
OLR Bill Analysis

sSB 75

AN ACT INCREASING THE CAP ON THE NEIGHBORHOOD ASSISTANCE ACT TAX CREDIT PROGRAM AND EXTENDING THE PROGRAM TO PASS-THROUGH ENTITIES.

SUMMARY:

This bill expands the Neighborhood Assistance Act (NAA) Program, which provides tax credits to businesses that contribute to or invest in certain municipally approved community projects and programs. It raises, from \$5 million to \$10 million, the cap on the amount of credits the Department of Revenue Services (DRS) can annually award for these purposes. DRS must continue to award, as the law requires, \$3 million in NAA credits to businesses contributing funds specifically for energy conservation projects, job training programs, and programs benefiting low-income people.

The bill also authorizes an income tax credit for making NAA contributions and investments by allowing taxpayers who own, hold shares in, or are partners in a business entity that does not pay business taxes except the \$250 business entity tax. The income the entity generates is passed through to these taxpayers and is subject to the personal income tax. Entities that pass through income in this manner are often referred to as “pass-through” entities and include S corporations, limited liability companies, limited liability partnerships, and limited partnerships.

EFFECTIVE DATE: July 1, 2014, and the income tax credits apply to income years beginning on or after January 1, 2014.

NAA TAX CREDITS FOR PASS-THROUGH ENTITIES

The bill allows NAA credits, currently available only against income taxes on businesses, to also be used against the personal income tax. In doing so, it allows taxpayers who own, hold shares in, or partner in a

pass-through entity to claim credits against their personal income taxes for the contributions or investments the entity makes in a NAA project or program. The bill does not specify how an entity's shareholders or partners must apportion the income tax credit. Presumably, these taxpayers would divide credit in proportion to their shares of the business' income.

The bill specifies that the shareholders or partners of an S corporation or an entity regarded as a partnership for paying federal income taxes may claim NAA program credits. It also specifies that the owner of a single-member limited liability company may claim the credit if the entity is separated from the owner and ignored or disregarded for federal income taxes.

BACKGROUND

NAA

Under current law, the NAA program provides business tax credits to businesses that contribute or invest at least \$250 in certain municipally approved community activities and programs. The credits are generally 60% of the contribution or investment, although certain energy conservation related investments are eligible for a 100% credit. But a business can annually claim no more than (1) \$50,000 per year for investing in childcare facilities and (2) \$150,000 for other NAA-eligible contributions or investments.

COMMITTEE ACTION

Commerce Committee

Joint Favorable Substitute

Yea 17 Nay 0 (03/20/2014)