OFFICE OF FISCAL ANALYSIS

Legislative Office Building, Room 5200
Hartford, CT 06106 ◇ (860) 240-0200
http://www.cga.ct.gov/ofa

sSB-11

AN ACT CONCERNING CONNECTICUT'S RESPONSE TO FEDERAL TAX REFORM.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 19 $	FY 20 $
Department of Revenue Services	GF - Revenue Impact	See Below	See Below
Department of Revenue Services	GF - Cost	Less than 100,000	None

Note: GF=General Fund

Municipal Impact:

Municipalities	Effect	FY 19 $	FY 20 $
Various Municipalities	See Below	See Below	See Below

Explanation

The bill makes a number of tax-related and other changes, the fiscal impact of which is detailed in a section-by-section analysis below:

Sections 1-9 establish a new Pass-Through Entity Tax (PET) and an offsetting Personal Income Tax credit. This may result in a minimal revenue gain beginning in FY 19; however the credit is anticipated to offset nearly the entire amount of revenue gained under the PET. This also results in a one-time cost to the Department of Revenue Services (DRS) of less than $100,000 in FY 19 to implement the PET and associated credit.

Section 10 allows municipalities to provide a property tax credit to taxpayers who make voluntary donations to a "community supporting

Primary Analyst: CW
Contributing Analyst(s): DD, EMG, MR, EW
Reviewer: MM

4/23/18

organization" approved by the municipality. It is assumed that the net budgetary impact of any town choosing to utilize this option would be neutral and thus this does not result in any fiscal impact to municipalities.

Sections 11-12 establish alternative depreciation and asset expensing schedules for certain property and assets impacted by federal bonus depreciation and asset expensing rules. This precludes a deferral of revenue that would have reduced revenue in the early years and increased revenue in later years due to the accelerated depreciation of capital and other assets. The total annual amount of state revenue impacted by the alternative bonus depreciation and asset expensing provisions is estimated to be less than $50 million and less than $20 million, respectively.

Section 13 provides that expenses related to dividends equal 10% of all dividends received by a company during an income year, except when DRS agrees to a different percentage as petitioned by a taxpayer. The revenue impact of this provision is uncertain as affected companies would have had to add back related expenses in the absence of this provision and it is unclear how those amounts would compare to the 10% provided under the bill.

Sections 14-16 extend, by three years, the phase-in of the Estate and Gift Tax threshold to the federal threshold. This results in a revenue gain of $28.3 million in FY 21 and $15.1 million in FY 22, and a diminishing revenue gain through FY 24 (at which point the state exemption level would be equal to the federal exemption level).

Section 17 allows the Connecticut Green Bank to secure its obligations under a lease-purchase agreement entered into in December 2017. This does not result in any fiscal impact as this validates an existing contract.

Section 18 requires the Department of Economic and Community Development to study various aspects of federal qualified opportunity zones and report findings to the Commerce, Planning and

Development, and Finance committees. This does not result in any fiscal impact as it is anticipated that the agency has the expertise to complete such study without additional agency resources.

The Out Years

See above.

Sources: *Department of Revenue Services*
Joint Committee on Taxation Analysis of 2017 Tax Cuts and Jobs Act