



Senate

General Assembly

File No. 573

February Session, 2018

Substitute Senate Bill No. 266

Senate, April 18, 2018

The Committee on Finance, Revenue and Bonding reported through SEN. FONFARA of the 1st Dist. and SEN. FRANTZ, L. of the 36th Dist., Chairpersons of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING INCENTIVES TO ENCOURAGE THE GROWTH OF BIOSCIENCE VENTURE CAPITAL IN CONNECTICUT.

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

1 Section 1. (NEW) (*Effective July 1, 2018, and applicable to taxable years*
2 *commencing on or after January 1, 2018*) (a) As used in this section:

3 (1) "Bioscience investment ratio" means a ratio, the denominator of
4 which is the total amount of money invested by a qualified venture
5 capital fund plus the total amount of money available for other
6 investments by such fund, and the numerator of which is the total
7 amount of money invested by such fund in Connecticut bioscience
8 businesses;

9 (2) "Connecticut bioscience business" means any business with its
10 principal place of business in Connecticut that is engaged in (A) the
11 manufacture of pharmaceuticals, medicines, medical equipment,
12 medical devices and analytical laboratory instruments, (B) the

13 operation of medical or diagnostic testing laboratories, or (C) the
14 conducting of pure research and development in life sciences;

15 (3) "General partner" means a general partner, as defined in section
16 12-213 of the general statutes; and

17 (4) "Qualified venture capital fund" means a venture capital fund, as
18 defined in 17 CFR 275.203(l)-1, that is established on or after January 1,
19 2018.

20 (b) The maximum annual modification under subparagraph
21 (B)(xxiv) of subdivision (20) of subsection (a) of section 12-701 of the
22 general statutes, as amended by this act, shall be equal to:

23 (1) The amount of income received by a general partner of a
24 qualified venture capital fund from the sale, transfer, exchange or
25 other disposition of any form of such fund's equity interests in a
26 Connecticut bioscience business obtained from investments made by
27 such fund in such business on or after January 1, 2018; plus

28 (2) The amount of income received by a general partner for the
29 management of such fund, except the income described in subdivision
30 (1) of this subsection, multiplied by such fund's bioscience investment
31 ratio on the last day of the taxable year.

32 (c) The Commissioner of Revenue Services shall adopt regulations,
33 in accordance with the provisions of chapter 54 of the general statutes,
34 to implement the provisions of this section.

35 Sec. 2. Subparagraph (B) of subdivision (20) of subsection (a) of
36 section 12-701 of the 2018 supplement to the general statutes is
37 repealed and the following is substituted in lieu thereof (*Effective July*
38 *1, 2018, and applicable to taxable years commencing on or after January 1,*
39 *2018*):

40 (B) There shall be subtracted therefrom (i) to the extent properly
41 includable in gross income for federal income tax purposes, any
42 income with respect to which taxation by any state is prohibited by

43 federal law, (ii) to the extent allowable under section 12-718, exempt
44 dividends paid by a regulated investment company, (iii) the amount of
45 any refund or credit for overpayment of income taxes imposed by this
46 state, or any other state of the United States or a political subdivision
47 thereof, or the District of Columbia, to the extent properly includable
48 in gross income for federal income tax purposes, (iv) to the extent
49 properly includable in gross income for federal income tax purposes
50 and not otherwise subtracted from federal adjusted gross income
51 pursuant to clause (x) of this subparagraph in computing Connecticut
52 adjusted gross income, any tier 1 railroad retirement benefits, (v) to the
53 extent any additional allowance for depreciation under Section 168(k)
54 of the Internal Revenue Code, as provided by Section 101 of the Job
55 Creation and Worker Assistance Act of 2002, for property placed in
56 service after December 31, 2001, but prior to September 10, 2004, was
57 added to federal adjusted gross income pursuant to subparagraph
58 (A)(ix) of this subdivision in computing Connecticut adjusted gross
59 income for a taxable year ending after December 31, 2001, twenty-five
60 per cent of such additional allowance for depreciation in each of the
61 four succeeding taxable years, (vi) to the extent properly includable in
62 gross income for federal income tax purposes, any interest income
63 from obligations issued by or on behalf of the state of Connecticut, any
64 political subdivision thereof, or public instrumentality, state or local
65 authority, district or similar public entity created under the laws of the
66 state of Connecticut, (vii) to the extent properly includable in
67 determining the net gain or loss from the sale or other disposition of
68 capital assets for federal income tax purposes, any gain from the sale
69 or exchange of obligations issued by or on behalf of the state of
70 Connecticut, any political subdivision thereof, or public
71 instrumentality, state or local authority, district or similar public entity
72 created under the laws of the state of Connecticut, in the income year
73 such gain was recognized, (viii) any interest on indebtedness incurred
74 or continued to purchase or carry obligations or securities the interest
75 on which is subject to tax under this chapter but exempt from federal
76 income tax, to the extent that such interest on indebtedness is not
77 deductible in determining federal adjusted gross income and is

78 attributable to a trade or business carried on by such individual, (ix)
79 ordinary and necessary expenses paid or incurred during the taxable
80 year for the production or collection of income which is subject to
81 taxation under this chapter but exempt from federal income tax, or the
82 management, conservation or maintenance of property held for the
83 production of such income, and the amortizable bond premium for the
84 taxable year on any bond the interest on which is subject to tax under
85 this chapter but exempt from federal income tax, to the extent that
86 such expenses and premiums are not deductible in determining federal
87 adjusted gross income and are attributable to a trade or business
88 carried on by such individual, (x) (I) for taxable years commencing
89 prior to January 1, 2019, for a person who files a return under the
90 federal income tax as an unmarried individual whose federal adjusted
91 gross income for such taxable year is less than fifty thousand dollars,
92 or as a married individual filing separately whose federal adjusted
93 gross income for such taxable year is less than fifty thousand dollars,
94 or for a husband and wife who file a return under the federal income
95 tax as married individuals filing jointly whose federal adjusted gross
96 income for such taxable year is less than sixty thousand dollars or a
97 person who files a return under the federal income tax as a head of
98 household whose federal adjusted gross income for such taxable year
99 is less than sixty thousand dollars, an amount equal to the Social
100 Security benefits includable for federal income tax purposes; (II) for
101 taxable years commencing prior to January 1, 2019, for a person who
102 files a return under the federal income tax as an unmarried individual
103 whose federal adjusted gross income for such taxable year is fifty
104 thousand dollars or more, or as a married individual filing separately
105 whose federal adjusted gross income for such taxable year is fifty
106 thousand dollars or more, or for a husband and wife who file a return
107 under the federal income tax as married individuals filing jointly
108 whose federal adjusted gross income from such taxable year is sixty
109 thousand dollars or more or for a person who files a return under the
110 federal income tax as a head of household whose federal adjusted
111 gross income for such taxable year is sixty thousand dollars or more,
112 an amount equal to the difference between the amount of Social

113 Security benefits includable for federal income tax purposes and the
114 lesser of twenty-five per cent of the Social Security benefits received
115 during the taxable year, or twenty-five per cent of the excess described
116 in Section 86(b)(1) of the Internal Revenue Code; (III) for the taxable
117 year commencing January 1, 2019, and each taxable year thereafter, for
118 a person who files a return under the federal income tax as an
119 unmarried individual whose federal adjusted gross income for such
120 taxable year is less than seventy-five thousand dollars, or as a married
121 individual filing separately whose federal adjusted gross income for
122 such taxable year is less than seventy-five thousand dollars, or for a
123 husband and wife who file a return under the federal income tax as
124 married individuals filing jointly whose federal adjusted gross income
125 for such taxable year is less than one hundred thousand dollars or a
126 person who files a return under the federal income tax as a head of
127 household whose federal adjusted gross income for such taxable year
128 is less than one hundred thousand dollars, an amount equal to the
129 Social Security benefits includable for federal income tax purposes;
130 and (IV) for the taxable year commencing January 1, 2019, and each
131 taxable year thereafter, for a person who files a return under the
132 federal income tax as an unmarried individual whose federal adjusted
133 gross income for such taxable year is seventy-five thousand dollars or
134 more, or as a married individual filing separately whose federal
135 adjusted gross income for such taxable year is seventy-five thousand
136 dollars or more, or for a husband and wife who file a return under the
137 federal income tax as married individuals filing jointly whose federal
138 adjusted gross income from such taxable year is one hundred
139 thousand dollars or more or for a person who files a return under the
140 federal income tax as a head of household whose federal adjusted
141 gross income for such taxable year is one hundred thousand dollars or
142 more, an amount equal to the difference between the amount of Social
143 Security benefits includable for federal income tax purposes and the
144 lesser of twenty-five per cent of the Social Security benefits received
145 during the taxable year, or twenty-five per cent of the excess described
146 in Section 86(b)(1) of the Internal Revenue Code, (xi) to the extent
147 properly includable in gross income for federal income tax purposes,

148 any amount rebated to a taxpayer pursuant to section 12-746, (xii) to
149 the extent properly includable in the gross income for federal income
150 tax purposes of a designated beneficiary, any distribution to such
151 beneficiary from any qualified state tuition program, as defined in
152 Section 529(b) of the Internal Revenue Code, established and
153 maintained by this state or any official, agency or instrumentality of
154 the state, (xiii) to the extent allowable under section 12-701a,
155 contributions to accounts established pursuant to any qualified state
156 tuition program, as defined in Section 529(b) of the Internal Revenue
157 Code, established and maintained by this state or any official, agency
158 or instrumentality of the state, (xiv) to the extent properly includable
159 in gross income for federal income tax purposes, the amount of any
160 Holocaust victims' settlement payment received in the taxable year by
161 a Holocaust victim, (xv) to the extent properly includable in gross
162 income for federal income tax purposes of an account holder, as
163 defined in section 31-51ww, interest earned on funds deposited in the
164 individual development account, as defined in section 31-51ww, of
165 such account holder, (xvi) to the extent properly includable in the
166 gross income for federal income tax purposes of a designated
167 beneficiary, as defined in section 3-123aa, interest, dividends or capital
168 gains earned on contributions to accounts established for the
169 designated beneficiary pursuant to the Connecticut Homecare Option
170 Program for the Elderly established by sections 3-123aa to 3-123ff,
171 inclusive, (xvii) to the extent properly includable in gross income for
172 federal income tax purposes, any income received from the United
173 States government as retirement pay for a retired member of (I) the
174 Armed Forces of the United States, as defined in Section 101 of Title 10
175 of the United States Code, or (II) the National Guard, as defined in
176 Section 101 of Title 10 of the United States Code, (xviii) to the extent
177 properly includable in gross income for federal income tax purposes
178 for the taxable year, any income from the discharge of indebtedness in
179 connection with any reacquisition, after December 31, 2008, and before
180 January 1, 2011, of an applicable debt instrument or instruments, as
181 those terms are defined in Section 108 of the Internal Revenue Code, as
182 amended by Section 1231 of the American Recovery and Reinvestment

183 Act of 2009, to the extent any such income was added to federal
184 adjusted gross income pursuant to subparagraph (A)(xi) of this
185 subdivision in computing Connecticut adjusted gross income for a
186 preceding taxable year, (xix) to the extent not deductible in
187 determining federal adjusted gross income, the amount of any
188 contribution to a manufacturing reinvestment account established
189 pursuant to section 32-9zz in the taxable year that such contribution is
190 made, (xx) to the extent properly includable in gross income for federal
191 income tax purposes, (I) for the taxable year commencing January 1,
192 2015, ten per cent of the income received from the state teachers'
193 retirement system, (II) for the taxable years commencing January 1,
194 2016, January 1, 2017, and January 1, 2018, twenty-five per cent of the
195 income received from the state teachers' retirement system, and (III)
196 for the taxable year commencing January 1, 2019, and each taxable year
197 thereafter, fifty per cent of the income received from the state teachers'
198 retirement system or the percentage, if applicable, pursuant to clause
199 (xxi) of this subparagraph, (xxi) to the extent properly includable in
200 gross income for federal income tax purposes, except for retirement
201 benefits under clause (iv) of this subparagraph and retirement pay
202 under clause (xvii) of this subparagraph, for a person who files a
203 return under the federal income tax as an unmarried individual whose
204 federal adjusted gross income for such taxable year is less than
205 seventy-five thousand dollars, or as a married individual filing
206 separately whose federal adjusted gross income for such taxable year is
207 less than seventy-five thousand dollars, or as a head of household
208 whose federal adjusted gross income for such taxable year is less than
209 seventy-five thousand dollars, or for a husband and wife who file a
210 return under the federal income tax as married individuals filing
211 jointly whose federal adjusted gross income for such taxable year is
212 less than one hundred thousand dollars, (I) for the taxable year
213 commencing January 1, 2019, fourteen per cent of any pension or
214 annuity income, (II) for the taxable year commencing January 1, 2020,
215 twenty-eight per cent of any pension or annuity income, (III) for the
216 taxable year commencing January 1, 2021, forty-two per cent of any
217 pension or annuity income, (IV) for the taxable year commencing

218 January 1, 2022, fifty-six per cent of any pension or annuity income, (V)
 219 for the taxable year commencing January 1, 2023, seventy per cent of
 220 any pension or annuity income, (VI) for the taxable year commencing
 221 January 1, 2024, eighty-four per cent of any pension or annuity income,
 222 and (VII) for the taxable year commencing January 1, 2025, any
 223 pension or annuity income, (xxii) the amount of lost wages and
 224 medical, travel and housing expenses, not to exceed ten thousand
 225 dollars in the aggregate, incurred by a taxpayer during the taxable year
 226 in connection with the donation to another person of an organ for
 227 organ transplantation occurring on or after January 1, 2017, [and]
 228 (xxiii) to the extent properly includable in gross income for federal
 229 income tax purposes, the amount of any financial assistance received
 230 from the Crumbling Foundations Assistance Fund or paid to or on
 231 behalf of the owner of a residential building pursuant to sections 8-442
 232 and 8-443, and (xxiv) to the extent allowable under section 1 of this act
 233 and properly includable in gross income for federal income tax
 234 purposes, certain income received by a general partner of a venture
 235 capital fund, as defined in 17 CFR 275.203(l)-1.

This act shall take effect as follows and shall amend the following sections:		
Section 1	July 1, 2018, and applicable to taxable years commencing on or after January 1, 2018	New section
Sec. 2	July 1, 2018, and applicable to taxable years commencing on or after January 1, 2018	12-701(a)(20)(B)

CE Joint Favorable Subst. C/R

FIN

FIN Joint Favorable

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 19 \$	FY 20 \$
Revenue Serv., Dept.	GF - Revenue Loss	Minimal	See Below
Revenue Serv., Dept.	GF - Cost	30,000	None

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill, which establishes a Personal Income Tax deduction for income derived from managing venture capital invested in Connecticut bioscience, is anticipated to result in a minimal revenue loss in FY 19. It also results in a one-time cost of \$30,000 to the Department of Revenue Services in FY 19 associated with updates to the online Taxpayer Service Center and the agency's Integrated Tax Administration System.

The revenue impact in FY 19 and FY 20 is anticipated to be minimal due to the limited nature of the exemption. In order to receive the exemption the income must be from the management of a venture capital fund derived from an investment that meets the following criteria:

1. Bioscience investment;
2. Invested in Connecticut; and
3. Made on or after January 1, 2018.

In addition, the deduction would not apply to any venture capital

investments that are managed outside of Connecticut.

The Out Years

The potential revenue loss associated with this exemption is anticipated to grow annually from FY 21 forward as more investments are made and income associated with management of these investments becomes eligible for the deduction. Based on current venture capital trends this could result in a revenue loss of approximately \$250,000 by FY 2026

Sources: Industry Data Reports

OLR Bill Analysis**sSB 266*****AN ACT CONCERNING INCENTIVES TO ENCOURAGE THE GROWTH OF BIOSCIENCE VENTURE CAPITAL IN CONNECTICUT.*****SUMMARY**

This bill creates a tax deduction for the income generated by investments in eligible Connecticut-based bioscience businesses. The deduction is available only to the general partners of a qualified venture capital fund and equals their share of the investment and management income generated by the fund's eligible investments. The revenue services commissioner must adopt regulations for instituting the deduction.

EFFECTIVE DATE: July 1, 2018 and applicable to taxable years beginning on or after January 1, 2018.

ELIGIBILITY***Investors***

The bill's income tax deduction is available only to the general partners of a fund that was established on or after January 1, 2018 and that qualifies as a venture capital fund under federal regulations (see BACKGROUND).

General Partners

A general partner qualifies for the deduction depending on how the fund is organized. He or she qualifies if the fund is a partnership, limited partnership or a limited liability partnership (LLP) that is treated as a general partnership for federal taxes.

A general partner also includes a member of a limited liability company that is also treated as a partnership for taxes regardless of whether the company is managed by its members or nonmember

managers.

Investments

The deduction applies to income generated by investments only in a bioscience business that:

1. manufactures pharmaceuticals, medicines, medical equipment, medical devices, and analytical laboratory instruments;
2. operates medical or diagnostic testing laboratories;
3. conducts pure research in the life sciences; and
4. whose principal place of business is located in Connecticut.

DEDUCTION

The bill's tax deduction applies only to income from investments the venture capital fund made on or after January 1, 2018. The amount a general partner may deduct equals the income he or she receives:

1. from the fund's sale, transfer, exchange, or other disposition of equity interests in an eligible Connecticut-based bioscience business and
2. for managing the fund.

The latter equals the general partner's share of the management income the fund charged for managing its eligible bioscience investments. The general partner must determine that share by determining the percent of funds the fund invested in Connecticut-based bioscience investments (i.e., bioscience investment ratio) and multiplying it by the general partner's total management income.

For example, assume that the fund's investment portfolio equals \$500 million, \$20 million of which is invested in eligible Connecticut-based bioscience businesses. Also assume that the fund received \$10 million in management fees, which it evenly distributed among its four general partners (\$2.5 million per partner). The total amount of management income a partner can deduct from his or her Connecticut income taxes equals \$100,000: 4% (\$20 million divided by \$500 million) times \$2.5 million. The partner must add that amount to his or her

share of the income from eligible bioscience investments to determine the total amount of the partner’s Connecticut income tax deduction.

BACKGROUND

Venture Capital Fund

The bill’s tax credit is limited to venture capital funds established on or after January 1, 2018 that qualify as a venture capital funds under federal regulations (17 C.F.R. 275.203(I) (1)). Among other things, a fund:

1. must represent to its investors and potential investors that it pursues a venture capital strategy,
2. has invested no more than 20% of its committed capital in other investment funds (or, in other words, has invested at least 80% of its committed capital in privately held companies that actually carry on a business),
3. has incurred debt that does not exceed its total committed capital,
4. allows investors to withdraw capital only in extraordinary circumstances or when capital is redistributed back to them, and
5. is not registered under federal law as an investment company or a business development company.

COMMITTEE ACTION

Commerce Committee

Joint Favorable Substitute Change of Reference - FIN
Yea 17 Nay 3 (03/22/2018)

Finance, Revenue and Bonding Committee

Joint Favorable
Yea 40 Nay 7 (04/05/2018)