House of Representatives

General Assembly **File No. 818**

January Session, 2015 Substitute House Bill No. 6758

House of Representatives, May 14, 2015

The Committee on Finance, Revenue and Bonding reported through REP. BERGER of the 73rd Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT ESTABLISHING A TAX CREDIT FOR BUSINESSES THAT HIRE RECENT GRADUATES OF INSTITUTIONS OF HIGHER EDUCATION LOCATED IN CONNECTICUT.

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

Section 1. (NEW) (*Effective January 1, 2017, and applicable to income or taxable years commencing on or after said date*) (a) As used in this section:

(1) "Commissioner" means the Commissioner of Economic and Community Development;

(2) "Control", with respect to a corporation, means ownership, directly or indirectly, of stock possessing fifty per cent or more of the total combined voting power of all classes of the stock of such corporation entitled to vote. "Control", with respect to a trust, means ownership, directly or indirectly, of fifty per cent or more of the beneficial interest in the principal or income of such trust. The ownership of stock in a corporation, of a capital or profits interest in a

partnership, limited liability company or association or of a beneficial interest in a trust shall be determined in accordance with the rules for constructive ownership of stock provided in Section 267(c) of the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as from time to time amended, other than paragraph (3) of said Section 267(c);

(3) "Full-time job" means a job in which an employee is required to work at least thirty-five hours per week for not less than forty-eight weeks in a calendar year. "Full-time job" does not include a temporary or seasonal job;

(4) "Income year" means, with respect to entities subject to the insurance premiums tax under chapter 207 of the general statutes, the corporation business tax under chapter 208 of the general statutes, the utility companies tax under chapter 212 of the general statutes or the income tax under chapter 229 of the general statutes, the income or taxable year as determined under each of said chapters, as the case may be;

(5) "New employee" means a person who resides in this state and is hired by a taxpayer on or after January 1, 2017, to fill a new job. "New employee" does not include a person who was employed in this state by a related person with respect to a taxpayer during the prior twelve months;

(6) "New job" means a job that did not exist in this state prior to a taxpayer's application to the commissioner for certification under this section for a recent graduate tax credit, is filled by a qualifying employee, and is a full-time job;

(7) "Qualifying employee" means a new employee who, at the time of hiring by the taxpayer has graduated within the prior three years from a public or private institution of higher education that is located in this state;

(8) "Related person" means (A) a corporation, limited liability

company, partnership, association or trust controlled by the taxpayer, (B) an individual, corporation, limited liability company, partnership, association or trust that is in control of the taxpayer, (C) a corporation, limited liability company, partnership, association or trust controlled by an individual, corporation, limited liability company, partnership, association or trust that is in control of the taxpayer, or (D) a member of the same controlled group as the taxpayer; and

(9) "Taxpayer" means a person that (A) has been in business for at least twelve consecutive months prior to the date of the taxpayer's application to the commissioner for certification under this section for a recent graduate tax credit, and (B) is subject to tax under chapter 208 of the general statutes or chapter 207, 212 or 229 of the general statutes.

(b) (1) There is established a recent graduate tax credit program under which a taxpayer may be allowed a credit against the tax imposed under chapter 208 of the general statutes or chapter 207, 212 or 229 of the general statutes, other than the liability imposed by section 12-707 of the general statutes, for each qualifying employee hired on or after January 1, 2017. For taxpayers that employ not more than fifty employees in full-time jobs in this state on the date of application to the commissioner for certification under this section, the creation of at least one new job in this state shall be required for the tax credit. For taxpayers that employ more than fifty, but not more than one hundred employees in full-time jobs in this state on the date of application to the commissioner for certification under this section, the creation of at least five new jobs in this state shall be required for the tax credit. For taxpayers that employ more than one hundred employees in full-time jobs in this state on the date of application to the commissioner for certification under this section, the creation of at least ten new jobs in this state shall be required for the tax credit.

(2) For the purposes of determining the number of new jobs a taxpayer is required to create in order to claim a credit under this section, the number of employees working in full-time jobs the taxpayer employs in this state on the date of its application to the

commissioner for certification under this section shall apply to such taxpayer for the duration of such certification.

(c) The amount of the credit shall be five hundred dollars per month for each new employee.

(d) (1) The taxpayer shall claim the credit in the income year in which it is earned. Any credit not claimed by the taxpayer in such income year shall expire and shall not be refundable.

(2) If the taxpayer is an S corporation or an entity treated as a partnership for federal income tax purposes, the shareholders or partners of such taxpayer may claim the credit. If the taxpayer is a single member limited liability company that is disregarded as an entity separate from its owner, the limited liability company's owner may claim the credit.

(3) No taxpayer shall claim a credit for any qualifying employee who is an owner, member or partner in the business or who is not employed by the taxpayer at the close of the taxpayer's income year.

(4) No taxpayer claiming the credit under this section with respect to a qualifying employee shall claim any credit against any tax under any other provision of the general statutes with respect to the same qualifying employee.

(e) (1) To be eligible to claim a credit under this section, a taxpayer shall apply to the commissioner in accordance with this section. The application shall be on a form provided by the commissioner and shall contain sufficient information as required by the commissioner, including, but not limited to, the activities that the taxpayer primarily engages in, the North American Industrial Classification System code of the taxpayer, the current number of employees employed by the taxpayer as of the application date, and if applicable, the name and position or job title of the qualifying employee. The commissioner may impose an application fee as the commissioner deems appropriate.

(2) Upon receipt of an application, the commissioner shall render a

decision, in writing, on each completed application not later than thirty days after the date the commissioner receives the application. If the commissioner approves the application, the commissioner shall issue a certification letter to the taxpayer indicating that the credit will be available to be claimed by the taxpayer if the taxpayer and the qualifying employee otherwise meet the requirements of this section.

(f) The total amount of credits granted under this section shall not exceed one million dollars in any one fiscal year.

(g) No credit allowed under this section shall exceed the amount of tax imposed on a taxpayer under chapter 208 of the general statutes or chapter 207, 212 or 229 of the general statutes. The commissioner shall annually provide to the Commissioner of Revenue Services a list detailing all credits that have been approved and all taxpayers that have been issued a certification letter under this section.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*January 1, 2017, and applicable to income or taxable years commencing on or after said date*	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 16 $	FY 17 $
Department of Revenue Services	GF - Revenue Loss	None	None
Department of Economic & Community Development	GF - Cost	None	27,086
State Comptroller - Fringe Benefits[1]	GF - Cost	None	10,469
Department of Economic & Community Development	See Below - Revenue Gain	None	Potential

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill establishes a tax credit, capped at $1 million per fiscal year, for businesses that hire recent college graduates. This results in a General Fund revenue loss of $1 million annually beginning in FY 18.

The bill also results in a total cost of $37,555 in FY 17 and $75,108 in FY 18 and each year thereafter to the Department of Economic and Community Development (DECD) for the administration of the recent graduate tax credit program. It is anticipated that at least one full time staff position would be necessary to administer the program at an annualized cost of $75,108 ($54,171 for salary and $20,937 for fringe benefits).

The Commissioner of the DECD is permitted to impose an

[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 38.65% of payroll in FY 16 and FY 17.

application fee under the bill as she deems appropriate. This may result in a potential revenue gain to the state. The bill does not specify to what fund or account such fees would be deposited.

The Out Years

State Impact:

Agency Affected	Fund-Effect	FY 18 $	FY 19 $	FY 20 $
Department of Revenue Services	GF - Revenue Loss	1.0 million	1.0 million	1.0 million
Department of Economic & Community Development	GF - Cost	54,171	54,171	54,171
State Comptroller - Fringe Benefits	GF - Cost	20,937	20,937	20,937
Department of Economic & Community Development	See Below - Revenue Gain	Potential	Potential	Potential

Note: GF=General Fund

Municipal Impact: None

OLR Bill Analysis

sHB 6758

AN ACT ESTABLISHING A TAX CREDIT FOR BUSINESSES THAT HIRE RECENT GRADUATES OF INSTITUTIONS OF HIGHER EDUCATION LOCATED IN CONNECTICUT.

SUMMARY:

This bill authorizes insurance premium, corporation business, utility company, and personal income tax credits for businesses creating new full-time jobs for recent Connecticut college and university graduates. The credit equals $500 per month for each new job filled by a recent graduate, up to the end of the income year in which the job is first filled. The bill caps, at $1 million, the total value of these grants the state may annually provide. Businesses claiming a job expansion tax credit for a new hire cannot count the employee toward other credits the law allows.

Businesses qualify for the credits only for jobs they create after January 1, 2017. The job must be filled by a new employee who (1) resides in the state and (2) graduated from a public or private Connecticut college or university no more than three years before being hired.

Businesses must apply to the Department of Economic and Community Development (DECD) commissioner for the credits before hiring new employees.

EFFECTIVE DATE: January 1, 2017 and applicable to income or tax years beginning on or after that date.

ELIGIBILITY FOR TAX CREDIT

Eligible Companies and Jobs

To be eligible for the tax credit, the business must (1) have been in business for 12 consecutive months prior to its credit application and (2) be subject to the taxes to which the credit applies. In addition, the job to which the credit applies must (1) not have existed in Connecticut before the business applied for the credit and (2) be filled by a new full-time employee.

To qualify for the credit, businesses with 50 or fewer employees must create at least one new job; those with 51 to 100 employees must create at least five; and those with more than 100 employees must create at least 10. The job must be full-time (i.e., at least 35 hours per week and at least 48 weeks per calendar year). Temporary or seasonal jobs do not count.

The number of employees the business employs full-time in Connecticut on the date it applies for the credit (1) must be used to determine the number it must hire to qualify for the credit and (2) applies for the credit certificate's duration.

Eligible New Employees

A business cannot count as a new employee someone who:

1. owns the business or is a member or partner in it,
2. worked in Connecticut for a related business during the previous 12 months, or
3. no longer works for the business at the end of its income year.

An employee worked for a related business if:

1. the business where he formerly worked controls the business that subsequently hired him,
2. the business that hired him controls the business where he previously worked,
3. the business where he worked is part of a larger business entity that also controls the business that hired him, or

4. both businesses belong to the same group of controlled businesses.

Under the bill, a company is considered to be “controlled” by someone if the person directly or indirectly owns more than 50% of the combined voting power of all classes of its stock. In the case of a trust, control means owning 50% or more of the beneficial interest of the trust's principal or income.

APPLICATION AND APPROVAL PROCEDURE

Applying for Credits

To claim the credits, businesses must apply to DECD for a certification letter. The business must use a DECD form and provide enough information for DECD to determine its eligibility. The information must:

1. describe the business' activities;

2. indicate its North American Industry Classification System (NAICS) code;

3. specify the number of people employed as of the application date; and

4. if applicable, identify the new hire's name and job title or classification.

The commissioner may charge an application fee as she deems appropriate.

Claiming Credits

The DECD commissioner must act on each completed application within 30 days of receiving it. If she approves the application, she must issue the certification letter indicating that the business may claim the credit. The commissioner must annually give the revenue services commissioner a list of the businesses for which she approved credits and to which she issued certification letters.

Businesses can apply the credits against the insurance premium, corporation business, utility company, or personal income tax. The business must claim the credit in the income year in which it created the job and hired a new employee to fill it. The credit cannot exceed the total tax due. Unused credits expire and cannot be refunded.

The bill also allows shareholders and partners of S corporations and partnerships to claim the credit. With respect to single-member LLCs that are disregarded as entities separate from their owners, only the company's owner may claim the credit.

BACKGROUND

Legislative History

The House referred the bill (File 24) to the Finance, Revenue and Bonding Committee, which reported a substitute bill that eliminates the underlying bill's income tax credit for recent graduates living in designated urban areas and replaces it with a tax credit for businesses that hire recent graduates.

COMMITTEE ACTION

Housing Committee

Joint Favorable
Yea 13 Nay 0 (02/19/2015)

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 49 Nay 0 (04/30/2015)