



Senate

General Assembly

File No. 608

February Session, 2022

Substitute Senate Bill No. 11

Senate, April 25, 2022

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

AN ACT MAKING ADJUSTMENTS TO STATE REVENUE AND CONCERNING CAPTIVE INSURANCE COMPANIES.

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

1 Section 1. Subsection (b) of section 12-704c of the 2022 supplement to
2 the general statutes is repealed and the following is substituted in lieu
3 thereof (*Effective from passage*):

4 (b) (1) The credit allowed under this section shall not exceed (A) for
5 taxable years commencing on or after January 1, 2011, but prior to
6 January 1, 2016, three hundred dollars; [and] (B) for taxable years
7 commencing on or after January 1, 2016, but prior to January 1, 2022,
8 two hundred dollars; and (C) for taxable years commencing on or after
9 January 1, 2022, three hundred dollars. In the case of any husband and
10 wife who file a return under the federal income tax for such taxable year
11 as married individuals filing a joint return, the credit allowed, in the
12 aggregate, shall not exceed such amount for each such taxable year.

13 (2) Notwithstanding the provisions of subsection (a) of this section,
14 for the taxable years commencing January 1, 2017, to January 1, [2022]
15 2021, inclusive, the credit under this section shall be allowed only for a
16 resident of this state (A) who has attained age sixty-five before the close
17 of the applicable taxable year, or (B) who files a return under the federal
18 income tax for the applicable taxable year validly claiming one or more
19 dependents.

20 Sec. 2. Subparagraph (B) of subdivision (20) of subsection (a) of
21 section 12-701 of the 2022 supplement to the general statutes is repealed
22 and the following is substituted in lieu thereof (*Effective from passage*):

23 (B) There shall be subtracted therefrom:

24 (i) To the extent properly includable in gross income for federal
25 income tax purposes, any income with respect to which taxation by any
26 state is prohibited by federal law;

27 (ii) To the extent allowable under section 12-718, exempt dividends
28 paid by a regulated investment company;

29 (iii) To the extent properly includable in gross income for federal
30 income tax purposes, the amount of any refund or credit for
31 overpayment of income taxes imposed by this state, or any other state
32 of the United States or a political subdivision thereof, or the District of
33 Columbia;

34 (iv) To the extent properly includable in gross income for federal
35 income tax purposes and not otherwise subtracted from federal
36 adjusted gross income pursuant to clause (x) of this subparagraph in
37 computing Connecticut adjusted gross income, any tier 1 railroad
38 retirement benefits;

39 (v) To the extent any additional allowance for depreciation under
40 Section 168(k) of the Internal Revenue Code for property placed in
41 service after September 27, 2017, was added to federal adjusted gross
42 income pursuant to subparagraph (A)(ix) of this subdivision in
43 computing Connecticut adjusted gross income, twenty-five per cent of

44 such additional allowance for depreciation in each of the four
45 succeeding taxable years;

46 (vi) To the extent properly includable in gross income for federal
47 income tax purposes, any interest income from obligations issued by or
48 on behalf of the state of Connecticut, any political subdivision thereof,
49 or public instrumentality, state or local authority, district or similar
50 public entity created under the laws of the state of Connecticut;

51 (vii) To the extent properly includable in determining the net gain or
52 loss from the sale or other disposition of capital assets for federal income
53 tax purposes, any gain from the sale or exchange of obligations issued
54 by or on behalf of the state of Connecticut, any political subdivision
55 thereof, or public instrumentality, state or local authority, district or
56 similar public entity created under the laws of the state of Connecticut,
57 in the income year such gain was recognized;

58 (viii) Any interest on indebtedness incurred or continued to purchase
59 or carry obligations or securities the interest on which is subject to tax
60 under this chapter but exempt from federal income tax, to the extent that
61 such interest on indebtedness is not deductible in determining federal
62 adjusted gross income and is attributable to a trade or business carried
63 on by such individual;

64 (ix) Ordinary and necessary expenses paid or incurred during the
65 taxable year for the production or collection of income which is subject
66 to taxation under this chapter but exempt from federal income tax, or
67 the management, conservation or maintenance of property held for the
68 production of such income, and the amortizable bond premium for the
69 taxable year on any bond the interest on which is subject to tax under
70 this chapter but exempt from federal income tax, to the extent that such
71 expenses and premiums are not deductible in determining federal
72 adjusted gross income and are attributable to a trade or business carried
73 on by such individual;

74 (x) (I) For taxable years commencing prior to January 1, 2019, for a
75 person who files a return under the federal income tax as an unmarried

76 individual whose federal adjusted gross income for such taxable year is
77 less than fifty thousand dollars, or as a married individual filing
78 separately whose federal adjusted gross income for such taxable year is
79 less than fifty thousand dollars, or for a husband and wife who file a
80 return under the federal income tax as married individuals filing jointly
81 whose federal adjusted gross income for such taxable year is less than
82 sixty thousand dollars or a person who files a return under the federal
83 income tax as a head of household whose federal adjusted gross income
84 for such taxable year is less than sixty thousand dollars, an amount
85 equal to the Social Security benefits includable for federal income tax
86 purposes;

87 (II) For taxable years commencing prior to January 1, 2019, for a
88 person who files a return under the federal income tax as an unmarried
89 individual whose federal adjusted gross income for such taxable year is
90 fifty thousand dollars or more, or as a married individual filing
91 separately whose federal adjusted gross income for such taxable year is
92 fifty thousand dollars or more, or for a husband and wife who file a
93 return under the federal income tax as married individuals filing jointly
94 whose federal adjusted gross income from such taxable year is sixty
95 thousand dollars or more or for a person who files a return under the
96 federal income tax as a head of household whose federal adjusted gross
97 income for such taxable year is sixty thousand dollars or more, an
98 amount equal to the difference between the amount of Social Security
99 benefits includable for federal income tax purposes and the lesser of
100 twenty-five per cent of the Social Security benefits received during the
101 taxable year, or twenty-five per cent of the excess described in Section
102 86(b)(1) of the Internal Revenue Code;

103 (III) For the taxable year commencing January 1, 2019, and each
104 taxable year thereafter, for a person who files a return under the federal
105 income tax as an unmarried individual whose federal adjusted gross
106 income for such taxable year is less than seventy-five thousand dollars,
107 or as a married individual filing separately whose federal adjusted gross
108 income for such taxable year is less than seventy-five thousand dollars,
109 or for a husband and wife who file a return under the federal income tax

110 as married individuals filing jointly whose federal adjusted gross
111 income for such taxable year is less than one hundred thousand dollars
112 or a person who files a return under the federal income tax as a head of
113 household whose federal adjusted gross income for such taxable year is
114 less than one hundred thousand dollars, an amount equal to the Social
115 Security benefits includable for federal income tax purposes; and

116 (IV) For the taxable year commencing January 1, 2019, and each
117 taxable year thereafter, for a person who files a return under the federal
118 income tax as an unmarried individual whose federal adjusted gross
119 income for such taxable year is seventy-five thousand dollars or more,
120 or as a married individual filing separately whose federal adjusted gross
121 income for such taxable year is seventy-five thousand dollars or more,
122 or for a husband and wife who file a return under the federal income tax
123 as married individuals filing jointly whose federal adjusted gross
124 income from such taxable year is one hundred thousand dollars or more
125 or for a person who files a return under the federal income tax as a head
126 of household whose federal adjusted gross income for such taxable year
127 is one hundred thousand dollars or more, an amount equal to the
128 difference between the amount of Social Security benefits includable for
129 federal income tax purposes and the lesser of twenty-five per cent of the
130 Social Security benefits received during the taxable year, or twenty-five
131 per cent of the excess described in Section 86(b)(1) of the Internal
132 Revenue Code;

133 (xi) To the extent properly includable in gross income for federal
134 income tax purposes, any amount rebated to a taxpayer pursuant to
135 section 12-746;

136 (xii) To the extent properly includable in the gross income for federal
137 income tax purposes of a designated beneficiary, any distribution to
138 such beneficiary from any qualified state tuition program, as defined in
139 Section 529(b) of the Internal Revenue Code, established and
140 maintained by this state or any official, agency or instrumentality of the
141 state;

142 (xiii) To the extent allowable under section 12-701a, contributions to

143 accounts established pursuant to any qualified state tuition program, as
144 defined in Section 529(b) of the Internal Revenue Code, established and
145 maintained by this state or any official, agency or instrumentality of the
146 state;

147 (xiv) To the extent properly includable in gross income for federal
148 income tax purposes, the amount of any Holocaust victims' settlement
149 payment received in the taxable year by a Holocaust victim;

150 (xv) To the extent properly includable in gross income for federal
151 income tax purposes of an account holder, as defined in section 31-
152 51ww, interest earned on funds deposited in the individual
153 development account, as defined in section 31-51ww, of such account
154 holder;

155 (xvi) To the extent properly includable in the gross income for federal
156 income tax purposes of a designated beneficiary, as defined in section
157 3-123aa, interest, dividends or capital gains earned on contributions to
158 accounts established for the designated beneficiary pursuant to the
159 Connecticut Homecare Option Program for the Elderly established by
160 sections 3-123aa to 3-123ff, inclusive;

161 (xvii) To the extent properly includable in gross income for federal
162 income tax purposes, any income received from the United States
163 government as retirement pay for a retired member of (I) the Armed
164 Forces of the United States, as defined in Section 101 of Title 10 of the
165 United States Code, or (II) the National Guard, as defined in Section 101
166 of Title 10 of the United States Code;

167 (xviii) To the extent properly includable in gross income for federal
168 income tax purposes for the taxable year, any income from the discharge
169 of indebtedness in connection with any reacquisition, after December
170 31, 2008, and before January 1, 2011, of an applicable debt instrument or
171 instruments, as those terms are defined in Section 108 of the Internal
172 Revenue Code, as amended by Section 1231 of the American Recovery
173 and Reinvestment Act of 2009, to the extent any such income was added
174 to federal adjusted gross income pursuant to subparagraph (A)(xi) of

175 this subdivision in computing Connecticut adjusted gross income for a
176 preceding taxable year;

177 (xix) To the extent not deductible in determining federal adjusted
178 gross income, the amount of any contribution to a manufacturing
179 reinvestment account established pursuant to section 32-9zz in the
180 taxable year that such contribution is made;

181 (xx) To the extent properly includable in gross income for federal
182 income tax purposes, (I) for the taxable year commencing January 1,
183 2015, ten per cent of the income received from the state teachers'
184 retirement system, (II) for the taxable years commencing January 1,
185 2016, to January 1, 2020, inclusive, twenty-five per cent of the income
186 received from the state teachers' retirement system, and (III) for the
187 taxable year commencing January 1, 2021, and each taxable year
188 thereafter, fifty per cent of the income received from the state teachers'
189 retirement system or, for a taxpayer whose federal adjusted gross
190 income does not exceed the applicable threshold under clause (xxi) of
191 this subparagraph, the percentage pursuant to said clause of the income
192 received from the state teachers' retirement system, whichever
193 deduction is greater;

194 (xxi) To the extent properly includable in gross income for federal
195 income tax purposes, except for retirement benefits under clause (iv) of
196 this subparagraph and retirement pay under clause (xvii) of this
197 subparagraph, for a person who files a return under the federal income
198 tax as an unmarried individual whose federal adjusted gross income for
199 such taxable year is less than seventy-five thousand dollars, or as a
200 married individual filing separately whose federal adjusted gross
201 income for such taxable year is less than seventy-five thousand dollars,
202 or as a head of household whose federal adjusted gross income for such
203 taxable year is less than seventy-five thousand dollars, or for a husband
204 and wife who file a return under the federal income tax as married
205 individuals filing jointly whose federal adjusted gross income for such
206 taxable year is less than one hundred thousand dollars, (I) for the taxable
207 year commencing January 1, 2019, fourteen per cent of any pension or

208 annuity income, (II) for the taxable year commencing January 1, 2020,
209 twenty-eight per cent of any pension or annuity income, (III) for the
210 taxable year commencing January 1, 2021, forty-two per cent of any
211 pension or annuity income, and (IV) for the taxable year commencing
212 January 1, 2022, [fifty-six per cent of any pension or annuity income, (V)
213 for the taxable year commencing January 1, 2023, seventy per cent of any
214 pension or annuity income, (VI) for the taxable year commencing
215 January 1, 2024, eighty-four per cent of any pension or annuity income,
216 and (VII) for the taxable year commencing January 1, 2025,] and each
217 taxable year thereafter, one hundred per cent of any pension or annuity
218 income;

219 (xxii) The amount of lost wages and medical, travel and housing
220 expenses, not to exceed ten thousand dollars in the aggregate, incurred
221 by a taxpayer during the taxable year in connection with the donation
222 to another person of an organ for organ transplantation occurring on or
223 after January 1, 2017;

224 (xxiii) To the extent properly includable in gross income for federal
225 income tax purposes, the amount of any financial assistance received
226 from the Crumbling Foundations Assistance Fund or paid to or on
227 behalf of the owner of a residential building pursuant to sections 8-442
228 and 8-443;

229 (xxiv) To the extent properly includable in gross income for federal
230 income tax purposes, the amount calculated pursuant to subsection (b)
231 of section 12-704g for income received by a general partner of a venture
232 capital fund, as defined in 17 CFR 275.203(l)-1, as amended from time to
233 time;

234 (xxv) To the extent any portion of a deduction under Section 179 of
235 the Internal Revenue Code was added to federal adjusted gross income
236 pursuant to subparagraph (A)(xiv) of this subdivision in computing
237 Connecticut adjusted gross income, twenty-five per cent of such
238 disallowed portion of the deduction in each of the four succeeding
239 taxable years; [and]

240 (xxvi) To the extent properly includable in gross income for federal
241 income tax purposes, for a person who files a return under the federal
242 income tax as an unmarried individual whose federal adjusted gross
243 income for such taxable year is less than seventy-five thousand dollars,
244 or as a married individual filing separately whose federal adjusted gross
245 income for such taxable year is less than seventy-five thousand dollars,
246 or as a head of household whose federal adjusted gross income for such
247 taxable year is less than seventy-five thousand dollars, or for a husband
248 and wife who file a return under the federal income tax as married
249 individuals filing jointly whose federal adjusted gross income for such
250 taxable year is less than one hundred thousand dollars, (I) for the taxable
251 year commencing January 1, 2023, twenty-five per cent of any
252 distribution from an individual retirement account other than a Roth
253 individual retirement account, (II) for the taxable year commencing
254 January 1, 2024, fifty per cent of any distribution from an individual
255 retirement account other than a Roth individual retirement account, (III)
256 for the taxable year commencing January 1, 2025, seventy-five per cent
257 of any distribution from an individual retirement account other than a
258 Roth individual retirement account, and (IV) for the taxable year
259 commencing January 1, 2026, and each taxable year thereafter, any
260 distribution from an individual retirement account other than a Roth
261 individual retirement account; and

262 (xxvii) To the extent properly includable in gross income for federal
263 income tax purposes, for the taxable year commencing January 1, 2022,
264 the amount or amounts paid or otherwise credited to any eligible
265 resident of this state under (I) the 2020 Earned Income Tax Credit
266 enhancement program from funding allocated to the state through the
267 Coronavirus Relief Fund established under the Coronavirus Aid, Relief,
268 and Economic Security Act, P.L. 116-136, and (II) the 2021 Earned
269 Income Tax Credit enhancement program from funding allocated to the
270 state pursuant to Section 9901 of Subtitle M of Title IX of the American
271 Rescue Plan Act of 2021, P.L. 117-2.

272 Sec. 3. Section 12-217qq of the general statutes is repealed and the
273 following is substituted in lieu thereof (*Effective from passage and*

274 *applicable to calendar and income years commencing on or after January 1,*
275 *2022):*

276 (a) As used in this section:

277 (1) "Authority" means the Connecticut Higher Education
278 Supplemental Loan Authority;

279 (2) "Commissioner" means the Commissioner of Revenue Services;

280 ~~[(2)]~~ (3) "Eligible education loan" means [a loan issued by the
281 authority to an individual to refinance one or more student loans] an
282 authority loan, as defined in section 10a-223, that is in repayment;

283 ~~[(3)]~~ (4) "Full-time" means required to work at least thirty-five hours
284 per week;

285 ~~[(4)]~~ (5) "Qualified employee" means an individual who (A) is a
286 resident of the state, (B) has earned his or her first bachelor's degree from
287 an institution of higher education in the immediately preceding five-
288 year period, (C) is employed full-time in the state by a qualified
289 employer, (D) is not an owner, member or partner of such qualified
290 employer or a family member of an owner, member or partner of such
291 qualified employer, and (E) has received an eligible education loan;

292 ~~[(5)]~~ (6) "Qualified employer" means a corporation licensed to operate
293 a business in the state that is subject to tax under this chapter or chapter
294 207; and

295 ~~[(6)]~~ "Student loan" means any loan in repayment that was issued by
296 (A) the authority, or (B) any other private or governmental lender to
297 finance attendance at an institution of higher education]

298 (7) "Qualified small business" means a qualified employer that has
299 gross receipts of not more than five million dollars for the calendar or
300 income year, as applicable, for which a credit under this section is
301 allowed.

302 (b) (1) For calendar or income years commencing on and after January

303 1, 2022, each qualified employer that employs a qualified employee and
304 makes a payment directly to the authority on behalf of such qualified
305 employee on an eligible education loan [on behalf of such qualified
306 employee] that was used to finance the qualified employee's attendance
307 at an institution of higher education may claim a credit against the tax
308 imposed under this chapter or chapter 207. Such credit shall be granted
309 in an amount equal to fifty per cent of the amount of payments made to
310 the outstanding principal balance of such loans by the qualified
311 employer during the calendar or income year, provided (A) the credit
312 shall not be allowed against the tax imposed under this chapter and
313 chapter 207 for the same loan payment, and (B) the amount of credit
314 allowed for any calendar or income year with respect to a specific
315 qualified employee shall not exceed two thousand six hundred twenty-
316 five dollars.

317 (2) A qualified employer may claim the credit under subdivision (1)
318 of this subsection for a payment made during the part of the calendar or
319 income year the qualified employee worked and resided in the state,
320 provided a qualified employee who worked and resided in the state for
321 any part of a month shall be deemed to have worked and resided in the
322 state for the entire month for purposes of this section.

323 (c) A qualified employer that claims the credit under subsection (b)
324 of this section shall provide any documentation required by the
325 [Commissioner of Revenue Services] commissioner in a form and
326 manner prescribed by the commissioner.

327 (d) (1) A qualified small business may apply to the commissioner in
328 accordance with the provisions of subdivision (2) of this subsection to
329 exchange any credit allowed under subsection (b) of this section for a
330 credit refund equal to the value of the credit. Any amount of credit
331 refunded under this subsection shall be refunded to the qualified small
332 business in accordance with the provisions of this chapter or chapter
333 207, as applicable. No interest shall be allowed or paid on any amount
334 of credit refunded under this subsection. Any amount of credit refunded
335 under this subsection shall be subject to the provisions of section 12-39h.

336 (2) Each application for a credit refund under this subsection shall be
337 filed, on such forms and containing such information as prescribed by
338 the commissioner, on or before the original due date of the return
339 prescribed under section 12-205 or 12-222, as applicable, for the calendar
340 or income year for which such credit was earned or, if applicable, the
341 extended due date of such year's return. No application for a credit
342 refund under this subsection may be filed after the due date or extended
343 due date, as the case may be, of such return.

344 Sec. 4. Section 453 of public act 21-2 of the June special session is
345 repealed and the following is substituted in lieu thereof (*Effective from*
346 *passage*):

347 The Comptroller shall transfer to the General Fund from funds
348 allocated, in accordance with the provisions of special act 21-1, from the
349 federal funds designated for the state pursuant to the provisions of
350 Section 604 of Subtitle M of Title IX of the American Rescue Plan Act of
351 2021, P.L. 117-2, as amended from time to time, [(1) Five hundred fifty-
352 nine million nine hundred thousand dollars, for the fiscal year ending
353 June 30, 2022; and (2) one billion one hundred ninety-four] nine hundred
354 forty-four million nine hundred thousand dollars for the fiscal year
355 ending June 30, 2023.

356 Sec. 5. (*Effective from passage*) The Comptroller shall reserve eighty-
357 three million two hundred thousand dollars of General Fund revenue
358 received from the federal government during the fiscal year ending June
359 30, 2022, pursuant to Section 9817 of the American Rescue Plan Act of
360 2021, P.L. 117-2, for federal revenue collections during the fiscal year
361 ending June 30, 2023.

362 Sec. 6. Section 38a-91aa of the general statutes is repealed and the
363 following is substituted in lieu thereof (*Effective July 1, 2022*):

364 As used in [sections 38a-91aa to 38a-91tt] this section, sections 38a-
365 91bb to 38a-91uu, inclusive, as amended by this act, and sections 38a-
366 91ww and 38a-91xx:

367 (1) "Affiliated company" means any company in the same corporate
368 system as a parent, an industrial insured or a member organization by
369 virtue of common ownership, control, operation or management.

370 (2) "Agency captive insurance company" means a captive insurance
371 company that:

372 (A) Is owned or directly or indirectly controlled by one or more
373 insurance agents or insurance producers licensed in accordance with
374 sections 38a-702a to 38a-702r, inclusive;

375 (B) Only insures against risks covered by insurance policies sold,
376 solicited or negotiated through the insurance agents or insurance
377 producers that own or control such captive insurance company; and

378 (C) Does not insure against risks covered by any health insurance
379 policy or plan.

380 (3) "Alien captive insurance company" means any insurance
381 company formed to write insurance business for its parent and affiliated
382 companies and licensed pursuant to the laws of an alien jurisdiction that
383 imposes statutory or regulatory standards on companies transacting the
384 business of insurance in such jurisdiction that the commissioner deems
385 to be acceptable.

386 (4) "Association" means any legal association of individuals,
387 corporations, limited liability companies, partnerships, associations or
388 other entities, [that has been in continuous existence for at least one
389 year,] where the association itself or some or all of the member
390 organizations:

391 (A) Directly or indirectly own, control or hold with power to vote all
392 of the outstanding voting securities or other voting interests of an
393 association captive insurance company incorporated as a stock insurer;

394 (B) Have complete voting control over an association captive
395 insurance company incorporated as a mutual corporation or formed as
396 a limited liability company; or

397 (C) Constitute all of the subscribers of an association captive
398 insurance company formed as a reciprocal insurer.

399 (5) "Association captive insurance company" means any company
400 that insures risks of the member organizations of an association, and
401 includes a company that also insures risks of such member
402 organizations' affiliated companies or of the association.

403 (6) "Branch business" means any insurance business transacted in this
404 state by a branch captive insurance company.

405 (7) "Branch captive insurance company" means any alien captive
406 insurance company or foreign captive insurance company licensed by
407 the commissioner to transact the business of insurance in this state
408 through a business unit with a principal place of business in this state.

409 (8) "Branch operations" means any business operations in this state of
410 a branch captive insurance company.

411 (9) "Captive insurance company" means any (A) pure captive
412 insurance company, agency captive insurance company, association
413 captive insurance company, industrial insured captive insurance
414 company, risk retention group, sponsored captive insurance company
415 or special purpose financial captive insurance company that is
416 domiciled in this state and formed or licensed under the provisions of
417 [sections 38a-91aa] this section and sections 38a-91bb to 38a-91tt,
418 inclusive, as amended by this act, or (B) branch captive insurance
419 company.

420 (10) "Ceding insurer" means an insurance company, approved by the
421 commissioner and licensed or otherwise authorized to transact the
422 business of insurance or reinsurance in its state or country of domicile,
423 that cedes risk to a special purpose financial captive insurance company
424 pursuant to a reinsurance contract.

425 (11) "Commissioner" means the Insurance Commissioner.

426 (12) "Controlled unaffiliated business" means any person:

427 (A) Who, (i) in the case of a pure captive insurance company, is not
428 in the corporate system of a parent and the parent's affiliated companies,
429 [or] (ii) in the case of an industrial insured captive insurance company,
430 is not in the corporate system of an industrial insured and the industrial
431 insured's affiliated companies, or (iii) in the case of a sponsored captive
432 insurance company, is not in the corporate system of a participant and
433 the participant's affiliated companies;

434 (B) Who, (i) in the case of a pure captive insurance company, has an
435 existing contractual relationship with a parent or one of the parent's
436 affiliated companies, [or] (ii) in the case of an industrial insured captive
437 insurance company, has an existing contractual relationship with an
438 industrial insured or one of the industrial insured's affiliated companies,
439 or (iii) in the case of a sponsored captive insurance company, has an
440 existing contractual relationship with a participant or one of the
441 participant's affiliated companies; and

442 (C) Whose risks are managed by a pure captive insurance company,
443 [or] an industrial insured captive insurance company or a sponsored
444 captive insurance company, as applicable, in accordance with section
445 38a-91qq, as amended by this act.

446 (13) "Excess workers' compensation insurance" means, in the case of
447 an employer that has insured or self-insured its workers' compensation
448 risks in accordance with applicable state or federal law, insurance in
449 excess of a specified per-incident or aggregate limit established by the
450 commissioner.

451 (14) "Foreign captive insurance company" means any insurance
452 company formed to write insurance business for its parent and affiliated
453 companies and licensed pursuant to the laws of a foreign jurisdiction
454 that imposes statutory or regulatory standards on companies
455 transacting the business of insurance in such jurisdiction that the
456 commissioner deems to be acceptable.

457 [(14)] (15) "Incorporated protected cell" means a protected cell that is
458 established as a corporation or a limited liability company, separate

459 from the sponsored captive insurance company with which it has
460 entered into a participant contract.

461 [(15)] (16) "Industrial insured" means an insured:

462 (A) Who procures the insurance of any risk or risks by use of the
463 services of a full-time employee acting as an insurance manager or
464 buyer;

465 (B) Whose aggregate annual premiums for insurance on all risks total
466 at least twenty-five thousand dollars; and

467 (C) Who has at least twenty-five full-time employees.

468 [(16)] (17) "Industrial insured captive insurance company" means any
469 company that insures risks of the industrial insureds that comprise an
470 industrial insured group, and includes a company that also insures risks
471 of such industrial insureds' affiliated companies.

472 [(17)] (18) "Industrial insured group" means any group of industrial
473 insureds that collectively:

474 (A) Directly or indirectly own, control or hold with power to vote all
475 of the outstanding voting securities or other voting interests of an
476 industrial insured captive insurance company incorporated as a stock
477 insurer;

478 (B) Have complete voting control over an industrial insured captive
479 insurance company incorporated as a mutual corporation or formed as
480 a limited liability company; or

481 (C) Constitute all of the subscribers of an industrial insured captive
482 insurance company formed as a reciprocal insurer.

483 [(18)] (19) "Insurance securitization" or "securitization" means a
484 transaction or a group of related transactions, which may include capital
485 market offerings, that are effected through related risk transfer
486 instruments and facilitating administrative agreements, in which all or
487 part of the result of such transaction is used to fund a special purpose

488 financial captive insurance company's obligations under a reinsurance
489 contract with a ceding insurer and by which:

490 (A) A special purpose financial captive insurance company directly
491 or indirectly obtains proceeds through the issuance of securities by such
492 company or any other person; or

493 (B) A person provides, for the benefit of a special purpose financial
494 captive insurance company, one or more letters of credit or other assets
495 that the commissioner has authorized such company to treat as
496 admitted assets for purposes of its annual report. "Insurance
497 securitization" or "securitization" does not include the issuance of a
498 letter of credit for the benefit of the commissioner to satisfy all or part of
499 a special purpose financial captive insurance company's capital and
500 surplus requirements under section 38a-91dd, as amended by this act.

501 [(19)] (20) "Member organization" means any individual, corporation,
502 limited liability company, partnership, association or other entity that
503 belongs to an association.

504 [(20)] (21) "Mutual corporation" means a corporation organized
505 without stockholders and includes a nonprofit corporation with
506 members.

507 [(21)] (22) "Parent" means any individual, corporation, limited
508 liability company, partnership or other entity that directly or indirectly
509 owns, controls or holds with power to vote more than fifty per cent of
510 the outstanding voting:

511 (A) Securities of a pure captive insurance company organized as a
512 stock insurer; or

513 (B) Membership interests of a pure captive insurance company
514 organized as a nonprofit corporation or as a limited liability company.

515 [(22)] (23) "Participant" means any association, corporation, limited
516 liability company, partnership, trust or other entity, and any affiliated
517 company or controlled unaffiliated business thereof, that is insured by

518 a sponsored captive insurance company pursuant to a participant
519 contract.

520 [(23)] (24) "Participant contract" means a contract entered into by a
521 sponsored captive insurance company and a participant by which the
522 sponsored captive insurance company insures the risks of the
523 participant and limits the losses of each such participant to its pro rata
524 share of the assets of one or more protected cells identified in such
525 participant contract.

526 [(24)] (25) "Protected cell" means a separate account established by a
527 sponsored captive insurance company, in which assets are maintained
528 for one or more participants in accordance with the terms of one or more
529 participant contracts to fund the liability of the sponsored captive
530 insurance company assumed on behalf of such participants as set forth
531 in such participant contracts.

532 [(25)] (26) "Pure captive insurance company" means any company
533 that insures risks of its parent and affiliated companies or controlled
534 unaffiliated business.

535 [(26)] (27) "Reinsurance contract" means a contract entered into by a
536 special purpose financial captive insurance company and a ceding
537 insurer by which the special purpose financial captive insurance
538 company agrees to provide reinsurance to the ceding insurer for risks
539 associated with the ceding insurer's insurance or reinsurance business.

540 [(27)] (28) "Risk retention group" means a captive insurance company
541 organized under the laws of this state pursuant to the federal Liability
542 Risk Retention Act of 1986, 15 USC 3901 et seq., as amended from time
543 to time, as a stock insurer or mutual corporation, a reciprocal or other
544 limited liability entity.

545 [(28)] (29) "Security" has the same meaning as provided in section
546 36b-3 and includes any form of debt obligation, equity, surplus
547 certificate, surplus note, funding agreement, derivative or other
548 financial instrument that the commissioner designates as a security for

549 purposes of [sections 38a-91aa] this section and sections 38a-91bb to 38a-
550 91tt, inclusive, as amended by this act.

551 [(29)] (30) "Special purpose financial captive insurance company"
552 means a company that is licensed by the commissioner in accordance
553 with section 38a-91bb, as amended by this act.

554 [(30)] (31) "Special purpose financial captive insurance company
555 security" means a security issued by (A) a special purpose financial
556 captive insurance company, or (B) a third party, the proceeds of which
557 are obtained directly or indirectly by a special purpose financial captive
558 insurance company.

559 [(31)] (32) "Sponsor" means any association, corporation, limited
560 liability company, partnership, trust or other entity that is approved by
561 the commissioner to organize and operate a sponsored captive
562 insurance company and to provide all or part of the required
563 unimpaired paid-in capital and surplus.

564 [(32)] (33) "Sponsored captive insurance company" means a captive
565 insurance company:

566 (A) In which the minimum required unimpaired paid-in capital and
567 surplus are provided by one or more sponsors;

568 (B) That insures risks of its participants only through separate
569 participant contracts; and

570 (C) That funds its liability to each participant through one or more
571 protected cells and segregates the assets of each protected cell from the
572 assets of other protected cells and from the assets of the sponsored
573 captive insurance company's general account.

574 [(33)] (34) "Surplus note" means an unsecured subordinated debt
575 obligation possessing characteristics consistent with the National
576 Association of Insurance Commissioners Statement of Statutory
577 Accounting Principles No. 41, as amended from time to time, and as
578 modified or supplemented by the commissioner.

579 Sec. 7. (*Effective July 1, 2022*) (a) As used in this section, "alien captive
580 insurance company", "branch captive insurance company" and "foreign
581 captive insurance company" have the same meanings as provided in
582 section 38a-91aa of the general statutes, as amended by this act.

583 (b) The Commissioner of Revenue Services shall waive any and all
584 penalties that would otherwise be due under section 38a-277 of the
585 general statutes for any taxable period beginning on or after July 1, 2019,
586 and ending prior to July 1, 2022, if, not later than June 30, 2023, the
587 insured:

588 (1) Establishes a branch captive insurance company in this state or
589 transfers the domicile of its alien captive insurance company or foreign
590 captive insurance company to this state in accordance with the
591 provisions of section 38a-58a of the general statutes; and

592 (2) Pays all taxes and interest due and outstanding under section 38a-
593 277 of the general statutes for all taxable periods ending on or after July
594 1, 2019, but prior to July 1, 2022.

595 (c) Any insured that satisfies the provisions of subsection (b) of this
596 section shall not be liable for any taxes, interest and penalties that would
597 otherwise be due under section 38a-277 of the general statutes for any
598 taxable period ending prior to July 1, 2019.

599 Sec. 8. Section 38a-91bb of the general statutes is repealed and the
600 following is substituted in lieu thereof (*Effective July 1, 2022*):

601 (a) Any captive insurance company, when permitted by its articles of
602 association, charter or other organizational document, may apply to the
603 [Insurance Commissioner] commissioner for a license to do the business
604 of insurance against any kind of loss, damage or liability properly a
605 subject of insurance, if such insurance is not prohibited by law or [is not]
606 disapproved by the commissioner as being contrary to public policy,
607 including life insurance, annuities, health insurance, as defined in
608 section 38a-469, and commercial risk insurance, as defined in section
609 38a-663, provided:

610 (1) No pure captive insurance company may insure any risks other
611 than those of its parent and affiliated companies or controlled
612 unaffiliated business;

613 (2) No association captive insurance company may insure any risks
614 other than those of its association, the member organizations of its
615 association, and the member organizations' affiliated companies;

616 (3) No industrial insured captive insurance company may insure any
617 risks other than those of (A) the industrial insureds that comprise the
618 industrial insured group, (B) the industrial insureds' affiliated
619 companies, or (C) the industrial insureds' controlled unaffiliated
620 businesses;

621 (4) No risk retention group may insure any risks other than those of
622 its members and owners;

623 (5) No captive insurance company may provide personal risk
624 insurance, as defined in section 38a-663, for private passenger motor
625 vehicle or homeowners insurance coverage or any component thereof;

626 (6) No captive insurance company may accept or cede reinsurance
627 except as provided in section 38a-91kk, as amended by this act;

628 (7) Any captive insurance company may provide excess workers'
629 compensation insurance to its parent and affiliated companies, unless
630 prohibited by the laws of the state having jurisdiction over the
631 transaction or by federal law. Any captive insurance company may
632 reinsure a workers' compensation qualified self-insured plan of its
633 parent and affiliated companies, unless prohibited by federal law;

634 (8) Any captive insurance company that provides life insurance,
635 annuities or health insurance shall comply with all applicable state and
636 federal laws.

637 (b) No captive insurance company shall do any insurance business in
638 this state unless:

639 (1) [It] The captive insurance company first obtains from the
640 [Insurance Commissioner] commissioner a license authorizing [it] the
641 captive insurance company to do insurance business in this state;

642 (2) [Its] The captive insurance company's board of directors or
643 committee of managers or, in the case of a reciprocal insurer, its
644 subscribers' advisory committee holds at least one meeting each year in
645 this state;

646 (3) [It] The captive insurance company maintains its principal place
647 of business in this state; and

648 (4) [It] The captive insurance company appoints a registered agent to
649 accept service of process and to otherwise act on its behalf in this state.
650 Whenever such registered agent cannot with reasonable diligence be
651 found at the registered office of the captive insurance company, the
652 [Insurance Commissioner] commissioner shall be an agent of [such] the
653 captive insurance company upon whom any process, notice or demand
654 may be served.

655 (c) (1) To be considered for a license, a captive insurance company
656 shall:

657 (A) File with the commissioner a certified copy of its organizational
658 documents, a statement under oath of its president and secretary
659 showing its financial condition, and any other statements or documents
660 required by the commissioner; and

661 (B) Submit to the commissioner for approval a description of the
662 coverages, deductibles, coverage limits and rates and such additional
663 information as the commissioner may require. In the event of any
664 subsequent material change in any item in such description, the captive
665 insurance company shall submit to the commissioner for approval an
666 appropriate revision and shall not offer any additional kinds of
667 insurance until a revision of such description is approved by the
668 commissioner. The captive insurance company shall inform the
669 commissioner of any material change in rates not later than thirty days

670 after the adoption of such change.

671 (2) Each applicant captive insurance company shall also file with the
672 commissioner evidence of the following:

673 (A) The amount and liquidity of the company's assets relative to the
674 risks to be assumed;

675 (B) The adequacy of the expertise, experience and character of the
676 persons who will manage the company;

677 (C) The overall soundness of the company's plan of operation;

678 (D) The adequacy of the loss prevention programs of the company's
679 insureds; and

680 (E) Such other factors deemed relevant by the commissioner in
681 ascertaining whether the proposed captive insurance company will be
682 able to meet its policy obligations.

683 (3) Each applicant sponsored captive insurance company shall also
684 file with the commissioner:

685 (A) Materials demonstrating how the applicant will account for the
686 loss and expense experience of each protected cell at a level of detail
687 deemed sufficient by the commissioner, and how [it] such applicant will
688 report such experience to the commissioner;

689 (B) A statement acknowledging that all financial records of the
690 sponsored captive insurance company, including records pertaining to
691 any protected cells, shall be made available for examination or
692 inspection or by the commissioner or the commissioner's designee;

693 (C) All contracts or sample contracts between the sponsored captive
694 insurance company and any participants; and

695 (D) Evidence that expenses shall be allocated to each protected cell in
696 a fair and equitable manner.

697 (4) Each applicant special purpose financial captive insurance
698 company shall also:

699 (A) Include with its plan of operation:

700 (i) A complete description of all significant transactions, including
701 reinsurance, reinsurance security arrangements, securitizations, related
702 transactions or arrangements, and to the extent not included in the
703 transactions listed in this clause, a complete description of all parties
704 other than the special purpose financial captive insurance company and
705 the ceding insurer that will be involved in the issuance of special
706 purpose financial captive insurance company securities and a
707 description of any pledge, hypothecation or grant of a security interest
708 in any of the special purpose financial captive insurance company's
709 assets and in any stock or limited liability company interest in the
710 special purpose financial captive insurance company;

711 (ii) The source and form of the special purpose financial captive
712 insurance company's capital and surplus;

713 (iii) The proposed investment policy of the special purpose financial
714 captive insurance company;

715 (iv) A description of the underwriting, reporting and claims payment
716 methods by which losses covered by the reinsurance contract will be
717 reported, accounted for and settled;

718 (v) Pro forma balance sheets and income statements illustrating one
719 or more adverse case scenarios, as determined under criteria required
720 by the commissioner, for the performance of the special purpose
721 financial captive insurance company under all reinsurance contracts;
722 and

723 (vi) The proposed rate and method for discounting reserves, if the
724 special purpose financial captive insurance company is requesting
725 authority to discount its reserves;

726 (B) Submit an affidavit of its president, a vice president, its treasurer

727 or its chief financial officer that includes the following statements, that
728 to the best of such person's knowledge and belief after reasonable
729 inquiry:

730 (i) The proposed organization and operation of the special purpose
731 financial captive insurance company comply with all applicable
732 provisions of this chapter;

733 (ii) The special purpose financial captive insurance company's
734 investment policy reflects and takes into account the liquidity of assets
735 and the reasonable preservation, administration and management of
736 such assets with respect to the risks associated with the reinsurance
737 contract and the insurance securitization transaction. With respect to a
738 special purpose financial captive insurance company, "management"
739 means the board of directors, managing board or other individual or
740 individuals vested with overall responsibility for the management of the
741 affairs of such company, including, but not limited to, officers or other
742 agents elected or appointed to act on behalf of such company; and

743 (iii) The reinsurance contract and any arrangement for securing the
744 special purpose financial captive insurance company's obligations
745 under such reinsurance contract, including, but not limited to, any
746 agreements or other documentation to implement such arrangement,
747 comply with the provisions of this chapter; and

748 (C) Include with its application:

749 (i) Copies of all agreements and documentation described in
750 subparagraph (A) of this subdivision unless otherwise approved by the
751 commissioner, and any other statements or documents required by the
752 commissioner to evaluate the special purpose financial captive
753 insurance company's application for licensure; and

754 (ii) An opinion of qualified legal counsel, in a form acceptable to the
755 commissioner, that the offer and sale of any special purpose financial
756 captive insurance company securities complies with all applicable
757 registration requirements or applicable exemptions from or exceptions

758 to such requirements of the federal securities laws and that the offer and
759 sale of securities by the special purpose financial captive insurance
760 company itself comply with all registration requirements or applicable
761 exemptions from or exceptions to such requirements of the securities
762 laws of this state. Such opinion shall not be required as part of the
763 application if the special purpose financial captive insurance company
764 includes a specific statement in its plan of operation that such opinions
765 will be provided to the commissioner in advance of the offer or sale of
766 any special purpose financial captive insurance company securities.

767 (5) A sponsored captive insurance company may apply to be licensed
768 as a special purpose financial captive insurance company. Such
769 company shall be subject to the provisions of sections 38a-91aa to 38a-
770 91tt, inclusive, as amended by this act, applicable to a sponsored captive
771 insurance company and to a special purpose financial captive insurance
772 company. In the event of conflict between such provisions applicable to
773 a sponsored captive insurance company and to a special purpose
774 financial captive insurance company, the provisions applicable to a
775 special purpose financial captive insurance company shall control.

776 (6) Information submitted pursuant to this subsection shall be and
777 shall remain confidential and shall not be made public by the
778 commissioner or an employee or agent of the commissioner without the
779 written consent of the company, except that:

780 (A) Such information may be discoverable by a party in a civil action
781 or contested case to which the captive insurance company that
782 submitted such information is a party upon a showing by the party
783 seeking to discover such information that:

784 (i) The information sought is relevant to and necessary for the
785 furtherance of such action or case;

786 (ii) The information sought is unavailable from other nonconfidential
787 sources; and

788 (iii) A subpoena issued by a judicial or administrative officer of

789 competent jurisdiction has been submitted to the commissioner,
790 provided such submission requirement shall not apply to a risk
791 retention group; and

792 (B) The commissioner may, in the commissioner's discretion, disclose
793 such information to a public official having jurisdiction over the
794 regulation of insurance in another state, provided:

795 (i) Such public official agrees, in writing, to maintain the
796 confidentiality of such information; and

797 (ii) The laws of the state in which such public official serves require
798 such information to be and [to] remain confidential.

799 (d) (1) Each captive insurance company shall pay to the commissioner
800 a nonrefundable fee of eight hundred dollars for examining,
801 investigating and processing its application for a license. The
802 commissioner may retain legal, financial and examination services from
803 outside the department for the licensing and financial oversight of a
804 captive insurance company, the reasonable cost of which may be
805 charged against such company. The provisions of subdivisions (2) to (5),
806 inclusive, of subsection (k) of section 38a-14 shall apply to this
807 subdivision.

808 (2) Each captive insurance company shall pay a license fee for the first
809 year of licensure and a renewal fee for each year thereafter as set forth
810 in section 38a-11.

811 (e) (1) If the commissioner finds that the documents and statements
812 that a captive insurance company, other than a special purpose financial
813 captive insurance company, has filed comply with the provisions of
814 sections 38a-91aa to 38a-91tt, inclusive, as amended by this act, the
815 commissioner may grant a license authorizing the company to do
816 insurance business in this state until April first thereafter. The captive
817 insurance company may apply to renew such license on such forms as
818 the commissioner prescribes.

819 (2) (A) The commissioner may grant a license authorizing a special

820 purpose financial captive insurance company to do reinsurance
821 business in this state until April first thereafter upon the commissioner's
822 finding that (i) the proposed plan of operation provides for a reasonable
823 and expected successful operation, (ii) the terms of the reinsurance
824 contract and related transactions comply with sections 38a-91aa to 38a-
825 91tt, inclusive, as amended by this act, (iii) the proposed plan of
826 operation is not hazardous to any ceding insurer, and (iv) the insurance
827 regulator of the state of domicile of each ceding insurer has notified the
828 commissioner in writing or has otherwise provided assurance
829 satisfactory to the commissioner that such regulator has approved or
830 has not disapproved the transaction, provided the commissioner shall
831 not be precluded from issuing a license to a special purpose financial
832 captive insurance company if such regulator has not responded with
833 respect to all or any part of the transaction.

834 (B) In conjunction with granting such license, the commissioner may
835 issue an order to the special purpose financial captive insurance
836 company of any additional provisions, terms or conditions regarding
837 the organization, licensing or operation of such company that are not
838 inconsistent with the provisions of this chapter and are deemed
839 appropriate by the commissioner.

840 (3) The commissioner shall not grant a license to a branch captive
841 insurance company unless the alien captive insurance company or
842 foreign captive insurance company grants the commissioner authority
843 to examine the alien captive insurance company or foreign captive
844 insurance company in the jurisdiction in which the alien captive
845 insurance company or foreign captive insurance company is formed,
846 operates or maintains books and records.

847 Sec. 9. Section 38a-91dd of the general statutes is repealed and the
848 following is substituted in lieu thereof (*Effective July 1, 2022*):

849 (a) (1) [The Insurance Commissioner] Except as provided in
850 subdivision (3) of this subsection, the commissioner shall not issue a
851 license to a captive insurance company or allow the company to retain
852 such license unless the company has and maintains unimpaired paid-in

853 capital and surplus of:

854 (A) In the case of a pure captive insurance company, not less than
855 [two hundred fifty thousand dollars;] the greater of:

856 (i) Fifty thousand dollars; or

857 (ii) An amount that the commissioner determines is necessary for the
858 pure captive insurance company to meet such pure captive insurance
859 company's policy obligations;

860 (B) In the case of an association captive insurance company, not less
861 than [five hundred thousand dollars;] the greater of:

862 (i) Two hundred fifty thousand dollars; or

863 (ii) An amount that the commissioner determines is necessary for the
864 association captive insurance company to meet such association captive
865 insurance company's policy obligations;

866 (C) In the case of an industrial insured captive insurance company,
867 not less than [five hundred thousand dollars;] the greater of:

868 (i) Two hundred fifty thousand dollars; or

869 (ii) An amount that the commissioner determines is necessary for the
870 industrial insured captive insurance company to meet such industrial
871 insured captive insurance company's policy obligations;

872 (D) In the case of a risk retention group, not less than one million
873 dollars;

874 (E) In the case of a sponsored captive insurance company, not less
875 than [two hundred twenty-five thousand dollars;] the greater of:

876 (i) Seventy-five thousand dollars; or

877 (ii) An amount that the commissioner determines is necessary for the
878 sponsored captive insurance company to meet such sponsored captive
879 insurance company's policy obligations;

880 (F) In the case of a special purpose financial captive insurance
881 company, not less than [two hundred fifty thousand dollars;] the greater
882 of:

883 (i) Two hundred fifty thousand dollars; or

884 (ii) An amount that the commissioner determines is necessary for the
885 special purpose financial captive insurance company to meet such
886 special purpose financial captive insurance company's policy
887 obligations;

888 (G) In the case of a sponsored captive insurance company licensed as
889 a special purpose financial captive insurance company, not less than
890 [five hundred thousand dollars;] the greater of:

891 (i) Two hundred fifty thousand dollars; or

892 (ii) An amount that the commissioner determines is necessary for
893 such captive insurance company to meet such captive insurance
894 company's policy obligations; and

895 (H) In the case of an agency captive insurance company, not less than
896 [five hundred thousand dollars] the greater of:

897 (i) Two hundred fifty thousand dollars; or

898 (ii) An amount that the commissioner determines is necessary for the
899 agency captive insurance company to meet such agency captive
900 insurance company's policy obligations.

901 (2) (A) The [Insurance Commissioner] commissioner shall not issue a
902 license to a branch captive insurance company or allow the branch
903 captive insurance company to retain such license unless the branch
904 captive insurance company has and maintains, as security for the
905 payment of liabilities attributable to the branch operations:

906 (i) Not less than [two hundred fifty thousand dollars;] the greater of:

907 (I) Fifty thousand dollars; or

908 (II) An amount that the commissioner determines is necessary to
909 secure the payment of liabilities attributable to the branch captive
910 insurance company's operations; and

911 (ii) Reserves on such insurance policies or such reinsurance contracts
912 as may be issued or assumed by the branch captive insurance company
913 through its branch operations, including reserves for losses, allocated
914 loss adjustment expenses, incurred but not reported losses and
915 unearned premiums with regard to business written through the branch
916 operations. The commissioner may permit a branch captive insurance
917 company to credit against any such reserves any [security for loss
918 reserves that the branch captive insurance company posts with a ceding
919 insurer or is posted by a reinsurer with the branch captive insurance
920 company, so long as such security remains posted] assets belonging to:

921 (I) The branch captive insurance company that are held in trust for,
922 or otherwise segregated or controlled by, a ceding insurer, that secure
923 the branch captive insurance company's reinsurance obligations to the
924 ceding insurer; or

925 (II) A reinsurer that are held in trust for, or otherwise under the
926 control of, the branch captive insurance company, that secure the
927 reinsurer's reinsurance obligations to the branch captive insurance
928 company.

929 (B) The amounts required under subparagraph (A) of this
930 subdivision may be held, with the prior approval of the commissioner,
931 in the form of:

932 (i) [a] A trust formed under a trust agreement and funded by assets
933 acceptable to the commissioner; [.]

934 (ii) [an] An irrevocable letter of credit issued or confirmed by a bank
935 approved by the commissioner; [.]

936 (iii) [with] With respect to the amount required under subparagraph
937 (A)(i) of this subdivision only, cash on deposit with the commissioner;
938 [.] or

939 (iv) [any] Any combination [thereof] of the forms described in
940 subparagraphs (B)(i) to (B)(iii), inclusive, of this subdivision.

941 (3) The commissioner may exempt a branch captive insurance
942 company from the provisions of subdivisions (1) and (2) of this
943 subsection if the branch captive insurance company is a foreign captive
944 insurance company and the commissioner, in the commissioner's
945 discretion, determines that the branch captive insurance company is
946 financially stable.

947 [(b) The commissioner may adopt regulations, in accordance with
948 chapter 54, to establish additional capital and surplus requirements
949 based upon the type, volume and nature of insurance business
950 transacted.]

951 [(c)] (b) Notwithstanding any other provision of this section, the
952 commissioner shall have the discretion to allow a captive insurance
953 company, other than a captive insurance company organized as a risk
954 retention group, to maintain less than the required unimpaired paid-in
955 capital and surplus set forth in subsection (a) of this section. The
956 commissioner shall consider the type, volume and nature of the
957 insurance or reinsurance business transacted by such a captive
958 insurance company in establishing the amount of unimpaired paid-in
959 capital and surplus the company is required to maintain.

960 [(d)] (c) Except as specified in subdivision (2) of subsection (a) of this
961 section, capital and surplus may be in the form of cash or an irrevocable
962 letter of credit issued by a bank approved by the commissioner.

963 (d) The commissioner may adopt regulations, in accordance with
964 chapter 54, to establish additional capital and surplus requirements
965 based upon the type, volume and nature of insurance business
966 transacted.

967 Sec. 10. Subsection (h) of section 38a-91ff of the general statutes is
968 repealed and the following is substituted in lieu thereof (*Effective July 1,*
969 *2022*):

970 (h) In the case of a captive insurance company licensed as a branch
971 captive insurance company, the alien captive insurance company or
972 foreign captive insurance company shall petition the commissioner to
973 issue a certificate setting forth the commissioner's finding that, after
974 considering the character, reputation, financial responsibility, insurance
975 experience, and business qualifications of the officers and directors of
976 the alien captive insurance company or foreign captive insurance
977 company, the licensing and maintenance of the branch operations will
978 promote the general good of the state. The alien captive insurance
979 company or foreign captive insurance company may register to do
980 business in this state after the commissioner's certificate is issued.

981 Sec. 11. Subdivision (1) of subsection (b) of section 38a-91gg of the
982 general statutes is repealed and the following is substituted in lieu
983 thereof (*Effective July 1, 2022*):

984 (b) (1) (A) [Prior] Except as provided in subparagraph (B) of this
985 subdivision, prior to March first of each year and, in the case of pure
986 captive insurance companies and industrial insured captive insurance
987 companies, prior to March fifteenth of each year, each captive insurance
988 company [other than a branch captive insurance company shall submit
989 to the Insurance Commissioner] shall file with the commissioner a
990 report of [its] the captive insurance company's financial condition
991 verified by oath of two [of its] executive officers of the captive insurance
992 company. The commissioner shall establish the form and content of the
993 annual report to be filed by special purpose captive insurance
994 companies.

995 (B) [In the case of branch captive insurance companies, prior to March
996 first of each year, each such] Each branch captive insurance company
997 shall [submit to] file with the commissioner a copy of all reports and
998 statements required to be filed under the laws of the jurisdiction in
999 which the alien captive insurance company or foreign captive insurance
1000 company is formed. Such reports and statements shall be verified by
1001 oath of two [of its] executive officers of the branch captive insurance
1002 company and filed with the commissioner on the same day that such

1003 reports and statements must be filed in the domiciliary jurisdiction of
1004 the alien captive insurance company or foreign captive insurance
1005 company. If the commissioner is satisfied that the annual report filed by
1006 the alien captive insurance company or foreign captive insurance
1007 company in [its] the domiciliary jurisdiction of the alien captive
1008 insurance company or foreign captive insurance company provides
1009 adequate information concerning the financial condition of the alien
1010 captive insurance company or foreign captive insurance company, the
1011 commissioner may waive the requirement for completion of the [captive
1012 annual statement for business written in the alien jurisdiction] annual
1013 report required under subparagraph (A) of this subdivision. If the
1014 commissioner is not satisfied with such reports and statements, or if the
1015 branch captive insurance company is not required to file such reports
1016 and statements in the domiciliary jurisdiction of the alien captive
1017 insurance company or foreign captive insurance company, the branch
1018 captive insurance company shall file a report, at a time and in a form
1019 and manner prescribed by the commissioner, that provides the
1020 commissioner with adequate information concerning the financial
1021 condition of the alien captive insurance company or foreign captive
1022 insurance company.

1023 Sec. 12. Subsection (a) of section 38a-91hh of the general statutes is
1024 repealed and the following is substituted in lieu thereof (*Effective July 1,*
1025 *2022*):

1026 (a) (1) [At least once every three years, and additionally whenever the
1027 Insurance Commissioner] Except as provided in subdivision (3) of this
1028 subsection, the commissioner or the commissioner's designee shall,
1029 whenever the commissioner determines it to be prudent [, the
1030 commissioner or the commissioner's designee shall visit each captive
1031 insurance company and thoroughly] but not less frequently than once
1032 every five years, inspect and examine [its] each captive insurance
1033 company's affairs to ascertain [its] the captive insurance company's
1034 financial condition, [its] the captive insurance company's ability to fulfill
1035 its obligations and whether [it] the captive insurance company has
1036 complied with the provisions of sections 38a-91aa to 38a-91tt, inclusive,

1037 as amended by this act, and any other applicable provisions of this title.
1038 [The commissioner may extend the three-year period to five years,
1039 provided a captive insurance company is subject to a comprehensive
1040 annual audit during such period by independent auditors approved by
1041 the commissioner and of a scope satisfactory to the commissioner.]

1042 (2) The examination of a branch captive insurance company pursuant
1043 to this section shall be of branch business and branch operations only,
1044 as long as the branch captive insurance company provides annually to
1045 the commissioner a certificate of compliance or its equivalent, issued by
1046 or filed with the licensing authority of the jurisdiction in which the
1047 branch captive insurance company is formed, and demonstrates to the
1048 commissioner's satisfaction that [it] such branch captive insurance
1049 company is operating in sound financial condition in accordance with
1050 all applicable laws and regulations of such jurisdiction.

1051 (3) The commissioner may waive the requirement that the
1052 commissioner or the commissioner's designee inspect and examine a
1053 captive insurance company's affairs pursuant to this subsection if the
1054 captive insurance company is a pure captive insurance company or a
1055 branch captive insurance company of the pure captive insurance
1056 company.

1057 Sec. 13. Subdivision (1) of subsection (a) of section 38a-91ii of the
1058 general statutes is repealed and the following is substituted in lieu
1059 thereof (*Effective July 1, 2022*):

1060 (a) (1) The commissioner may, at any time, for cause, suspend, revoke
1061 or refuse to renew any license of a captive insurance company, or in lieu
1062 of or in addition to suspension or revocation of such license, the
1063 commissioner, after reasonable notice to and hearing of any holder of
1064 such license, may impose a fine not to exceed ten thousand dollars. Such
1065 hearings may be held by the commissioner or any person designated by
1066 the commissioner. For purposes of this subsection, cause for such
1067 administrative action shall include, but not be limited to, the following
1068 reasons: (A) Insolvency or impairment of capital or surplus; (B) failure
1069 to meet the requirements of section 38a-91dd, as amended by this act;

1070 (C) refusal or failure to [submit] file an annual report, as required by
1071 section 38a-91gg, as amended by this act, or any other report or
1072 statement required by law or by lawful order of the commissioner; (D)
1073 failure to comply with the provisions of its own charter, bylaws or other
1074 organizational document; (E) failure to submit to or pay the cost of
1075 examination or any legal obligation relative thereto; (F) use of methods
1076 that, although not otherwise specifically prohibited by law, nevertheless
1077 render its operation detrimental or its condition unsound with respect
1078 to the public or to its policyholders; or (G) failure otherwise to comply
1079 with the laws of this state.

1080 Sec. 14. Subsection (a) of section 38a-91kk of the general statutes is
1081 repealed and the following is substituted in lieu thereof (*Effective July 1,*
1082 *2022*):

1083 (a) Any captive insurance company may assume reinsurance from
1084 any other insurer. [only on risks that such company is authorized to
1085 write directly.]

1086 Sec. 15. Section 38a-91qq of the general statutes is repealed and the
1087 following is substituted in lieu thereof (*Effective July 1, 2022*):

1088 The [Insurance Commissioner] commissioner may adopt regulations,
1089 in accordance with chapter 54, as are necessary to carry out the
1090 provisions of sections 38a-91aa to [38a-91tt] 38a-91uu, inclusive, as
1091 amended by this act, and sections 38a-91ww and 38a-91xx and to
1092 establish standards to ensure that a parent or affiliated company is able
1093 to exercise control of the risk management function of any controlled
1094 unaffiliated business to be insured by a pure captive insurance
1095 company, an industrial insured captive insurance company or a
1096 sponsored captive insurance company, except that until such
1097 regulations are approved, the commissioner may approve the coverage
1098 of such risks by a pure captive insurance company, an industrial insured
1099 captive insurance company or a sponsored captive insurance company.

1100 Sec. 16. Subparagraph (A) of subdivision (2) of subsection (g) of
1101 section 38a-91ss of the general statutes is repealed and the following is

1102 substituted in lieu thereof (*Effective July 1, 2022*):

1103 (A) Proceeds from a special purpose financial captive insurance
1104 company securitization or letters of credit or other assets described in
1105 subdivision [(18)] (19) of section 38a-91aa, as amended by this act;

1106 Sec. 17. Subsections (b) and (c) of section 38a-91uu of the general
1107 statutes are repealed and the following is substituted in lieu thereof
1108 (*Effective July 1, 2022*):

1109 (b) A dormant captive insurance company that is domiciled in this
1110 state may apply to the Insurance Commissioner for a certificate of
1111 dormancy. The certificate of dormancy shall be subject to renewal once
1112 every [two] five years, and shall be forfeited if the dormant captive
1113 insurance company commences transacting insurance business or fails
1114 to timely renew such certificate.

1115 (c) A dormant captive insurance company that has been issued a
1116 certificate of dormancy shall:

1117 (1) Possess and maintain unimpaired, paid-in capital and surplus of
1118 not less than [twenty-five] fifteen thousand dollars, provided such
1119 dormant captive insurance company shall not be required to add capital
1120 upon entering dormancy if such dormant captive insurance company
1121 was never capitalized;

1122 (2) Not later than March [15, 2018] fifteenth, annually, submit to the
1123 commissioner a report on the financial condition of such company,
1124 verified by oath of two executive officers of such company, in such form
1125 as the commissioner prescribes; and

1126 (3) Pay the license renewal fee specified in section 38a-11 for a captive
1127 insurance company.

1128 Sec. 18. (NEW) (*Effective July 1, 2023*) (a) There is established an
1129 account to be known as the "children's trust account" which shall be a
1130 separate, nonlapsing account within the General Fund. The account
1131 shall contain any moneys required by law to be deposited in the account.

1132 (b) For the fiscal year ending June 30, 2024, and each fiscal year
 1133 thereafter, an amount equal to the percentage remaining after the
 1134 amounts have been calculated pursuant section 2-33c of the general
 1135 statutes shall be transferred from the resources of the General Fund to
 1136 the children's trust account.

1137 Sec. 19. Section 431 of public act 21-2 of the June special session is
 1138 repealed. (*Effective from passage*)

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage</i>	12-704c(b)
Sec. 2	<i>from passage</i>	12-701(a)(20)(B)
Sec. 3	<i>from passage and applicable to calendar and income years commencing on or after January 1, 2022</i>	12-217qq
Sec. 4	<i>from passage</i>	PA 21-2 of the June Sp. Sess., Sec. 453
Sec. 5	<i>from passage</i>	New section
Sec. 6	<i>July 1, 2022</i>	38a-91aa
Sec. 7	<i>July 1, 2022</i>	New section
Sec. 8	<i>July 1, 2022</i>	38a-91bb
Sec. 9	<i>July 1, 2022</i>	38a-91dd
Sec. 10	<i>July 1, 2022</i>	38a-91ff(h)
Sec. 11	<i>July 1, 2022</i>	38a-91gg(b)(1)
Sec. 12	<i>July 1, 2022</i>	38a-91hh(a)
Sec. 13	<i>July 1, 2022</i>	38a-91ii(a)(1)
Sec. 14	<i>July 1, 2022</i>	38a-91kk(a)
Sec. 15	<i>July 1, 2022</i>	38a-91qq
Sec. 16	<i>July 1, 2022</i>	38a-91ss(g)(2)(A)
Sec. 17	<i>July 1, 2022</i>	38a-91uu(b) and (c)
Sec. 18	<i>July 1, 2023</i>	New section
Sec. 19	<i>from passage</i>	Repealer section

FIN Joint Favorable Subst.

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: See Below

Municipal Impact: None

Explanation

General Fund estimated changes in \$ millions

Policy	Sec.	FY 22	FY 23	FY 24	FY 25	FY 26
Adjust Property Tax Credit Amount	1	0.0	(60.0)	(60.0)	(60.0)	(60.0)
Restore Eligibility for Property Tax Credit	1	0.0	(53.0)	0.0	0.0	0.0
Accelerate Schedule for Tax Exemptions for Certain Income from Pensions & Annuities	2	0.0	(42.9)	(29.3)	(15.6)	0.0
Expand Student Loan Tax Credit	3	0.0	(9.4)	(9.9)	(10.4)	(10.9)
Reduce Revenue Replacement from ARPA	4	(559.9)	(250.0)	0.0	0.0	0.0
Transfer ARPA HCBS / SUD Revenue from FY 22 to FY 23	5	(83.2)	83.2	0.0	0.0	0.0
Provide Tax Amnesty for Certain Insurers	6-17	0.0	7.5	0.2	0.2	0.2
Designate "revenue cap" equivalents to a Children's Trust Account*	18	0.0	0.0	(319.9)	(383.7)	(451.3)
TOTAL		(643.1)	(324.6)	(418.9)	(469.5)	(522.0)

*Newly established, separate non-lapsing account

Section 18 of the bill designates "revenue cap" equivalents to be

transferred out of the General Fund to a newly established, separate and non-lapsing account, beginning in FY 24. The "revenue cap" percentages under current law are unaffected¹ by the bill. The bill redirects these resources from supporting the General Fund in the event of future deficits or (in the case of operating surpluses) making deposits into pension funds to reduce unfunded liabilities.² Through FY 26, up to approximately \$1,154.9 million in total could be redirected under the bill. The impact will preclude future reductions in the unfunded pension liability and the annual actuarially determined employer contribution (ADEC).

"Revenue cap" requirements

Fiscal Year	Maximum appropriations as a percentage of revenues	Budget surplus a.k.a. "revenue cap" requirement	Total
2020	99.50%	0.50%	100.00%
2021	99.25%	0.75%	100.00%
2022	99.00%	1.00%	100.00%
2023	98.75%	1.25%	100.00%
2024	98.50%	1.50%	100.00%
2025	98.25%	1.75%	100.00%
2026 +	98.00%	2.00%	100.00%

Section 4 of the bill reduces reliance on certain federal ARPA funds to balance the State's FY 22 - FY 23 General Fund budget, as illustrated below.

¹ The "revenue cap" requirement is scheduled to increase to 2.00% in FY 26 and remain at that rate thereafter.

² Provided that the Budget Reserve Fund remains at the 15% maximum of net total General Fund appropriations, any additional General Fund operating surpluses would be deposited into either of teachers or state employees' pension systems.

Use of Federal ARPA (State Fiscal Recovery Fund) as CT Revenue
(in \$ millions)

Fiscal Year	Original Budget	sSB 11	Difference
2022	559.9	0.0	(559.9)
2023	1,194.9	944.9	(250.0)
TOTAL	1,754.8	944.9	(809.9)

The Out Years

State Impact: See table and analysis above

Municipal Impact: None

OLR Bill Analysis**sSB 11****AN ACT MAKING ADJUSTMENTS TO STATE REVENUE AND CONCERNING CAPTIVE INSURANCE COMPANIES.**

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Accelerates the pension and annuity income tax exemption phase-in by allowing qualifying taxpayers to deduct 100% of this income beginning with the 2022 tax year

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Requires the comptroller to reserve \$83.2 million of General Fund revenue received under ARPA for home and community-based services and substance use disorders in FY 22 to be used for federal revenue collection in FY 23

[§ 6 — SPONSORED CAPTIVE AND ASSOCIATION CAPTIVE INSURER DEFINITIONS](#)

Changes definitions as they relate to statutes governing captive insurers

§§ 6 & 8-12 — FOREIGN BRANCH CAPTIVES

Adds “foreign captive insurer” to the definition of “branch captive insurance company,” which allows a foreign captive to open a branch in Connecticut; Incorporates foreign captives into the statutes governing other captive branches

§ 7 — TAX AMNESTY PROGRAM

Creates a tax amnesty program for insureds that open a branch captive in, or transfer an alien or foreign captive to, Connecticut by June 30, 2023, that waives the (1) taxes, interest, and penalties related to the independently procured insurance tax for tax periods before July 1, 2019, and (2) penalties for tax periods between July 1, 2019, and July 1, 2022

§ 9 — MINIMUM CAPITAL AND SURPLUS REQUIREMENTS FOR CERTAIN CAPTIVES

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§ 18 — CHILDREN’S TRUST ACCOUNT

Establishes the “children’s trust account” and requires an amount equal to the percentage of revenue remaining after the revenue cap is calculated to be transferred to the account starting in FY 24

§ 19 — CHILD TAX CREDIT STUDY

Repeals the law requiring the OPM secretary to create a plan to establish a state-level child tax credit

BACKGROUND**SUMMARY**

This bill makes various changes related to taxation and revenue, including the following:

1. beginning with the 2022 tax year, increases the property tax credit from \$200 to \$300 and expands the number of people eligible for the credit by eliminating provisions restricting the credit to seniors and those with dependents;
2. allows foreign captive insurers to open a branch in Connecticut and creates an insurance premiums tax amnesty program for captive insurers that establish a captive in, or transfer an alien or foreign captive to, the state;
3. accelerates the phase-in of the pension and annuity tax exemption by allowing qualifying taxpayers to deduct 100% of this income starting with the 2022 tax year;
4. expands the eligible loans for the purposes of the credit and allows “qualified small businesses” to apply to DRS commissioner to exchange the credit for a refund; and
5. establishes the “children’s trust account” and requiring an amount equal to the percentage of revenue remaining after the revenue cap is calculated (see BACKGROUND) to be transferred to the account starting in FY 24.

The bill also makes a number of technical and conforming changes.

EFFECTIVE DATE: July 1, 2022, unless otherwise noted below

§ 1 — PROPERTY TAX CREDIT INCREASE

Beginning with the 2022 tax year, increases the property tax credit from \$200 to \$300 and expands the number of taxpayers who may claim it

Beginning with the 2022 tax year, the bill (1) increases the property tax credit against the personal income tax from \$200 to \$300 and (2) expands the number of people eligible to claim this credit. It does so by eliminating provisions under current law that limit the credit to residents who are age 65 or older or claim dependents on their federal tax return.

By law, taxpayers earn the credit for property taxes paid on their primary residences or motor vehicles, and the amount of property taxes paid that can be taken as a credit declines as adjusted gross income (AGI) increases, until it completely phases out.

EFFECTIVE DATE: Upon passage

§ 2 — PENSION AND ANNUITY TAX EXEMPTION ACCELERATION

Accelerates the pension and annuity income tax exemption phase-in by allowing qualifying taxpayers to deduct 100% of this income beginning with the 2022 tax year

The bill accelerates the phase-in of the pension and annuity income tax exemption. Under current law, qualifying taxpayers may deduct (1) 56% of such income in the 2022 tax year, (2) 70% in the 2023 tax year, (3) 84% in the 2024 tax year, and (4) 100% in the 2025 tax year and beyond. Under the bill, pension and annuity income is fully tax exempt starting with the 2022 tax year.

By law, taxpayers are eligible for this exemption only if their federal AGI is below (1) \$75,000 for single filers, married people filing separately, or heads of households and (2) \$100,000 for married people filing jointly.

EFFECTIVE DATE: Upon passage

§ 2 — EARNED INCOME TAX CREDIT ENHANCEMENT PROGRAM

Establishes a personal income tax exemption for income received through the 2020 and 2021 EITC enhancement program

The bill creates a personal income tax exemption for the 2022 tax year for any income a resident received through the 2020 and 2021 earned income tax credit (EITC) enhancement program, to the extent this income was includable in gross income for federal tax purposes.

Under the EITC enhancement program, taxpayers receive a payment equal to a certain percentage of the federal tax credit they received for the applicable income year. For the 2020 tax year, the EITC enhancement program was funded by the Coronavirus Aid, Relief, and Economic Security (CARES) Act funds and equaled 18.5% of a household's federal EITC for that year. sHB 5037 of this session proposes using a portion of American Rescue Plan Act (ARPA) funds for payments to households equal to approximately 9.5% of the federal EITC for the 2021 tax year.

By law, the state EITC is a refundable tax credit available to people who work and earn incomes below certain levels. The statutory credit equaled (1) 23% of the federal credit in the 2020 tax year and (2) 30.5% in the 2021 tax year.

EFFECTIVE DATE: Upon passage

§ 3 — STUDENT LOAN PAYMENT TAX CREDIT

Expands the loans eligible for the student loan payment tax credit and allows “qualified small businesses” to apply to the DRS commissioner to exchange the credit for a refund

Existing law allows businesses that make payments on qualified employees' eligible student loans to claim a tax credit equal to 50% of the payments made, up to an annual credit maximum of \$2,625 per employee. By law, “qualified employees” are generally those who (1) work fulltime for a Connecticut licensed corporation that is subject to state taxes, (2) earned their first bachelor's degree in the last five years, and (3) live and work in the state. Tax credits may be applied against the corporation business or insurance premiums taxes.

Eligible Loans

The bill expands the eligible loans for the purposes of the credit. Under current law, businesses may only claim this credit for payments made on refinancing loans made by the Connecticut Higher Education

Supplemental Loan Authority (CHESLA). Under the bill, they may claim a credit for payments made on any CHESLA-issued loan.

Qualified Small Businesses

The bill also allows “qualified small businesses” to apply to the Department of Revenue Services (DRS) commissioner to exchange the credit for a refund equal to the credit’s value. Under the bill, a qualified small business is one with gross receipts of \$5 million or less in the income or calendar year, as applicable, in which the credit is allowed.

Under the bill, applications for credit refunds must be filed on forms and with the information the commissioner prescribes by (1) the original deadline for the tax return for the income or calendar year in which the credit was earned or (2) the return’s extended deadline. Refund applications may not be filed after these deadlines have passed.

Any amounts refunded (1) must be refunded in accordance with existing corporation business tax or insurance premiums tax laws and procedures and (2) do not accrue interest. Refunds granted under the bill are subject to the law that allows applying partial payments to outstanding state tax liability, penalties, and interest.

EFFECTIVE DATE: Upon passage, and applicable to calendar and income years beginning on or after January 1, 2022.

§ 4 — FY 23 TRANSFER OF AMERICAN RESCUE PLAN ACT FUNDS

Eliminates the FY 22 transfer to the General Fund from designated ARPA funds and reduces the FY 23 transfer from \$1,194.9 million to \$944.9 million

PA 21-2, § 453, June Special Session, requires the comptroller to transfer to the General Fund from the Coronavirus State Fiscal Recovery Fund under ARPA (1) \$559.9 million for FY 22 and (2) \$1,194.9 million for FY 23. The bill (1) eliminates the FY 22 transfer and (2) reduces the FY 23 transfer to \$944.9 million.

EFFECTIVE DATE: Upon passage

§ 5 — ARPA HOME AND COMMUNITY-BASED SERVICES FUNDS

Requires the comptroller to reserve \$83.2 million of General Fund revenue received under ARPA for home and community-based services and substance use disorders in FY 22 to be used for federal revenue collection in FY 23

The bill requires the comptroller to reserve \$83.2 million of General Fund revenue received under ARPA for home and community-based services and substance use disorders in FY 22 to be used for federal revenue collections in FY 23.

§ 6 — SPONSORED CAPTIVE AND ASSOCIATION CAPTIVE INSURER DEFINITIONS

Changes definitions as they relate to statutes governing captive insurers

Generally, existing law prohibits certain captive insurers from insuring risks other than those of its parent company, affiliated companies, or controlled unaffiliated businesses. (A captive insurer is an insurance company generally formed to insure or reinsure the risks of its parent or affiliated company. The law allows for several different types of captives to be licensed and operated in the state, such as pure captives, sponsored captives, and risk retention groups.)

The bill expands the definition of “controlled unaffiliated business” to incorporate sponsored captives. Specifically, it adds as a controlled unaffiliated business, any person who (1) is not in the participant’s (presumably, the sponsored captive’s) corporate system, or that of its affiliated business, (2) has a contractual relationship with the participant (presumably, the sponsored captive) or its affiliated businesses, and (3) has their risks managed by the sponsored captive. It makes corresponding changes, including by specifying that a “participant” includes a controlled unaffiliated business insured by a sponsored captive insurer.

The bill also removes a requirement that an “association” (for purposes of being insured by an association captive) be in continuous existence for at least one year.

EFFECTIVE DATE: July 1, 2022

§§ 6 & 8-12 — FOREIGN BRANCH CAPTIVES

Adds “foreign captive insurer” to the definition of “branch captive insurance company,” which allows a foreign captive to open a branch in Connecticut; Incorporates foreign captives into the statutes governing other captive branches

The bill adds “foreign captive insurance company” to the definition of “branch captive insurance company,” therefore, allowing a foreign captive to open a Connecticut branch as the law currently allows for alien captives. Branch captives are licensed to transact business in Connecticut through a business unit with a principal place of business in the state (CGS § 38a-91ff). By law, an alien captive is licensed in another country; a foreign captive is licensed in another state.

The bill generally requires foreign captives to meet the same requirements as licensed alien captives (see below). Under the bill, a “foreign captive insurance company” is an insurer licensed in a state other than Connecticut with statutory or regulatory standards that the insurance commissioner deems acceptable.

EFFECTIVE DATE: July 1, 2022

Premium Tax (§ 6)

By law, captive insurers must pay an annual tax on direct premiums and reinsurance premiums collected or contracted, with a varying rate based on the amount of premiums (CGS § 38a-91nn(c)(1)). With some exceptions, the minimum aggregate tax is \$7,500, and the maximum aggregate tax is \$200,000. Under the bill, a foreign branch captive is subject to the tax as it applies to the branch’s business.

Examinations (§§ 8 & 12)

The bill prohibits the insurance commissioner from licensing a foreign branch captive insurer unless it allows him to examine the foreign captive in the jurisdiction that it was formed, operates, or maintains books and records.

The bill requires foreign branch captives to undergo a financial condition review by the commissioner or his designee at least every five years, though the examination is limited to branch business and operations as long as it (1) annually gives the commissioner a certificate

of compliance or similar document issued by, or filed with, its domiciliary jurisdiction and (2) shows that it is operating in sound financial condition according to the laws and regulations of its domiciliary jurisdiction. (The bill also extends, from three to five years, the current requirement of these reviews for alien branch captives, see below).

Minimum Capital and Surplus Requirements for Branch Captives (§ 9)

As a condition of licensure, current law requires branch captives to maintain as security for its liabilities paid-in capital and surplus of at least \$250,000. The bill reduces the required capital and surplus amount to the greater of \$50,000 or another amount the commissioner determines necessary to secure the liabilities attributed to the captive's operations.

In addition to capital, existing law requires branch captives to have reserves on its insurance or reinsurance policies that it issues or assumes through its branch operations. The reserves must include reserves for losses, allocated loss adjustment expenses, incurred but not reported losses, and unearned premiums.

Under current law, the commissioner may allow a credit against the reserves for certain assets posted with a ceding insurer or posted by a reinsurer. The bill instead allows a credit for assets belonging to:

1. the branch captive that are held in a trust for, or segregated or controlled by, a ceding insurer to secure the captive's reinsurance obligations to the ceding insurer or
2. a reinsurer that are held in trust for, or otherwise controlled by, the branch captive and secure the reinsurer for its obligations to the captive.

Branch captives' capital and reserves must be held according to law, which generally requires a trust or irrevocable letter of credit.

The bill allows the commissioner to exempt a foreign branch captive

from the capital and reserve requirements if he determines that the branch captive is financially stable.

Incorporation (§§ 6 & 10)

The bill requires foreign branch captives to maintain a principal place of business in Connecticut. Additionally, before conducting business in the state, the foreign captive insurer must petition the commissioner for a certificate stating that the branch's licensure and operations will promote the general good of the state. In making his finding, the commissioner must consider the insurer's character, reputation, financial responsibility, and insurance experience and its officers' and directors' business qualifications.

Annual Reporting (§ 11)

Current law requires an alien branch captive insurer to, annually by March 1, submit to the insurance commissioner a copy of the reports and statements that must be submitted in the alien captive insurer's domiciliary jurisdiction. The bill instead requires all branch captives (alien and foreign) to file the copies and statements with the commissioner on the same day they must be filed in the domiciliary jurisdiction.

As with existing requirements for alien branch captives, the bill allows the commissioner to waive additional annual reporting if he finds that the foreign captive's submitted material gives adequate information on its financial condition. If he does not, or if the branch captive is not required to file in its domiciliary jurisdiction, the bill requires the alien or foreign branch captive to submit additional reports, at a time and in a form and manner the commissioner prescribes, containing adequate information about its financial condition.

The bill also allows, as is already the case for alien branch captives, a foreign branch captive to apply to the commissioner to file annual reports at the end of its fiscal year (CGS § 38a-91gg(c)(2)).

§ 7 — TAX AMNESTY PROGRAM

Creates a tax amnesty program for insureds that open a branch captive in, or transfer an alien or foreign captive to, Connecticut by June 30, 2023, that waives the (1) taxes, interest, and penalties related to the independently procured insurance tax for tax periods before July 1, 2019, and (2) penalties for tax periods between July 1, 2019, and July 1, 2022

By law, insureds that independently procure insurance (i.e., buy it directly from a nonadmitted insurer without a broker) must pay a 4% tax on the gross premiums. The tax applies to insureds with Connecticut as their “home state,” meaning that they maintain their principal place of business in the state or, if the risks are all located out-of-state, or for an affiliated group covered by a single contract, Connecticut has the largest percentage of allocated premiums. An insured who fails to pay the tax is subject to penalties and interest (CGS § 38a-277).

The bill establishes a limited tax amnesty program for insureds liable for the tax. Under the program, qualified insureds are not liable for (1) the tax, interest, or penalties for tax periods before July 1, 2019, and (2) applicable tax penalties for tax periods between July 1, 2019, and July 1, 2022.

To qualify, an insured, by June 30, 2023, must (1) establish a branch captive in, or transfer the domicile of its alien or foreign captive to, Connecticut and (2) pay all independently procured insurance premium taxes and interest due for the tax periods between July 1, 2019, and July 1, 2022.

EFFECTIVE DATE: July 1, 2022

§ 9 — MINIMUM CAPITAL AND SURPLUS REQUIREMENTS FOR CERTAIN CAPTIVES

Reduces the minimum capital and surplus requirement for certain captive insurers

The bill makes similar reductions to the minimum capital and surplus requirement for certain other captives as it does for branch captives (described above), as shown in the table below.

Table 1: Minimum Capital and Surplus Requirements for Certain Captives under Current Law and the Bill

Captive Type	Current Law	The Bill
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Pure Captive	\$250,000	The greater of \$50,000 or an amount the commissioner determines is necessary for the captive to meet its obligations
Association, Industrial, or Agency Captive	\$500,000	The greater of \$250,000 or an amount the commissioner determines is necessary for the captive to meet its obligations
Sponsored Captive	\$225,000	The greater of \$75,000 or an amount the commissioner determines is necessary for the captive to meet its obligations
Special Purpose Captive	\$250,000	The greater of \$250,000 or an amount the commissioner determines is necessary for the captive to meet its obligations
Sponsored Captive licensed as a Special Purpose Captive	\$500,000	The greater of \$250,000 or an amount the commissioner determines is necessary for the captive to meet its obligations

EFFECTIVE DATE: July 1, 2022

§ 12 — EXAMINATIONS OF CAPTIVE INSURERS

Requires the insurance commissioner to examine captive insurers at least every five years, and allows him to waive the requirement for pure captives

Current law requires the insurance commissioner to visit, inspect, and examine captive insurers at least once every three years and allows him to extend this period to five years if the insurer conducts annual audits. The bill instead requires him or his designee to inspect and examine the insurers at least once every five years, and allows him to waive the requirement for pure captives and their branches.

EFFECTIVE DATE: July 1, 2022

§§ 13 & 16 — TECHNICAL CHANGES

Makes technical changes

The bill makes technical changes in the captive statutes.

EFFECTIVE DATE: July 1, 2022

§ 14 — REINSURANCE RISKS

Allows captive insurers to assume all types of reinsurance

The bill allows captive insurers to assume all types of reinsurance from other insurers, instead of assuming reinsurance only on risks the

company is authorized to write directly as under current law.

EFFECTIVE DATE: July 1, 2022

§ 15 — CAPTIVE INSURER REGULATIONS

Expands the insurance commissioner's general authority to adopt regulations concerning captive insurers

Current law allows the commissioner to adopt regulations pertaining to the captive insurance statutes, as well as to set standards for a parent or affiliated company to manage risk of controlled unaffiliated businesses that are insured by pure captive insurers. The bill (1) expands his general authority to adopt regulations related to all related captive statutes (CGS §§ 38a-91aa - 91xx, excluding CGS § 38a-91vv) and (2) specifies that his regulatory authority over risk management standards includes controlled unaffiliated businesses insured by pure, industrial, or sponsored captives. It makes a corresponding change allowing him to approve coverage of these risks by industrial and sponsored captives until regulations are approved.

EFFECTIVE DATE: July 1, 2022

§ 17 — CERTIFICATE OF DORMANCY FOR CAPTIVE INSURERS

Extends how long a certificate of dormancy is good before it must be removed and lowers certain capital requirements for dormant captives

By law, pure, sponsored, and industrial captive insurers that have stopped conducting business and have no more liabilities can apply to the commissioner for a certificate of dormancy. The bill (1) extends, from two to five years, the length of time before a certificate of dormancy must be renewed and (2) lowers the minimum capital and surplus that a dormant captive must maintain from \$25,000 to \$15,000. It also allows a captive that was never capitalized to become dormant without adding more capital.

EFFECTIVE DATE: July 1, 2022

§ 18 — CHILDREN'S TRUST ACCOUNT

Establishes the “children’s trust account” and requires an amount equal to the percentage of revenue remaining after the revenue cap is calculated to be transferred to the account starting in FY 24

The bill establishes the “children’s trust account” as a separate, nonlapsing General Fund account and requires that the account contain any money the law requires be deposited into it.

Beginning with FY 24, the bill requires an amount equal to the percentage of revenue remaining after the revenue cap is calculated (see BACKGROUND) be transferred to the children’s trust account annually.

EFFECTIVE DATE: July 1, 2023

§ 19 — CHILD TAX CREDIT STUDY

Repeals the law requiring the OPM secretary to create a plan to establish a state-level child tax credit

The bill repeals the law requiring the Office of Policy and Management (OPM) secretary to create a plan to establish a state-level child tax credit.

Current law requires the secretary to create such a plan if certain changes to the federal child tax credit occur. Specifically, current law requires him to do so if the (1) credit is decreased from the amount in effect under ARPA as of June 23, 2021, or (2) eligibility criteria changes in a way that is less favorable to the taxpayer than the criteria in effect as of that date.

EFFECTIVE DATE: Upon passage

BACKGROUND

Related Bills

SB 487, favorably reported by the Finance, Revenue and Bonding Committee, requires an amount equal to the percentage of revenue remaining after the revenue cap is calculated to be transferred to an account and used to fund the Infant and Toddler Early Care and Family Support initiative the bill establishes.

HB 5487, favorably reported by the Finance, Revenue and Bonding Committee, increases the property tax credit from \$200 to \$400 and expands eligibility by eliminating provisions that limit the credit to seniors and those with dependents.

Revenue Cap and Bond Lock

The “revenue cap” prohibits the legislature from authorizing General Fund and Special Transportation Fund appropriations in any fiscal year that exceed a specified percentage of the estimated revenues included in the budget act, except under specific conditions. The percentage decreases in steps from 99.5% in FY 20 to 98% in FY 26 and thereafter (CGS § 2-33c).

Under existing law, for each fiscal year during which state GO or credit revenue bonds issued from May 15, 2018, to June 30, 2020, are outstanding, the state must comply with the (1) budget reserve fund law, including the volatility cap; (2) revenue cap; (3) state spending cap; and (4) caps on GO and credit revenue bond authorizations, allocations, issuances, and expenditures. For bonds issued during this timeframe, the treasurer must include a pledge to bondholders that the state will not enact any laws taking effect from May 15, 2018, to June 30, 2023, that change the state's obligation to comply with the laws listed above until the bonds are fully paid off, except under certain circumstances. The pledge applies for five years from the bonds’ first issuance date (CGS § 3-20(aa)).

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 28 Nay 23 (04/06/2022)