



Connecticut General Assembly

Office of Fiscal Analysis
Office of Legislative Research

TO: Members of the Finance, Revenue, and Bonding Committee

FROM: OFA & OLR Staff

RE: Items for April 2, 2009 Agenda

1. S.B. No. 932 (RAISED) AN ACT MAKING CHANGES TO VARIOUS TAX STATUTES. (JFS)

Revenue Summary:

The bill is anticipated to result in General Fund revenue gain of \$1.653 billion in FY 10 and \$1.602 billion in FY 11.

INCOME TAX

Rate Increase

Fiscal Impact:

The bill is anticipated to result in General Fund revenue to the personal income tax of \$1.226 billion in FY 10 and \$825.9 million per year beginning in FY 11. The expected revenue gain for FY 10 is for 18 months (January 2009 through June 2010).

Summary:

The bill increases the income tax on those with taxable incomes over \$250,000 for joint filers, \$132,500 for single filers, \$200,000 for heads of household, and \$125,000 for married people filing separately. It does so by adding four higher-income brackets and increasing the marginal tax rates for those brackets from a flat 5.0% to 6.0% - 7.95%.

Table 1 shows tax rates and brackets under the current law and the bill. (Note: The tax rates shown apply only to the taxable income in the applicable bracket, not to all of a taxpayer's income.)

TABLE 1: CURRENT AND PROPOSED TAX RATES AND BRACKETS

TAX RATES		CT. TAXABLE INCOME			
		Married Filing Jointly		Single	
<i>Current</i>	<i>Bill</i>	<i>Over</i>	<i>But Not Over</i>	<i>Over</i>	<i>But Not Over</i>
3.0%	3.0%	\$0	\$20,000	\$0	\$10,000
5.0%	5.0%	20,000	250,000	10,000	132,500
	6.0%	250,000	500,000	132,500	265,000
	7.0%	500,000	750,000	265,000	397,500
	7.5%	750,000	1,000,000	397,500	530,000
	7.95%	Over \$1,000,000		Over \$530,000	
TAX RATES		Head of Household		Married Filing Separately	
<i>Current</i>	<i>Bill</i>	<i>Over</i>	<i>But Not Over</i>	<i>Over</i>	<i>But Not Over</i>
3.0%	3.0%	\$0	\$16,000	\$0	\$10,000
5.0%	5.0%	16,000	200,000	10,000	125,000
	6.0%	200,000	400,000	125,000	250,000
	7.0%	400,000	600,000	250,000	375,000
	7.5%	600,000	800,000	375,000	500,000
	7.95%	Over \$800,000		Over \$500,000	

EFFECTIVE DATE: Upon passage and applicable to tax years starting on or after January 1, 2009.

Property Tax Credit

Fiscal Impact:

The bill is anticipated to result in a General Fund revenue gain to the personal income tax of \$72.5 million in FY 10 and \$324.0 million per year beginning in FY 11.

Summary:

The bill lowers the thresholds for phasing out the property tax credit against the income tax by 25% for the 2009 tax year and 75% for the 2010 tax year. These changes make fewer taxpayers eligible for the credit and reduce the maximum amounts taxpayers receive if their incomes exceed the lower thresholds. Table 2 shows the current and proposed credit phase-out thresholds for the two years, by filing status.

TABLE 2: MAXIMUM PROPERTY TAX CREDIT AND PHASE-OUT SCHEDULES BY FILING STATUS

Married Filing Jointly (CT AGI)						
Maximum Credit	Current Law		The Bill: Tax Year 2009		The Bill: Tax Year 2010	
	<i>CT AGI Over</i>	<i>CT AGI Not Over</i>	<i>CT AGI Over</i>	<i>CT AGI Not Over</i>	<i>CT AGI Over</i>	<i>CT AGI Not Over</i>
\$500	\$0	\$100,500	\$0	\$75,375	\$0	\$25,125
450	100,500	110,500	75,375	82,875	25,125	27,625
400	110,500	120,500	82,875	90,375	27,625	30,125
350	120,500	130,500	90,375	97,875	30,125	32,625
300	130,500	140,500	97,875	105,375	32,625	35,125
250	140,500	150,500	105,375	112,875	35,125	37,625
200	150,500	160,500	112,875	120,375	37,625	40,125
150	160,500	170,500	120,375	127,875	40,125	42,625
100	170,500	180,500	127,875	135,375	42,625	45,125
50	180,500	190,500	135,375	142,875	45,125	47,625
0	Over \$190,500		Over \$142,875		Over \$47,625	
Single (CT AGI)						
Maximum Credit	Current Law		The Bill: Tax Year 2009		The Bill: Tax Year 2010	
	<i>CT AGI Over</i>	<i>CT AGI Not Over</i>	<i>CT AGI Over</i>	<i>CT AGI Not Over</i>	<i>CT AGI Over</i>	<i>CT AGI Not Over</i>
\$500	\$0	\$56,500	\$0	\$42,375	\$0	\$14,125
450	56,500	66,500	42,375	49,875	14,125	16,625
400	66,500	76,500	49,875	57,375	16,625	19,125
350	76,500	86,500	57,375	64,875	19,125	21,625
300	86,500	96,500	64,875	72,375	21,625	24,125
250	96,500	106,500	72,375	79,875	24,125	26,625
200	106,500	116,500	79,875	87,375	26,625	29,125
150	116,500	126,500	87,375	94,875	29,125	31,625
100	126,500	136,500	94,875	102,375	31,625	34,125
50	136,500	146,500	102,375	109,875	34,125	36,625
0	Over \$146,500		Over \$109,875		Over \$36,625	
Head of Household (CT AGI)						
Maximum Credit	Current Law		The Bill: Tax Year 2009		The Bill: Tax Year 2010	
	<i>CT AGI Over</i>	<i>CT AGI Not Over</i>	<i>CT AGI Over</i>	<i>CT AGI Not Over</i>	<i>CT AGI Over</i>	<i>CT AGI Not Over</i>
\$500	\$0	\$78,500	\$0	\$58,875	\$0	\$19,625
450	78,500	88,500	58,875	66,375	19,625	22,125
400	88,500	98,500	66,375	73,875	22,125	24,625
350	98,500	108,500	73,875	81,375	24,625	27,125
300	108,500	118,500	81,375	88,875	27,125	29,625
250	118,500	128,500	88,875	96,375	29,625	32,125
200	128,500	138,500	96,375	103,875	32,125	34,625
150	138,500	148,500	103,875	111,375	34,625	37,125
100	148,500	158,500	111,375	118,875	37,125	39,625
50	158,500	168,500	118,875	126,375	39,625	42,125
0	Over \$168,500		Over \$126,375		Over \$42,125	

Married Filing Separately (CT AGI)						
Maximum Credit	Current Law		The Bill: Tax Year 2009		The Bill: Tax Year 2010	
	<i>CT AGI Over</i>	<i>CT AGI Not Over</i>	<i>CT AGI Over</i>	<i>CT AGI Not Over</i>	<i>CT AGI Over</i>	<i>CT AGI Not Over</i>
\$500	\$0	\$50,250	\$0	\$37,688	\$0	\$12,563
450	50,250	55,250	37,688	41,438	12,563	13,813
400	55,250	60,250	41,438	45,188	13,813	15,063
350	60,250	65,250	45,188	48,938	15,063	16,313
300	65,250	70,250	48,938	52,688	16,313	17,656
250	70,250	75,250	52,688	56,438	17,656	18,183
200	75,250	80,250	56,438	60,188	18,183	20,063
150	80,250	85,250	60,188	63,938	20,063	21,313
100	85,250	90,250	63,938	67,688	21,313	22,563
50	95,250	100,250	67,688	71,438	22,563	23,813
0	Over \$100,250		Over \$71,438		Over \$23,813	

EFFECTIVE DATE: Upon passage and applicable to tax years starting on or after January 1, 2009.

Delay In Scheduled Income Tax Reductions For Single Filers

Fiscal Impact:

The bill is anticipated to result in a General Fund revenue gain to the personal income tax of \$23.9 million in FY 10, \$30.2 million in FY 11, \$36.4 million in FY 12, \$30.8 million FY 13, \$18.9 million in FY 14, and \$6.3 million in FY 15.

Summary:

The bill delays scheduled income tax reductions for single filers for three years. It delays scheduled increases in (1) their adjusted gross income (AGI) exempt from the tax and (2) income thresholds for reducing their personal exemptions and credits.

Personal Exemption. The maximum personal exemption for single filers for the 2008 tax year is \$13,000. Under current law, the maximum exemption is scheduled to increase to \$13,500 on January 1, 2009 and to rise in five more annual steps to \$15,000 on January 1, 2012. The bill, instead maintains the \$13,000 personal exemption for three more years, through the 2011 tax year, delaying the increase to \$13,500 and each subsequent increase by three years. It also delays scheduled increases in the exemption reduction thresholds to correspond, as shown in Table 2. (The income tax personal exemption is reduced by \$1,000 for each \$1,000 of AGI over a specified threshold, which varies according to filing status.)

TABLE 2: PERSONAL EXEMPTIONS FOR SINGLE FILERS

<i>Tax Year(s)</i>		<i>Maximum Personal Exemption (AGI)</i>	<i>Personal Exemption Reduction Threshold (AGI)</i>
2008	2008-2011	\$13,000	\$26,000
2009	2012	13,500	27,000
2010	2013	14,000	28,000
2011	2014	14,500	29,000
2012 and after	2015 and after	15,000	30,000

Personal Credit. The bill also delays by three years scheduled increases in income ranges that allow single filers to qualify for personal credits against their income tax. Personal credits range from 1% to 75% of tax liability depending on AGI. Filers with AGIs above specified levels, which vary depending on filing status, do not qualify for any credit. Table 3 shows personal credit income ranges for single filers under current law and the bill.

TABLE 3: PERSONAL CREDITS FOR SINGLE FILERS

<i>Tax Year(s)</i>		<i>Qualifies for 1% to 75% Personal Credit (AGI)</i>	
<i>Current</i>	<i>Proposed</i>	<i>Over</i>	<i>But Not Over</i>
2008	2008-2011	\$13,000	\$56,500
2009	2012	13,500	58,500
2010	2013	14,000	60,500
2011	2014	14,500	62,500
2012 and after	2015 and after	15,000	64,500

EFFECTIVE DATE: Upon passage and applicable to income years starting on or after January 1, 2009.

SALES TAX

Sales Tax Free Week

Fiscal Impact:

The bill is anticipated to result in a General Fund revenue gain to the sales and use tax of \$4.2 million in FY 10 and \$4.4 million in FY 11.

Summary:

The bill suspends the sales tax free week for the 2009 and 2010 calendar years. Under current law, clothing and footwear costing less than \$300 is not subject to the state’s 6% sales tax when purchased between the third Sunday in August and the following Saturday.

EFFECTIVE DATE: July 1, 2009

Exemptions Repealed

Fiscal Impact:

The bill is anticipated to result in a General Fund revenue gain to the sales and use tax of approximately \$79.5 million per year beginning in FY 11.

Summary:

The bill repeals specific sales tax exemptions as shown in Table 5.

TABLE 5: SALES TAX EXEMPTIONS ELIMINATED

STATUTE	EXEMPTION
12-412 (71)	Commercial printing machinery, equipment, tools, materials, and supplies
12-412i	Partial exemption (50%) for materials, tools, fuel, machinery, and equipment used in manufacturing tangible personal property to be sold
12-412 (63)	Items sold exclusively for agricultural production by a farmer engaged in the business of farming
12-412 (40)	Commercial fishing boats and machinery and equipment for use in them
12-412 (21) & (22)	Items or services used to operate waste treatment or air pollution control facilities
12-412 (90)	Water company purchases: Items or services used by a water company in maintaining, operating, managing, or controlling a well, water body, or distributing plant or system to supply water to at least 50 consumers
12-412 (58)	Personnel, management, or research services when both the seller and recipient are participating in a joint venture for research and new product development
No statute	Tax preparation
	Pilot Credit for E-commerce donations to higher education
	Drug testing services
12-412 (91)	Protective clothing or equipment an employee wears or uses at work
12-407 (a) (37) (N)(i)	Motor vehicle parking: Non-metered parking in seasonal lots with 30 or more spaces provided by a nonprofit charitable hospital, nursing home, rest home, residential care home, certain acute-care for-profit hospitals, or a nonprofit organization exemption from federal income tax
12-407 (a) (37) (N) (ii)	Motor vehicle parking: Non-metered motor vehicle parking spaces in an employer-operated lot owned or leased for a minimum of 10 years and operated for the exclusive use of its employees
12-407 (a) (37) (N) (iii)	Motor vehicle parking: Airport valet parking

STATUTE	EXEMPTION
12-407 (a) (37) (N) (iv)	Motor vehicle parking: Space in state-owned or operated or municipally operated railroad parking facilities located in areas not meeting federal Clean Air standards for ozone
12-412 (109)	College textbooks and related workbooks
12-412 (110)	Passenger vehicles with EPA-estimated highway mileage ratings of 40 miles per gallon or more (expires July 1, 2010)
12-412 (117)	Solar electricity generating, water, and space heating systems and geothermal resource systems and related equipment and service
12-412 (31)	Printed material manufactured in Connecticut for use outside the state
12-412 (44) (A)	Taped or filmed radio or t.v. programs and materials that become components for such programs, if the programs (a) will be broadcast to the public by a radio or t.v. station or (b) used for accredited medical or surgical training
12-412 (44) (B)	Motion picture or video production or sound recording equipment to become part of master tapes, records, or videotapes used for commercial entertainment, advertising, or educational purposes
12-412 (44) (C)	Equipment, including antennas, that radio or t.v. stations use to broadcast programs to the general public
12-412 (50)	Lease or rental of movies for display by a theater owner or operator
12-407 (a) (37) (S)	Sales agent services: Consignment services (other than auctioneer services) for someone selling (a) works of art or (b) clothing footwear other than that for specialized athletic or protective use or accessories, such as jewelry
12-412 (89)	Machinery, equipment, tools, materials, supplies, and fuel used directly in the biotechnology industry
12-407 (38)	Media payroll services
No statute	Car washes
	Services provided by an off-duty police officer or firefighter
12-412 (43)	Replacement parts for machinery sold to a business located in an enterprise zone
12-412 (53)	Disposable pads for incontinency
12-412 (52)	Cloth or fabric for noncommercial home sewing of clothes
12-412 (108)	Child car seats
12-412 (72)	Machinery, equipment, tools, materials, and supplies for typesetting, color separation, finished copy and similar products
12-412 (5)	Goods or services sold to or by nonprofit charitable hospitals, nursing homes, residential care homes
12-412c	Mobile and pre-fabricated homes
	Trade-in of certain construction equipment
	Licensed motor vehicle dealers
12-412 (74)	Computer and data processing services rendered under certain specified circumstances and during specified time periods
12-407(a) (37) (BB)	Services of a licensed massage therapist or electrologist
12-407 (a) (37) (J) (ii)	Training services for businesses provided by colleges and universities accredited by the Board of Governors of Higher Education
12-412 (111)	Specially formulated gum, inhalants, or similar products designed to help someone stop smoking
12-412 (102)	Bicycle helmets
12-412 (82) & (83)	Commercial motor vehicles or motor buses when, for at least one year after purchase, a minimum of 75% of their revenue comes from out-of-state or interstate trips

STATUTE	EXEMPTION
12-412 (64)	Equipment for producing or cleaning computer discs and for maintaining climate-controls need for those processes
12-412 (65)	Metal casting foundry purchases of molds, dies, patterns, and sand handling equipment
12-412 (66)	Pattern shop sales of molds, dies, and patterns to metal casting foundries or their customers for use in foundries, and pattern shop purchases in connection with such sales
12-412 (88)	Machinery, equipment, tools, and materials exclusively for processing photographic film and paper
12-412 (95)	Items or services for operating a DEP-certified waste-to-energy facility
12-412 (104) (A)	Calibration services for manufacturing production machinery, equipment, or instrumentation
12-412 (104) (B)	Compliance practices and services associated with quality management and quality assurance standards created by the International Organization of Standards
	Leased and professional contract employees
	Amusement and recreation services
12-412 (113)	Materials, tools, fuel, machinery, and equipment used in a fuel cell manufacturing facility
12-407(a)(27)	Non-cable communications services

EFFECTIVE DATE: July 1, 2009

CORPORATION TAX

Surcharge

Fiscal Impact:

The bill is anticipated to result in a General Fund revenue gain to the corporation tax of \$160.0 million in FY 10, \$106.0 million in FY 11, and \$49.0 million in FY 12.

Summary:

The bill imposes a 30% corporation tax surcharge for income years 2009, 2010, and 2011. The surcharge is due, payable, and collectible as part of each company's total tax for the year. Companies subject to the corporation tax on net income must calculate their surcharges based on their tax liability excluding any credits.

EFFECTIVE DATE: Upon passage and applicable to income years starting on or after January 1, 2009.

Decoupling from the Federal Domestic Production Activity Deduction

Fiscal Impact:

The bill is anticipated to result in a General Fund revenue gain to the corporation business tax of \$27.5 million per year beginning in FY 10.

Summary:

The bill bars companies from using the federal tax deduction for domestic production activity when determining net income for purposes of the state corporation tax.

Federal tax law allows corporations to deduct a percentage of qualifying income they earn from eligible production activities taking place wholly or mostly within the United States. Eligible production activity includes manufacturing, construction, engineering, energy production, computer software, films and videotape, and agricultural products processing. The percentage deduction is 6% for 2009 and 9% for 2010 and after (Internal Revenue Code § 199).

EFFECTIVE DATE: Upon passage and applicable to income years starting on or after January 1, 2009.

Overall Tax Credit Limits

Fiscal Impact:

The bill is anticipated to result in a General Fund revenue gain to the corporation tax of \$10.0 million in FY 10 and \$40.0 million per year beginning in FY 11.

Summary:

The bill reduces the limit on the total value of corporation tax credits allowed to any company for any income year from 70% of its tax liability without the credits for the year to 65% the income year starting January 1, 2009 and to 50% for the income year starting January 1, 2010.

EFFECTIVE DATE: Upon passage and applicable to income years beginning on or after January 1, 2009.

Exemptions for DISCs and FSCs

Fiscal Impact:

The bill is anticipated to result in a General Fund revenue gain to the corporation tax of \$50 million per year beginning in FY 10.

Summary:

The bill eliminates two exemptions from the corporation business tax relating to domestic international sales corporations (DISCs) and foreign sales corporations (FSCs). It (1) extends the tax to qualifying DISCs that are currently exempt and (2) eliminates an allowable income deduction for dividends a company receives from DISCs or a foreign sales corporations (FSCs)

DISCs and FSCs are corporations whose income is primarily derived from exports. A DISC is a U.S. company and a FSC is an affiliate of a U.S. company that is incorporated in a qualifying foreign country and serves as an agent for the U.S. exporter. Federal tax law permits a qualifying DISC to defer federal taxes on its export profits at the rate of up to \$10 million per year. Federal FSC tax provisions permit U.S. firms that have FSC affiliates to exempt between 15% and 30% of their export income from federal taxes.

EFFECTIVE DATE: Upon passage and applicable to income years beginning on or after January 1, 2009.

ESTATE AND GIFT TAX SURCHARGE

Fiscal Impact:

The bill is anticipated to result in a General Fund revenue gain to the estate and gift tax of \$42.7 million in FY 10, \$51.2 million in FY 11, and \$53.3 million in FY 12.

Summary:

The bill imposes a 30% surcharge on those subject to the estate and gift tax during the 2009, 2010, and 2011 tax years. The tax applies to taxable gifts and estates over \$2 million. Under the bill, the surcharge must be added to the Connecticut estate or gift tax due and is payable in the same manner as the underlying tax.

EFFECTIVE DATE: Upon passage and applicable to deaths and transfers occurring on or after January 1, 2009 and before January 1, 2012.

CIGARETTE TAX

Fiscal Impact:

The bill is anticipated to result in a General Fund revenue gain of \$36.0 million in FY 10 and \$63.0 million per year beginning in FY 11. The estimates include the impact to: 1) the cigarette excise tax, 2) the sales and use tax, and 3) a one-time revenue gain of \$4.4 million in FY 10 as a result of the floor tax.

Summary:

The bill increases the cigarette tax by 50 cents, from \$2 to \$2.50 per pack of 20 (from 10 cents to 12.5 cents per cigarette), starting January 1, 2010.

The bill also imposes a 50-cent “floor tax” on each pack of cigarettes that dealers and distributors have in their inventories at the later of the close of business or 11:59 p.m. on June 30, 2009. By August 15, 2009, each dealer and distributor must report to the Department of Revenue Services (DRS) the number of cigarettes in inventory as of that time and date and pay the inventory tax. If a dealer or distributor does not report by the due dates, the DRS commissioner must file the report, estimating the number of cigarettes in the dealer’s or distributor’s inventory using any information the commissioner has or obtains.

Failure to file the report by the due date is grounds for DRS to revoke a dealer's or distributor's license, and willful failure to file subjects the dealer or distributor to a fine of up to \$1,000, one year in prison, or both. A dealer or distributor who willfully files a false report can be fined up to \$5,000, sentenced to one to five years in prison, or both.

EFFECTIVE DATE: Upon passage and applicable to cigarette sales on or after July 1, 2009.

2. H.B. No. 6560 (RAISED) AN ACT CONCERNING MUNICIPAL AUTHORITY TO SET FEES AND INCREASE FINES. (JFS)

Fiscal Impact:

The bill will result in a revenue gain to municipalities that elect to impose a surcharge on the same services that state imposes such a fee.

Summary:

The substitute bill gives municipalities authority to impose a surcharge on any service for which state law sets a fee. The surcharge must equal no more than the municipality's costs for providing the service, including costs for (1) reviewing and taking action on applications and petitions, (2) certified mailing, (3) publishing notices and decisions, (4) monitoring permit compliance, and (5) salaries for employees who provide the service.

EFFECTIVE DATE: July 1, 2009

3. S.B. No. 930 (RAISED) AN ACT CONCERNING THE CIGARETTE TAX, THE TOBACCO PRODUCTS TAX AND THE ALCOHOLIC BEVERAGES TAX. (JFS)

Fiscal Impact:

For every \$100 million issued, the total amount of debt service (principal plus interest) is \$114 million assuming a 3.5% interest rate over a 7-year term of issuance with level principal payments. The bill provides that the bonds must be issued so that at least \$50 million of the principal amount matures in each fiscal year.

The payment mechanism for Economic Recovery Notes (ERNs) is a General Fund revenue intercept (i.e., the money will be diverted from the General Fund revenue stream before it was recorded as being in the Fund.) The notes are exempted from the statutory debt cap on General Obligation (GO) bonds.

Summary:

The bill authorizes the state treasurer to issue tax-exempt general obligation "Economic Recovery Notes" to fund the FY 2008-09 General Fund deficit. The term of issuance of the bonds is up to seven years. The proceeds of the notes must be deposited in the General Fund. The comptroller must certify the amount of the deficit to the treasurer in order to allow her to determine the total amount of notes to issue.

The payment of principal and interest on the notes are to be made from the "Economic Recovery Note Debt Retirement Fund" established for this purpose. The Treasurer is required to transfer tax revenue to this Debt Retirement Fund to pay the principal and interest on the deficit notes rather than to the General Fund. If there exists an unappropriated surplus in the General Fund at the end of

any fiscal year in which ERNs are outstanding, a portion of the surplus must be used to redeem the deficit notes prior to maturity.