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**Testimony - Finance Committee
February 9, 2009**

***RB 815 An Act Concerning a Moratorium on Business Tax Credits
RB 6348 An Act Concerning Business Tax Credits***

Connecticut Water Service is Connecticut's largest domestically based, investor owned water utility, serving a population of approximately 300,000 in 54 towns throughout Connecticut. We employ approximately 225 people and are proud of our long record of customer service, regulatory compliance and environmental stewardship. Like so many businesses in Connecticut, we are working hard to meet the needs of our customers, our employees, and remain financially stable in this economy.

We understand the enormous challenge that your committee has to develop tax policies in these difficult economic times. We recognize that there will have to be shared sacrifice and businesses will be expected to contribute to get us through these difficult times. We are willing to do our part but want to be sure the proposed changes to the corporation business tax credits do not unduly impact companies by eliminating or reducing benefits that would otherwise have been available to those who made decisions in good faith based on tax laws in effect at that time.

Connecticut Water Company has partnered with a number of communities and provided for the permanent preservation of nearly 600 acres of open space, relying on the corporation business tax credits available pursuant to Section 12-217dd. With these tax credits we were able to help further the state's goals for preservation of open space without relying on bond money while still meeting our financial goals and not unfairly burdening our customers and ratepayers.

Given the fair market value of these lands and our company's annual tax liability, we depend on the carry forward period to realize the full tax benefit of the donations. We want to be sure that any proposed changes do not reduce or eliminate the remaining benefits provided in carry forward years for donations the company has already made in good faith under tax laws in effect at the time of the donations. If changes preclude us from taking the remaining tax credits for these transactions it would have a devastating impact on the company and a real chilling effect going forward.

If the Committee determines it is necessary to make changes to the corporation tax credits to get through this current budget period and 'temporarily suspend' the use of these tax credits for 2009 and 2010 as proposed in RB 815, it would be important to have provisions in the bill that make it explicit that those two years do not 'count against' the total number of years allowed in the applicable carry forward period. For instance, if the company's carry forward period for a tax credit was otherwise due to expire in 2012 and it was not allowed to be taken for the next 2 years as proposed in RB 815, then the expiration date of the carry forward period should be extended accordingly to 2014. While this would impact the company by delaying the benefits in the intervening years, if this provision was included it would reduce the likelihood that the full expected benefit for the company would be lost and would not retroactively reduce the total number of years available to utilize a credit.

We also have concerns with RB 6348 that would limit the amount of tax credits claimed in a single year to a maximum of one hundred million dollars and require preapproval for any tax credits to be claimed. The Governor's budget summary indicated that the film industry tax credits alone have risen to one hundred million dollars, so there could be significant risks to anyone who expects to receive tax credits in 2009 if such a limit is imposed. It is not clear what mechanism would be used to allocate the available credits or on what basis the Commissioner would determine a company's eligibility for a tax credit. It would create great uncertainty for any business considering taking an action that would be eligible for a credit and eliminate the predictability that is essential for their financial planning. Not knowing if these credits are in fact available until midyear would be extremely problematic. Also, for many things that would be eligible for tax credits, including a donation or bargain sale of land for open, there is a significant lead time and various state or local approvals required to execute the transaction. Once a commitment is made to proceed, it would be difficult and costly for both the company and the affected community, to change course.

Finally, given the continued uncertainty for businesses and the inherent risks in the anticipated changes to tax policies, we would also suggest it would be appropriate to extend the carry forward period for the tax credit for open space provided in Section 12-217dd to a maximum of 25 years. This concept was proposed last session in the Finance Committee RB 5940 and was ultimately incorporated in a bill that passed unanimously in both the House and the Senate but was later vetoed by the Governor because of other unrelated components of the bill. Open space donations have a broad public benefit and generally have a high fair market value so it is important that the carry forward period is sufficient to allow the full tax benefits to be realized.

Again, we understand these are challenging times and that difficult decisions need to be made on tax policies going forward, but we want to be sure that companies that stepped up and did the right thing based on laws that were in effect at that time are not penalized by changes to the rules now, that would in effect have retroactive impacts. We appreciate the Committee's consideration of our concerns and stand willing to work with you to find ways to preserve key aspects of corporation business tax credits while helping bridge the state's immediate financial crisis.