



General Assembly

February Session, 2006

Raised Bill No. 5526

LCO No. 2108

02108_____HED

Referred to Committee on Higher Education and Employment
Advancement

Introduced by:
(HED)

***AN ACT CONCERNING AN INCOME TAX DEDUCTION FOR
CONTRIBUTIONS TO CONNECTICUT HIGHER EDUCATION TRUST
ACCOUNTS.***

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3 repealed and the following is substituted in lieu thereof (*Effective July*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.

100 Sec. 2. Subparagraph (B) of subdivision (20) of subsection (a) of
101 section 12-701 of the 2006 supplement to the general statutes, as
102 amended by sections 71 to 73, inclusive, of public act 05-221, is
103 repealed and the following is substituted in lieu thereof (*Effective on*
104 *and after June 30, 2005, and applicable to taxable years commencing on or*
105 *after January 1, 2008*):

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

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

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

184 income for federal income tax purposes of a designated beneficiary,
185 any distribution to such beneficiary from any qualified state tuition
186 program, as defined in Section 529(b) of the Internal Revenue Code,
187 established and maintained by this state or any official, agency or
188 instrumentality of the state, (xiii) to the extent allowable under section
189 3 of this act, contributions to accounts established pursuant to any
190 qualified state tuition program, as defined in Section 529(b) of the
191 Internal Revenue Code, established and maintained by this state or
192 any official, agency or instrumentality of the state, (xiv) to the extent
193 properly includable in gross income for federal income tax purposes,
194 the amount of any Holocaust victims' settlement payment received in
195 the taxable year by a Holocaust victim, [(xiv)] (xv) to the extent
196 properly includable in gross income for federal income tax purposes of
197 an account holder, as defined in section 31-51ww, interest earned on
198 funds deposited in the individual development account, as defined in
199 section 31-51ww, of such account holder, and [(xv)] (xvi) to the extent
200 properly included in gross income for federal income tax purposes,
201 fifty per cent of the income received from the United States
202 government as retirement pay for a retired member of (I) the Armed
203 Forces of the United States, as defined in Section 101 of Title 10 of the
204 United States Code, or (II) the National Guard, as defined in Section
205 101 of Title 10 of the United States Code.

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

218 made, on or after January 1, 2006, may be carried forward as a
 219 subtraction from income for the succeeding five years; provided the
 220 amount subtracted shall not exceed the maximum allowed in each
 221 subsequent taxable year. Transfers into such accounts from another
 222 state's qualified tuition program which were made on or after January
 223 1, 2006, shall be treated as contributions for purposes of the
 224 subtraction. Any distributions taken by a distributee during a tax year
 225 in which the distributee also makes a deductible contribution which
 226 are not excluded from adjusted gross income in the taxable year under
 227 Section 529 of the Internal Revenue Code shall be included in
 228 Connecticut adjusted gross income.

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>on and after June 30, 2005, 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

Statement of Purpose:

To establish an income tax deduction for contributions to Connecticut Higher Education Trust Accounts.

[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]