

OLR Bill Analysis

sSB 1007

AN ACT CONCERNING THE GOVERNOR'S RECOMMENDATIONS ON REVENUE.

INCOME TAX CHANGES

§ 36 - Marginal Rate Increases

The bill increases marginal income tax rates for those with taxable incomes over (1) \$100,000 for joint filers, (2) \$50,000 for single filers and married people filing separately, and (3) \$80,000 for heads of household. It does so by (1) increasing the number of tax brackets from three to six, (2) splitting the existing 5% bracket into four brackets and adding three higher marginal rates to that taxable income, (3) increasing the top marginal income tax rate from 6.5% to 6.7%, and (4) lowering the taxable income for the 6.7% rate bracket by half. The bill also increases the flat income tax rate for trusts and estates from 6.5% to 6.7%.

Table 1 shows marginal tax rates and brackets under current law and the bill.

TABLE 1: CURRENT AND PROPOSED TAX RATES AND BRACKETS

TAX RATES		CT TAXABLE INCOME			
		<i>Married Filing Jointly</i>		<i>Single</i>	
<i>Current</i>	<i>Bill</i>	<i>Over</i>	<i>But Not Over</i>	<i>Over</i>	<i>But Not Over</i>
3.0%	3.0%	\$0	\$20,000	\$0	\$10,000
5.0%	5.0%	20,000	100,000	10,000	50,000
	5.5%	100,000	200,000	50,000	100,000
	6.0%	200,000	400,000	100,000	200,000
	6.5%	400,000	500,000	200,000	250,000
6.5%	6.7%	500,000	1,000,000	250,000	500,000
		Over \$1,000,000		Over \$500,000	
TAX RATES		CT TAXABLE INCOME			
		<i>Head of Household</i>		<i>Married Filing Separately</i>	
<i>Current</i>	<i>Bill</i>	<i>Over</i>	<i>But Not Over</i>	<i>Over</i>	<i>But Not Over</i>
3.0%	3.0%	\$0	\$16,000	\$0	\$10,000
5.0%	5.0%	16,000	80,000	10,000	50,000

	5.5%	80,000	160,000	50,000	100,000
	6.0%	160,000	320,000	100,000	200,000
	6.5%	320,000	400,000	200,000	250,000
	6.7%	400,000	800,000	250,000	500,000
6.5%		Over \$800,000		Over \$500,000	

§ 36 - Phase-Out of 3% Tax Bracket

The bill phases out the lowest (3%) income tax bracket starting with taxpayers with Connecticut adjusted gross incomes (CT AGI) over \$100,500 for joint filers, \$56,500 for singles, \$78,500 for heads of household, and \$50,250 for married couples filing separately. It does so by subjecting increasingly less taxable income to the 3% income tax rate as CT AGI increases and moving the phased-out taxable income to the 5% bracket.

Table 2 shows the phase-out of the 3% bracket for each type of filer.

TABLE 2: 3.0% BRACKET PHASE-OUT

SINGLE			MARRIED FILING JOINTLY		
CT AGI		3% Rate Applies to Taxable Income Up to	CT AGI		3% Rate Applies to Taxable Income Up to
<i>Over</i>	<i>But Not Over</i>		<i>Over</i>	<i>But Not Over</i>	
0	56,500	\$10,000	0	\$100,500	\$20,000
56,500	61,500	9,000	100,500	105,500	18,000
61,500	66,500	8,000	105,500	110,500	16,000
66,500	71,500	7,000	110,500	115,500	14,000
71,500	76,500	6,000	115,500	120,500	12,000
76,500	81,500	5,000	120,500	125,500	10,000
81,500	86,500	4,000	125,500	130,500	8,000
86,500	91,500	3,000	130,500	135,500	6,000
91,500	96,500	2,000	135,500	140,500	4,000
96,500	101,500	1,000	140,500	145,500	2,000
Over \$101,500		None	Over \$145,500		None
HEAD OF HOUSEHOLD			MARRIED FILING SEPARATELY		
CT AGI		3% Rate Applies to Taxable Income Up to	CT AGI		3% Rate Applies to Taxable Income Up to
<i>Over</i>	<i>But Not Over</i>		<i>Over</i>	<i>But Not Over</i>	
0	\$78,500	\$16,000	0	\$50,250	\$10,000
78,500	82,500	14,400	50,250	52,750	9,000
82,500	86,500	12,800	52,750	55,250	8,000
86,500	90,500	11,200	55,250	57,750	7,000
90,500	94,500	9,600	57,750	60,250	6,000
94,500	98,500	8,000	60,250	62,750	5,000
98,500	102,500	6,400	62,750	65,250	4,000

102,500	106,500	4,800	65,250	67,750	3,000
106,500	110,500	3,200	67,750	70,250	2,000
110,500	114,500	1,600	70,250	72,750	1,000
Over \$114,500		None	Over \$72,250		None

§ 40 - Property Tax Credit Reduced

The bill reduces, from \$500 to \$300, the maximum property tax credit against the personal income tax and phases out the credit at a steeper rate than under current law. Current law reduces the maximum credit by 10% for every \$10,000 in additional CT AGI (every \$5,000 for married people filing separately). The bill increases these percentage reductions by 15%.

The combination of a lower maximum credit and the steeper phase-out reduces the number of taxpayers eligible for a credit. For example, under the bill, joint filers receive no credit once their CT AGI reaches \$160,500 compared to \$190,500 under current law.

Table 3 shows the maximum property tax credits by income level and filing status under current law and the bill.

TABLE 3: CURRENT AND PROPOSED MAXIMUM PROPERTY TAX CREDITS

CT AGI				MAXIMUM PROPERTY TAX CREDIT	
<i>Married Filing Jointly</i>		<i>Single (for 2011-2012)</i>		<i>Current</i>	<i>Bill</i>
<i>Over</i>	<i>But Not Over</i>	<i>Over</i>	<i>But Not Over</i>		
0	\$100,500	0	\$56,500	\$500	\$300
100,500	110,500	56,500	66,500	450	255
110,500	120,500	66,500	76,500	400	210
120,500	130,500	76,500	86,500	350	165
130,500	140,500	86,500	96,500	300	120
140,500	150,500	96,500	106,500	250	75
150,500	160,500	106,500	116,500	200	30
160,500	170,500	116,500	126,500	150	0
170,500	180,500	126,500	136,500	100	
180,500	190,500	136,500	146,500	50	
Over \$190,500		Over \$146,500		0	
CT AGI				MAXIMUM PROPERTY TAX CREDIT	
<i>Head of Household</i>		<i>Married Filing Separately</i>		<i>Current</i>	<i>Bill</i>
<i>Over</i>	<i>But Not Over</i>	<i>Over</i>	<i>But Not Over</i>		
0	\$78,500	0	50,250	\$500	\$300
78,500	88,500	50,250	55,250	450	255
88,500	98,500	55,250	60,250	400	210
98,500	108,500	60,250	65,250	350	165
108,500	118,500	65,250	70,250	300	120

118,500	128,500	70,250	75,250	250	75
128,500	138,500	75,250	80,250	200	30
138,500	148,500	80,250	85,250	150	0
148,500	158,500	85,250	90,250	100	
158,500	168,500	90,250	95,250	50	
Over \$168,500		Over \$95,250		0	

Under current law, the AGI threshold at which a single filer's maximum property tax credit starts to be reduced is scheduled to increase annually from \$56,500 to \$58,500 for 2012, \$60,500 for 2013, \$62,500 for 2014, and \$64,500 for 2015 and thereafter. The bill instead maintains the current \$56,500 threshold through the 2012 tax year and then increases it to \$60,500 for 2013, \$62,500 for 2014, \$64,500 for 2015 and thereafter.

§ 41 - Recapture of Benefits

For taxpayers whose annual CT AGI exceeds specified thresholds, the bill imposes a "recapture" provision to eliminate the benefits they receive from having a portion of their taxable income taxed at lower marginal rates. It does so by requiring taxpayers with higher incomes to add specified amounts to their tax liability figured using the marginal rates specified in Table 1 above. The bill phases in the recapture requirement until, once a taxpayer's CT AGI is high enough to require him or her to add the maximum recapture amount, 100% of his or her taxable income is effectively taxed at the highest marginal rate (6.7% under the bill).

Table 4 shows, for each type of filer, the CT AGI starting point for the recapture phase-in, the AGI phase-in intervals and the recapture amount to be added at each interval, and the maximum total recapture amount to be added once CT AGI reaches the fully phased-in level.

TABLE 4: BENEFIT RECAPTURE PHASE-IN

	<i>Married Filing Jointly</i>	<i>Single/ Married Filing Separately</i>	<i>Head of Household</i>
Phase-In Starting Point: CT AGI Equal to or greater than	\$400,000	\$200,000	\$320,000
Recapture Amount	\$150 per \$10,000 CT AGI over starting	\$75 per \$5,000 CT AGI over starting	\$120 per \$8,000 CT AGI over starting

	point	point	point
Maximum Total Recapture Amount	\$4,500	\$2,250	\$3,600

§ 39 - Earned Income Tax Credit

The bill establishes a refundable state earned income tax credit (EITC) equal to 30% of the federal credit and, to the extent allowed under federal law, specifies that the refund is not counted in determining eligibility for or the amount of aid under any need-based state or federal program.

The bill gives people who qualify for, and claim, the federal EITC a credit against their state income tax liability equal to 30% of their federal credit for the same tax year. Under the bill, if the state credit exceeds the taxpayer's state income tax liability, the DRS commissioner must 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.

Under federal law and this bill, 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 or she has. Income limits and credit amounts are adjusted annually for inflation (26 USCA § 32).

For 2010, a person qualifies for a federal EITC if he or she has at least \$1 of earned income, investment income (with certain exceptions) of \$3,100 or less, and a maximum federal AGI of:

1. \$13,460 (\$18,470 if married and filing jointly) with no children,
2. \$35,535 (\$40,545 if married and filing jointly) with one child,
3. \$40,363 (\$45,373 if married and filing jointly) with two children,
and
4. \$43,352 (\$48,362 if married and filing jointly) with three or more children.

Based on the federal EITC for 2010, the maximum state credit under the bill for the 2010 tax year would have been:

1. \$137 for filers with no children,
2. \$915 for filers with one child,
3. \$1,511 for filers with two children, and
4. \$1,700 for filers with three or more children

Table 5 shows proposed state EITCs at selected income levels, also based on federal EITCs for 2010.

TABLE 5: EXAMPLES OF STATE EITC AT SELECTED INCOME LEVELS, 2010

2010 FEDERAL AGI		SINGLE/HEAD OF HOUSEHOLD			
<i>Over</i>	<i>But Not Over</i>	<i>No Children</i>	<i>One Child</i>	<i>2 Children</i>	<i>3+ Children</i>
\$5,500	\$5,550	\$127	\$564	\$663	\$746
10,500	10,550	68	915	1,263	1,421
14,500	14,550	0	915	1,511	1,700
18,500	18,550	0	815	1,380	1,569
25,500	25,550	0	480	938	1,127
35,500	35,550	0	1	306	494
40,500	45,550	0	0	0	179
2010 FEDERAL AGI		MARRIED FILING JOINTLY			
<i>Over</i>	<i>But Not Over</i>	<i>No Children</i>	<i>One Child</i>	<i>2 Children</i>	<i>3+ Children</i>
\$5,500	\$5,550	\$127	\$564	\$663	\$746
10,500	10,550	137	915	1,263	1,421
14,500	14,550	91	915	1,511	1,700
18,500	18,550	0	915	1,511	1,700
25,500	25,550	0	720	1,254	1,443
35,500	35,550	0	241	622	811
40,500	45,550	0	1	306	495

If a taxpayer eligible for a state EITC files a joint income tax return for federal tax purposes but has to file a separate state income tax return for the same year, his or her state EITC is calculated by multiplying 30% of the taxpayer's federal EITC by the ratio of the taxpayer's CT AGI to federal AGI, as reported on the taxpayer's state and federal income tax returns, respectively.

§§ 37 & 38 - Withholding and Estimated Tax Payments

The bill requires the DRS commissioner to issue new withholding tables applicable for the 2011 tax year as soon as possible. It also requires those paying estimated taxes to adjust their September 2011 payment to reflect the bill's income tax changes.

EFFECTIVE DATE: The income tax provisions are effective on passage, and applicable to tax years starting on or after January 1, 2011.

SALES AND USE TAX

§§ 19, 20, 23, & 55 - Tax Rate Increases

The bill increases the general sales and use tax rate from 6% to 6.35% and the hotel tax rate from 12% to 15%. It does not change existing lower rates for sales of (1) motor vehicles to active duty U.S. military members stationed in Connecticut (4.5%) or (2) computer and data processing services (1%).

§§ 19 & 23 - Luxury Goods Tax

The bill imposes a 7% sales and use tax on the full sales price of motor vehicles, boats, jewelry, clothing, and footwear costing more than:

1. \$50,000 for motor vehicles, with certain exceptions (see below);
2. \$100,000 for boats;
3. \$5,000 for jewelry; and
4. \$1,000 for clothing or footwear (including handbags, luggage, umbrellas, wallets, and watches).

The bill excludes from the type of motor vehicles subject to the luxury tax any (1) motor vehicle purchased by an active duty U.S. military member stationed in Connecticut or (2) commercial motor vehicle. A motor vehicle used for both private passenger and commercial purposes that is eligible for combination registration is subject to the tax.

§§ 19, 21, & 24 - Rental Car Surcharge

The bill imposes an additional 3% sales and use tax (9.35% total) on short-term car rentals (30 days or less) and requires the state to disburse the revenue from one percentage point of the increase to the municipality where the sale occurred.

§§ 14-18, 25 & 57 – Sales & Use Tax Extensions

The bill eliminates specified sales tax exemptions and extends the tax to additional services shown in Table 6.

TABLE 6: SALES & USE TAX EXTENSIONS

Exemptions Eliminated	New Services Taxed (§§ 18 & 25)
Containment or removal of hazardous waste or other contaminants (§ 14)	Motor vehicle storage, including storage for motor homes, campers, and camp trailers, excluding self-storage units
Valet parking at any airport (§ 15)	Packing and crating, other than that provided by retailers in connection with the sale of tangible personal property
Yoga instruction at a yoga studio (§ 17)	Motor vehicle towing and road services, other than repairs
Clothing and footwear costing less than \$50 (§§ 16 & 57)	Intrastate transportation via limousine, community car, or van with a driver, excluding taxis, buses, ambulances, scheduled public transportation, and funerals
Non-prescription drugs and medicine (§ 57)	Pet grooming, boarding, and obedience classes, other than grooming or boarding provided as an integral part of veterinarian services
Cloth or fabric for non-commercial sewing (§ 57)	Cosmetic medical procedures, excluding reconstructive surgery
Property or services used in operating solid waste-to-energy facilities (§ 57)	Manicure, pedicure, and other nail services
Yarn (§ 57)	Spa services, including body waxing and wraps, peels, scrubs, and facials
Smoking cessation products (§ 57)	Repair of light aircraft (< 6,000 lbs) (§ 25)

EFFECTIVE DATE: July 1, 2011, and applicable to sales on or after that date.

§§ 31 & 32 - REAL ESTATE CONVEYANCE TAX

The bill (1) increases state real estate conveyance tax rates by 0.25%, and (2) makes permanent the 0.25% base municipal real estate conveyance tax, currently scheduled to expire on July 1, 2011.

The real estate conveyance tax has two parts: a state tax and a

municipal tax. The applicable state and municipal rates are added together to get the total tax rate for a particular transaction. The combined rate is applied to the sale price.

The current state tax is 0.5% of (1) the first \$800,000 of the sale price of a residential property and (2) the full sale price of unimproved land and certain bank foreclosures for mortgage delinquencies. A 1% rate applies to (1) sales of nonresidential property other than unimproved land and (2) any portion of the sale price of a residential dwelling that exceeds \$800,000 (the so-called "mansion tax"). The bill increases these rates to 0.75% and 1.25%, respectively.

In addition to the state tax, a seller must pay a state-specified conveyance tax to the municipality where the property is located. The current municipal tax rate is 0.25% for all towns plus an additional tax of up to 0.25% in 18 eligible towns that choose to impose the increased rate. Thus, under current law, the municipal tax rate can range from 0.25% to 0.5%, depending on where the property is located.

Under current law, the base tax rate of 0.25% for all towns is scheduled to expire on June 30, 2011. This bill makes that rate permanent.

It requires the DRS commissioner to deposit the revenue attributable to the increase in the state tax rate into the municipal revenue sharing account (see below).

EFFECTIVE DATE: July 1, 2011, and applicable to conveyances occurring on or after that date.

§§ 19, 22, & 32 - TAX REVENUE ALLOCATED TO MUNICIPAL REVENUE SHARING ACCOUNT

The bill allocates the following revenue from increased taxes to municipalities:

1. 0.1 percentage point of the 6.35% sales tax on all taxable goods and services,
2. 0.1 percentage point of the 7.0% luxury tax,

3. 0.25 percentage point of the state conveyance tax, and
4. one percentage point of the 15% hotel occupancy tax.

The DRS commissioner must deposit the revenue quarterly in a municipal revenue sharing account, which the bill creates as a separate, nonlapsing General Fund account. The account must contain any funds required by law to be deposited in it. The Office of Policy and Management (OPM) secretary must use the account funds for municipal grants.

§ 35 - CABARET TAX

The bill imposes a 3% tax on admissions, food, drink, service, and merchandise at any place offering live music, dancing, or other entertainment in addition to serving alcoholic drinks (“cabarets”) and requires the state to disburse the tax revenue to the municipality where the sale occurred.

Applicability

The 3% tax applies on charges for admissions, food, drink, service, and merchandise at any place offering live music (with more than one performer), dancing, or other entertainment for profit in addition to serving alcoholic drinks. The tax applies to these charges only when the establishment is in “cabaret status.” Under the bill, cabaret status begins when the (1) music, dancing, or entertainment starts or (2) establishment starts charging an admission or cover charge. If any portion of the establishment is subject to the cabaret tax, the tax also applies to areas from which the (1) entertainment can be viewed or (2) entertainment or dancing can be accessed at no charge.

Collecting the Tax

The bill imposes the tax on the establishments described above and requires that they collect it from purchasers. It specifies that the tax (1) is a recoverable debt from the purchaser to the establishment and (2) when collected by the establishment, is deemed a special fund in trust for the state.

Tax Administration

Taxpayers subject to the tax must remit the payments and file signed tax returns on a monthly basis. The returns must provide (1) the amount of tax due for the preceding month and (2) any other information the DRS commissioner requires. Unpaid taxes are subject to a penalty of 10% of the unpaid amount or \$50, whichever is greater, plus 1% interest for each full or partial month that the tax remains unpaid.

The same administrative, enforcement, liability, and appeal process requirements established in statute for the admissions tax apply to the cabaret tax and must be adapted accordingly.

EFFECTIVE DATE: July 1, 2011, and applicable to sales on or after that date.

CORPORATION TAX

§§ 2 & 5 – Corporation Tax Surcharge

The bill imposes a 20% corporation tax surcharge for the 2012 and 2013 income years. Under current law and the bill, a 10% corporation tax surcharge expires at the end of the 2011 income year. As under current law, the surcharge for 2012 and 2013 applies to companies that have (1) at least \$100 million in annual gross income in those years and (2) a tax liability that exceeds \$250. The exemption for companies with less than \$100 million in annual gross income does not apply to companies filing combined or unitary returns.

§ 4 - Credit Limit

By law, companies are barred from using tax credits to reduce their annual corporation tax liability by more than 70%. Under the bill, for the 2011 and 2012 income years, a company may offset additional tax liability beyond 70% by adding employees.

The additional offset equals \$6,000 times the company's average net monthly increase in employees, up to 100% of its total tax liability. The average net monthly employee gain must be calculated by dividing the company's total new employees for the applicable year by 12. In order for an employee to count, he or she must (1) be required to work at

least a 35-hour week and (2) not have been employed in Connecticut by an entity who is a “related person” to the corporation within 12 months before the start of the applicable income year (see BACKGROUND). A company may not exceed the 70% credit limit if its average net employee gain is zero or less than zero.

EFFECTIVE DATE: Corporation tax changes are effective upon passage, and applicable to income years starting on or after January 1, 2011.

§ 3 - FILM PRODUCTION TAX CREDIT

The bill limits the transfer of film production tax credits allowed (1) in 2011 to 50% of the credit in any one income year and (2) in 2012 and beyond to 25% of the credit in any one income year. Entities subject to the corporation or insurance premium tax are not bound by the transfer restrictions.

It exempts from these restrictions credits issued for any production that the Department of Economic and Community Development (DECD) commissioner determines is created in whole or significant part in a “qualified production facility.” Under the bill, a “qualified production facility” is a facility in the state that (1) is intended for film, television, or digital media production and (2) has a minimum investment of \$3 million, or less if the DECD commissioner determines it otherwise qualifies.

The bill also increases, from 25% to 50%, the minimum share of principal photography days a production company must spend in the state in order to qualify for a film production tax credit.

EFFECTIVE DATE: Upon passage, and applicable to income years beginning on or after January 1, 2011.

§§ 10-13 & 48 - ESTATE AND GIFT TAXES

Tax Threshold

The bill lowers the estate and gift tax threshold from \$3.5 million to \$2 million and extends the existing 7.2% rate to estates and gifts valued at between \$2 million and \$3.5 million. Table 7 shows the current and

proposed tax rates.

TABLE 7: CURRENT AND PROPOSED ESTATE AND GIFT TAXES

VALUE OF TAXABLE ESTATE OR GIFT		CURRENT TAX (Add cols. C & D)		PROPOSED TAX (Add cols. E & F)	
Col A: Over	Col B: But not over	Col C Tax on Col. A	Col D: Tax rate on excess over Col A	Col E: Tax on Col. A	Col F: Tax rate on excess over Col A
0	\$2,000,000	NO TAX		NO TAX	
2,000,000	3,500,000	7.2% of the excess over \$3,500,000		7.2% of the excess over \$2,000,000	
3,500,000	3,600,000				
3,600,000	4,100,000	\$7,200	7.8%	\$115,200	7.8%
4,100,000	5,100,000	46,200	8.4%	154,200	8.4%
5,100,000	6,100,000	130,200	9.0%	238,200	9.0%
6,100,000	7,100,000	220,200	9.6%	328,200	9.6%
7,100,000	8,100,000	316,200	10.2%	424,200	10.2%
8,100,000	9,100,000	418,200	10.8%	526,200	10.8%
9,100,000	10,100,000	526,200	11.4%	634,200	11.4%
Over \$10,100,000		640,200	12.0%	748,200	12.0%

Filing Estate Tax Returns

The bill makes a conforming change in requirements for filing tax returns with the probate court. By law, all estates, regardless of their gross value, must file an estate tax return. If the estate's value is more than the taxable threshold, the executor must file the return with DRS, with a copy to the probate court for the district where the decedent lived or, if the decedent was not a Connecticut resident, where the Connecticut property is located. If the estate's value is below the tax threshold, the return must be filed only with the appropriate probate court. The probate judge must review the return and issue a written opinion to the estate's representative if the judge determines it is not subject to the estate tax.

Under current law, the threshold for filing an estate tax return only with the probate court from someone who dies on or after January 1, 2010 is \$3.5 million. Starting with deaths on or after January 1, 2011, this bill reduces that threshold to \$2 million.

Release of Estate Tax Liens

The bill makes a conforming change in requirements for releasing

estate tax liens.

By law, a person who does not owe, or who has paid, the estate tax receives a certificate releasing the lien on his or her interest in real property in the estate. The probate court is required to issue all lien release certificates for estates below the estate tax threshold. Current law requires probate courts to issue all lien release certificates for estates of \$3.5 million or less, starting with deaths on or after January 1, 2010. The bill reduces the threshold to \$2 million for deaths occurring on or after January 1, 2011.

EFFECTIVE DATE: Upon passage, and applicable to deaths occurring and gifts made on or after January 1, 2011.

§ 1 - INSURANCE PREMIUM TAX

The bill (1) lowers, from 70% to 30%, the amount by which an insurer can reduce its insurance premium tax liability in any year through tax credits but (2) allows the insurer to offset additional tax liability for 2011 and 2012 if it adds employees. The bill makes the credit limit apply to calendar years, rather than income years.

Under the bill, for the calendar years 2011 and 2012, an insurer may offset additional tax liability by an amount equal to \$6,000 times its average net monthly increase in employees, up to 100% of its total tax liability. The average net employee gain must be calculated by adding insurer's total increase in employees for the applicable year and dividing by 12. In order for an employee to count, he or she must (1) be required to work at least a 35-hour week and (2) not have been employed in Connecticut by the insurer's "related person" within 12 months before the applicable calendar year (see BACKGROUND). A company may not exceed the 30% credit limit if its average net employee gain is zero or less than zero.

EFFECTIVE DATE: Upon passage, and applicable to calendar years beginning January 1, 2011.

§§ 6-8 CIGARETTE TAX

The bill increases the cigarette tax from \$3 to \$3.40 per pack.

It also imposes a 40-cent "floor tax" on each pack of cigarettes that dealers and distributors have in their inventories at the earlier of the close of business or 11:59 p.m. on June 30, 2011. By August 15, 2011, each dealer and distributor must report to the DRS the number of cigarettes in inventory as of June 30, 2011 and pay the floor tax. If a dealer or distributor does not report by the due date, the DRS commissioner must file the report, estimating the number of cigarettes in the dealer's or distributor's inventory using any information the commissioner has or obtains. If this occurs, the dealer or distributor is subject to a penalty of 10% of the tax due or \$50, whichever is greater, plus interest of 1% per month.

Failure to file the report by the due date is grounds for DRS to revoke or not renew a cigarette dealer's or distributor's license and any other state license or permit the person or entity holds. (Presumably, this means other licenses or permits issued by DRS.) Willful failure to file subjects the dealer or distributor to a fine of up to \$1,000, one year in prison, or both. A dealer or distributor who willfully files a false report can be fined up to \$5,000, sentenced to one to five years in prison, or both. Late filers are also subject to the same interest and penalties as apply to other late cigarette tax payments, namely, 10% of the tax due or \$50, whichever is greater, plus interest of 1% per month.

EFFECTIVE DATE: July 1, 2011, and applicable to sales on or after that date. The inventory tax is effective on passage.

§ 9 - TOBACCO PRODUCTS TAX

The bill increases the tax on (1) snuff tobacco from 55 cents to \$1 per ounce, and (2) on all other tobacco products from 27.5% to 50% of the wholesale price. The tobacco products tax applies to cigars, cheroots, pipe tobacco, and similar products, but not cigarettes.

EFFECTIVE DATE: July 1, 2011, and applicable to sales on or after that date.

§ 33 - ELECTRIC GENERATION TAX

The bill imposes a temporary tax on electric generation facilities of

1/4 of a cent per net kilowatt hour (kwh) of electricity generated and uploaded into the regional bulk power grid at Connecticut facilities. The tax applies to all electricity except that generated through use of a fuel cell or alternative energy system, such as a solar or wind system. Under the bill, the tax expires on June 30, 2013.

The tax is payable quarterly starting by October 31, 2011 and thereafter, by the last day of January, April, July, and October, through June 30, 2013. Each taxpayer must file a DRS-prescribed return that reports the kwhs generated during the calendar quarter ending the preceding month and whatever other information the commissioner considers necessary. Taxpayers must file returns and pay taxes due electronically. Late payments are subject to a penalty of 10% of the tax due or \$50 whichever is greater, plus interest of 1% per month. The DRS audit, collection, other tax administration procedures applicable to the admissions and dues taxes apply to the generator tax except where inconsistent.

The bill allows the comptroller to count as revenue for FY 12 and FY 13, respectively, any generation tax revenue DRS receives within five business days after the July 31st following the end of those fiscal years.

EFFECTIVE DATE: July 1, 2011

§ 34 - ADMISSIONS TAX EXEMPTIONS ELIMINATED

The bill eliminates exemptions from the 10% admissions tax for the facilities and events shown in Table 8.

TABLE 8: ADMISSION TAX EXEMPTIONS ELIMINATED

Hartford Civic Center	Lyme Rock Park	Dodd Stadium
New Haven Coliseum	Thompson Speedway	Arena at Harbor Yard
New Britain Beehive Stadium	Waterford Speedbowl	New Britain Rock Cats games
New Britain Stadium	Tennis Foundation of Connecticut facilities	New Haven Ravens games
New Britain Veterans Memorial Stadium	William A. O'Neill Convocation Center	Waterbury Spirit games
Bridgeport Harbor Yard Stadium	Nature's Art	
Stafford Motor Speedway	Connecticut Convention Center	

EFFECTIVE DATE: January 1, 2012, and applicable to charges imposed on or after that date.

§§ 26 & 27 - ALCOHOLIC BEVERAGES TAX

The bill increases the excise tax on alcoholic beverages by 20%. It requires sellers to pay an additional tax on alcoholic beverages (e.g., beer, wine, liquor) in their inventories as of the close of business or 11:59 p.m. on June 30, 2011, whichever is earlier. Current and proposed new rates for the alcoholic beverages tax and the inventory tax are shown in Table 9.

TABLE 9: CURRENT AND PROPOSED ALCOHOLIC BEVERAGES TAXES

	<i>Unit Taxed</i>	<i>Current Tax</i>	<i>Proposed Tax</i>	<i>Proposed Per-Unit Inventory Tax</i>
BEER AND CIDER				
Beer and cider with no more than 7% alcohol	Barrel	\$6.00	\$7.20	\$1.20
	1/2 barrel	3.00	3.60	.60
	1/4 barrel	1.50	1.80	.30
	Wine gallon or fraction under 1/4 barrel	0.20	0.24	.04
WINE				
Still wines with no more than 21% alcohol	Wine gallon*	0.60	0.72	.12
Still wines with no more than 21% alcohol produced by a person producing no more than 55,000 wine gallons annually	Wine gallon*	0.15	0.18	.03
Still wines with more than 21% alcohol Sparkling wines	Wine gallon*	1.50	1.80	.30
LIQUOR AND LIQUOR COOLERS				
Liquor	Wine gallon*	4.50	5.40	.90
Alcohol – more than 100 proof	Proof Gallon*	4.50	5.40	.90
Liquor coolers with no more than 7% alcohol by volume	Wine gallon*	2.05	2.46	.41

* A wine gallon is 128 ounces. A proof gallon is a measurement based on volume and alcohol content.

The bill requires distributors to file an inventory report with the DRS and pay the tax due on the inventory by August 15, 2011. If a distributor fails to file an inventory and pay the tax by that date, the DRS commissioner must estimate the seller's inventory tax based on information she has or obtains. Regular provisions of the alcoholic

beverages tax laws concerning failure to file returns, DRS examination of returns, deficiency assessments or assessments for failure to file a return, tax collection, penalties, and interest apply to the bill's inventory tax. Under those provisions, someone who fails to pay the tax on time is subject to a penalty of 10% of the tax due with a \$50 minimum and interest at the rate of 1% per month from the tax due date to the payment date. The bill also makes failure to file a report and pay the tax on time grounds to revoke any state license or permit.

The bill requires the consumer protection (DCP) commissioner to cooperate with the DRS commissioner to enforce the inventory tax.

EFFECTIVE DATE: Upon passage, and applicable to sales occurring on or after July 1, 2011. The inventory tax is effective on passage.

§§ 28 - 30 - MOTOR VEHICLE AND DIESEL FUELS TAXES

The bill increases the (1) tax on gasoline and gasohol, from 25 cents to 28 cents per gallon and (2) base tax on diesel fuel from 26 cents to 29 cents per gallon. It also imposes a 28-cent-per-gallon tax on liquefied natural gas, petroleum gas, or compressed natural gas used as motor fuels. Under the bill, 126.67 cubic feet of compressed natural gas is considered a gallon.

The bill imposes a three-cent inventory tax on each gallon of gasoline, gasohol, or diesel that licensed sellers have in inventory as of either the close of business or 11:59 p.m. on June 30, 2011, whichever is earlier. It requires dealers, by August 1, 2011, to (1) report to the DRS commissioner the number of gallons of fuel they had in inventory at that time and (2) pay the inventory tax.

Amounts not paid by the due date accrue 1% interest per month or part of a month until paid. Failure to file the inventory report or filing an incorrect report must be treated as if the dealer failed to file other required motor vehicle tax reports, or filed them incorrectly, subjecting the dealer to, among other things, a penalty of 10% of the tax due or \$50, whichever is greater. In addition, failure to file inventory reports and pay the excise tax are grounds for revoking any state licenses or

permits the dealer holds.

The motor vehicles commissioner must cooperate with the DRS commissioner to enforce the tax.

EFFECTIVE DATE: July 1, 2011, except the inventory tax is effective upon passage.

§§ 41-47 PENALTY FOR FAILING TO REGISTER A MOTOR VEHICLE

The bill increases, from between \$150 and \$300 to \$1,000, the fine for a Connecticut resident who operates a motor vehicle he or she owns with an out-of-state registration in violation of the Connecticut's registration requirements. By law, someone has 60 days from the time he or she takes up residence in the state to change his out-of-state registration to a Connecticut registration. The bill requires the fine to be remitted to the municipality in which the violation occurred, rather than the Special Transportation Fund, and makes related changes.

The bill exempts from any fine, interest, or penalties any Connecticut resident who registers a motor vehicle with out-of-state plates before January 1, 2012. Any taxes owed on the vehicle are due upon registration.

EFFECTIVE DATE: July 1, 2011

§ 49 - CITIZENS' ELECTION FUND TRANSFERS

The bill reduces, from \$18 million to \$10.6 million, the required FY 12 transfer to the Citizens' Election Fund.

EFFECTIVE DATE: July 1, 2011

§ 50 - SPECIAL TRANSPORTATION FUND TRANSFERS

The bill requires the DRS commissioner, by January 1, 2013 and biennially thereafter, to calculate the percentage of petroleum products gross earnings tax revenue from gasoline sold for the prior fiscal year and use this ratio as the basis for determining the required transfers from the General Fund to the Special Transportation Fund (STF). The

commissioner must notify the Finance Committee chairpersons and ranking members and the OPM secretary of the calculated ratio.

The bill also increases the required annual transfers from the General Fund to the STF as shown in Table 10.

TABLE 10: GENERAL FUND TRANSFERS TO SPECIAL TRANSPORTATION FUND

FY	TRANSFERS TO STF	
	Current Law (million)	The Bill (million)
2012	\$165.3	\$200.7
2013	165.3	203.4
2014	179.2	222.7
2015	179.2	226.8
2016 and thereafter	179.2	231.4

EFFECTIVE DATE: July 1, 2011

§ 51 - ABANDONED PROPERTY

The bill requires the revenue estimates included in the budget act to be reduced by the estimated claims for abandoned property.

EFFECTIVE DATE: July 1, 2011

§ 52 - TRANSPORTATION STRATEGY BOARD ACCOUNT

On July 1, 2011, the bill transfers the unspent balance in the Department of Transportation's nonlapsing Transportation Strategy Board account to general state resources.

EFFECTIVE DATE: July 1, 2011

§§ 53 & 56 - FUEL OIL CONSERVATION ACCOUNT ELIMINATED

The bill eliminates the nonlapsing fuel oil conservation account, the conservation programs the account pays for, and the 13-member board that oversees the program. Under current law, the account is funded by annual revenue from the petroleum products gross receipts tax that exceeds the 2006 revenue, subject to a \$5 million annual cap.

EFFECTIVE DATE: July 1, 2011

§ 54 - FUNDING FOR NATURAL GAS CONSERVATION PLANS

The bill eliminates funding for natural gas conservation plans by repealing a provision that dedicates to such plans any utility company tax revenue that exceeds the legislatively adopted annual revenue estimate, up to a maximum of \$10 million per year. Under current law, the comptroller must transfer the dedicated revenue to the Energy Conservation Management Board account to be used to reimburse gas companies for their conservation expenditures.

EFFECTIVE DATE: Upon passage

BACKGROUND

Related Person

By law, an entity is a “related person” to a taxpayer if (1) the taxpayer controls it, (2) it is a business or trust controlled by another person or entity that the taxpayer controls, or (3) it is a member of the same controlled group as the taxpayer. A company is considered to be “controlled” by someone if he directly or indirectly owns more than 50% of the combined voting power of all classes of its stock or more than 50% capital or profit interest in it. In the case of a trust, control means owning 50% or more of the beneficial interest of the trust’s principal or income. Ownership is defined as in federal income tax law (CGS § 12-217ii).

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 32 Nay 20 (04/21/2011)