Written Testimony
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Opposition – HB 7410 section 26 & 27, An Act Concerning Certain Tax Recommendations of the Commission on Fiscal Stability and Economic Growth and Establishing a Stem Scholarship Program

Finance Revenue & Bonding Committee
Wednesday, April 10, 2019

Senator Fonfara, Representative Rojas, Senator Witkos, Representative Davis and the members of the Finance Revenue & Bonding Committee, thank you for the opportunity to submit testimony in opposition of HB 7410, Section 26 & 27 regarding the amount of tax credits that may be utilized to offset taxes imposed by Chapter 212 and 227 of the Connecticut Statutes.

My name is William Claffey, I am a tax partner at Fiondella, Milone and LaSaracina in Glastonbury, CT and I am submitting this testimony to lend support to the rehabilitation industry (developers, contractors, architects, subcontractors, engineers, historians, etc.) as they will ultimately feel the impact of this legislation. While the intent of the HB 7410 seems clear, to increase Connecticut’s tax revenues by decreasing the tax credits utility companies and insurance carriers can use to offset their tax liabilities, the unintended consequences of the bill will be the crippling and destruction of the rehabilitation business and one of Connecticut’s greatest assets (its beautiful historic structures) will lay dormant, abandoned and blighted or will be knocked down. With the passage of HB 7410 Sections 26 & 27, the rehabilitation of Connecticut historic structures will significantly decrease or may even cease.

Rehabilitation of a historic structure is a complex and expensive process; the Connecticut historic tax credit program provides a necessary incentive to developers to make these projects feasible. This program only works if developers are able to secure attractive pricing deals with reliable buyers of the tax credits. Without either, these projects can’t work.

Utility companies and insurance carriers are known in the market as reliable buyers of the rehabilitation tax credit and offer price points that make rehab projects economically feasible. The money they invest in tax credits provide the necessary economic bridge to cover the incremental expense of rehabbing a buildings instead of destroying and putting up a cookie cutter strip mall. Limiting what buyers can invest in tax credits will only serve to bring uncertainty to the rehabilitation industry. It will force the diversification of the tax credit purchasers within Connecticut. This means that brokers will become a necessary element within the process which will ultimately reduce the purchase prices of such credits, putting the money in the hands of brokers instead going towards necessary materials and labor to complete projects. In the end, Connecticut will receive $0 in increased revenue while developers and ultimately the rehab projects will pay the price. Or, rehab projects will discontinue because the pricing offered on tax credits will not work within the economic budget.

Further, if such projects are ground to a halt, Connecticut will lose significant economic returns from such projects. A $10m project (generating $2m in tax credits) will provide the following estimated returns before the tax credits are even approved:
Sales tax revenue – estimated $400k

Individual income tax – estimated $650k

100+ jobs during the construction period

Boost to local economy from increased presence by contractors, architects, etc.

Following construction, the returns to the State continue through the life cycle of the building:

- Income tax revenues from the property
- Sales tax revenues from the previously abandoned property (especially if a hotel)
- Increased property tax revenues
- Creation of permanent jobs at the rehabilitated site – increase to income tax revenues from newly created jobs.

Over time, the beneficial impact to the state will significantly outweigh the initial tax credit offered to make the project feasible.

We realize that HB 7410 is similar to the 2016 enactment of CT Gen. Stat. 12-217zz(a)(2) limiting the tax credits C Corporations can utilize to offset their corporate income tax liability. That legislation was (and is) heavily opposed in the business community and unfortunately just another example, in many business owners’ minds, that Connecticut is not business friendly. While bordering states Massachusetts and New York are expanding their tax credit programs to attract investment in their states, Connecticut is shrinking its most attractive tax credit programs.

The key difference, however, is that while 12-217zz(a)(2) typically impacts the credit generating company as they are generally the claimers of such credits, the impact of HB 7410 will be felt by the rehabilitation business and not necessarily by the utility companies and insurance carriers.

In closing, I respectfully ask that the legislature refrain from passing HB 7410 Sections 26 & 27. It will ultimately destroy an industry and Connecticut will not benefit financially. Further, Connecticut will be left with abandoned and blighted buildings, instead of rehabilitated and vibrant buildings that bridge our past and our future.

Thank you for this opportunity to offer this testimony, I would be glad to answer any questions.