



## Acts Affecting Taxes

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## Notice to Readers

This report provides summaries of new laws (Public Acts and Special Acts) affecting taxes enacted during the 2018 regular session. Each summary indicates the Public Act (PA) or Special Act (SA) number. Not all provisions of the acts are included. The report does not include vetoed acts unless the veto was overridden.

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## **Personal and Business Income Taxes**

### ***Asset Expensing Deduction***

A new law requires individuals and corporations, for personal income and corporation business tax purposes respectively, to spread out the federal asset expensing deduction over five years. They must do so for tax years (for personal income tax) or income years (for corporation business tax) beginning on or after January 1, 2018. Under the new law, individuals and corporations (1) must add back 80% of the federal deduction in the first year and (2) may deduct 25% of the disallowed portion of the deduction in each of the four succeeding tax years (i.e., 20% a year for five years) ([PA 18-49](#), §§ 11 & 12, upon passage; the personal income tax provisions are applicable to tax years beginning on or after January 1, 2017).

### ***Bonus Depreciation Deduction***

Beginning with the 2017 tax year, a new law requires individuals receiving income from pass-through businesses (e.g., limited liability partnerships and limited liability corporations) to apportion the federal bonus depreciation deduction over four tax years. For property placed in service after September 27, 2017, the new law requires taxpayers, when calculating their Connecticut adjusted gross income for the state personal income tax, to add back the federal bonus depreciation deduction. But it also allows them to deduct 25% of the disallowed deduction for each of the four succeeding tax years ([PA 18-49](#), § 11, upon passage and applicable to tax years beginning on or after January 1, 2017).

### ***Business Interest Deduction***

The federal Tax Cuts and Jobs Act of 2017 generally limits the amount of business interest a company may deduct from gross income to 30% of its adjusted taxable income. (The limitation generally applies to all taxpayers, except small businesses with average gross receipts of \$25 million or less, adjusted for inflation.) For income years beginning on or after January 1, 2018, a new state law decouples the Connecticut corporation business tax from this federal limitation on interest expenses ([PA 18-49](#), § 13, and [PA 18-169](#), § 41; upon passage and applicable to income years beginning on or after January 1, 2017).

### ***Contributions to a Corporation's Capital from the State or Local Government***

Under federal law, contributions to a corporation's capital are generally excluded from its gross income. However, under the federal Tax Cuts and Jobs Act of 2017, certain contributions made by governmental entities are taxable as of December 22, 2017. A new state law offsets the federal change by establishing a corporation business tax deduction for the amount of any contributions

made by the state of Connecticut or its political subdivisions on or after December 23, 2017, to the extent that such contributions are included in a corporation's gross income under federal law ([PA 18-49](#), § 13, and [PA 18-169](#), § 41; upon passage and applicable to income years beginning on or after January 1, 2017).

### ***“Convenience of the Employer” Test for Nonresident Taxpayers***

Under a new law, residents of states with a “convenience of the employer” test will be subject to similar rules for work done for a Connecticut employer.

By law, people who reside in other states must pay Connecticut income taxes on income they derive from a business, trade, profession, or occupation conducted here. A new law specifies that such income includes income from days the nonresident taxpayer worked outside Connecticut for his or her convenience if the taxpayer's domicile state uses a similar test for allocating income ([PA 18-49](#), § 20, and [PA 18-169](#), § 43; upon passage and applicable to tax years beginning on or after January 1, 2019).

### ***Dividends Received Deduction***

Existing law generally allows corporations to deduct from their gross income the dividends they receive from other corporations in which they have an ownership stake. But the law disallows any deduction for expenses related to those dividends. A new law provides that expenses related to dividends equal 5% of all dividends received by a company during an income year. For multi-state companies or financial service companies, it requires the net income associated with the disallowed expenses to be apportioned according to the existing statutory requirements for doing so ([PA 18-49](#), § 13, and [PA 18-169](#), § 41; upon passage and applicable to income years beginning on or after January 1, 2017).

### ***Income Tax Credit for Taxes Paid to Other Jurisdictions***

Existing law authorizes Connecticut full- and part-time residents to take a credit against their personal income tax for income taxes paid to another U.S. state, political subdivision, or the District of Columbia on income that is also subject to Connecticut income taxes. A new law allows residents to claim this credit for certain payroll taxes paid to other jurisdictions. It does so by providing that, for purposes of calculating the credit, a tax on wages that is paid to another jurisdiction for which a credit is allowed by that jurisdiction must be considered an income tax and resident taxpayers may claim a comparable credit in the form and manner the DRS commissioner prescribes, subject to the credit's existing limitations ([PA 18-49](#), §19, and [PA 18-169](#), § 42; upon passage and applicable to tax years beginning on or after January 1, 2019).

### ***Pass-Through Entity Tax***

A new law imposes an entity-level income tax on most pass-through businesses that is (1) levied at the top personal income tax rate of 6.99% and (2) offset by a state personal or corporation income tax credit for the entity's members ([PA 18-49](#), §§ 1-8, effective upon passage and applicable to taxable years beginning on or after January 1, 2018).

The new tax is designed as a workaround to the new \$10,000 cap on the federal deduction for state and local taxes (SALT). Because entity-level taxes remain deductible at the federal level, pass-through businesses will be able to claim this new state tax as a deductible expense against their federal taxes and pass along the benefit of the deduction to their members.

### ***Pension and Annuity Income Tax Exemption***

A new law makes permanent the personal income tax deduction for pension and annuity income that is currently scheduled to phase in from the 2019 to 2025 tax years, and end after 2025. Under this law, eligible taxpayers may deduct 100% of such income for tax years beginning in 2025, and each tax year thereafter. By law, the deduction applies to taxpayers with federal adjusted gross incomes below (1) \$75,000 for single filers, married people filing separately, and heads of households and (2) \$100,000 for married people filing jointly ([PA 18-26](#), § 27, effective October 1, 2018).

### ***Pension and Annuity Income Withholding***

In 2017, the legislature required income tax withholding by payers that maintain an office or transact business in Connecticut and make distributions of taxable pensions or annuities to Connecticut residents. This session, the legislature enacted a new law (1) modifying the method used to determine the amount of such income tax withholding, (2) prohibiting the revenue services commissioner from assessing interest on taxpayers for underpaying estimated taxes based solely on the payer's failure to comply with the withholding requirements, and (3) making other minor and clarifying changes to the law ([PA 18-26](#), § 7, effective upon passage).

### ***Potentially Abusive Tax Shelter Transactions***

By law, a separate penalty applies to state personal income tax underpayments attributable to a taxpayer's failure to disclose transactions on his or her federal tax return (as required under federal law) that the Internal Revenue Service has determined are potentially abusive tax shelters. The penalty is 75% of the underpayment.

A new law expands the types of transactions subject to this penalty by applying it to “reportable transactions,” rather than “listed transactions.” Under federal law, reportable transactions include listed transactions and other specified transaction types, including confidential and loss transactions ([PA 18-26](#), §§ 5 & 6, effective upon passage).

### ***Volatility Cap Threshold***

By law, the state treasurer must transfer to the Budget Reserve Fund the revenue the state receives each fiscal year in excess of a threshold amount from personal income tax estimated and final payments (i.e., the income tax revenue generated from taxpayers who make estimated income tax payments on a quarterly basis). This threshold, commonly referred to as the “volatility cap,” was previously set at \$3.15 billion. Beginning July 1, 2018, a new law requires the volatility cap threshold to be adjusted annually for personal income growth, based on the compound annual growth rate of state personal income over the preceding five calendar years, using U.S. Bureau of Economic Analysis data.

The new law also authorizes the General Assembly to amend the threshold, by a vote of three-fifths of the members of each house, due to changes in state or federal tax law or policy or significant adjustments to economic growth or tax collections ([PA 18-81](#), § 20, effective May 15, 2018).

## **Property Tax**

### ***Classification of Farm Land under the PA 490 Program***

Under a new law, tax assessors must approve applications to classify as farm land any land that meets the farm land criteria under the PA 490 program, even if the parcel or portion thereof does not meet municipal zoning regulation standards concerning minimum acreage requirements for residential or agricultural parcels. Under the PA 490 program, property classified as farm land must be assessed at its current use value, rather than its fair market value ([PA 18-176](#), effective October 1, 2018, and applicable to assessment years beginning on or after that date).

### ***Exemptions for Veterans with Certain Qualifying Conditions***

A new law extends certain tax exemptions to veterans who (1) were discharged under conditions other than dishonorable or for bad conduct and (2) have a qualifying condition. Under the new law, a “qualifying condition” means a diagnosis of post-traumatic stress disorder or traumatic brain injury made by an individual licensed to provide care at a U.S. Department of Veterans Affairs facility, or a disclosure of a military sexual trauma experience to such a provider.

The new law specifically makes such veterans, and certain surviving spouses and minor children, eligible for the (1) state-mandated wartime property tax exemptions (minimum \$1,500) and (2) veterans' farmer sales tax exemption permit for personal property used exclusively in commercial agricultural production ([PA 18-47](#) §§ 11-14, effective October 1, 2018; the property tax exemptions are applicable to assessment years beginning on or after that date).

### ***Increase in the Optional Municipal Veterans' Property Tax Exemption Income Threshold***

Under a new law, municipalities that provide certain additional optional veterans' property tax exemptions may increase the maximum income limits for eligibility, as long as the income limits are at least the amount the state annually sets for other veterans' property tax exemptions (for 2018, \$35,300 for individuals and \$43,000 for married couples) ([PA 18-102](#), effective October 1, 2018, and applicable to assessment years beginning on or after that date).

### ***Information Provided to Tax Assessors on Out-of-State Registrations***

A new law eliminates a (1) procedure through which municipal tax assessors and the Department of Motor Vehicles commissioner share information on vehicles that are subject to property tax in Connecticut but registered in other states and (2) requirement that municipalities remit 1% of the property tax collected on such vehicles to the Special Transportation Fund ([PA 18-164](#), § 14, effective upon passage).

### ***Motor Vehicle Property Tax Grants***

The legislature made several changes related to the state grants municipalities receive to mitigate a portion of the revenue loss attributed to the motor vehicle mill rate cap. A new law (1) enumerates the grant amounts municipalities and districts will receive in FY 19; (2) changes the formula for the grants beginning in FY 20 to reflect updated municipal motor vehicle mill rates; and (3) eliminates supplemental motor vehicle property tax grants after FY 18 ([PA 18-81](#), §§ 23 & 24, effective July 1, 2018).

### ***Personal Property Tax Exemption for Certain Business Property***

A new law exempts from the property tax certain tangible personal property owned by a business organization. Under the new law, property is exempt if the business has owned it for 10 full assessment years and its original value did not exceed \$250 ([PA 18-79](#), effective October 1, 2018, and applicable to assessment years beginning on or after that date).

### ***Property Tax Exemption for Class I Renewable Energy Sources***

The law generally exempts Class I renewable energy sources (e.g., solar panels) from the property tax if, among other things, they were installed after January 1, 2014, for commercial or industrial purposes and have a generating capacity that does not exceed their location's demand ([CGS § 12-81\(57\)](#)).

A new law may allow more technologies to qualify for this exemption by expanding the Class I definition to include certain (1) heat-powered electric generation systems and (2) run-of-the-river hydropower facilities that receive certain licenses after January 1, 2018 ([PA 18-50](#), §§ 27).

### ***Property Tax Exemption for Paint Machinery and Equipment***

Under a new law, taxpayers claiming a property tax exemption for machinery and equipment used by retailers to color or mix paint for sale in the state must apply for the exemption to local assessors, on a form the assessors prescribe, annually by November 1 ([PA 18-136](#), § 2, effective July 1, 2018).

### ***Property Tax Credit for Donations to Community Supporting Organizations***

A new law allows municipalities to provide a property tax credit to eligible residential property taxpayers who donate to a municipally-approved charitable nonprofit that is organized exclusively to support municipal spending on programs and services (i.e., a “community supporting organization”). The municipality’s legislative body must annually approve the credit and determine its amount, which may not exceed the lesser of the amount of property tax owed or 85% of the taxpayer’s donation ([PA 18-49](#), § 10, effective July 1, 2018).

## **Sales and Use Taxes**

### ***Marketplace Facilitators***

A new law requires “marketplace facilitators” to be considered retailers for the sales they facilitate for sellers on their forum and collect and remit sales tax on those sales. Marketplace facilitators are generally businesses that facilitate the sale of goods and services for sellers by providing a forum that lists or advertises the sellers’ goods and services, collect receipts from customers, and remit payments to sellers ([PA 18-152](#), §§ 3-5, effective December 1, 2018).

## ***Municipal Revenue Sharing Account (MRSA) Diversion***

The budget adjustment act delays, until FY 22, the sales and use tax revenue diversion to MRSA.

The FY 18-19 budget suspended the diversion of sales tax revenue to MRSA for FYs 18 and 19, but retained the corresponding use tax diversion to the account. The acts suspends the use tax diversion for such years, thus aligning the two provisions ([PA 18-81](#), §§ 62-63, effective July 1, 2018, and applicable to sales occurring on or after July 1, 2018).

## ***Nexus for Out-of-State Retailers***

State law requires retailers to collect Connecticut sales tax if they are “engaged in the business” of making retail sales in the state. If a retailer is engaged in business in Connecticut, it is said to have a significant presence (i.e., nexus) here. A new law generally expands the conditions under which certain out-of-state retailers must collect and remit sales tax in Connecticut. It also provides that the definition of “engaged in business in the state” applies to the extent not prohibited by the U.S. Constitution ([PA 18-152](#), §§ 2-3, effective December 1, 2018).

## ***Referrer Notice Requirements***

A new law establishes sales and use tax notice and reporting requirements for referrers (i.e., people and businesses who connect sellers and consumers for a commission or fee). It requires them to:

1. post a notice to customers on their medium (e.g., website) about sales and use tax obligations on Connecticut purchases;
2. beginning July 1, 2019, provide a quarterly notice to sellers to whom they transferred sales during the previous year that, among other things, informs them of the requirement to collect and remit sales and use tax on sales made to Connecticut purchasers; and
3. beginning January 31, 2020, submit an annual report to DRS providing the name and address of each seller who received the quarterly notice in the prior year and each seller that the referrer knows collected and remitted Connecticut sales and use taxes ([PA 18-152](#), § 6, effective December 1, 2018).

## ***Sales and Use Tax on Vessels, Vessel Motors, and Trailers Used to Transport Vessels***

A new law reduces, from 6.35% to 2.99%, the sales and use tax on vessels (i.e., boats), vessel motors, and trailers used for transporting vessels ([PA 18-81](#), §§ 62-63, effective July 1, 2018, and applicable to sales occurring on or after July 1, 2018).

## **Other State Taxes**

### ***Acceleration of Motor Vehicle Sales and Use Tax Diversion***

The budget adjustment act accelerates the diversion of motor vehicle sales and use tax revenue to the Special Transportation Fund. Prior law phased in the diversion in equal increments over five years, beginning in FY 21. Under the act, the diversion starts in FY 19 at 8% and gradually increases to 100% over five years, according to a specified schedule ([PA 18-81](#), §§ 62 & 63, effective July 1, 2018).

### ***Ambulatory Surgical Center (ASC) Tax Exclusion***

Beginning July 1, 2019, a new law (1) excludes from the ASC tax gross receipts from any Medicaid or Medicare payments the ASC receives and (2) specifies that the existing exclusion for the first \$1 million of an ASC's gross receipts excludes Medicaid and Medicare payments ([PA 18-170](#), § 1, effective July 1, 2018).

### ***Dyed Diesel Fuel Used for Marine Purposes***

A new law establishes conditions (1) exempting from the motor vehicle fuels tax dyed diesel fuel sold to marine fuel dock owners or operators exclusively for marine purposes and (2) allowing marine fuel dock owners and operators to purchase and sell such tax-exempt fuel. Federal law exempts diesel fuel used for certain non-highway purposes (including marine purposes) from federal fuel taxes and requires exempt diesel fuel to be dyed red so it can be identified ([PA 18-81](#), §§ 64 & 65, effective July 1, 2018; the exemption is applicable to sales occurring on or after July 1, 2018).

### ***Estate and Gift Tax***

Under prior law, the estate and gift tax threshold was scheduled to increase from \$3.6 million in 2019 to the federal threshold in 2020 and thereafter (i.e., federal basic exclusion amount). Two new laws change this threshold beginning in 2020.

The first, [PA 18-81](#), §§ 66-68, extends the phase-in to the federal threshold by three years to 2023 by setting the gift and estate tax threshold at \$5.1 million for 2020, \$7.1 million for 2021, \$9.1 million for 2022, and the federal basic exclusion amount for 2023 and thereafter. The second, [PA 18-49](#), §§ 14-17, sets the threshold at \$5.49 million for 2020 and thereafter (both acts are effective upon passage).

## ***Rental Machinery Surcharge***

The state imposes a surcharge on certain machinery rentals and requires rental companies to remit the amount of the surcharge collected during the year that exceeds the Connecticut municipal property taxes and Department of Motor Vehicles registration and titling fees they paid on the equipment. A new law increases this surcharge from 1.5% to 2.75% ([PA 18-136](#), § 1, effective July 1, 2018, and applicable to machinery rented on or after that date).

## ***Tobacco Products Tax on Cigars Located in Fulfillment Houses***

A new law exempts from the tobacco products tax cigars that are (1) exported from Connecticut and (2) owned by a distributor located on the premises of a company performing “fulfillment services” for the distributor. Under the law, a company (i.e., a fulfillment house) provides “fulfillment services” when it receives orders from a distributor or its agent, fills them with the distributor's inventory stored on its premises, and ships them to the distributor's customers. Under prior law, distributors paid the tax on such cigars when they were brought into the state and could request a refund from the Department of Revenue Services (DRS) if they were subsequently exported from the state.

The new law also changes the point at which cigars owned by such distributors are subject to the tax if they are shipped, delivered, or transferred to a Connecticut address. It authorizes the DRS commissioner to require the fulfillment company to file a quarterly informational return, containing the information the commissioner prescribes, for the cigars located on the company's premises ([PA 18-25](#), § 10, effective July 1, 2018).

## **Tax Administration and Enforcement**

### ***Civil and Criminal Penalties for Various Cigarette and Tobacco Tax Violations***

A new law increases civil and criminal penalties for various offenses related to cigarette and tobacco products sales. Among other things, it increases, from a class D to a class C felony, the penalties for:

1. repeat violations of the cigarette shipment or transport law;
2. willful attempt to evade cigarette taxes or failing to pay the taxes on 20,000 or more cigarettes;

3. illegal sales of untaxed tobacco products that would be taxed at least \$2,500 and willful attempt to evade tobacco products taxes or failing to pay tobacco product taxes of \$2,500 or more; and
4. willful delivery or disclosure to DRS of fraudulent or false cigarette or tobacco products tax documents.

The new law increases penalties for selling (1) cigarettes or taxed tobacco products without a DRS license, (2) untaxed cigarettes or tobacco products, and (3) improperly packaged cigarettes. It also (1) expands the Corrupt Organizations and Racketeering Act to include willfully attempting to evade cigarette taxes or failing to pay the taxes on 20,000 or more cigarettes and (2) removes from the act possessing, transporting for sale, selling, or offering for sale 20,000 or more cigarettes in certain stamped or illegally stamped packages ([PA 18-25](#), §§ 1-8, effective July 1, 2018).

### ***Electronic Signatures for UCC Filings***

Under a new law, the DRS commissioner may use electronic signatures for any filing authorized under the law concerning liens on personal property for delinquent state taxes (i.e., Uniform Commercial Code (UCC) filings) ([PA 18-26](#), § 1, effective upon passage);

### ***Interest on Probate Fees Related to Estate Tax Returns***

The legislature made changes to various unrelated laws that govern probate court operations. Among other things, it eliminated the interest that accrues on probate fees for failure to timely file an estate tax return, if the probate fee is based on damages recovered from wrongful death ([PA 18-45](#) § 3, effective October 1, 2018).

By law, unless extended for reasonable cause by the DRS commissioner, a decedent's estate tax return must be filed within six months after the decedent's death, and any taxes due must be paid without assessment or notice by that date ([CGS § 45a-107](#)).

### ***Insurance Premiums Tax Return Errors***

Under a new law, the DRS commissioner is no longer required to notify the comptroller of any errors in insurance premiums tax returns that are disclosed during his examination of the returns ([PA 18-26](#), § 3, effective upon passage).

## ***Lottery Prize Tax Offsets***

A new law decreases, from \$5,000 to \$2,000, the value of lottery prize claims above which the Connecticut Lottery Corporation (CLC) must deduct and withhold delinquent taxes. By law, the tax offset requirement applies only to lottery prizes submitted at CLC's central office ([PA 18-152](#), § 1, effective July 1, 2018).

## ***Succession Tax Filings***

By law, the succession tax applies only to the estates of decedents who died before January 1, 2005. A new law limits the filing requirements for the tax to the estates of decedents who died on or before January 1, 2005, that filed a succession tax return or were assessed succession tax before October 1, 2018 ([PA 18-26](#), § 4, effective upon passage).

## **Tax Credits and Incentives**

### ***Eliminated Tax Credits***

The legislature eliminated two underused corporation business tax credit programs. It closed, on or after July 1, 2018, new applications for the 10-year credit for developing or acquiring facilities in enterprise zones and other designated areas (but still allows business awarded credits before that date to claim until the end of the 10-year period). It also eliminated the credit for establishing new business zones ([PA 18-145](#), effective on or before January 1, 2018, for designated areas facilities' acquisition or development credits and July 1, 2018, for the enterprise zone new business establishment credit).

### ***Green Building Tax Credits***

In 2017, the legislature eliminated the Green Building tax credit program beginning December 1, 2017. A new law clarifies that taxpayers issued a Green Building tax credit prior to December 1, 2017, may claim the credits ([PA 18-26](#), § 2, effective upon passage).

### ***Income Tax Deduction for Bioscience Investments***

To increase the flow of venture capital dollars to Connecticut's young bioscience businesses, a new law allows a venture capital fund's general partners to deduct from their personal taxes the income they receive from investments in eligible Connecticut-based bioscience businesses, including pharmaceutical manufacturers, medical or diagnostic testing laboratories, and life science research and development firms ([PA 18-147](#), effective July 1, 2018, and applicable to taxable years beginning on or after January 1, 2018).

## ***Local Option Property Tax Exemption Extended to Brownfield Prospective Purchasers***

The law authorizes several types of property tax incentives municipalities may offer to clean up brownfields and restore them to the tax rolls. A new law allows municipalities to offer the property tax abatement to people and entities that propose to acquire and remediate brownfields (i.e., prospective purchasers), not just their current owners. It also expands the range of state programs under which brownfield owners and prospective owners must remediate a brownfield to receive abatements or the other types of property tax incentives the law authorizes ([PA 18-85](#), effective October 1, 2018).

## ***Stranded Tax Credit Program Expanded***

The legislature added a new component to the program that allows business taxpayers to redeem some or all of the value of research and development tax credits they earned but cannot use in exchange for making certain capital improvements or investments. Instead of redeeming the unusable credits in exchange for the improvements and investments, the new component allows taxpayers to sell, assign, or otherwise transfer them to another taxpayer, who may only exchange them under the program ([PA 18-178](#), § 50, effective July 1, 2018).

## **Tax Studies**

### ***Efficiency Improvements in Revenue Collection and State Agency Expense Management***

A new law requires the Office of Policy and Management secretary, by July 1, 2018, to develop and issue a request for proposals for a national consultant to study and make recommendations on improving efficiencies in collecting revenue and managing state agency expenses. By February 1, 2019, the consultant must report its findings and recommendations to the Appropriations and Finance, Revenue and Bonding committees ([PA 18-81](#), § 57, effective upon passage).

### ***Panel to Study the Commission on Fiscal Stability and Economic Growth's Recommendations***

In 2017, the legislature established a 14-member Commission on Fiscal Stability and Economic Growth to develop and recommend policies to achieve state government fiscal stability and promote economic growth and competitiveness within the state. The commission issued its numerous recommendations in March 2018.

A new law establishes a 7-member panel to study the commission's proposals concerning the rebalancing of state taxes to better stimulate economic growth without raising net new taxes. The law requires the panel's study to (1) include a review of options for expanding municipal revenue sources and methods to broaden the sales and use tax base and (2) consider the work of the commission and the 2015 State Tax Panel ([PA 18-81](#), § 56, effective upon passage).

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