House of Representatives

General Assembly **File No. 275**

January Session, 2013 House Bill No. 5062

House of Representatives, April 2, 2013

The Committee on Housing reported through REP. BUTLER of the 72nd Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

AN ACT CREATING INCENTIVES FOR YOUNG PROFESSIONALS TO LIVE IN URBAN AREAS.

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

Section 1. (NEW) (*Effective October 1, 2013*) (a) (1) The Commissioner of Housing, in consultation with the Commissioner of Revenue Services, may establish a Young Professionals Urban Housing Incentive program. Said program shall provide an incentive for graduates of a public institution of higher education, a private university or college or a regional community-technical college to lease rental housing or to purchase and reside in a first home in urban areas located in the state and designated by the Commissioner of Housing for purposes of said program. Pursuant to said program, persons who graduate on or after January 1, 2014, from such institutions, universities or colleges and who are personally liable for an amount equal to or exceeding twenty thousand dollars in student loans may deduct up to ten per cent of their annual rental or mortgage payments from their personal income tax liability, provided no such deduction shall exceed one thousand two hundred dollars annually.

(2) Any person meeting the qualifications set forth in subdivision (1) of this subsection may apply to the Commissioner of Housing for acceptance to the Young Professionals Urban Housing Incentive program. Such application shall be made on such form as the Commissioner of Housing prescribes, and shall be accompanied by supporting documentation demonstrating that such person meets such qualifications.

(b) Participants in the Young Professionals Urban Housing Incentive program shall be eligible to participate during the period from the taxable year during which a participant graduates, and for nine taxable years thereafter, provided an application is made to the Commissioner of Housing pursuant to subsection (a) of this section every two years. Any benefits received under this section shall cease immediately if the participant ceases to pay rent or to make mortgage payments on a primary residence located in an urban area designated by the Commissioner of Housing.

Sec. 2. Subparagraph (B) of subdivision (20) of subsection (a) of section 12-701 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage and applicable to taxable years commencing on or after January 1, 2013*):

(B) There shall be subtracted therefrom (i) to the extent properly includable in gross income for federal income tax purposes, any income with respect to which taxation by any state is prohibited by federal law, (ii) to the extent allowable under section 12-718, exempt dividends paid by a regulated investment company, (iii) the amount of any refund or credit for overpayment of income taxes imposed by this state, or any other state of the United States or a political subdivision thereof, or the District of Columbia, to the extent properly includable in gross income for federal income tax purposes, (iv) to the extent properly includable in gross income for federal income tax purposes and not otherwise subtracted from federal adjusted gross income pursuant to clause (x) of this subparagraph in computing Connecticut adjusted gross income, any tier 1 railroad retirement benefits, (v) to the extent any additional allowance for depreciation under Section 168(k) of the Internal Revenue Code, as provided by Section 101 of the Job Creation and Worker Assistance Act of 2002, for property placed in service after December 31, 2001, but prior to September 10, 2004, was added to federal adjusted gross income pursuant to subparagraph (A)(ix) of this subdivision in computing Connecticut adjusted gross income for a taxable year ending after December 31, 2001, twenty-five per cent of such additional allowance for depreciation in each of the four succeeding taxable years, (vi) to the extent properly includable in gross income for federal income tax purposes, any interest income from obligations issued by or on behalf of the state of Connecticut, any political subdivision thereof, or public instrumentality, state or local authority, district or similar public entity created under the laws of the state of Connecticut, (vii) to the extent properly includable in determining the net gain or loss from the sale or other disposition of capital assets for federal income tax purposes, any gain from the sale or exchange of obligations issued by or on behalf of the state of Connecticut, any political subdivision thereof, or public instrumentality, state or local authority, district or similar public entity created under the laws of the state of Connecticut, in the income year such gain was recognized, (viii) any interest on indebtedness incurred or continued to purchase or carry obligations or securities the interest on which is subject to tax under this chapter but exempt from federal income tax, to the extent that such interest on indebtedness is not deductible in determining federal adjusted gross income and is attributable to a trade or business carried on by such individual, (ix) ordinary and necessary expenses paid or incurred during the taxable year for the production or collection of income which is subject to taxation under this chapter but exempt from federal income tax, or the management, conservation or maintenance of property held for the production of such income, and the amortizable bond premium for the taxable year on any bond the interest on which is subject to tax under this chapter but exempt from federal income tax, to the extent that such expenses and premiums are not deductible in determining federal adjusted gross income and are attributable to a trade or business carried on by such individual, (x) (I) for a person who files a return under the federal income tax as an unmarried individual whose federal adjusted gross income for such taxable year is less than fifty thousand dollars, or as a married individual filing separately whose federal adjusted gross income for such taxable year is less than fifty thousand dollars, or for a husband and wife who file a return under the federal income tax as married individuals filing jointly whose federal adjusted gross income for such taxable year is less than sixty thousand dollars or a person who files a return under the federal income tax as a head of household whose federal adjusted gross income for such taxable year is less than sixty thousand dollars, an amount equal to the Social Security benefits includable for federal income tax purposes; and (II) for a person who files a return under the federal income tax as an unmarried individual whose federal adjusted gross income for such taxable year is fifty thousand dollars or more, or as a married individual filing separately whose federal adjusted gross income for such taxable year is fifty thousand dollars or more, or for a husband and wife who file a return under the federal income tax as married individuals filing jointly whose federal adjusted gross income from such taxable year is sixty thousand dollars or more or for a person who files a return under the federal income tax as a head of household whose federal adjusted gross income for such taxable year is sixty thousand dollars or more, an amount equal to the difference between the amount of Social Security benefits includable for federal income tax purposes and the lesser of twenty-five per cent of the Social Security benefits received during the taxable year, or twenty-five per cent of the excess described in Section 86(b)(1) of the Internal Revenue Code, (xi) to the extent properly includable in gross income for federal income tax purposes, any amount rebated to a taxpayer pursuant to section 12-746, (xii) to the extent properly includable in the gross income for federal income tax purposes of a designated beneficiary, any distribution to such beneficiary from any qualified state tuition program, as defined in Section 529(b) of the Internal Revenue Code, established and maintained by this state or any official, agency or instrumentality of the state, (xiii) to the extent allowable under section 12-701a, contributions to accounts established pursuant to any qualified state tuition program, as defined in Section 529(b) of the Internal Revenue Code, established and maintained by this state or any official, agency or instrumentality of the state, (xiv) to the extent properly includable in gross income for federal income tax purposes, the amount of any Holocaust victims' settlement payment received in the taxable year by a Holocaust victim, (xv) to the extent properly includable in gross income for federal income tax purposes of an account holder, as defined in section 31-51ww, interest earned on funds deposited in the individual development account, as defined in section 31-51ww, of such account holder, (xvi) to the extent properly includable in the gross income for federal income tax purposes of a designated beneficiary, as defined in section 3-123aa, interest, dividends or capital gains earned on contributions to accounts established for the designated beneficiary pursuant to the Connecticut Homecare Option Program for the Elderly established by sections 3-123aa to 3-123ff, inclusive, (xvii) to the extent properly included in gross income for federal income tax purposes, fifty per cent of the income received from the United States government as retirement pay for a retired member of (I) the Armed Forces of the United States, as defined in Section 101 of Title 10 of the United States Code, or (II) the National Guard, as defined in Section 101 of Title 10 of the United States Code, (xviii) to the extent properly includable in gross income for federal income tax purposes for the taxable year, any income from the discharge of indebtedness in connection with any reacquisition, after December 31, 2008, and before January 1, 2011, of an applicable debt instrument or instruments, as those terms are defined in Section 108 of the Internal Revenue Code, as amended by Section 1231 of the American Recovery and Reinvestment Act of 2009, to the extent any such income was added to federal adjusted gross income pursuant to subparagraph (A)(x) of this subdivision in computing Connecticut adjusted gross income for a preceding taxable year; **[**and**]** (xix) to the extent not deductible in determining federal adjusted gross income, the amount of any contribution to a manufacturing reinvestment account established pursuant to section 32-9zz in the taxable year that such contribution is made, and (xx) to the extent allowable under section 1 of this act, rental or mortgage payments by persons participating in the young professionals urban housing incentive program established pursuant to section 1 of this act.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*October 1, 2013*	New section
Sec. 2	*from passage and applicable to taxable years commencing on or after January 1, 2013*	12-701(a)(20)(B)

HSG *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 14 $	FY 15 $
Department of Revenue Services	GF - Potential Revenue Loss	See Below	See Below
Department of Housing	GF - Potential Cost	37,500	50,000
State Comptroller - Fringe Benefits[1]	GF - Potential Cost	12,953	17,270
Revenue Serv., Dept.	GF – Potential Cost	35,000	None

Municipal Impact: None

Explanation

The bill results in (1) a potential revenue loss of $1.25 million and (2) a potential cost of $85,453 in FY 14 and an annualized potential cost of $67,270 thereafter by allowing the Commissioner of Housing to establish a Young Professionals Urban Housing program.

The program would provide an income tax deduction of up to $1,200 per year for 10 years to certain recent college graduates who choose to live in designated urban areas. It is estimated that up to 26,000 graduates may be eligible for the program in any given year. Assuming that all eligible graduates participate in the program and tax the maximum deduction of $1,200, the annualized revenue loss would be approximately $1.25 million. The timing of the revenue loss would depend on the implementation of the program. Were the program to

[1]The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 34.54% of payroll in FY 14 and FY 15.

begin October 1, 2013, then the full $1.25 million revenue loss would occur in FY 14 and each year thereafter.

The Department of Housing would require one staff employee at a cost of $50,453 ($37,500 in salary and $12,953 in fringe costs) in FY 14 to implement the program. The total annualized cost amounts to $67,270 ($50,000 in salary and $17,270 in fringe costs). Currently the Department of Housing has funding for two positions: one commissioner and one staff.

The Department of Revenue Services would incur a one-time cost of $35,000 to administer the new tax credit, consisting of $25,000 for technical changes to the online Taxpayer Service Center (TSC), form alteration and printing costs, and $10,000 for programming changes to the Department's Integrated Tax Administration System (ITAS).

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation. In addition, normal annual pension costs (currently estimated at 7.5% of payroll) attributable to the identified personnel changes will be recognized in the state's annual required pension contribution in future actuarial valuations.

OLR Bill Analysis
HB 5062

AN ACT CREATING INCENTIVES FOR YOUNG PROFESSIONALS TO LIVE IN URBAN AREAS.

SUMMARY:

This bill allows the housing commissioner, in consultation with the revenue services commissioner, to provide an income tax deduction to recent college and university graduates who rent or purchase their first home in designated urban areas. These graduates qualify for the deduction if they owe at least $20,000 in student loan debt. The deduction equals up to 10% of their rent or mortgage payments, up to $1,200 per year for 10 years.

EFFECTIVE DATE: October 1, 2013, except for the provision authorizing the income tax deduction, which takes effect upon passage and applies to income years beginning on or after January 1, 2013.

INCOME TAX DEDUCTION

Under the bill, the housing commissioner may establish a Young Professionals Urban Housing Incentive Program to provide a state income tax deduction to eligible recent graduates. The deduction, up to $1,200 annually, is up to 10% of an eligible taxpayer's rent or mortgage payments.

For example, under the bill, an eligible taxpayer with a single filing status and CT-AGI of $50,000 in 2012 who pays $12,000 in rent would be able to deduct up to $1,200 in addition to other deductions the law allows. Applying the $1,200 deduction, the taxpayer would have a CT-AGI of $48,800. The deduction reduces the taxpayer's taxes by $54, from $2,069 (CT-AGI of $50,000) to $2,015 (CT-AGI of $50,000 with maximum $1,200 deduction).

The deducted rent or mortgage payments must be for a primary residence in a designated urban area. Mortgage payments can be deducted only if they are for the taxpayer's first home.

ELIGIBILE TAXPAYERS

To qualify for the exemption, taxpayers must:

1. have graduated from a public or private institution of higher education, including regional community-technical colleges, on or after January 1, 2014;

2. be personally liable for at least $20,000 in student loans; and

3. pay rent or make mortgage payments on housing in an urban area designated by the housing commissioner.

Taxpayers are eligible to participate in the program only during the year in which they graduate and the nine taxable years that follow. An eligible taxpayer whose student loan debt falls below $20,000 or who stops making payments on an eligible property immediately becomes ineligible for the deduction.

APPLICATION

Eligible taxpayers must apply biennially, with supporting documentation, to the commissioner for acceptance into the program. The commissioner must create the application form and designate the urban areas where the deduction is available.

BACKGROUND

Related Program

The Department of Economic and Community Development (DECD) commissioner is authorized to establish the Live Here, Learn Here Program to help students save towards a down payment on their first home in Connecticut by segregating a portion of their state income tax payments for up to 10 years after they graduate. To receive the down payment assistance, a student must apply to the DECD commissioner within 10 years of graduation. The payment equals the segregated amount, up to the amount needed for the down payment. Any balance remaining in a student's account must be deposited in the General Fund. Students who receive the assistance and subsequently leave Connecticut may have to repay all or part of the assistance, depending on when they leave.

COMMITTEE ACTION

Housing Committee

Joint Favorable
Yea 10 Nay 0 (03/14/2013)