House of Representatives

General Assembly **_File No. 88_**

February Session, 2014 Substitute House Bill No. 5280

House of Representatives, March 25, 2014

The Committee on Labor and Public Employees reported through REP. TERCYAK of the 26th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING EXECUTIVE EMPLOYEE COMPENSATION.

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

Section 1. (NEW) (*Effective October 1, 2014*) (a) For purposes of this section, "employer" means any person, firm, business, educational institution, nonprofit agency, corporation, limited liability company or other entity that employs fifty or more individuals in the state, and "employee" means an individual engaged in service to an employer in the business of the employer and shall exclude the board of directors, chief executive officer, officers, owner, president and executive staff of an employer.

(b) On and after January 1, 2015, any employer that compensates any member of the board of directors, chief executive officer, officer, owner, president or executive staff member in any calendar year at a rate greater than or equal to fifty times the average annual compensation of the employer's employees in such calendar year shall not be eligible for any tax credit, tax exemption, abatement or financial assistance under title 12 or 32 of the general statutes to be realized in such calendar year.

(c) The provisions of subsection (b) of this section shall not apply to any tax credit, tax exemption, abatement or financial assistance under title 12 or 32 of the general statutes realized prior to January 1, 2015, even if such tax credit, tax exemption, abatement or financial assistance remains in effect on or after January 1, 2015.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*October 1, 2014*	New section

LAB *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 15 $	FY 16 $
Department of Revenue Services	GF - Revenue Impact	See Below	See Below
Department of Economic & Community Development	GF - Cost Impact	See Below	See Below
CI	GF - Cost Impact	See Below	See Below

Municipal Impact:

Municipalities	Effect	FY 15 $	FY 16 $
Various Municipalities	Revenue Impact	See Below	See Below

Explanation

Beginning on January 1, 2015 the bill limits eligibility for receiving tax benefits and state financial assistance to certain employers whose executives' annual compensation is no more than 50 times the average annual compensation of employees. To the extent companies currently receiving such benefits and assistance exceed this ratio there is a revenue gain and cost savings to the state and municipalities, the magnitude of which is uncertain. This could also result in a similar cost savings to Connecticut Innovations, Incorporated (CII).[1]

The bill does not specify how compensation is defined, what entity would calculate the eligibility ratio, or how entities administering tax benefits and financial assistance would ascertain which businesses are ineligible under the bill. To the extent that a state or municipal entity

[1] CII is a quasi-public state agency, so the fiscal impact to this agency would not be realized by the state's funds.

would implement the provisions of the bill, there is a potentially significant cost associated with determining eligibility and ensuring compliance.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis
sHB 5280

AN ACT CONCERNING EXECUTIVE EMPLOYEE COMPENSATION.

SUMMARY:

Starting January 1, 2015, this bill makes certain entities ineligible for tax credits, exemptions, abatements, and financial assistance in any calendar year in which it pays any of its executives (chief executive officer, officer, owner, president, executive staff member, or board of directors) annual compensation that is 50 or more times the average annual compensation of its other employees (see "COMMENT"). It applies to any person, firm, business, educational institution, nonprofit agency, corporation, limited liability company, or other entity that employs 50 or more people in the state and to any tax breaks or financial assistance available under state tax law or through the Department of Economic and Community Development.

The bill's ineligibility provision does not apply to tax credits, exemptions, and abatements, or financial assistance realized (i.e., earned or awarded) before January 1, 2015, even if they remain in effect on or after that date.

EFFECTIVE DATE: October 1, 2014

COMMENT

Undefined Terms & Process

The bill does not define what types of compensation must be considered when determining an executive's or employees' annual compensation (e.g., salary, wages, fringe benefits, stock options, etc.). It also does not specify (1) what state agency makes the determinations, (2) how the agency can access the necessary compensation data, or (3) how entities that implement tax breaks or financial assistance (e.g., municipal tax assessors or retailers) will know which businesses are ineligible for them under the bill.

In addition, because ineligibility is based on annual compensation, the determination of ineligibility could presumably only be made after the calendar year's completion. In this case, any ineligibility would be retroactive because, under the bill, an entity's ineligibility applies to the same calendar year in which its executive's compensation was at least 50 times greater than its employees' average.

COMMITTEE ACTION

Labor and Public Employees Committee

Joint Favorable Substitute
Yea 8 Nay 4 (03/11/2014)