



**TESTIMONY OF BONNIE STEWART
VICE PRESIDENT OF GOVERNMENT AFFAIRS, CBIA
BEFORE THE
FINANCE, REVENUE AND BONDING COMMITTEE
HARTFORD, CT
MARCH 11, 2013**

**Testifying on SB 1055 An Act Concerning Various Tax Credits And An Exemption To,
And A Study Of, The Income Tax**

Good morning. My name is Bonnie Stewart and I am Vice President of Government Affairs at the Connecticut Business and Industry Association (CBIA). CBIA represents more than 10,000 employers throughout Connecticut ranging from one-person businesses to large corporations.

CBIA **strongly opposes Section 6 of SB 1055**. This measure significantly cuts the carryforward period for Research and Development (R&D) tax credits, making the credit useless for many Connecticut businesses that conduct R&D in the state.

Recently, CBIA's Tax Committee shared with legislators and other public officials the important role that certain tax credits, including the R&D tax credit, play in Connecticut's economic growth. I have attached a copy of that presentation to my testimony because it does an excellent job of explaining why cutting the R&D tax credit carryforward period would be so harmful.

What's the R&D Tax Credit and Who Can Utilize It?

The R&D tax credit is earned by making an investment in Connecticut R&D jobs or facilities as specified by the legislature. The credits were established to encourage specific investment in Connecticut and have resulted in a significant increase in R&D jobs in the state. The credit can only be claimed for specific research and development investments and activities conducted in Connecticut and only after the investment targeted has been made. Because the research and development period for most products is extremely long, there is usually no cost to Connecticut until months or years after an in-state investment is made.

Credits are also an important mechanism for offsetting costs where Connecticut may not be competitive. Since many other states and foreign jurisdictions offer credit programs, Connecticut must compete for investments. Credits are part of the locational decision-making process for the investment.

Credits benefit only those in-state companies that make investments in in-state jobs and facilities, generating economic growth in Connecticut. Limiting tax credits, including by cutting the carryforward period, increases taxes only on those in-state companies that have made the investment the legislature is trying to encourage. Such actions depress economic growth in Connecticut.

R&D Carryforward Terms Important in Anchoring Businesses to Connecticut

The R&D tax credit is the state’s primary tax policy fostering innovation and innovation and driving sustainable job growth. The R&D tax credit carryforward helps anchor businesses to Connecticut because long R&D and product cycles require matching carryforward conditions. A company only gets value for carryforward by continuing to produce income in the state.

Connecticut Industries	Connecticut R&D Cycle	Connecticut Manufacturing Cycle
Pharmaceuticals	7-15 years	7-8 years
Aerospace	5-20 years	30+ years
Submarines	5-7 years	30+ years

15 Years of Research Often Doesn’t Mean the Next 15 Years Will Bring Profit

From the chart above, one can see that the R&D phase of a product is rarely, if ever, short. Companies are usually in the research and experiment stage for years.

According to the chart above, the pharmaceutical industry average research cycle is 7 to 15 years. New drugs take years from discovery of the initial molecule to a marketable medication. Even after all that time it can be years before the company begins to earn a profit on the product.

The aerospace industry has an even longer R&D time frame. For most aerospace products this runs from 5 to 20 years. Under the proposal before you today, the opportunity to take the R&D tax credit for years of investment has been eliminated before the product has even reached market. Furthermore, such as with the pharmaceutical industry, even if the product has reached the market, it can easily take years before the company earns a profit on that product.

A real-life example of the challenges companies face and why the 15-year limit on carryforwards doesn't work is included in the attached presentation. In it, an aerospace company explains that their R&D phase for one of their new products lasted for 20 years. The company has invested over \$1 Billion in the product that is just now reaching the production stage.

Long-Term Vitality of R&D Credits Is Critical to Keeping R&D in Connecticut

Although well meant, the proposal to limit the carryforward period for R&D in Connecticut would be devastating. I hope the explanation of the time cycles, as well as knowing that every attempt to create a workable product does not pan out, gives you a better understanding of why the proposal to limit the R&D carryforward should be rejected. Connecticut has already diminished the vitality of the R&D tax credit by imposing a 70% credit cap. I urge you to reject any efforts to limit this credit further. The R&D industry is too important to Connecticut to take the harmful step of limiting the carryforward as proposed.

Please **reject Section 6 of SB-1055**.

Thank you for your consideration.



Tax Credits Deliver Economic Growth

January 30, 2013

1

Presenters:

United Technologies Corporation

Boehringer Ingelheim Pharmaceuticals, Inc.

Aetna Inc.

Lee Company

Chemtura Corporation

Electric Boat Corporation

Moderator:

Charles H. Lenore

Tax Partner

Day Pitney LLP

2

Tax Credits 101

What is a Tax Credit?

- A tax credit is an amount that can be deducted from a company's tax bill
- Earned by making an investment in Connecticut jobs or facilities specified by the Legislature
- Usually equal to a percentage of the amount invested in Connecticut jobs or facilities
- Example: Fixed Capital Credit
 - \$100,000 CNC milling machine
 - 5% credit
 - Taxes reduced by \$5,000

3

Tax Credits 101

Investment in Connecticut

- Credits are enacted to encourage specific investment in Connecticut jobs and facilities
- Credits may be earned only by investing in those Connecticut jobs and facilities specified by the Legislature
- Example: Research and Development Credit for conducting R&D in Connecticut

4

Tax Credits 101

Accountability

- Companies cannot claim a credit until after they make the investment targeted by the Legislature
- There is no cost to Connecticut until months or years after an in-state investment is made
- Credits are regularly audited to confirm that the investment in Connecticut targeted by the Legislature has been made

5

Tax Credits 101

Competitiveness

- Credits are an important mechanism for offsetting costs where Connecticut may not be competitive
- Connecticut must compete for investment since many states and foreign jurisdictions offer credit programs
- Credits are part of the locational decision for the investment

6

Tax Credits 101

"All Credits Are Local"

- Credits benefit only those in-state companies that make the investment in those in-state jobs and facilities specified by the Legislature, which generates economic growth in Connecticut
- Limiting tax credits raises taxes only on those in-state companies that have made the investment specified by the Legislature, which depresses economic growth in Connecticut

7

United Technologies Corporation:

Harry Im
State Tax Counsel

8

R&D Credit Creates Long-Term Jobs

Innovation drives sustainable job growth

- R&D credit is primary tax policy fostering innovation

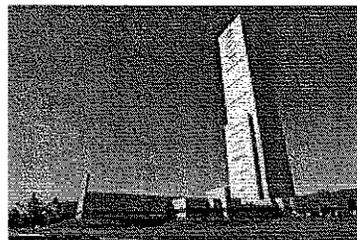
Credit carryforward helps anchor businesses to CT

- Long product cycles require matching credit carryforward terms
- Only get value for carryforward by continuing to produce income in CT

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9

UTC CT HOME FOR R&D



Six key R&D centers in CT employing 8,000 engineers

- \$1.0+ Billion total company funded R&D activity in CT

UTC R&D has significant impact on CT jobs

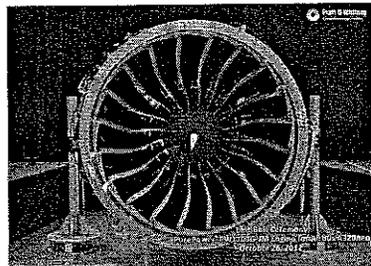
- Significant multiplier effect upon suppliers and tax revenue
- 1,200 jobs moved from FL in 1999 / 900 added in 2011 alone

Requires highly skilled workforce

- Continuous on the job training
- Employee Scholar Program: \$420 MM → 12,700+ degrees in CT

10

**UTC & CT:
INNOVATION IS KEY
TO OUR FUTURES**



Pratt & Whitney PurePower Engine – long business cycle

- 20 years of research and experimentation
- \$1 B+ investment
- Only now reaching production stage

Long-term vitality of R&D credits is critical to UTC

- Credit carryforward term must match the business cycle
- 70% credit limit has already diminished vitality of credit

11

**Boehringer Ingelheim
Pharmaceuticals, Inc.:**

Dr. James Baxter
Senior VP Development
Boehringer Ingelheim
Pharmaceuticals, Inc.

Perry Lorenz
President & CEO, AZ Corp

John Hardiman
Executive Director, U.S. Regional
Infrastructure and Site Services,
Boehringer Ingelheim
Pharmaceuticals, Inc.

Gerard Maher
Associate Director, Corporate Tax
Boehringer Ingelheim
Pharmaceuticals, Inc.

12

BI Breaks Ground on Two New Buildings in Connecticut

In total, these projects will result in more than \$100 million in capital investment and new jobs to the state.



Boehringer Ingelheim leadership and R&D employees join CT Rep. Janice Grier and CT Rep. Bob Godfrey (also in attendance: U.S. Rep. Himes, U.S. Senator Blumenthal, CT Senator Mitchell, CT Rep. Taborsak, First Selectman Marconi), and Mayor Boughton.

From L to R: Dr. James Bastar (SVP Development, BIPI), Albert Ros (President & CEO, BIPI), CT Representative Bob Godfrey, Dr. Wolfgang Bahner (Corporate Development, BI), CT Governor Dannel P. Malloy, Danbury Mayor Mark Boughton, Ridgefield First Selectman Rudy Marconi, Commissioner Catherine Smith (Dept. Economic & Community Development), CT Representative Joe Taborsak.

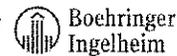
Pilot Plant Replacement Facility

- \$65 million investment
- World-class design combining state-of-the-art technology, compliance with Good Manufacturing Practices, and process flexibility
- 72,000 square feet, directly supporting Research discoveries through Development activities

Safety Assessment Building

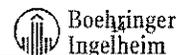
- \$42.5 million investment over two years
- 63,000 square feet for non-clinical safety studies in Development & studies for Research
- Anticipated completion: 2013

"I could not be prouder of what this multimillion dollar investment represents: expanding the footprint and presence of an excellent corporate citizen; creating high-skill research and construction jobs during tough times; and investing in science and innovation to keep America the world's innovation leader and benefit not only the citizens of Ridgefield, but those of the whole world." -- Congressman Jim Himes



Research & Development Credit Case Study – Boehringer Ingelheim

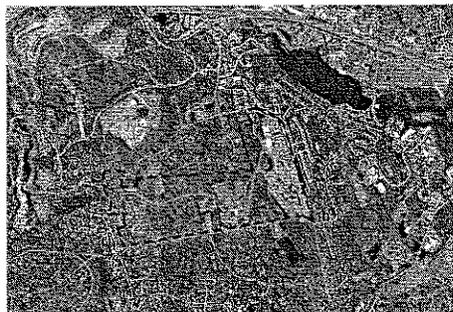
- **Boehringer Ingelheim (*Ingelheim, Germany*)** is one of the world's 20 leading pharmaceutical companies, operating globally with 145 affiliates and more than 44,000 employees.
 - BI's U.S. headquarters located in the towns of Ridgefield and Danbury. Our 2,500+ employees come from 142 of 169 towns in the state.
- For more than 125 years, this family owned company has been committed to the discovery, development, manufacture and marketing of innovative health care products that have helped bring more health to patients and address unmet therapeutic needs
- Research and Development is the cornerstone of BI and will continue to be the main growth driver in the future
 - New drugs take years, often a decade, from discovery of the initial molecule to a marketable medication.
 - Three major research centers around the world in Germany, Austria, and USA (Ridgefield, Ct. – H/Q U.S.).
 - BI consistently invests over 20% of annual Prescription Medicine net sales into Research & Development
- In recent years, BI high-paying research jobs have increased from 500 to 1,000, with expectations of adding significantly more in coming years
- Ridgefield Press, 02/15/2012 : "Boehringer Ingelheim's research campus in Ridgefield assessed value at more than 10 times that of number two taxpayer"
- Forecasted \$250M additional capital expenditures for research campus over next 5 years



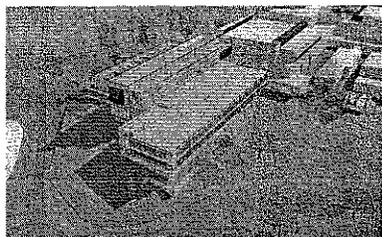
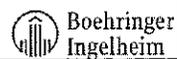
**Boehringer Ingelheim Ridgebury Site
From Farmland to Pharma Complex 1974 - 2012 and Beyond**



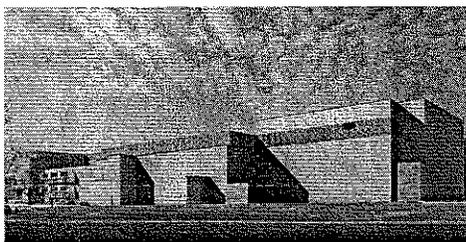
Ridgebury Site 1934



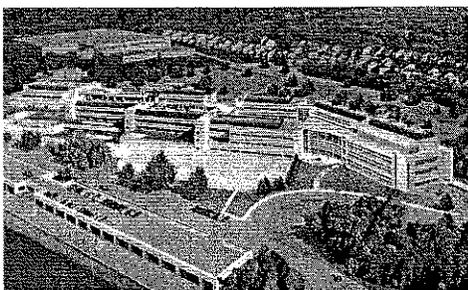
Ridgebury Site March, 2012



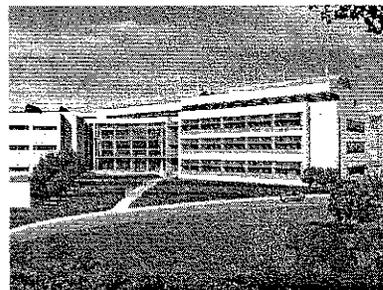
SAFETY ASSESSMENT BUILDING



PILOT PLANT PROJECT



RESEARCH & DEVELOPMENT COMPLEX



BUILDING 10



Aetna:

Mike Marshall
Head of Asset Management,
Real Estate Services

Steve Bradstreet
Finance Director, Aetna
Information Services

Sandy Coombes
Tax Director, Aetna Corporate
Tax

17



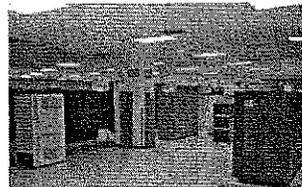
EDP Credit

- Reduces the personal property tax burden on Connecticut companies' electronic data processing (EDP) equipment to a more competitive level with neighboring states
- Encourages retention of data centers and jobs in Connecticut cities by offsetting high property tax rates
- Data centers are often associated with headquarter facilities, especially in critical financial, insurance and real estate industries

18

CT EDP Credit - Aetna

- Aetna, a Connecticut headquartered company since 1853, employs approximately 7,100 workers in Connecticut
- Aetna invests about \$95 million annually in EDP equipment, located primarily in its Middletown and Windsor data centers, on which it pays property tax and sales and use tax
- Aetna's investment in EDP equipment increases its use of technology related solutions which increases the efficiency and lowers the cost of health insurance



19

CT EDP Credit - Aetna

- Use of the EDP credit to offset corporation business tax and premium tax has already been reduced in recent years, which has decreased funds available for Aetna to reinvest in CT by about \$1 million per year
- The removal of EDP credits would significantly increase the premium taxes Aetna and other CT domestic health insurers pay which would, in turn, affect the affordability of healthcare
- At least 12 states, including several northeast states (DE, NH, NJ, NY & PA) do not impose property tax on EDP equipment and 1 state (ND) provides an exemption from property tax for insurance companies that pay premium tax

20

Lee Company:

Alex M. Corl
Chief Financial Officer
Lee Company

Stephen J. LaRosa
Managing Director, State and
Local Tax
PricewaterhouseCoopers

21

Fixed Capital Credit

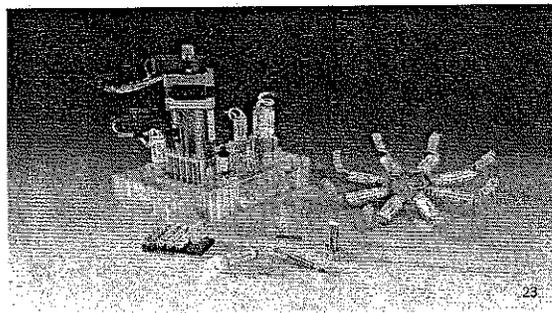
- Investing in fixed capital “anchors” jobs to CT
- Almost all states offer investment credits
- Credit availability influences investment location decision
- Important for small and medium-sized businesses
- Allows businesses a tax credit for new investment in fixed capital assets (tangible personal property).

22

Fixed Capital Credit Case Study – Lee Company



- Employs over 800 people in Westbrook and Essex, Connecticut
- Manufactures precision engineered miniature components for fluid control and pneumatic applications



Fixed Capital Credit Case Study – Lee Company



- Invested over \$39 million in equipment qualifying for the credit during the last 5 years, earning almost \$2 million in credits.
- Employment in Connecticut has grown during this 5 year period despite the economic downturn.
- The Fixed Capital Investment Credit reduces the cost of capital, which influences the economic decision to purchase equipment and keep production in-house versus outsourcing the efforts.

Chemtura Corporation:

Dalip Puri
VP Investor Relations and
Treasurer

Andrew J. DiSalvo
Director, State & Local Tax

25

Enterprise Zone Programs

- Promotes locating jobs in economically-challenged areas of the State
- Helps create "critical mass" in enterprise zones by attracting jobs and investment
- Even if not widely used, has a huge impact in distressed area when it is used

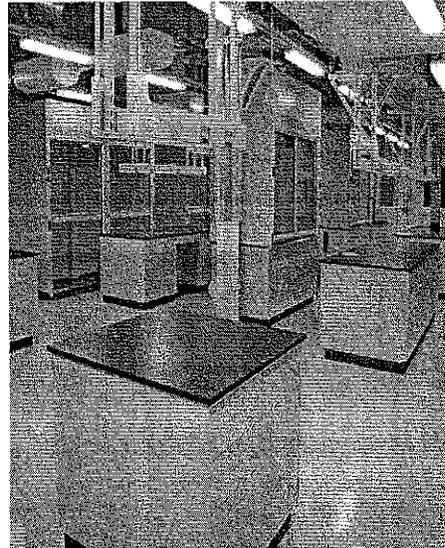
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Enterprise Zone Urban Reinvestment Act (URA) Case Study - Chemtura Corporation

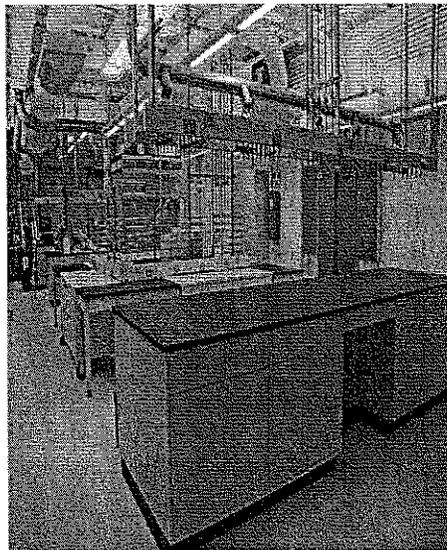
- In March 2009, Chemtura, a \$3BB manufacturer of specialty chemicals with its North American operations center, including R&D in Connecticut, filed for bankruptcy.
- The Department of Economic and Community Development (DECD) worked with Chemtura through enterprise zone programs (including URA) to renovate and expand an idle site in Naugatuck into a state-of-the-art R&D facility. The Company invested \$23MM in the Naugatuck project.

27

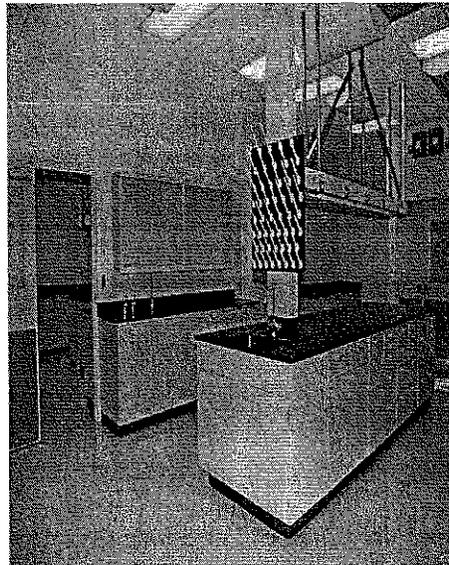
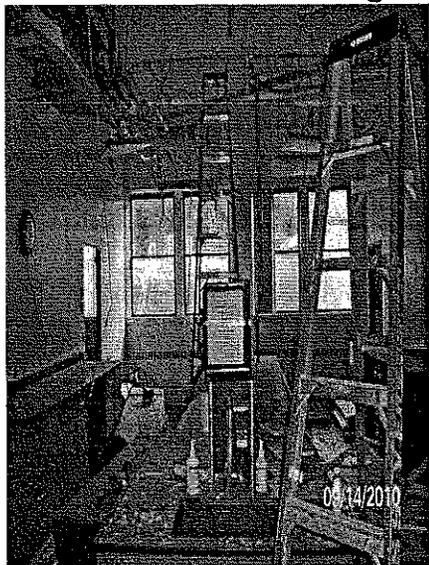
Chemtura Naugatuck-Before and After



Chemtura Naugatuck-Before and After



Chemtura Naugatuck-Before and After



**Enterprise Zone Urban Reinvestment Act (URA)
Case Study - Chemtura Corporation**

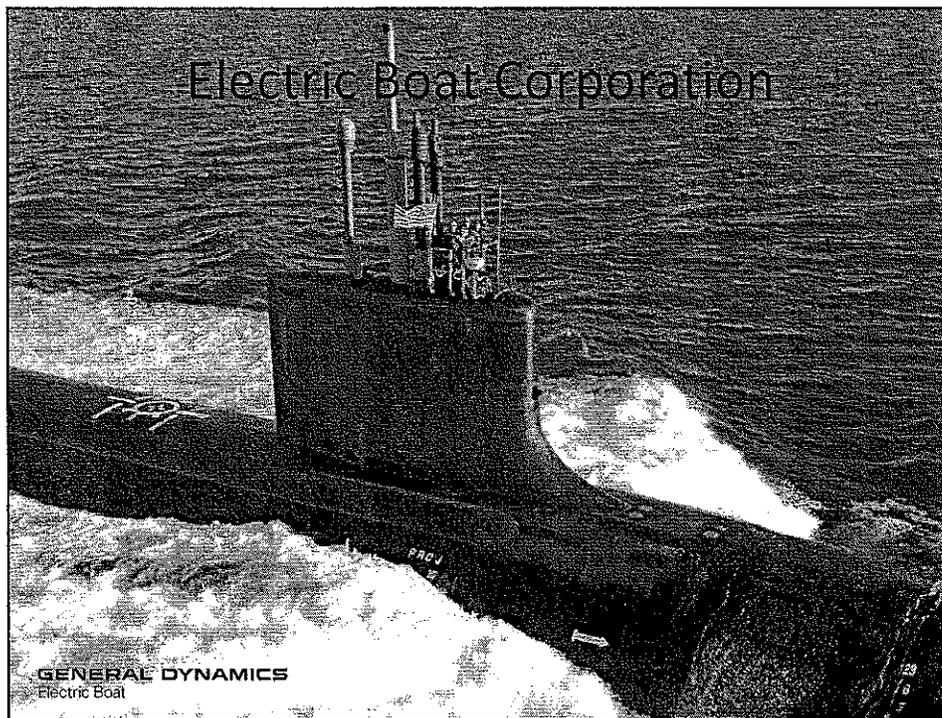
- The assistance agreement is subject to annual certified audits of project spend and employment levels specified in the agreement. DECD's outside counsel, other administrative fees and the audit costs are the responsibility of Chemtura.
- Since its emergence from bankruptcy protection in 2010, the company has added approximately 40 jobs in CT and currently employs 410 full time employees in its Middlebury and Naugatuck locations.
- The Company considered other locations for its R&D operations, and the tax credits and exemptions were one of the determining factors in the evaluation of its capital investment in Connecticut.

31

Electric Boat Corporation:

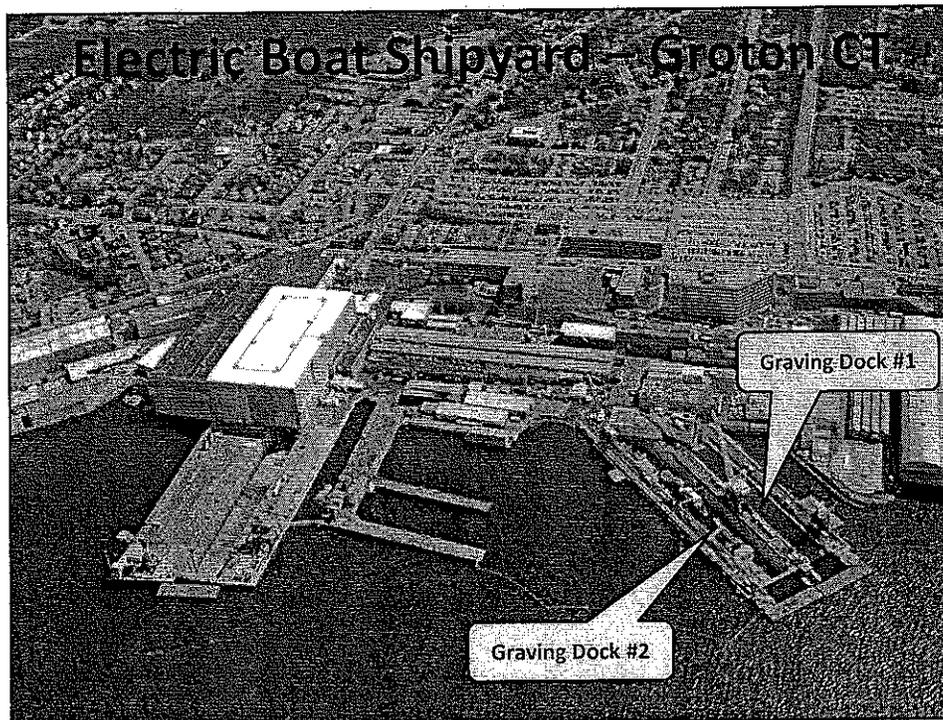
Henry J. Teskey
Director of Taxes

32



Electric Boat – Facilities Investment

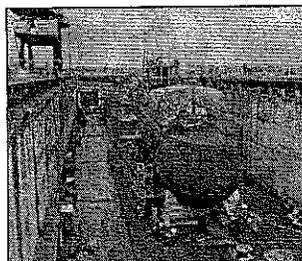
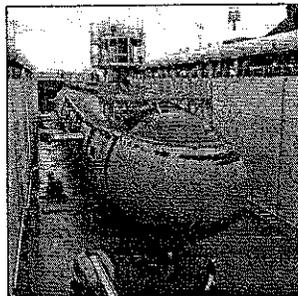
- 2006 – Business Environment Change
 - U.S. Navy states overhaul & repair work to be done in Public Shipyards (Portsmouth, Norfolk, Puget Sound, Pearl Harbor)
 - EB Graving Docks #1 & #2 need refurbishment:
 - 40+ years old
 - Refurbishment to cost \$100M+



Electric Boat – Facilities Investment

(Continued)

- 2006 – Investment Analysis
 - High cost of capital & uncertainty of return makes investment difficult
 - Investment is reconsidered including:
 - 80% property tax abatement for 5 years
 - Fixed capital credit on equipment
 - Other incentives
 - General Dynamics Board approves investment
 - Graving Docks #1 & #2 refurbishment completed in 2008



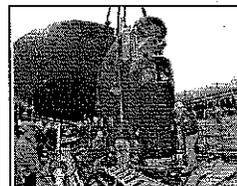
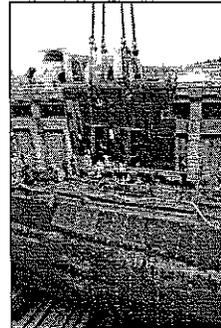
Electric Boat – Facilities Investment

(Continued)

- **Results:**

- Economic Activity From 2008-2013

- EB won contracts for 21 submarine availabilities including major repair of USS Hartford
 - 70% utilization of docks
 - \$740M in sales
 - \$232M in wages



USS Hartford
Collision Repair

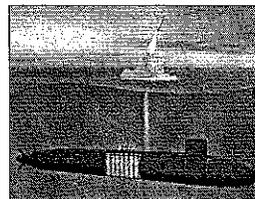
Electric Boat – Facilities Investment

(Continued)

- **2009 – Business Need Change**

- Electric Boat anticipates the Navy's need for next generation of ballistic missile submarine (OHIO Replacement)

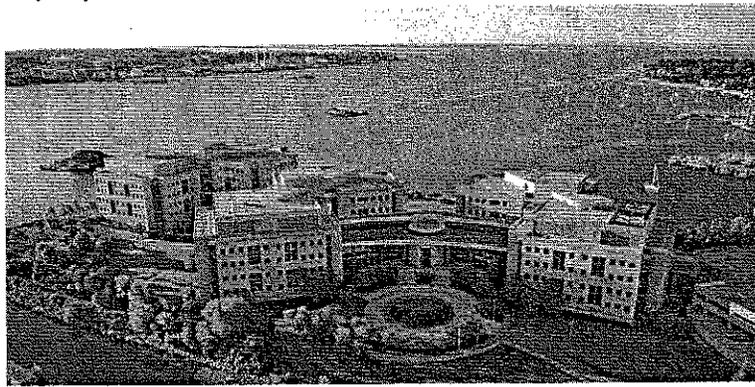
- Near-term:
 - Major design effort requires employees & facilities (2010-2017)
 - Long-term:
 - Major construction effort will require employees & facilities (2017-2040)



Electric Boat – Facilities Investment

(Continued)

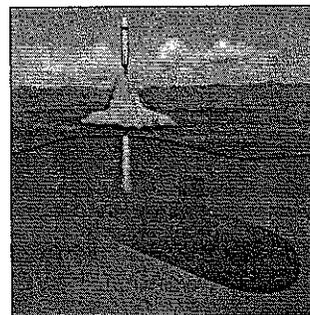
- 2010 Investment – EB purchases Pfizer’s New London facility, which is located in an Enterprise Zone
- EB relocates 2,000 engineers/designers and hires 800 more from 2010 – 2012 to bring the New London facility employment to 2,800



Electric Boat – Facilities Investment

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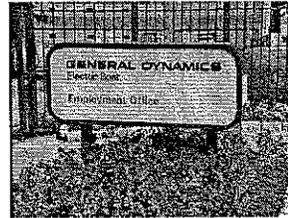
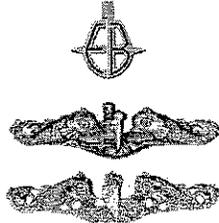
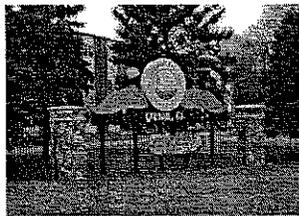
- Result:
 - Dec. 2012 – EB awarded the initial design of the OHIO Replacement Program for \$1.8B



Electric Boat – Facilities Investment

(Continued)

- EB will play an important role in the design, construction and life cycle support of the OHIO Replacement Program over the next 30+ years
- EB's recent & future investments strengthen the Groton/New London area in its position as the "Submarine Capital of the World"



Electric Boat Product Lines Supported

