a production could result in a net loss of \$1.56 million in state revenue.

Projected Impact of a \$10 million Digital Media or Movie Production

Estimated Revenue Resulting From an Increase in Gross State Product

Increase in CT Gross State Product (GSP) ¹	\$16,500,000
Ratio of Tax Revenues to GSP ²	7.10%
Revenue Gain from increase in GSP	\$1,171,500

Estimate Revenue Gain from an Increase in Earnings

Increase in-state earnings ³	\$3,856,000
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Ratio of Income Tax Revenue to Earnings ⁴	6.82%
Income Tax Revenue Gain	\$262,979
Total State Revenue Gain	\$1,434,479
Estimated Revenue Loss from Motion Picture Tax Credits ⁵	
Production Tax Credit (30%)	\$3,000,000
Estimated Net Revenue Loss	\$1,562,813

1 The figure assumes the impact of a \$10 million production will be about the same as it is in Rhode Island. Rhode Island estimates that a \$10 million production would produce \$16.5 million in gross state product (GSP). Rhode Island's estimate was derived by using the Bureau of Economic Analysis (BEA) Regional Input-Output Modeling System (RIMS II) for Rhode Island.

2 The ratio of tax revenues to gross state product (GSP) shows total General Fund revenue expected in FY 06 as a percentage of CT's GSP.

3 The figure assumes the impact of a \$10 million production will be about the same as it is in Rhode Island. Rhode Island estimates that a \$10 million production would produce \$3.8 million in additional earnings. Rhode Island's estimate was derived by using the Bureau of Economic Analysis (BEA) Regional Input-Output Modeling System (RIMS II) for Rhode Island

4 The ratio of Income Tax Revenues to Earnings is the ratio of personal income tax revenue anticipated in FY 06 to CT's total wage base.

5 The figures do not include the impact of reinvestment tax credits. If a production qualifies for reinvestment tax credits, the revenue loss would be higher.

OLR Analysis

Credits

The bill gives qualifying companies corporation tax credits equal to 25% or 30% of the eligible costs they incur in Connecticut for producing films or other types of television, video, or digital media entertainment content. The 25% credit applies to production companies that incur between \$50,000 and \$1 million in eligible costs and the 30% credit to companies that incur more than \$1 million in such costs. Companies receiving credits may sell or otherwise transfer them. Credits are nonrefundable and can be carried forward for up to

three years.

Eligible Production Companies

A production company eligible for the credit can be a corporation, partnership, limited liability company, or any other type of business entity in the business of making one or more qualified productions (see below). The company must be in compliance and authorized by the secretary of the state to do business in Connecticut.

Qualified Productions and State-Certified Qualified Productions

Only qualified productions are eligible for tax credits. With specified exceptions, these can be any type of entertainment production or content, with specified exceptions, including movies; documentaries; long-form, specials, mini-series, series, music videos, or interstitials television programming; interactive television or games; videogames; commercials or infomercials; or any digital media format created primarily for public viewing or distribution. Trailers, pilots, video teasers, and demos for a product or qualified production are also eligible if they are created primarily to stimulate its sale, marketing, or promotion, or the exploitation of future investment in it. The trailers, pilots, video teasers, and demos can use any means and be in any digital media format or on film or videotape, as long they meet all the underlying criteria for a qualified production. Initial pilots, demos, prototype presentations, or informational series programming relating to qualified productions are also eligible.

A production is not qualified to receive tax credits if it (1) is an ongoing program created primarily as news, weather, or financial market reports or (2) contains obscene materials or performances on which, by federal law, producers must keep certain records. Federal law requires producers to keep records on performers in productions made after November 1, 1990 that (1) include visual depictions of actual, as opposed to simulated, sexually explicit conduct and (2) are either themselves shipped or transported in interstate commerce or made with materials that are so shipped or transported (18 USC 2257).

A state-certified qualified production is a qualified production that the Office of Digital Media and Motion Pictures has approved for a production tax credit under the bill (see COMMENT).

Eligible Production Expenses

The bill's tax credits are based on a percentage of eligible development and production costs for a qualified production. Eligible costs are all cash expenditures clearly and demonstrably incurred in Connecticut for development, pre-production, production, and post-production work on a qualified production. They include the following types of costs and any others as determined by the Connecticut Office of Digital Media and Motion Pictures.

Purchase of Intellectual Property Rights. Costs for optioning or buying intellectual property, such as a book, script, music, or trademark related to developing or buying a script, screenplay, or format are eligible if (1) the holder is either a company authorized to do business in Connecticut or a person who is a Connecticut resident; (2) 75% of the qualified production based on the intellectual property is produced in Connecticut; and (3) the cost of optioning or buying the intellectual property is less than 35% of the cash expenditures in the budget for production in Connecticut. Eligible intellectual property purchase costs include all expenses generally associated with such transactions, including option money and agents' and attorneys' fees, but not deferrals, deferments, royalties, profit participation, or recourse or nonrecourse loans the company may negotiate to get the intellectual property rights.

Direct Payments. Eligible costs also include direct payments to individuals or to companies authorized to do business in Connecticut for compensation or purchases for such things as (1) production and postproduction work, equipment, and software; (2) set design and construction; (3) props, lighting, wardrobe, makeup, and makeup accessories; (4) special, visual, and audio effects; (5) film processing; (6) music, sound mixing, and editing; (7) location fees; and (8) soundstages.

Distribution Costs. Eligible costs include expenses for distribution such as production or pre- or post-production costs for creating trailers, marketing videos, commercials, point of purchase videos, and any other content on film or digital media. Distribution expenses include those for (1) duplicating films, videos, DVDs, CDs, or any other digital files that exist or are yet to be created for mass consumption and (2) a Connecticut company's purchase of equipment related to duplication or mass market distribution of content from inside Connecticut by any digital media format that exists or is yet to be created.

Ineligible Production Costs

Eligible costs exclude (1) compensation to one person exceeding \$1 million; (2) costs for media buys, promotional events, gifts, or public relations associated with promoting or marketing a production; (3) deferred, leveraged, or profit participation costs for people associated with a production, such as producer, director, talent, and writer fees; (4) the cost of transferring the bill's tax credits; and (5) amounts paid to people or businesses because of their profit participation in the production.

EFFECTIVE DATE: July 1, 2006 and applicable to tax years starting on or after January 1, 2006.

§§ 7-12 – PROPERTY TAX EXEMPTION FOR MANUFACTURING MACHINERY AND EQUIPMENT

OFA Fiscal Impact

Implementing changes to the Payment in Lieu of Taxes for Manufacturing Machinery and Equipment (PILOT MME) will result in the following costs:

Fiscal Year	Grand List Year	Total Cost	Less: Current Service Budget for PILOT MME	Remaining Cost
2008	2006	\$78.63	\$52.00	\$26.63
2009	2007	107.85	52.00	55.85
2010	2008	138.70	52.00	86.70

2011	2009	170.20	52.00	118.20
2012	2010	203.00	52.00	151.00
2013	2011	217.95	52.00	165.95
All Years Thereafter		\$217.95	\$52.00	\$165.95
(All costs expressed in millions)				

OLR Analysis

Exemption and Exemption Phase-In

The bill exempts all manufacturing machinery and equipment (MME) from local property taxes after a five-year phase-in, with the full exemption taking effect in the assessment year beginning October 1, 2011. Currently, only new and newly acquired MME is exempt from property taxes and then only for its first five years.

The bill continues the existing five-year exemption program until the assessment year beginning October 1, 2011. That program will continue to cover MME acquired between October 1, 2002 and October 1, 2006. At the same time, the bill gradually exempts MME that is six years old or older from property tax. It phases in the additional exemption over five years. Between assessment years beginning October 1, 2006 and October 1, 2011, the bill increases the exempt portion by 20% per year. The exemption phase-in applies to MME that (1) is already six years old or older in the October 1, 2006 assessment year or (2) turns six years old between the October 1, 2006 and the October 1, 2011 assessment years.

State Payments in Lieu of Taxes (PILOT) and New Payment

Phase-In

Under current law, the state is required to reimburse towns for 80% of the revenue loss resulting from the five-year property tax exemption for new and newly acquired MME. But, also under current law, the 80% state PILOT grant must be proportionately reduced in any year in which the state appropriation for the grant is not sufficient to pay the full amount to every town. The bill eliminates the authorization for the proportionate reductions, thus requiring the state to pay the full 80% PILOT for MME exempted under the five-year exemption

program.

In addition to the 80% PILOT for MME that is exempt under the existing program, the bill requires the state to provide a second payment to towns for the revenue they lose from the phased-in exemptions for older MME not covered by the existing program. As the percentage exemptions for older MME increase during the phase-in, the bill requires the state payment for those exemptions to increase correspondingly. The owner of the older MME continues to pay any property tax not covered by the state payment during the phase-in.

The table below shows the MME exemption phase-in for each assessment year from October 1, 2006 through October 1, 2010. Shaded areas show the years in which MME is under the existing MME exemption with an 80% state PILOT. White areas show the percentage exemption applicable to older MME in each year and the corresponding state payment for that exemption.

**PROPERTY TAX EXEMPTION PHASE-IN FOR
MANUFACTURING MACHINERY AND EQUIPMENT**

Assessment Year Starting	EXEMPTIONS FOR MME ON GRAND LISTS AS OF 10/1/06 (Note: In shaded years, although MME is 100% exempt, state PILOT is 80% of lost revenue)				
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
	MME Acquired before 10/1/02	MME Acquired 10/1/02	MME Acquired 10/1/03	MME Acquired 10/1/04	MME Acquired 10/1/05
10/1/06	20%	100%	100%	100%	100%
10/1/07	40%	40%	100%	100%	100%
10/1/08	60%	60%	60%	100%	100%
10/1/09	80%	80%	80%	80%	100%
10/1/10	100%	100%	100%	100%	100%

Exemptions and Payments As of October 1, 2011

The bill permanently exempts all MME from property tax and closes out the existing five-year MME exemption program at the beginning of the October 1, 2011 assessment year. Starting with the fiscal year beginning July 1, 2013, the bill also freezes the state's annual MME

payment to each town at 100% of the property taxes the town would have received in the October 1, 2011 assessment year if MME were taxable. Each town's payment remains fixed at that amount for each fiscal year thereafter, regardless of fluctuations in the value of MME on a town's annual grand list. The OPM secretary must determine the amount of each town's flat payment by January 1, 2013.

MME Depreciation Schedule

The bill makes the statutory depreciation schedule for valuing MME for property tax purposes mandatory instead of optional for towns. The schedule requires towns to depreciate MME for property tax purposes to 20% of its original cost over eight years and to maintain the 20% residual value for as long as the property remains on its grand list.

Administration

The bill requires towns to certify the amount of property tax due on MME that is no longer eligible for the 80% PILOT payment under the five-year exemption program to the OPM secretary annually by November 15th starting in 2006. The secretary must certify the amount payable to a town to the comptroller within 30 days, the comptroller must order the treasurer to pay the amount within 14 days, and the treasurer must pay the town within five days before the tax is due to each town. Any needed adjustments to the tax due must be accounted for in the next payment.

The bill shuts off town certification of the value of MME for the existing five-year exemption program as of March 15, 2011. It also appears to shut off certifications for the similar property tax exemption program for trucks as of the same date, even though the bill does not phase-out that program.

The bill applies all existing valuation and enforcement procedures to exempt MME and allows taxpayers to appeal assessments of the property to local boards of assessment appeals according to existing laws.

Machinery and Equipment Covered

Under both current law and the bill, the MME exemption covers machinery and equipment used in biotechnology or installed in a manufacturing facility and used predominantly for or in:

1. manufacturing, processing, or fabricating;
2. manufacturing-related research and development, including experimental or laboratory research and development;
3. manufacturing-related design or engineering;
4. significant servicing, overhauling, or rebuilding machinery and equipment for industrial use;
5. significant overhauling or rebuilding other products on a factory basis;
6. measuring, testing, or metal finishing; or
7. production of movies or video or sound recordings.

No one may receive a property tax exemption for the same machinery or equipment under both the bill and either of two existing exemptions for (1) machinery and equipment in a manufacturing facility located in a distressed municipality, targeted investment community, or enterprise zone and (2) machinery and equipment acquired as part of a technological upgrading of a manufacturing process.

EFFECTIVE DATE: July 1, 2006 and applicable to assessment years beginning on or after October 1, 2006.

§ 13 – PROPERTY TAX CREDIT***OFA Fiscal Impact***

This section is anticipated to result in a revenue loss (mainly through refunds of taxes) to the Personal Income Tax of \$207.7 million in FY 07 and \$239 million in FY 08 and in subsequent years.

OLR Analysis

The bill makes several changes in the property tax credit against the state income tax.

It increases the maximum credit from \$400 to \$500 starting in the 2006 tax year. It also requires the state to refund any part of the property tax credit that exceeds a taxpayer's income tax liability. Refundable credits must be treated the same as other income tax refunds, except that they are not subject to the 0.66% monthly interest payable on late tax refunds.

Finally, the bill raises the income thresholds for phasing out the credit, thus making more taxpayers at higher income levels eligible for a credit and increasing the amount of the credit those taxpayers receive (see Tables). It makes a conforming change to eliminate the remaining annual steps under which the property tax credit phase-out threshold for single filers is being gradually increased from \$55,500 in the 2006 tax year to \$64,500 in the 2012 tax year and after.

**CURRENT AND PROPOSED MAXIMUM PROPERTY TAX CREDIT
PHASE-OUT SCHEDULES BY FILING STATUS**

CT AGI		MAXIMUM CREDIT		
Married Filing Jointly				
<i>Over</i>	<i>But Not Over</i>	<i>Current Law</i>	<i>The Bill</i>	
\$0	\$100,500	\$400	\$500	
100,500	110,500	360		
110,500	120,500	320		
120,500	130,500	280		
130,500	140,500	240		
140,500	150,500	200		
150,500	160,500	160		450
160,500	170,500	120		400
170,500	180,500	80		350
180,500	190,500	40		300
190,500	200,500	0	250	
200,500	210,500		200	
210,500	220,500		150	
220,500	230,500		100	

230,500	240,500		50
Over \$240,500			0
Married Filing Separately			
<i>Over</i>	<i>But Not Over</i>	<i>Current Law</i>	<i>The Bill</i>
\$0	\$50,250	\$400	\$500
50,250	55,250	360	
55,250	60,250	320	
60,250	65,250	280	
70,250	75,250	240	
75,250	80,250	200	450
80,250	85,250	160	400
85,250	90,250	120	350
95,250	100,250	80	300
100,250	105,250	40	250
105,250	110,250	0	200
110,250	115,250		150
115,250	120,250		100
120,250	125,250		50
Over \$125,250			
Single			
<i>Over</i>	<i>But Not Over</i>	<i>Current Law</i>	<i>The Bill</i>
\$0	\$55,000	\$400	\$500
55,000	65,000	360	
65,000	75,000	320	
75,000	85,000	280	450
85,000	95,000	240	400
95,000	105,000	200	350
105,000	115,000	160	300
115,000	125,000	120	250
125,000	135,000	80	200
135,000	145,000	40	150
145,000	155,000	0	100
155,000	165,000		50
Over \$ 165,000			

Head of Household					
CURRENT LAW			THE BILL		
<i>CT AGI Over</i>	<i>CT AGI Not Over</i>	<i>Maximum Credit</i>	<i>CT AGI Over</i>	<i>CT AGI Not Over</i>	<i>Maximum Credit</i>

Head of Household					
CURRENT LAW			THE BILL		
<i>CT AGI Over</i>	<i>CT AGI Not Over</i>	<i>Maximum Credit</i>	<i>CT AGI Over</i>	<i>CT AGI Not Over</i>	<i>Maximum Credit</i>
\$0	\$78,500	\$400	\$0	\$117,500	\$500
78,500	88,500	360	117,500	127,500	450
88,500	98,500	320	127,500	137,500	400
98,500	108,500	280	137,500	147,500	350
108,500	118,500	240	147,500	157,500	300
118,500	128,500	200	157,500	167,500	250
128,500	138,500	160	167,500	177,500	200
138,500	148,500	120	177,500	187,500	150
148,500	158,500	80	187,500	197,500	100
158,500	168,500	40	197,500	207,500	50
Over \$168,500		0	Over \$207,500		0

EFFECTIVE DATE: July 1, 2006 and applicable to tax years starting on or after January 1, 2006.

BACKGROUND

Related Bills

sHB 5797 (File 223), favorably reported by the Commerce Committee, provides three tax credits for film and digital media production in Connecticut, including the same production cost credit as this bill. It also (1) creates a Connecticut Office of Digital Media and Motion Pictures to promote Connecticut as a venue for producing films and digital media and to administer and approve applicants for the tax credits, (2) establishes a separate, nonlapsing account within the General Fund to fund the office, and (3) creates a 13-member Connecticut Digital Media and Motion Picture Commission to oversee the office. It places both the commission and the office within the Connecticut Commission on Culture and Tourism.

sSB 1, favorably reported by the Commerce and Finance, Revenue and Bonding committees has the same MME property tax exemption, exemption phase-out, and state payments to towns as this bill.

COMMENT***Office of Digital Media and Motion Pictures***

The bill requires the Office of Digital Media and Motion Pictures to certify qualified productions and eligible production costs and award the bill's tax credits. But the bill does not establish the office or any method or mechanism for companies to apply for the credits or receive approval for tax credits.

The Out Years***State Impact:***

Agency Affected	Fund-Effect	FY 09 \$	FY 10 \$	FY 11 \$
Department of Revenue Services	GF - Revenue Loss	297,800,000	306,100,000	310,000,000
Policy & Mgmt., Off.	GF - Cost	55,800,000	86,700,000	86,700,000
Department of Revenue Services	GF - Cost	500,000	500,000	500,000

Note: GF=General Fund

Municipal Impact:

The bill will have no net fiscal impact to municipalities because the loss of property tax revenue associated with phase-out of the tax on manufacturing equipment will be offset by the state reimbursing towns for their lost revenue.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 39 Nay 10 (04/03/2006)