



Senate

General Assembly

File No. 560

February Session, 2014

Substitute Senate Bill No. 28

Senate, April 16, 2014

The Committee on Finance, Revenue and Bonding reported through SEN. FONFARA of the 1st Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET.

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

1 Section 1. (*Effective from passage*) (a) It is found and declared that the
2 state of Connecticut derives revenue from a variety of taxes, fees and
3 other sources, including the state sales and use tax and motor fuels tax;
4 it is fair and reasonable to refund the existing state budget surplus in
5 the form of a refund of nonbusiness consumer sales and use tax and
6 motor fuels tax paid by residents of this state in calendar year 2013;
7 information concerning the amount of sales and use tax paid at various
8 income levels is contained in the 2013 Optional State Sales Tax Table
9 promulgated by the United States Secretary of the Treasury;
10 information concerning the amount of gasoline consumed per capita in
11 Connecticut and the motor fuels tax rate are contained in the Economic
12 Report of the Governor; it is fair and reasonable to use information
13 contained in those reports to determine the share of the sales and use
14 tax and motor fuels tax refund due each eligible individual since no

15 effective or practical mechanism exists for determining the amount of
16 actual sales and use tax and motor fuels tax paid by each eligible
17 individual and therefore, it is fair and reasonable to provide a fixed
18 amount of sales and use tax and motor fuels tax refund to all
19 individuals since such information shows that the amount of spending
20 on sales and use tax and motor fuels tax is disproportionate to income
21 levels.

22 (b) (1) For purposes of this section, an "eligible individual" means a
23 resident of this state with a federal adjusted gross income of less than
24 two hundred thousand dollars or, in the case of joint filers, with a
25 federal adjusted gross income of less than four hundred thousand
26 dollars who: (A) Is required to file and timely files or timely files an
27 extension to file a resident income tax return with the Commissioner of
28 Revenue Services for the taxable year commencing on January 1, 2013;
29 (B) is not required to file a resident income tax return for the taxable
30 year commencing on January 1, 2013, with the Commissioner of
31 Revenue Services, but is required to file and files or files an extension
32 to file a federal income tax return with the Commissioner of Internal
33 Revenue; (C) is not required to file a resident income tax return for the
34 taxable year commencing on January 1, 2013, with the Commissioner
35 of Revenue Services, but is a recipient of a federal earned income tax
36 credit for such taxable year; or (D) received benefits for the taxable
37 year commencing on January 1, 2013, under Title II of the Social
38 Security Act, as amended from time to time, and was not required to
39 file an income tax return with the Commissioner of Revenue Services
40 or the Commissioner of Internal Revenue for such taxable year.

41 (2) For the purposes of subparagraphs (B) to (D), inclusive, of
42 subdivision (1) of this subsection, an individual shall be deemed a
43 resident of this state provided such individual was a resident of this
44 state on the last day of calendar year 2013.

45 (c) Each eligible individual shall be entitled to a sales and use tax
46 and motor fuels tax refund for such taxes paid in calendar year 2013.

47 (d) The amount of such refund shall be fifty-five dollars or, for

48 residents filing jointly, one hundred ten dollars.

49 (e) Amounts refunded pursuant to this section shall be subject to the
50 provisions for set-off as provided in sections 12-739 and 12-742 of the
51 general statutes.

52 (f) Amounts refunded pursuant to this section shall not be
53 considered income for purposes of sections 8-119l, 12-170d, 12-170aa,
54 17b-550, 17b-812, 47-88d and 47-287 of the general statutes.

55 (g) The Commissioner of Revenue Services shall notify the State
56 Comptroller of the names and addresses of the eligible individuals for
57 the refunds pursuant to this section, and the State Comptroller shall
58 draw an order on the State Treasurer in the amount thereof for
59 payment to the eligible individuals.

60 (h) The Commissioner of Revenue Services, in the commissioner's
61 sole discretion, may determine that an individual qualifies as an
62 eligible individual based upon such individual satisfying the
63 commissioner that such individual was a resident of this state as
64 provided in this section.

65 Sec. 2. (*Effective from passage*) Not later than June 30, 2014, the
66 Comptroller shall designate up to one hundred fifty-five million
67 dollars from the resources of the General Fund for the fiscal year
68 ending June 30, 2014, to be reserved for use in the payment of refunds
69 as provided in section 1 of this act. Not later than April 1, 2015, the
70 Commissioner of Revenue Services shall notify the Comptroller of any
71 part of such resources not refunded to eligible individuals as provided
72 in section 1 of this act, and the Comptroller may credit such resources
73 not refunded to the resources of the General Fund for the fiscal year
74 ending June 30, 2015.

75 Sec. 3. Subdivision (7) of section 12-201 of the general statutes is
76 repealed and the following is substituted in lieu thereof (*Effective from*
77 *passage*):

78 (7) "Gross direct premiums" means all receipts of premiums from

79 policyholders and applicants for policies, whether received in the form
80 of money or other valuable consideration, but excluding (A) annuity
81 premiums and considerations and premiums received for reinsurances
82 assumed from other insurance companies, [and] (B) premiums
83 received after July 1, 1990, and before January 1, 1995, for any special
84 health care plan, as defined in section 38a-564, and (C) premiums
85 received on or after July 1, 2014, for any new or renewal contract or
86 policy to provide health care coverage to municipal employees,
87 municipal retirees and dependents of such employees or retirees;

88 Sec. 4. Subsection (b) of section 12-202a of the general statutes is
89 repealed and the following is substituted in lieu thereof (*Effective from*
90 *passage*):

91 (b) Notwithstanding the provisions of subsection (a) of this section,
92 the tax shall not apply to:

93 (1) Any new or renewal contract or policy entered into with the state
94 on or after July 1, 1997, to provide health care coverage to state
95 employees, retirees and their dependents;

96 (2) Any subscriber charges received from the federal government to
97 provide coverage for Medicare patients;

98 (3) Any subscriber charges received under a contract or policy
99 entered into with the state to provide health care coverage to Medicaid
100 recipients which charges are attributable to a period on or after
101 January 1, 1998;

102 (4) Any new or renewal contract or policy entered into with the state
103 on or after April 1, 1998, to provide health care coverage to eligible
104 beneficiaries under the HUSKY Plan, Part A, HUSKY Plan, Part B, or
105 HUSKY Plus programs, each as defined in section 17b-290;

106 (5) Any new or renewal contract or policy entered into with the state
107 on or after February 1, 2000, to provide health care coverage to retired
108 teachers, spouses or surviving spouses covered by plans offered by the
109 state teachers' retirement system;

110 (6) Any new or renewal contract or policy entered into on or after
111 July 1, 2001, and prior to July 1, 2014, to provide health care coverage
112 to employees of a municipality and their dependents under a plan
113 procured pursuant to section 5-259;

114 (7) Any new or renewal contract or policy entered into on or after
115 July 1, 2001, to provide health care coverage to employees of nonprofit
116 organizations and their dependents under a plan procured pursuant to
117 section 5-259;

118 (8) Any new or renewal contract or policy entered into on or after
119 July 1, 2003, to provide health care coverage to individuals eligible for
120 a health coverage tax credit and their dependents under a plan
121 procured pursuant to section 5-259;

122 (9) Any new or renewal contract or policy entered into on or after
123 July 1, 2005, to provide health care coverage to employees of
124 community action agencies and their dependents under a plan
125 procured pursuant to section 5-259; [or]

126 (10) Any new or renewal contract or policy entered into on or after
127 July 1, 2005, to provide health care coverage to retired members and
128 their dependents under a plan procured pursuant to section 5-259; or

129 (11) Any new or renewal contract or policy entered into on or after
130 July 1, 2014, to provide health care coverage to municipal employees,
131 municipal retirees and dependents of such employees or retirees.

132 Sec. 5. Section 12-412 of the 2014 supplement to the general statutes
133 is amended by adding subdivision (120) as follows (*Effective July 1,*
134 *2014, and applicable to sales occurring on or after said date*):

135 (NEW) (120) Sales of the following nonprescription drugs or
136 medicines available for purchase for use in or on the body: Vitamin or
137 mineral concentrates; dietary supplements; natural or herbal drugs or
138 medicines; products intended to be taken for coughs, cold, asthma or
139 allergies, or antihistamines; laxatives; antidiarrheal medicines;
140 analgesics; antibiotic, antibacterial, antiviral and antifungal medicines;

141 antiseptics; astringents; anesthetics; steroidal medicines; anthelmintics;
142 emetics and antiemetics; antacids; and any medication prepared to be
143 used in the eyes, ears or nose. Nonprescription drugs or medicines
144 shall not include cosmetics, dentrifices, mouthwash, shaving and hair
145 care products, soaps and deodorants.

146 Sec. 6. Subparagraph (B) of subdivision (20) of subsection (a) of
147 section 12-701 of the general statutes is repealed and the following is
148 substituted in lieu thereof (*Effective from passage and applicable to taxable*
149 *years commencing on or after January 1, 2014*):

150 (B) There shall be subtracted therefrom (i) to the extent properly
151 includable in gross income for federal income tax purposes, any
152 income with respect to which taxation by any state is prohibited by
153 federal law, (ii) to the extent allowable under section 12-718, exempt
154 dividends paid by a regulated investment company, (iii) the amount of
155 any refund or credit for overpayment of income taxes imposed by this
156 state, or any other state of the United States or a political subdivision
157 thereof, or the District of Columbia, to the extent properly includable
158 in gross income for federal income tax purposes, (iv) to the extent
159 properly includable in gross income for federal income tax purposes
160 and not otherwise subtracted from federal adjusted gross income
161 pursuant to clause (x) of this subparagraph in computing Connecticut
162 adjusted gross income, any tier 1 railroad retirement benefits, (v) to the
163 extent any additional allowance for depreciation under Section 168(k)
164 of the Internal Revenue Code, as provided by Section 101 of the Job
165 Creation and Worker Assistance Act of 2002, for property placed in
166 service after December 31, 2001, but prior to September 10, 2004, was
167 added to federal adjusted gross income pursuant to subparagraph
168 (A)(ix) of this subdivision in computing Connecticut adjusted gross
169 income for a taxable year ending after December 31, 2001, twenty-five
170 per cent of such additional allowance for depreciation in each of the
171 four succeeding taxable years, (vi) to the extent properly includable in
172 gross income for federal income tax purposes, any interest income
173 from obligations issued by or on behalf of the state of Connecticut, any
174 political subdivision thereof, or public instrumentality, state or local

175 authority, district or similar public entity created under the laws of the
176 state of Connecticut, (vii) to the extent properly includable in
177 determining the net gain or loss from the sale or other disposition of
178 capital assets for federal income tax purposes, any gain from the sale
179 or exchange of obligations issued by or on behalf of the state of
180 Connecticut, any political subdivision thereof, or public
181 instrumentality, state or local authority, district or similar public entity
182 created under the laws of the state of Connecticut, in the income year
183 such gain was recognized, (viii) any interest on indebtedness incurred
184 or continued to purchase or carry obligations or securities the interest
185 on which is subject to tax under this chapter but exempt from federal
186 income tax, to the extent that such interest on indebtedness is not
187 deductible in determining federal adjusted gross income and is
188 attributable to a trade or business carried on by such individual, (ix)
189 ordinary and necessary expenses paid or incurred during the taxable
190 year for the production or collection of income which is subject to
191 taxation under this chapter but exempt from federal income tax, or the
192 management, conservation or maintenance of property held for the
193 production of such income, and the amortizable bond premium for the
194 taxable year on any bond the interest on which is subject to tax under
195 this chapter but exempt from federal income tax, to the extent that
196 such expenses and premiums are not deductible in determining federal
197 adjusted gross income and are attributable to a trade or business
198 carried on by such individual, (x) (I) for a person who files a return
199 under the federal income tax as an unmarried individual whose
200 federal adjusted gross income for such taxable year is less than fifty
201 thousand dollars, or as a married individual filing separately whose
202 federal adjusted gross income for such taxable year is less than fifty
203 thousand dollars, or for a husband and wife who file a return under
204 the federal income tax as married individuals filing jointly whose
205 federal adjusted gross income for such taxable year is less than sixty
206 thousand dollars or a person who files a return under the federal
207 income tax as a head of household whose federal adjusted gross
208 income for such taxable year is less than sixty thousand dollars, an
209 amount equal to the Social Security benefits includable for federal

210 income tax purposes; and (II) for a person who files a return under the
211 federal income tax as an unmarried individual whose federal adjusted
212 gross income for such taxable year is fifty thousand dollars or more, or
213 as a married individual filing separately whose federal adjusted gross
214 income for such taxable year is fifty thousand dollars or more, or for a
215 husband and wife who file a return under the federal income tax as
216 married individuals filing jointly whose federal adjusted gross income
217 from such taxable year is sixty thousand dollars or more or for a
218 person who files a return under the federal income tax as a head of
219 household whose federal adjusted gross income for such taxable year
220 is sixty thousand dollars or more, an amount equal to the difference
221 between the amount of Social Security benefits includable for federal
222 income tax purposes and the lesser of twenty-five per cent of the Social
223 Security benefits received during the taxable year, or twenty-five per
224 cent of the excess described in Section 86(b)(1) of the Internal Revenue
225 Code, (xi) to the extent properly includable in gross income for federal
226 income tax purposes, any amount rebated to a taxpayer pursuant to
227 section 12-746, (xii) to the extent properly includable in the gross
228 income for federal income tax purposes of a designated beneficiary,
229 any distribution to such beneficiary from any qualified state tuition
230 program, as defined in Section 529(b) of the Internal Revenue Code,
231 established and maintained by this state or any official, agency or
232 instrumentality of the state, (xiii) to the extent allowable under section
233 12-701a, contributions to accounts established pursuant to any
234 qualified state tuition program, as defined in Section 529(b) of the
235 Internal Revenue Code, established and maintained by this state or
236 any official, agency or instrumentality of the state, (xiv) to the extent
237 properly includable in gross income for federal income tax purposes,
238 the amount of any Holocaust victims' settlement payment received in
239 the taxable year by a Holocaust victim, (xv) to the extent properly
240 includable in gross income for federal income tax purposes of an
241 account holder, as defined in section 31-51ww, interest earned on
242 funds deposited in the individual development account, as defined in
243 section 31-51ww, of such account holder, (xvi) to the extent properly
244 includable in the gross income for federal income tax purposes of a

245 designated beneficiary, as defined in section 3-123aa, interest,
246 dividends or capital gains earned on contributions to accounts
247 established for the designated beneficiary pursuant to the Connecticut
248 Homecare Option Program for the Elderly established by sections 3-
249 123aa to 3-123ff, inclusive, (xvii) to the extent properly [included]
250 includable in gross income for federal income tax purposes, fifty per
251 cent of the income received from the United States government as
252 retirement pay for a retired member of (I) the Armed Forces of the
253 United States, as defined in Section 101 of Title 10 of the United States
254 Code, or (II) the National Guard, as defined in Section 101 of Title 10 of
255 the United States Code, (xviii) to the extent properly includable in
256 gross income for federal income tax purposes for the taxable year, any
257 income from the discharge of indebtedness in connection with any
258 reacquisition, after December 31, 2008, and before January 1, 2011, of
259 an applicable debt instrument or instruments, as those terms are
260 defined in Section 108 of the Internal Revenue Code, as amended by
261 Section 1231 of the American Recovery and Reinvestment Act of 2009,
262 to the extent any such income was added to federal adjusted gross
263 income pursuant to subparagraph (A)(x) of this subdivision in
264 computing Connecticut adjusted gross income for a preceding taxable
265 year; [and] (xix) to the extent not deductible in determining federal
266 adjusted gross income, the amount of any contribution to a
267 manufacturing reinvestment account established pursuant to section
268 32-9zz in the taxable year that such contribution is made; and (xx) to
269 the extent properly includable in gross income for federal income tax
270 purposes, for the taxable year commencing January 1, 2014, twenty-
271 five per cent of the income received from the state teachers' retirement
272 system, and for the taxable year commencing January 1, 2015, and each
273 taxable year thereafter, fifty per cent of the income received from the
274 state teachers' retirement system.

275 Sec. 7. Section 12-704d of the general statutes is repealed and the
276 following is substituted in lieu thereof (*Effective from passage and*
277 *applicable to taxable years commencing on or after January 1, 2014*):

278 (a) As used in this section:

279 (1) "Angel investor" means an accredited investor, as defined by the
280 Securities and Exchange Commission, or network of accredited
281 investors who review new or proposed businesses for potential
282 investment who may seek active involvement, such as consulting and
283 mentoring, in a Connecticut business, but "angel investor" does not
284 include (A) a person controlling fifty per cent or more of the
285 Connecticut business invested in by the angel investor, (B) a venture
286 capital company, or (C) any bank, bank and trust company, insurance
287 company, trust company, national bank, savings association or
288 building and loan association for activities that are a part of its normal
289 course of business;

290 (2) "Cash investment" means the contribution of cash, at a risk of
291 loss, to a qualified Connecticut business in exchange for qualified
292 securities;

293 (3) "Connecticut business" means any business with its principal
294 place of business in Connecticut that is engaged in bioscience,
295 advanced materials, photonics, information technology, clean
296 technology or any other emerging technology as determined by the
297 Commissioner of Economic and Community Development;

298 (4) "Bioscience" means manufacturing pharmaceuticals, medicines,
299 medical equipment or medical devices and analytical laboratory
300 instruments, operating medical or diagnostic testing laboratories, or
301 conducting pure research and development in life sciences;

302 (5) "Advanced materials" means developing, formulating or
303 manufacturing advanced alloys, coatings, lubricants, refrigerants,
304 surfactants, emulsifiers or substrates;

305 (6) "Photonics" means generation, emission, transmission,
306 modulation, signal processing, switching, amplification, detection and
307 sensing of light from ultraviolet to infrared and the manufacture,
308 research or development of opto-electronic devices, including, but not
309 limited to, lasers, masers, fiber optic devices, quantum devices,
310 holographic devices and related technologies;

311 (7) "Information technology" means software publishing, motion
312 picture and video production, teleproduction and postproduction
313 services, telecommunications, data processing, hosting and related
314 services, custom computer programming services, computer system
315 design, computer facilities management services, other computer
316 related services and computer training;

317 (8) "Clean technology" means the production, manufacture, design,
318 research or development of clean energy, green buildings, smart grid,
319 high-efficiency transportation vehicles and alternative fuels,
320 environmental products, environmental remediation and pollution
321 prevention; and

322 (9) "Qualified securities" means any form of equity, including a
323 general or limited partnership interest, common stock, preferred stock,
324 with or without voting rights, without regard to seniority position that
325 must be convertible into common stock.

326 (b) There shall be allowed a credit against the tax imposed under
327 this chapter, other than the liability imposed by section 12-707, for a
328 cash investment of not less than twenty-five thousand dollars in the
329 qualified securities of a Connecticut business by an angel investor. The
330 credit shall be in an amount equal to twenty-five per cent of such
331 investor's cash investment, provided the total tax credits allowed to
332 any angel investor shall not exceed two hundred fifty thousand
333 dollars. The credit shall be claimed in the taxable year in which such
334 cash investment is made by the angel investor and shall not be
335 transferable.

336 (c) To qualify for a tax credit pursuant to this section, a cash
337 investment shall be in a Connecticut business that (1) has been
338 approved as a qualified Connecticut business pursuant to subsection
339 (d) of this section; (2) had annual gross revenues of less than one
340 million dollars in the most recent income year of such business; (3) has
341 fewer than twenty-five employees, not less than seventy-five per cent
342 of whom reside in this state; (4) has been operating in this state for less
343 than seven consecutive years; (5) is primarily owned by the

344 management of the business and their families; and (6) received less
345 than two million dollars in cash investments eligible for the tax credits
346 provided by this section.

347 (d) (1) A Connecticut business may apply to Connecticut
348 Innovations, Incorporated, for approval as a Connecticut business
349 qualified to receive cash investments eligible for a tax credit pursuant
350 to this section. The application shall include (A) the name of the
351 business and a copy of the organizational documents of such business,
352 (B) a business plan, including a description of the business and the
353 management, product, market and financial plan of the business, (C) a
354 description of the business's innovative technology, product or service,
355 (D) a statement of the potential economic impact of the business,
356 including the number, location and types of jobs expected to be
357 created, (E) a description of the qualified securities to be issued and the
358 amount of cash investment sought by the qualified Connecticut
359 business, (F) a statement of the amount, timing and projected use of
360 the proceeds to be raised from the proposed sale of qualified securities,
361 and (G) such other information as the [executive director] chief
362 executive officer of Connecticut Innovations, Incorporated, may
363 require.

364 (2) Said [executive director shall, on or before August 1, 2010, and
365 monthly thereafter] chief executive officer shall, on a monthly basis,
366 compile a list of approved applications, categorized by the cash
367 investments being sought by the qualified Connecticut business and
368 type of qualified securities offered.

369 (e) (1) Any angel investor that intends to make a cash investment in
370 a business on such list may apply to Connecticut Innovations,
371 Incorporated, to reserve a tax credit in the amount indicated by such
372 investor. The aggregate amount of all tax credits under this section that
373 may be reserved by Connecticut Innovations, Incorporated, shall not
374 exceed six million dollars annually for the fiscal years commencing
375 July 1, 2010, to July 1, 2012, inclusive, and shall not exceed three
376 million dollars in each fiscal year thereafter. Connecticut Innovations,

377 Incorporated, shall not reserve tax credits under this section for any
378 investment made on or after July 1, [2014] 2016.

379 (2) The amount of the credit allowed to any investor pursuant to this
380 section shall not exceed the amount of tax due from such investor
381 under this chapter, other than section 12-707, with respect to such
382 taxable year. Any tax credit that is claimed by the angel investor but
383 not applied against the tax due under this chapter, other than the
384 liability imposed under section 12-707, may be carried forward for the
385 five immediately succeeding taxable years until the full credit has been
386 applied.

387 (f) If the angel investor is an S corporation or an entity treated as a
388 partnership for federal income tax purposes, the tax credit may be
389 claimed by the shareholders or partners of the angel investor. If the
390 angel investor is a single member limited liability company that is
391 disregarded as an entity separate from its owner, the tax credit may be
392 claimed by such limited liability company's owner, provided such
393 owner is a person subject to the tax imposed under this chapter.

394 (g) A review of the cumulative effectiveness of the credit under this
395 section shall be conducted by Connecticut Innovations, Incorporated,
396 by July 1, 2014, and by July first annually thereafter. Such review shall
397 include, but need not be limited to, the number and type of
398 Connecticut businesses that received angel investments, the number of
399 angel investors and the aggregate amount of cash investments, the
400 current status of each Connecticut business that received angel
401 investments, the number of employees employed in each year
402 following the year in which such Connecticut business received the
403 angel investment, and the economic impact in the state, of the
404 Connecticut business that received the angel investment. Such review
405 shall be submitted to the Office of Policy and Management and to the
406 joint standing committee of the General Assembly having cognizance
407 of matters relating to commerce, in accordance with the provisions of
408 section 11-4a.

409 Sec. 8. (Effective from passage) Prior to closing the accounts for the

410 fiscal year ending June 30, 2014, if the Comptroller anticipates an
 411 unappropriated surplus in the General Fund, five hundred thousand
 412 dollars of any such anticipated surplus shall be directed to the Office of
 413 Legislative Management for the purposes of a comprehensive study of
 414 the state's tax structure to be undertaken by the joint standing
 415 committee of the General Assembly having cognizance of matters
 416 relating to finance, revenue and bonding. Such funds shall be
 417 nonlapsing.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage</i>	New section
Sec. 2	<i>from passage</i>	New section
Sec. 3	<i>from passage</i>	12-201(7)
Sec. 4	<i>from passage</i>	12-202a(b)
Sec. 5	<i>July 1, 2014, and applicable to sales occurring on or after said date</i>	12-412
Sec. 6	<i>from passage and applicable to taxable years commencing on or after January 1, 2014</i>	12-701(a)(20)(B)
Sec. 7	<i>from passage and applicable to taxable years commencing on or after January 1, 2014</i>	12-704d
Sec. 8	<i>from passage</i>	New section

FIN *Joint Favorable Subst.*

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 \$	FY 16 \$
Department of Revenue Services	GF - Revenue Loss	None	55.6 Million	57.9 Million
Resources of the General Fund	GF - Depletion of Surplus	157.2 Million	None	None

Municipal Impact:

Municipalities	Effect	FY 15 \$	FY 16 \$
Various Municipalities (Aggregate, Statewide Impact)	Savings	11 Million	11 Million

Explanation

Sections 1-2 implement a one-time tax refund program that would be funded by up to \$155 million from the projected FY 14 General Fund surplus of approximately \$500 million; the one-time cost estimated to administer these refunds is \$1.7 million (including \$1.0 million in printing and mailing costs, \$450,000 for software alterations and \$250,000 for additional staffing and overtime) and is included as a carry forward authorization in the Department of Revenue Services per Section 19 of sHB 5030, the FY 15 revised budget, as favorably reported by the Appropriations Committee. The total cost of the policy therefore is estimated to be \$156.7 million.

Sections 3-4 exempt municipal employee health care coverage programs from the insurance companies (premiums) tax; this ongoing exemption would begin in FY 15 and reduce revenue to the General Fund by approximately \$11 million annually. Municipalities would save the same amount.

Section 5 restores (it was repealed in 2011) the sales tax exemption for nonprescription drugs at an annual revenue loss to the General Fund of approximately \$16.5 million beginning in FY 15.

Section 6 establishes an income tax exemption for teachers' pension income which is phased-in at 25% for Income Year 2014 and increased to 50% for Income Year 2015 and annually thereafter; the FY 15 General Fund revenue loss associated with this new income tax exemption is approximately \$25.1 million (representing 18 months back to January 2014) with the annualized revenue loss estimated to be \$26.3 million (representing 12 months) beginning in FY 16.

Section 7 extends the Angel Investor Tax credit as it currently exists through FY 16 (it had been scheduled to sunset June 30, 2014); the associated General Fund revenue loss is \$3 million annually.

Section 8 provides \$500,000 to fund the comprehensive study of the state's tax structure from the projected FY 14 General Fund surplus of approximately \$500 million. The funds shall be available in FY 15 and FY 16.

The Out Years

Sections 1-2 and **8** have no impact in the out years because they are one-time in nature. The annualized ongoing municipal savings in **Sections 3-4** and the state revenue losses indicated above for **Sections 3-6** would continue into the future, subject to inflation. The impact of **Section 7** would cease in FY 16 as it would sunset under the bill.

OLR Bill Analysis**sSB 28*****AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET.*****SUMMARY:**

This bill makes various changes to state tax laws. Specifically, it:

1. authorizes sales and gas tax refunds of \$55 for single filers and \$110 for joint filers and requires the comptroller to designate up to \$155 million in FY 14 General Fund resources to pay for them;
2. exempts all new and renewed health insurance plans sold to municipalities on or after July 1, 2014 from the 1.75% insurance premium tax paid by Connecticut-based insurance companies and HMOs;
3. exempts nonprescription drugs and medicines from the sales and use tax;
4. exempts a portion of state teacher pension income from the state income tax; and
5. extends, from July 1, 2014 to July 1, 2016, the sunset date for the angel investor tax credit program and establishes new reporting requirements.

The bill also allocates \$500,000 of the anticipated FY 14 unappropriated surplus to the Office of Legislative Management for a study of the state's tax structure.

EFFECTIVE DATE: Upon passage, except that the (1) sales tax provision is effective July 1, 2014 and applicable to sales occurring on or after that date and (2) income tax exemption and tax credit

provision are effective upon passage and applicable to tax years beginning on or after January 1, 2014.

§§ 1-2 — SALES AND GAS TAX REFUNDS

Refund Amount and Eligibility

The bill authorizes a tax refund for sales and gas taxes people paid in 2013. The refund is \$55 for single filers and \$110 for joint filers.

To be eligible for a refund, individuals must be state residents with maximum federal adjusted gross incomes of \$200,000 (\$400,000 for joint filers) who, for the 2013 tax year:

1. were required to file and filed (or requested an extension of time to file) a state income tax return; or
2. resided in Connecticut on December 31, 2013 and (a) were required to file and filed (or requested an extension of time to file) a federal income tax return, (b) received a federal earned income tax credit, or (c) received federal Social Security benefits.

The revenue services commissioner can determine if a person is a Connecticut resident and withhold the refund and apply it to any tax or other debt the person owes the state. The refund does not count as income for specified state programs, including the Connecticut Medicare Assignment, Rental Assistance, circuit breaker, and elderly congregate housing programs.

Processing and Paying Refunds

By June 30, 2014, the comptroller must designate up to \$155 million in FY 14 General Fund resources to pay for the refunds. The (1) DRS commissioner must give the comptroller the names and addresses of individuals eligible for the refunds, (2) the comptroller must then draw an order on the state treasurer for the payments, and (3) by April 1, 2015, the DRS commissioner must notify the comptroller of any remaining funds. The comptroller must credit the remaining funds to the General Fund for FY 15.

§§ 3-4 — INSURANCE PREMIUM TAX EXEMPTION FOR MUNICIPALITIES

The bill exempts from the insurance premium tax all new and renewed health insurance plans sold to municipalities on or after July 1, 2014 covering municipal employees, retirees, and their dependents. Current law exempts such plans from the tax only if sold by an HMO and through the Municipal Employee Health Insurance Plan (MEHIP).

§ 5 — SALES TAX EXEMPTION FOR NONPRESCRIPTION DRUGS AND MEDICINES

The bill exempts from the sales and use tax nonprescription drugs and medicines for use in or on the body. The exemption applies to vitamin and mineral concentrates, dietary supplements, and natural or herbal drugs or medicine; cough, cold, asthma, allergy, or antihistamine products; antacids, laxatives, anthelmintics, emetics, and antiemetics; analgesics, antibiotic, antibacterial, antiviral, antifungal, antidiarrheal, and steroidal medicines; antiseptics, astringents, and anesthetics; and any eye, ear, or nose medication. It does not apply to cosmetics, dentifrices, mouthwash, shaving and hair care products, soaps, or deodorants.

The legislature eliminated an identical sales and use tax exemption in 2011 (PA 11-6).

§ 6 — INCOME TAX EXEMPTION FOR TEACHER PENSIONS

The bill exempts a portion of state teachers' retirement system (TRS) income from the income tax. It does so by allowing taxpayers, when calculating Connecticut adjusted gross income for state income tax purposes, to deduct 25% of TRS income for the 2014 tax year and 50% of TRS income for 2015 and subsequent tax years.

§ 7 — ANGEL INVESTOR TAX CREDIT

The bill extends the sunset date for the angel investor tax credit program from July 1, 2014 to July 1, 2016. By law, the angel investor tax credit program provides personal income tax credits for people investing at least \$25,000 in start-up, technology-based Connecticut businesses approved for such credit-eligible investments.

Current law requires Connecticut Innovations, Inc. (CII) to review the credit's effectiveness by July 1, 2014. The bill (1) requires CII to conduct this review annually, beginning by July 1, 2014; (2) specifies that CII must review the credit's cumulative effectiveness; (3) requires it to report its findings to the Office of Policy and Management, in addition to the Commerce Committee; and (4) identifies certain elements that CII must include in its report.

Under the bill, the annual report must include the:

1. number, type, and current status of Connecticut businesses that received angel investments;
2. number and type of angel investors;
3. aggregate amount of cash investments;
4. number of employees the business employed in each year following the year in which it received the angel investment; and
5. business' economic impact in the state.

§ 8 — FUNDING FOR COMPREHENSIVE TAX STUDY

If the comptroller anticipates an unappropriated surplus in the General Fund before the FY 14 accounts are closed, the bill directs \$500,000 of the anticipated surplus to the Office of Legislative Management for the Finance, Revenue and Bonding Committee's comprehensive study of the state's tax structure (see BACKGROUND). The funds do not lapse.

BACKGROUND

Related Bill

sHB 5545, favorably reported by the Finance, Revenue and Bonding Committee, requires the committee's chairpersons and ranking members to oversee a study of the state's tax structure.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 31 Nay 19 (04/01/2014)