OLR Bill Analysis
sSB 1136

AN ACT ESTABLISHING A CREDIT AGAINST THE ESTATE TAX AND REQUIRING RECOMMENDATIONS FOR THE ESTABLISHMENT OF A SOCIAL IMPACT BONDING PROGRAM.

SUMMARY

This bill establishes an estate tax credit for investments made in (1) social impact bonds authorized under a program established by the Department of Economic and Community Development (DECD) pursuant to a general statute or public act that empowers the commissioner to create such program; (2) a venture capital fund established by Connecticut Innovations (CI) under its program to incentivize new venture capital fund formation (see BACKGROUND); or (3) both. The credit applies to estates of decedents who die on or after January 1, 2020, and equals 200% of the amount the decedent invested in such bonds or funds. To be eligible for the credit, the amount invested must have been invested for at least five years at the time of the decedent’s death.

The bill also (1) repeals an existing estate tax reduction for investments made through CI’s investment program for state residents and (2) requires DECD to develop legislative recommendations for a social impact bond program.

EFFECTIVE DATE: Upon passage

EXISTING ESTATE TAX CREDIT REPEAL

The bill correspondingly repeals the current estate tax reduction for decedents that made qualifying investments through CI’s investment program for state residents (see BACKGROUND), which applies to estates of decedents who die on or after January 1, 2021. Decedents qualify for the deduction for amounts they invested for at least 10 years in a private investment fund or “fund of funds” through the CI
program. The reduction is equal to 50% of the eligible investment, up to $5 million per decedent and $30 million total.

SOCIAL IMPACT BONDS

By January 17, 2020, the bill requires DECD to submit, to the Finance, Revenue and Bonding Committee, legislative recommendations for establishing a DECD-administered social impact bonding program targeted at distressed municipalities and their residents (see BACKGROUND).

The recommendations must include:

1. criteria for eligible services and service providers under the program, including those that seek to reduce recidivism, improve student performance, provide or improve early childhood education, promote economic development or affordable housing, or increase home ownership rates or property values within a defined area;

2. the program’s structure, including the duties and responsibilities of the parties contracting with DECD or other entities under the program to issue bonds or provide services; and

3. parameters and requirements for (a) investments, return on investments, and other related payments made or received under the program and (b) using any investments, returns, or payments.

BACKGROUND

CI Program to Incentivize the Formation of New Venture Capital Funds

Existing law authorizes CI’s CEO to encourage the formation of at least one new venture capital fund in Connecticut and allows him to invest up to $10 million per fund if the fund’s private investors invest an amount that equals at least 150% of CI’s investment (CGS § 32-41oo).

To receive a CI investment, a venture capital fund must: (1) invest
all of the CI dollars in Connecticut-based startup and growth stage companies; (2) require its investors or its managing venture capital firm to have an office in Connecticut; and (3) allow, no sooner than five years after a fund’s establishment, its partners to buy CI’s equity stake plus interest at an annual rate agreed to by the fund’s partners and CI’s CEO.

**CI’s Investment Program for State Residents**

Existing state law authorizes CI to create a program to solicit investments from state residents and invest the funding they receive into a private investment fund as the law allows. CI must invest these funds in venture capital firms with offices in Connecticut (CGS § 32-39 (43)).

**Social Impact Bonds**

Social impact bonds are not debt instruments, but rather a funding mechanism for social programs. Under a social impact bond, a government contracts with a private sector organization (an “intermediary”) to obtain social services. The intermediary raises capital from investors to pay for the services, contracts with nonprofit service providers to deliver them, and conducts ongoing program management during its implementation. The government pays the intermediary only if the program achieves predetermined performance outcomes. If it fails to achieve these outcomes, the government does not pay.

**Distressed Municipalities**

DECD annually ranks municipalities based on their relative economic and fiscal distress and designates the top 25 as “distressed municipalities.” State agencies use the designation as a criterion for awarding state assistance. It also includes the portion of any municipality that is eligible for designation as an enterprise zone (CGS § 32-9p).

In 2018, the commissioner designated the following municipalities as distressed: Ansonia, Bridgeport, Bristol, Chaplin, Derby, East Hartford, East Haven, Enfield, Griswold, Hartford, Meriden,

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 40  Nay 10  (05/01/2019)