



# House of Representatives

General Assembly

**File No. 653**

February Session, 2016

Substitute House Bill No. 5636

*House of Representatives, April 18, 2016*

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 CONCERNING THE SALES TAX, THE APPRENTICESHIP TAX CREDIT AND THE TAX CREDIT REPORT.***

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

1 Section 1. Subdivision (1) of section 12-408 of the 2016 supplement  
2 to the general statutes is repealed and the following is substituted in  
3 lieu thereof (*Effective July 1, 2017, and applicable to sales occurring on or*  
4 *after July 1, 2017*):

5 (1) (A) For the privilege of making any sales, as defined in  
6 subdivision (2) of subsection (a) of section 12-407, at retail, in this state  
7 for a consideration, a tax is hereby imposed on all retailers at the rate  
8 of six and thirty-five-hundredths per cent of the gross receipts of any  
9 retailer from the sale of all tangible personal property sold at retail or  
10 from the rendering of any services constituting a sale in accordance  
11 with subdivision (2) of subsection (a) of section 12-407, except, in lieu  
12 of said rate of six and thirty-five-hundredths per cent, the rates  
13 provided in subparagraphs (B) to (H), inclusive, of this subdivision;

14 (B) At [a] the rate of fifteen per cent with respect to each transfer of  
15 occupancy, from the total amount of rent received for such occupancy  
16 of any room or rooms in a hotel or lodging house for the first period  
17 not exceeding thirty consecutive calendar days;

18 (C) With respect to the sale of a motor vehicle to any individual who  
19 is a member of the armed forces of the United States and is on full-time  
20 active duty in Connecticut and who is considered, under 50 App USC  
21 574, a resident of another state, or to any such individual and the  
22 spouse thereof, at [a] the rate of four and one-half per cent of the gross  
23 receipts of any retailer from such sales, provided such retailer requires  
24 and maintains a declaration by such individual, prescribed as to form  
25 by the commissioner and bearing notice to the effect that false  
26 statements made in such declaration are punishable, or other evidence,  
27 satisfactory to the commissioner, concerning the purchaser's state of  
28 residence under 50 App USC 574;

29 (D) (i) With respect to the sales of computer and data processing  
30 services occurring on or after July 1, 1997, and prior to July 1, 1998, at  
31 the rate of five per cent, on or after July 1, 1998, and prior to July 1,  
32 1999, at the rate of four per cent, on or after July 1, 1999, and prior to  
33 July 1, 2000, at the rate of three per cent, on or after July 1, 2000, and  
34 prior to July 1, 2001, at the rate of two per cent, on or after July 1, 2001,  
35 at the rate of one per cent, and (ii) with respect to sales of Internet  
36 access services, on and after July 1, 2001, such services shall be exempt  
37 from such tax;

38 (E) (i) With respect to the sales of labor that is otherwise taxable  
39 under subparagraph (C) or (G) of subdivision (2) of subsection (a) of  
40 section 12-407 on existing vessels and repair or maintenance services  
41 on vessels occurring on and after July 1, 1999, such services shall be  
42 exempt from such tax;

43 (ii) With respect to the sale of a vessel, such sale shall be exempt  
44 from such tax provided such vessel is docked in this state for sixty or  
45 fewer days in a calendar year;

46 (iii) With respect to the sale, occurring on or after July 1, 2017, and  
47 prior to July 1, 2018, of a vessel motor or a vessel other than a vessel  
48 docked in this state for sixty or fewer days in a calendar year, at the  
49 rate of five and three-quarters per cent on the entire sales price;

50 (iv) With respect to the sale, occurring on or after July 1, 2018, and  
51 prior to July 1, 2019, of a vessel motor or a vessel other than a vessel  
52 docked in this state for sixty or fewer days in a calendar, year at the  
53 rate of five per cent on the entire sales price;

54 (v) With respect to the sale, occurring on or after July 1, 2019, and  
55 prior to July 1, 2020, of a vessel motor or a vessel other than a vessel  
56 docked in this state for sixty or fewer days in a calendar year at the  
57 rate of four and one-quarter per cent on the entire sales price;

58 (vi) With respect to the sale, occurring on or after July 1, 2020, and  
59 prior to July 1, 2021, of a vessel motor or a vessel other than a vessel  
60 docked in this state for sixty or fewer days in a calendar year at the  
61 rate of three and one-half per cent on the entire sales price;

62 (vii) With respect to the sale, occurring on or after July 1, 2021, of a  
63 vessel motor or a vessel other than a vessel docked in this state for  
64 sixty or fewer days in a calendar year at the rate of three per cent on  
65 the entire sales price;

66 (F) With respect to patient care services for which payment is  
67 received by the hospital on or after July 1, 1999, and prior to July 1,  
68 2001, at the rate of five and three-fourths per cent and on and after July  
69 1, 2001, such services shall be exempt from such tax;

70 (G) With respect to the rental or leasing of a passenger motor  
71 vehicle for a period of thirty consecutive calendar days or less, at [a]  
72 the rate of nine and thirty-five-hundredths per cent;

73 (H) (i) With respect to the sale, occurring prior to July 1, 2017, of [(i)]  
74 [(I) a motor vehicle for a sales price exceeding fifty thousand dollars, at  
75 [a] the rate of seven and three-fourths per cent on the entire sales price,  
76 [(ii)] [(II) jewelry, whether real or imitation, for a sales price exceeding

77 five thousand dollars, at [a] the rate of seven and three-fourths per cent  
78 on the entire sales price, and [(iii)] (III) an article of clothing or  
79 footwear intended to be worn on or about the human body, a handbag,  
80 luggage, umbrella, wallet or watch for a sales price exceeding one  
81 thousand dollars, at [a] the rate of seven and three-fourths per cent on  
82 the entire sales price; .]

83 (ii) With respect to the sale, occurring on or after July 1, 2017, and  
84 prior to July 1, 2018, of (I) a motor vehicle for a sales price exceeding  
85 fifty thousand dollars, at the rate of seven and four-tenths per cent on  
86 the entire sales price, (II) jewelry, whether real or imitation, for a sales  
87 price exceeding five thousand dollars, at the rate of seven and four-  
88 tenths per cent on the entire sales price, and (III) an article of clothing  
89 or footwear intended to be worn on or about the human body, a  
90 handbag, luggage, umbrella, wallet or watch for a sales price  
91 exceeding one thousand dollars, at the rate of seven and four-tenths  
92 per cent on the entire sales price;

93 (iii) With respect to the sale, occurring on or after July 1, 2018, and  
94 prior to July 1, 2019, of (I) a motor vehicle for a sales price exceeding  
95 fifty thousand dollars, at the rate of seven and five-hundredths per  
96 cent on the entire sales price, (II) jewelry, whether real or imitation, for  
97 a sales price exceeding five thousand dollars, at the rate of seven and  
98 five-hundredths per cent on the entire sales price, and (III) an article of  
99 clothing or footwear intended to be worn on or about the human body,  
100 a handbag, luggage, umbrella, wallet or watch for a sales price  
101 exceeding one thousand dollars, at the rate of seven and five-  
102 hundredths per cent on the entire sales price;

103 (iv) With respect to the sale, occurring on or after July 1, 2019, and  
104 prior to July 1, 2020, of (I) a motor vehicle for a sales price exceeding  
105 fifty thousand dollars, at the rate of six and seven-tenths per cent on  
106 the entire sales price, (II) jewelry, whether real or imitation, for a sales  
107 price exceeding five thousand dollars, at the rate of six and seven-  
108 tenths per cent on the entire sales price, and (III) an article of clothing  
109 or footwear intended to be worn on or about the human body, a

110 handbag, luggage, umbrella, wallet or watch for a sales price  
111 exceeding one thousand dollars, at the rate of six and seven-tenths per  
112 cent on the entire sales price;

113 (v) For purposes of this subparagraph, "motor vehicle" has the  
114 meaning provided in section 14-1, but does not include a motor vehicle  
115 subject to the provisions of subparagraph (C) of this subdivision, a  
116 motor vehicle having a gross vehicle weight rating over twelve  
117 thousand five hundred pounds, or a motor vehicle having a gross  
118 vehicle weight rating of twelve thousand five hundred pounds or less  
119 that is not used for private passenger purposes, but is designed or  
120 used to transport merchandise, freight or persons in connection with  
121 any business enterprise and issued a commercial registration or more  
122 specific type of registration by the Department of Motor Vehicles;

123 (I) The rate of tax imposed by this chapter shall be applicable to all  
124 retail sales upon the effective date of such rate, except that a new rate  
125 which represents an increase in the rate applicable to the sale shall not  
126 apply to any sales transaction wherein a binding sales contract without  
127 an escalator clause has been entered into prior to the effective date of  
128 the new rate and delivery is made within ninety days after the effective  
129 date of the new rate. For the purposes of payment of the tax imposed  
130 under this section, any retailer of services taxable under subparagraph  
131 (I) of subdivision (2) of subsection (a) of section 12-407, who computes  
132 taxable income, for purposes of taxation under the Internal Revenue  
133 Code of 1986, or any subsequent corresponding internal revenue code  
134 of the United States, as from time to time amended, on an accounting  
135 basis which recognizes only cash or other valuable consideration  
136 actually received as income and who is liable for such tax only due to  
137 the rendering of such services may make payments related to such tax  
138 for the period during which such income is received, without penalty  
139 or interest, without regard to when such service is rendered;

140 (J) For calendar quarters ending on or after September 30, 2011,  
141 except for calendar quarters ending on or after July 1, 2016, but prior to  
142 July 1, 2017, the commissioner shall deposit into the regional planning

143 incentive account, established pursuant to section 4-66k, six and seven-  
144 tenths per cent of the amounts received by the state from the tax  
145 imposed under subparagraph (B) of this subdivision and ten and  
146 seven-tenths per cent of the amounts received by the state from the tax  
147 imposed under subparagraph (G) of this subdivision;

148 (K) (i) Notwithstanding the provisions of this section, for calendar  
149 months commencing on or after May 1, 2016, but prior to May 1, 2017,  
150 the commissioner shall deposit into the municipal revenue sharing  
151 account established pursuant to section 4-66l four and seven-tenths per  
152 cent of the amounts received by the state from the tax imposed under  
153 subparagraph (A) of this subdivision;

154 (ii) For calendar months commencing on or after May 1, 2017, but  
155 prior to July 1, 2017, the commissioner shall deposit into the municipal  
156 revenue sharing account established pursuant to section 4-66l six and  
157 three-tenths per cent of the amounts received by the state from the tax  
158 imposed under subparagraph (A) of this subdivision;

159 (iii) For calendar months commencing on or after July 1, 2017, the  
160 commissioner shall deposit into the municipal revenue sharing  
161 account established pursuant to section 4-66l seven and nine-tenths per  
162 cent of the amounts received by the state from the tax imposed under  
163 subparagraph (A) of this subdivision; and

164 (L) (i) Notwithstanding the provisions of this section, for calendar  
165 months commencing on or after December 1, 2015, but prior to October  
166 1, 2016, the commissioner shall deposit into the Special Transportation  
167 Fund established under section 13b-68 four and seven-tenths per cent  
168 of the amounts received by the state from the tax imposed under  
169 subparagraph (A) of this subdivision;

170 (ii) For calendar months commencing on or after October 1, 2016,  
171 but prior to July 1, 2017, the commissioner shall deposit into the  
172 Special Transportation Fund established under section 13b-68 six and  
173 three-tenths per cent of the amounts received by the state from the tax  
174 imposed under subparagraph (A) of this subdivision; and

175 (iii) For calendar months commencing on or after July 1, 2017, the  
176 commissioner shall deposit into the Special Transportation Fund  
177 established under section 13b-68 seven and nine-tenths per cent of the  
178 amounts received by the state from the tax imposed under  
179 subparagraph (A) of this subdivision.

180 Sec. 2. Subsection (a) of section 12-217g of the 2016 supplement to  
181 the general statutes is repealed and the following is substituted in lieu  
182 thereof (*Effective July 1, 2017, and applicable to income or taxable years*  
183 *commencing on or after January 1, 2017*):

184 (a) (1) There shall be allowed a credit for any taxpayer against the  
185 tax imposed under this chapter or chapter 229, other than the liability  
186 imposed by section 12-707, for any income year or taxable year with  
187 respect to each apprenticeship in the manufacturing trades  
188 commenced by such taxpayer in such year under a qualified  
189 apprenticeship training program as described in this section, certified  
190 in accordance with regulations adopted by the Labor Commissioner  
191 and registered with the Connecticut State Apprenticeship Council  
192 established under section 31-22n, in an amount equal to six dollars per  
193 hour multiplied by the total number of hours worked during the  
194 income year or taxable year by apprentices in the first half of a two-  
195 year term of apprenticeship and the first three-quarters of a four-year  
196 term of apprenticeship, provided the amount of credit allowed for any  
197 income year or taxable year with respect to each such apprenticeship  
198 may not exceed seven thousand five hundred dollars or fifty per cent  
199 of actual wages paid in such income year or taxable year to an  
200 apprentice in the first half of a two-year term of apprenticeship or in  
201 the first three-quarters of a four-year term of apprenticeship,  
202 whichever is less.

203 [(2) Effective for income years commencing on and after January 1,  
204 2015, for purposes of this subsection, "taxpayer" includes an affected  
205 business entity, as defined in section 12-284b. Any affected business  
206 entity allowed a credit under this subsection may sell, assign or  
207 otherwise transfer such credit, in whole or in part, to one or more

208 taxpayers to offset any state tax due or otherwise payable by such  
209 taxpayers under this chapter, or, with respect to income years  
210 commencing on or after January 1, 2016, chapter 212 or 227, provided  
211 such credit may be sold, assigned or otherwise transferred, in whole or  
212 in part, not more than three times.]

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

219 Sec. 3. Section 32-1r of the general statutes is repealed and the  
220 following is substituted in lieu thereof (*Effective from passage*):

221 (a) [Notwithstanding the provisions of subsection (b) of section 32-  
222 1m, on or before January 1, 2011, and every three years thereafter, the  
223 Commissioner of Economic and Community Development] On or  
224 before January 1, 2017, and every three years thereafter, the Legislative  
225 Program Review and Investigations Committee, in consultation with  
226 the Commissioner of Revenue Services and the Commissioner of  
227 Economic and Community Development, shall prepare a report with  
228 regard to any tax credit or abatement program enacted for the purpose  
229 of recruitment or retention of businesses. The Commissioner of  
230 Economic and Community Development shall provide any data, data  
231 analysis or economic modeling necessary for completion of such  
232 report. The report shall include, but need not be limited to:

233 [(1) A baseline assessment of the tax credit and abatement programs  
234 enacted to encourage business growth in the state, including the  
235 number of aggregate jobs associated with taxpayers eligible for such  
236 tax credits or abatements and the aggregate annual revenue that such  
237 taxpayers generate for the state through the direct taxes applied to  
238 them and through their support of the state's economy through  
239 employment and other activities;

240 (2) A listing, by program, of the amount of tax credits and  
241 abatements approved by the state during the preceding calendar year;

242 (3) A summary and evaluation of all tax credit programs  
243 administered by the Department of Economic and Community  
244 Development. Such summary and evaluation shall include, but need  
245 not be limited to, for each tax credit program: (A) An assessment of the  
246 intended statutory and programmatic goals of the tax credit; (B) the  
247 number of taxpayers granted tax credits under the program during the  
248 previous twelve-month period; (C) the value of the tax credits granted,  
249 listed by the North American Industrial Classification System code  
250 associated with the taxpayers receiving such credits; (D) the value of  
251 the tax credits actually claimed and the value of the tax credits carried  
252 forward, listed by the North American Industrial Classification System  
253 code associated with the taxpayers claiming or carrying forward the  
254 credits; (E) an assessment and five-year projection of the potential  
255 impact on the state's revenue stream from carry forwards allowed  
256 under such tax credit program; (F) an analysis of the economic impact  
257 of the tax credit program and whether the statutory and programmatic  
258 goals are being met, with obstacles to such goals identified, if possible;  
259 (G) the type and value of tax credits assigned and a summary by North  
260 American Industrial Classification System codes of taxpayers to which  
261 such credits are assigned; (H) a cost-benefit analysis of the revenue  
262 foregone by allowing a tax credit, as compared to the economic impact  
263 of such credit; (I) the cost to the state to administer the tax credit  
264 program, and a comparison between such cost and the net revenue  
265 generated to the state by each such program; (J) the average and  
266 aggregate administrative and compliance cost, to taxpayers, to comply  
267 with the requirements of the tax credit program; and (K) a  
268 recommendation as to whether the tax credit program should be  
269 continued, modified or repealed, the basis for such recommendation  
270 and the expected impact of such recommendation on the state's  
271 economy;

272 (4) (A) An assessment of the fairness, performance, burden, tax  
273 incidence and economic impact of the state's corporation business tax

274 and taxes on domestic and foreign insurance companies pursuant to  
275 chapter 207; (B) the cost to the state to administer the state's  
276 corporation business tax and taxes on domestic and foreign insurance  
277 companies pursuant to chapter 207, and a comparison between such  
278 costs and the net revenue generated to the state by such taxes, and (C)  
279 the average and aggregate administrative and compliance costs to  
280 taxpayers associated with such taxes; and

281 (5) The methodology and assumptions used in carrying out the  
282 assessments, projections and analyses required pursuant to  
283 subdivisions (1), (3) and (4) of this subsection.]

284 (1) An evaluation of each tax credit or abatement program enacted  
285 for the purpose of recruitment or retention of businesses. For each tax  
286 credit or abatement program, such evaluation shall include, but need  
287 not be limited to:

288 (A) A description of the tax credit or abatement program, its  
289 beneficiaries and its intended statutory and programmatic goals;

290 (B) An analysis of the fiscal impact of the tax credit or abatement  
291 program and whether the cost thereof is likely to increase or decrease  
292 in future years;

293 (C) An analysis of the economic impact of the tax credit or  
294 abatement program and whether the statutory and programmatic  
295 goals are being met, with obstacles to such goals identified, if possible;

296 (D) An analysis of whether the tax credit or abatement program is  
297 being administered efficiently and effectively and the ease or difficulty  
298 for taxpayers to comply with the requirements of such tax credit or  
299 abatement program;

300 (E) A recommendation as to whether the tax credit or abatement  
301 program should be continued, modified or repealed, the basis for such  
302 recommendation and the expected impact of such recommendation on  
303 the state's economy;

304 (F) Any recommendations for improving the administrative  
305 efficiency or effectiveness of a tax credit or abatement program; and

306 (2) The methodology and assumptions used in carrying out the  
307 evaluations required pursuant to subdivisions (1) of this subsection.

308 (b) The [Commissioner of Economic and Community Development]  
309 Legislative Program Review and Investigations Committee shall  
310 submit the reports required pursuant to this section [, in accordance  
311 with section 11-4a,] to the Governor, the Secretary of the Office of  
312 Policy and Management, and to the joint standing committees of the  
313 General Assembly having cognizance of matters relating to  
314 appropriations, finance and commerce.

315 (c) On or before March 1, 2017, and every three years thereafter, the  
316 joint standing committees of the General Assembly having cognizance  
317 of matters relating to appropriations and finance shall hold one or  
318 more public hearings on the reports required pursuant to this section.

319 Sec. 4. Subsection (a) of section 2-53g of the general statutes is  
320 repealed and the following is substituted in lieu thereof (*Effective from*  
321 *passage*):

322 (a) The Legislative Program Review and Investigations Committee  
323 shall: (1) Direct its staff and other legislative staff available to the  
324 committee to conduct program reviews and investigations to assist the  
325 General Assembly in the proper discharge of its duties; (2) produce its  
326 reports electronically and post such reports on the Internet web site of  
327 the committee; (3) review staff reports submitted to the committee and,  
328 when necessary, confer with representatives of the state departments  
329 and agencies reviewed in order to obtain full and complete  
330 information in regard to programs, other activities and operations of  
331 the state, and may request and shall be given access to and copies of,  
332 by all public officers, departments, agencies and authorities of the state  
333 and its political subdivisions, such public records, data and other  
334 information and given such assistance as the committee determines it  
335 needs to fulfill its duties. Any statutory requirements of confidentiality

336 regarding such records, data and other information, including  
337 penalties for violating such requirements, shall apply to the committee,  
338 its staff and its other authorized representatives in the same manner  
339 and to the same extent as such requirements and penalties apply to  
340 any public officer, department, agency or authority of the state or its  
341 political subdivisions. The committee shall act on staff reports and  
342 recommend in its report, or propose, in the form of a raised committee  
343 bill, such legislation as may be necessary to modify current operations  
344 and agency practices; (4) consider and act on requests by legislators,  
345 legislative committees, elected officials of state government and state  
346 department and agency heads for program reviews. The request shall  
347 be submitted in writing to the Legislative Program Review and  
348 Investigations Committee and shall state reasons to support the  
349 request. The decision of the committee to grant or deny such a request  
350 shall be final; (5) conduct investigations requested by joint resolution  
351 of the General Assembly, or, when the General Assembly is not in  
352 session, (A) requested by a joint standing committee of the General  
353 Assembly or initiated by a majority vote of the Legislative Program  
354 Review and Investigations Committee and approved by the Joint  
355 Committee on Legislative Management, or (B) requested by the Joint  
356 Committee on Legislative Management. In the event two or more  
357 investigations are requested, the order of priority shall be determined  
358 by the Legislative Program Review and Investigations Committee; (6)  
359 retain, within available appropriations, the services of consultants,  
360 technical assistants, research and other personnel necessary to assist in  
361 the conduct of program reviews and investigations; (7) originate, and  
362 report to the General Assembly, any bill it deems necessary concerning  
363 a program, department or other matter under review or investigation  
364 by the committee, in the same manner as is prescribed by rule for joint  
365 standing committees of the General Assembly; [and] (8) review audit  
366 reports after issuance by the Auditors of Public Accounts, evaluate and  
367 sponsor new or revised legislation based on audit findings, provide  
368 means to determine compliance with audit recommendations and  
369 receive facts concerning any unauthorized, illegal, irregular or unsafe  
370 handling or expenditures of state funds under the provisions of section

371 2-90; and (9) direct its staff and other legislative staff available to the  
 372 committee to prepare the report required pursuant to section 32-1r, as  
 373 amended by this act.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2017, and applicable to sales occurring on or after July 1, 2017</i>	12-408(1)
Sec. 2	<i>July 1, 2017, and applicable to income or taxable years commencing on or after January 1, 2017</i>	12-217g(a)
Sec. 3	<i>from passage</i>	32-1r
Sec. 4	<i>from passage</i>	2-53g(a)

**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 17 \$	FY 18 \$
Department of Revenue Services	GF - Revenue Loss	None	3.7 million
Department of Revenue Services	GF - Cost	None	Less than 100,000
Policy & Mgmt., Off.	MRSA - Revenue Loss	None	See Below
Resources of the Special Transportation Fund	TF - Revenue Loss	None	See Below

Note: GF=General Fund; TF=Transportation Fund

**Municipal Impact:** None

**Explanation**

The bill results in a General Fund revenue loss of \$3.7 million, and a one-time cost of less than \$100,000, in FY 18; the magnitude of the revenue loss increases through the out years. The changes contained in the bill are detailed below:

**Section 1** results in a revenue loss of \$3.3 million in FY 18 and \$6.9 million in FY 19 by phasing down the “luxury” sales tax rate from 7.75% to 6.35% by FY 21. The annualized revenue loss once lowered to 6.35% is \$14.7 million in FY 21 and each year thereafter, subject to inflation.<sup>1</sup>

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<sup>1</sup> PA 15-244, as amended by PA 15-5 JSS and PA 15-1 DSS, requires a monthly transfer of a portion of the sales tax generated into the Municipal Revenue Sharing Account and the Special Transportation Fund. The general sales and use tax rate, from which the diversion occurs, remains at 6.35%. Any policy impacting the base of the 6.35% Sales Tax will impact the transfers to these two funds.

**Section 1** also results in a revenue loss of \$400,000 in FY 18 and \$1.0 million in FY 19 by phasing down the sales tax rate on boats from 6.35% to 3.0% by FY 22. The annualized revenue loss once lowered to 3.0% is \$2.6 million in FY 22 and each year thereafter, subject to inflation.

**Section 2** allows pass-through entities to apply manufacturing apprenticeship tax credits against their personal income tax liability. This does not result in any revenue impact as it assumed these credits would be otherwise utilized against the corporation business tax, petroleum products gross earnings tax, or public service companies tax as allowed in PA 15-1 of the December Special Session (i.e., December deficit mitigation plan). This provision results in a one-time cost of less than \$100,000 in FY 18 to the Department of Revenue Services associated with updates to the online Taxpayer Service Center to allow pass-through entities to claim the credit on their tax forms.

**Sections 3 and 4** of the bill require the Legislative Program Review and Investigations Committee, with the assistance of the Department of Economic Development, to compile a report with regard to any tax credit or abatement program enacted for the purpose of recruitment or retention of jobs by January 1, 2017 and every three years thereafter. This is not expected to result in a fiscal impact as it is likely that the committee would rearrange its' project agenda to accommodate the report requirements.

### ***The Out Years***

**Section 1** results in a revenue loss of \$6.9 million in FY 19, \$10.7 million in FY 20 and \$14.7 million in FY 21 and each year thereafter, subject to inflation, by phasing down the "luxury" sales tax rate.

**Section 1** also results in a revenue loss of \$1.0 million in FY 19, \$1.5 million in FY 20, \$2.2 million in FY 21, and \$2.6 million in FY 22 and each year thereafter, subject to inflation, by exempting the sales tax on boats.

**OLR Bill Analysis****sHB 5636*****AN ACT CONCERNING THE SALES TAX, THE APPRENTICESHIP TAX CREDIT AND THE TAX CREDIT REPORT.*****SUMMARY:**

This bill:

1. reduces, over five years, the sales and use tax on vessel motors and vessels (boats) docked in Connecticut for more than 60 days from 6.35% to 3%;
2. eliminates, over three years, the 7.75% sales and use tax on luxury items, thus subjecting these sales to the 6.35% sales and use tax that applies to most items;
3. extends the manufacturing apprenticeship tax credit to pass-through entities, thus allowing their owners and partners to claim the credit against their personal income taxes; and
4. shifts, from the Department of Economic and Community Development (DECD) to the Program Review and Investigation Committee (PRI), the responsibility for preparing the three-year evaluation of the state's economic development tax incentives; reduces the report's scope; and requires the Appropriations and Finance committees to hold hearings on the report.

**EFFECTIVE DATE:** Upon passage, except the provisions (1) reducing the sales tax on vessels, vessel motors, and luxury items and (2) extending the apprenticeship credit to the personal income tax take effect July 1, 2017 and are applicable to income or taxable years beginning on or after January 1, 2017.

**§ 1 — SALES AND USE TAX REDUCTIONS**

### **Vessel Motors and Vessels**

As Table 1 shows, the bill reduces, from 6.35% to 3.0%, the sales and use tax on boat motors and vessels docked in Connecticut for over 60 days over five years, from July 1, 2017 to June 30, 2021.

**Table 1: Sales and Use Tax Reduction Schedule for Vessels and Vessel Motors**

<b>Year</b>	<b>Rate</b>
Current	6.35%
July 1, 2017 to June 30, 2018	5.75
July 1, 2018 to June 30, 2019	5.0
July 1, 2019 to June 30, 2020	4.25
July 1, 2020 to June 30, 2021	3.5
July 1, 2021 and forward	3.0

### **Luxury Tax**

As Table 2 shows, the bill eliminates the sales and use tax on luxury items over three years, from July 1, 2017 to June 30, 2020, after which the sale of these items will be taxed at the regular 6.35% rate.

**Table 2: Schedule for Phasing Out the Tax on Luxury Items**

<b>Luxury Item</b>	<b>Year and Rate</b>				
	<b>Current</b>	<b>July 1, 2017 to June 30, 2018</b>	<b>July 1, 2018 to June 30, 2019</b>	<b>July 1, 2019 to June 30, 2020</b>	<b>July 1, 2020 and forward</b>
Motor Vehicles over \$50,000	7.75%	7.40%	7.05%	6.70%	6.35%
Jewelry over \$5,000	7.75	7.40	7.05	6.70	6.35
Clothing and Accessories over \$1,000	7.75	7.40	7.05	6.70	6.35

## **§ 2 — MANUFACTURING APPRENTICESHIP TAX CREDIT**

This bill allows the owners and partners of S corporations, LLCs, partnerships, and other pass-through entities to use the manufacturing apprenticeship tax credit to reduce their personal income tax liability. If the entity is an S corporation or one treated as a partnership for federal tax purposes, its shareholders or partners may claim the credit. If the business is a single-member limited liability company that is

disregarded as an entity separate from its owner, only the owner may claim the credit.

Under current law, the credit applies only against the corporation business tax, which is imposed on businesses organized as corporations. Businesses organized as pass-through entities are not liable for this tax, but their owners and partners must pay personal income taxes on the income they derive from these entities.

Although current law allows pass-through entities to earn the manufacturing apprenticeship tax credit, it bars their owners and partners from applying the credits to their personal income taxes. Instead, it allows them to cash in the credits by selling, assigning, or transferring them to corporations, utility companies, and petroleum products distribution companies, which can use the credits to reduce their tax liability. The bill eliminates the ability of pass-through entities to sell, assign, or transfer the credits to these other businesses.

By law, the credit equals \$6.00 per hour, up to the lesser of \$7,500 or 50% of the actual apprentice wages. The period for claiming the credit depends on the apprenticeship program's duration. The period is the first year for a two-year program and first three years for a four-year one.

### **§§ 3-4 — TAX INCENTIVE PROGRAMS' TRIENNIAL EVALUATION**

#### ***Responsibility***

On or before January 1, 2017, the bill shifts, from DECD to PRI, the responsibility for preparing the three-year evaluation of the state's tax incentives for recruiting and retaining businesses. PRI must prepare the report in consultation with the revenue services and DECD commissioners, and the DECD commissioner must provide any data, data analysis, or economic modeling PRI needs to complete the report.

#### ***Content***

The bill requires PRI to evaluate each tax credit and abatement program and state its methodology and assumptions. The evaluation must:

1. describe each program, including its beneficiaries and statutory and programmatic goals;
2. analyze the programs' fiscal impact and their projected costs;
3. analyze the programs' economic impact, whether they are meeting their statutory and programmatic goals, and, if possible, any obstacles preventing them from meeting those goals;
4. analyze whether the programs are being administered efficiently and effectively and the ease with which taxpayers comply with the programs' requirements;
5. include a recommendation as to whether a program should be continued, modified, or repealed, including the basis for the recommendation and how it would affect the state's economy; and
6. include any recommendations about how to improve the programs' administrative efficiency and effectiveness.

Current law explicitly requires the report to (1) identify the total number of jobs associated with programs' recipients and the state tax revenue they generated and (2) provide a detailed examination of the credits DECD administers, including an economic and cost-benefit analysis of each program.

Besides providing an evaluation of the programs, current law requires the report to include an assessment of the state's corporation and insurance premium taxes, specifically their impact on businesses, how much it costs the state to administer them, how that cost compares to the revenue the taxes generate, and how much it costs taxpayers to comply with the administrative requirements for remitting the taxes.

### ***Hearing***

Beginning March 1, 2017, the bill requires the Appropriations and

Finance, Revenue and Bonding committees to hold one or more public hearings on the PRI report.

**COMMITTEE ACTION**

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 41 Nay 9 (03/31/2016)