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## OLR Bill Analysis

### HB 6932

#### ***AN ACT INCREASING THE RATE OF THE CREDIT REFUND VALUE FOR CERTAIN EXPENDITURES BY BIOTECHNOLOGY COMPANIES.***

#### **SUMMARY**

This bill increases the cash refund a qualifying small biotechnology company may receive for research and development (R&D) and research and experimental (R&E) tax credits from 65% to 80% of the credit amount.

By law, this refund is available to qualified small businesses that earn R&D and R&E tax credits for R&D expenditures (see BACKGROUND) but cannot use them because they have no corporation business tax liability. A qualified small business is a company whose gross income for the prior year is \$70 million or less, including income derived from transactions with related entities. The refund is capped at \$1.5 million per company for each income year, and a qualified small business may carry its unused credits forward instead of applying for a cash refund. As under current law, qualifying small businesses that are not biotechnology companies may receive a refund of 65% of the credit amount.

Under the bill, a “biotechnology company” is one that applies certain technologies (e.g., biochemistry or genetics) to produce or modify products, improve plants or animals, identify targets for small molecule pharmaceutical development, transform biological systems into useful processes and products, or develop microorganisms for specific uses.

The bill also makes technical changes.

EFFECTIVE DATE: July 1, 2023

## **BACKGROUND**

### ***Tax Credits for R&D Expenses***

The law authorizes two corporation business tax credits for businesses incurring qualifying R&D expenses: the non-incremental R&D expenditures credit and the incremental R&E expenditures credit.

The R&D credit generally applies to R&D spending a business incurs in the state to develop or improve a product and qualifying research payments it makes to nonprofit organizations (i.e., non-incremental R&D spending) (CGS § 12-217n). The tentative credit amount generally ranges from 1% for spending of up to \$50 million to 6% for spending over \$200 million, except for eligible small businesses and certain companies headquartered in an enterprise zone.

The R&E credit applies to R&D spending a business incurs in Connecticut that exceeds the amount it spent during the preceding income year (i.e., incremental R&D spending) (CGS § 12-217j). Eligible businesses receive a credit equal to 20% of their incremental R&D spending.

### ***Related Bill***

sSB 981, § 11, favorably reported by the Finance, Revenue and Bonding Committee, contains an identical provision increasing the refund for biotechnology companies.

## **COMMITTEE ACTION**

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 51 Nay 0 (04/19/2023)