AN ACT CONCERNING A TAX ON CERTAIN ENDOWMENT FUNDS OF INSTITUTIONS OF HIGHER EDUCATION.

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

Section 1. Section 12-242aa of the general statutes is repealed and the following is substituted in lieu thereof (Effective January 1, 2017, and applicable to taxable years commencing on or after January 1, 2017):

(a) As used in this chapter:

(1) "Taxpayer" means any organization which is exempt from taxation in accordance with any of the provisions of Section 501 of the Internal Revenue Code and which, notwithstanding the provisions of said Section 501, is subject to taxation under said code on unrelated business taxable income attributable to a trade or business carried on in this state.

(2) "Unrelated business taxable income" means income as defined and determined in accordance with Section 512 of the Internal Revenue Code and subsection (b) of this section.
(3) "Taxable year" means the calendar year upon the basis of which the taxpayer's unrelated business taxable income is computed, provided, if a fiscal year other than a calendar year has been established for purposes of the Internal Revenue Code, "taxable year" means such fiscal year.

(4) "Unrelated trade or business" means unrelated trade or business as defined in the Internal Revenue Code.

(5) "Internal Revenue Code" means the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as from time to time amended.

(6) "Commissioner" means the Commissioner of Revenue Services.

(7) "Organization" means an organization described in Section 511(a)(2)(A) of the Internal Revenue Code or a trust described in Section 511(b)(2) of the Internal Revenue Code.

(b) The unrelated business taxable income of a taxpayer subject to the tax imposed by section 12-242bb shall be such taxpayer's federal unrelated business taxable income, as determined under the Internal Revenue Code for the taxable year, with the following modifications:

(1) There shall be added to federal unrelated business taxable income the amount of any tax imposed and paid under section 12-242bb during such taxable year; (2) there shall be added to federal unrelated business taxable income any increase in the taxpayer's endowment fund calculated pursuant to section 2 of this act for such taxable year; (3) there shall be subtracted from federal unrelated business taxable income the amount of any refund or credit for overpayment of the tax imposed under section 12-242bb during such taxable year; and [(3)] (4) there may be subtracted from federal unrelated business taxable income a net operating loss deduction, which shall be the same as the net operating loss deduction allowed under section 12-217, except that (A) any net operating loss included in determining such deduction shall be adjusted to reflect the addition and subtraction from unrelated
business taxable income required by subdivisions (1) and [(2)] (3) of this subsection, (B) such deduction shall not include any net operating loss sustained during any taxable year beginning prior to January 1, 1992, or during any taxable year in which the taxpayer was not subject to the tax imposed by section 12-242bb, and (C) such deduction shall not exceed the deduction for the taxable year allowable under paragraph (6) of subsection (b) of Section 512 of the Internal Revenue Code.

(c) Any terms used in this section, [and] section 12-242bb and section 2 of this act have the same meaning as when used in a comparable context in the Internal Revenue Code unless a different meaning is clearly required.

Sec. 2. (NEW) (Effective January 1, 2017, and applicable to taxable years commencing on or after January 1, 2017) (a) (1) Each taxpayer that is an independent institution of higher education having one or more endowment funds of ten billion dollars or more in the aggregate at the end of the taxable year shall add the amount calculated pursuant to this subdivision to its federal unrelated business taxable income pursuant to subdivision (2) of subsection (b) of section 12-242aa of the general statutes, as amended by this act. Such amount shall be the amount by which any increase in the taxpayer's endowment fund from the preceding taxable year to the current taxable year exceeds the sum of (A) the taxpayer's total expenditures for its tax exempt purposes during the taxable year, plus (B) the product of the amount of the taxpayer's endowment fund for the preceding taxable year multiplied by the percentage increase in the calendar year preceding the taxable year of the Consumer Price Index For All Urban Consumers For Northeast Urban-All Items published by the Bureau of Labor Statistics of the United States Department of Labor, or any successor index. If the taxpayer has more than one endowment fund, the amount by which the taxpayer's endowment fund increases from the preceding taxable year to the current taxable year shall be measured by the amount of the increase of the total of all endowment funds combined.
(2) Decreases in the taxpayer's endowment funds shall not be subtracted from federal unrelated business taxable income.

(b) Each taxpayer shall include on the tax return filed with the commissioner pursuant to subsection (e) of section 12-242bb of the general statutes (1) the amount of its endowment fund for the end of the taxable year, and for the preceding taxable year and if the taxpayer has more than one endowment fund, the taxpayer shall state such amounts separately, and (2) all additions to such endowment fund, including donations and contributions, in cash or in kind, and realized and unrealized appreciation of assets.

(c) Each taxpayer shall file a tax return with the commissioner, in such form and containing such information as he may prescribe, which return shall be due on the same day such taxpayer's return for federal tax on unrelated business income shall be due without regard to extensions to file. The tax imposed by this section shall be due and payable to the commissioner on or before the date prescribed herein for the filing of the return.

This act shall take effect as follows and shall amend the following sections:

| Section 1 | January 1, 2017, and applicable to taxable years commencing on or after January 1, 2017 | 12-242aa |
| Sec. 2 | January 1, 2017, and applicable to taxable years commencing on or after January 1, 2017 | New section |

Statement of Purpose:
To impose the unrelated business income of nonprofit corporations' tax on a portion of certain endowment funds of independent institutions of higher education.
[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]