



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 19, 2013 Agenda

BILLS FOR JF CONSIDERATION

1. **Substitute for S.B. No. 965** (RAISED) AN ACT CONCERNING CHANGES TO MUNICIPAL REVENUE COLLECTION STATUTES. (PD,FIN)(JFS)

Fiscal Impact:

The bill makes various changes to municipal tax collection procedures which are anticipated to yield minimal administrative cost savings and a net revenue gain to municipalities.

Summary of Substitute Bill:

This bill (1) makes many different changes to the municipal tax collection statutes and (2) modifies a requirement that municipalities include a notice of community-based resources for foreclosure mediation with certain statements they send to property owners.

Municipal Tax Collection

Among other things, the bill:

1. allows municipal officers to inspect, for tax collection purposes, commercial and financial information included in personal property tax declarations (§ 3);
2. gives tax liens issued under a specific property tax deferral program the same precedence as other tax liens (§ 7);
3. allows tax collectors to deny a property tax refund if a taxpayer is delinquent in other taxes or has other debt (§ 10);

4. eliminates a requirement that tax collectors include, as part of tax bills, a statement of the year and amount of any back taxes due (§ 11);
5. eliminates various tax collector fees (§ 17);
6. modifies the order in which tax collectors must apply tax payments, giving priority to expenses incurred related to the tax and delinquency-related charges before the principal on the oldest outstanding tax (§ 20);
7. authorizes a municipality's legislative body to waive property taxes that total less than \$25 after they are due (§ 21);
8. allows municipalities and district health departments to withhold or revoke a business license or permit if the business owes taxes on any property, not just personal property, it owns or uses (§ 24);
9. allows a tax collector to sell a taxpayer's real or personal property without making a personal or written demand for the payment if the tax assessor, after making reasonable efforts, is unable to identify the owner or person responsible for the delinquent taxes or charges (§ 29);
10. allows a person to seek to stop a tax sale under the same process that currently applies to a person contesting the validity of a sale (§ 32);
11. explicitly bars tax collectors from (a) compromising or releasing any tax amount without legal authority to do so and (b) knowingly submitting a false report to remove a motor vehicle from the delinquent tax list (§§ 38-39);
12. allows a tax lien assignee to recover the municipality's expenses for preparing and recording the lien assignment, in addition to collection expenses and fees the law already allows them to recover (§ 41); and
13. makes other technical, minor, and conforming changes.

Notice of Community-Based Resources

PA 12-1, JSS, required municipalities to include the Judicial Branch's form on community-based resources for people involved in foreclosure mediation with any statement sent to a homeowner about a public sewer, water service, or property tax arrearage. The bill instead requires them to include the form with any complaint to judicially foreclose such arrearages.

EFFECTIVE DATE: October 1, 2013, and applicable to assessment years starting on or after that date.

2. Substitute for S.B. No. 1079 (RAISED) AN ACT INCREASING THE MANUFACTURING APPRENTICESHIP TAX CREDIT. (CE,FIN)(JFS)

Fiscal Impact:

Agency Affected	Fund	Effect	FY 14 \$	FY 15 \$	FY 16 \$
Department of Revenue Services	General Fund	Revenue Loss	None	None	650,000

The bill results in a revenue loss of approximately \$650,000 annually beginning in FY 16.

Summary of Substitute Bill:

This bill increases the maximum annual credit for hiring manufacturing apprentices from \$4,800 to \$7,500 per apprentice. Under current law and the bill, businesses calculate the credit amount by multiplying the total number of apprentice work hours by a statutorily set rate for the first half of a two-year apprenticeship or the first three-quarters of a four-year apprenticeship. The bill increases the rate from \$4 per hour to \$6 per hour.

EFFECTIVE DATE: July 1, 2015, and applicable to income years on or after January 1, 2015.

3. Substitute for S.B. No. 1131 (RAISED) AN ACT CONCERNING CHANGES TO THE CONNECTICUT HISTORIC HOME TAX CREDIT. (CE,FIN)(JFS)

Fiscal Impact:

Agency Affected	Effect	FY 14 \$	FY 15 \$	FY 16 \$
Department of Revenue Services	Potential Revenue Loss	None	None	Up to \$2.0 million

The bill expands the Historic Homes Rehabilitation tax credit, which results in a revenue loss of up to \$2.0 million annually beginning in FY 16.

Although the bill does not make changes to the \$3.0 million aggregate annual credit cap for the program, fewer than \$1.0 million in total credits have been utilized historically. To the extent the expansion under the bill results in greater utilization of the credit, there is a potential \$2.0 million annual revenue loss.

Summary of Substitute Bill:

This bill expands the historic home tax credit by:

1. making it available statewide, not just in statutorily designated areas;
2. reducing the minimum amount of money a property owner must spend rehabilitating a historic home from \$25,000 to \$15,000; and
3. raising the maximum amount of credits a nonprofit corporation can claim for rehabilitating such a home from \$30,000 to \$50,000.

By law, the credit applies to the insurance premium, corporation business, air carrier, railroad companies, community antenna and satellite TV companies, and utility company taxes.

EFFECTIVE DATE: July 1, 2015, and applicable to income years on or after January 1, 2015.

4. [Substitute for H.B. No. 6538](#) (RAISED) (File No. 329) AN ACT CONCERNING ARBORISTS AND TREE WARDENS. (ENV,FIN)(JF)

See File 329.

5. [S.B. No. 843](#) AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET. (FIN)(JFS)

Fiscal Impact: See Below

Section 1: Authorizing a tax amnesty program covering all state taxes (other than motor carrier road taxes) from September 16, 2013, to November 15, 2013 generates a General Fund revenue gain of \$35 million in FY 14, and a revenue loss of \$7 million in FY 15 due to an anticipated shift in the timing of the receipt of delinquent taxes. The estimate includes amounts already identified as accounts receivables.

Section 2: Eliminating statutory transfers from the Tobacco Settlement Fund to the Stem Cell Research Fund (\$10 million) and the Biomedical Trust Fund (\$4 million) increases General Fund revenue by \$14 million in each of FY 14 and FY 15. Eliminating the transfers increases General Fund revenue because under current law the General Fund receives all Tobacco Settlement Fund revenues that are not otherwise transferred.

Please note that Sections 13(f) and 32(e) of SB 842, "AA Authorizing and Adjusting Bonds of the State for Capital Improvements, Transportation and Other Purposes," as favorably reported by the Finance, Revenue and Bonding Committee, authorize General Obligation (GO) bond funds of \$10 million in each of FY 14 and FY 15 to maintain the same level of funding for the Stem Cell Research Fund.

Sections 3, 22-34: These sections are deleted. They would have eliminated the Payments in Lieu of Taxes (PILOT) for State-Owned Property and Bradley International Airport Property.

Section 4: Extending, until Calendar Year 2014, the temporary cap on the maximum insurance premium tax liability that an insurer may offset through tax credits increases General Fund revenue by \$27 million in each of FY 14 and FY 15. Please note that the estimate for this policy has been updated since the Governor's budget was presented in February.

Sections 5-6: Extending the 20% Corporate Income Tax surcharge until Income Year 2015 will result in a General Fund revenue gain of \$44.4 million in FY 14 and \$74.0 million in FY 15.

Section 7: This section is deleted. It would have expanded and extended the temporary tax on electric generation facilities.

Sections 8-9 and 35: Eliminating the Manufacturing Transition Grants and Municipal Revenue Sharing Account will result in a General Fund revenue gain of \$92.4 million in FY 14 and \$97.9 million in FY 15.

Section 10: This section is deleted. It would have begun restoring exemptions from Sales Tax on certain clothing and footwear.

Section 11: Reducing the Earned Income Tax Credit from: 30% of the federal program to (1) 25% in FY 14 and (2) 27.5% in FY 15, will result in a General Fund revenue gain of \$21.1 million in FY 14 and \$11.0 million in FY 15.

Sections 12-13, 104: The net impact of the transfers listed in the table below is to shift \$77.3 million from the Special Transportation Fund to the General Fund in FY 14. The net impact is to shift \$3.4 million from the Special Transportation Fund to the General Fund in FY 15.

Interfund Transfers between General and Transportation Funds (\$ - millions)

Section	Reason	FY 14		FY 15	
		GF	STF	GF	STF
12	Adjust Transfer to include all estimated Petroleum Gross Receipt Tax Revenues from Gasoline	(158.0)	158.0	(152.3)	152.3
13	Adjust Statutory Transfers, which offset Transfers above	172.8	(172.8)	152.3	(152.3)
104	Implement Transfers in FY 14 and FY 15 only	62.5	(62.5)	3.4	(3.4)
	Net Total	77.3	(77.3)	3.4	(3.4)

Section 14: This section is deleted. It would have increased the total amount of business credits available under the Urban and Industrial Sites Reinvestment Program by \$150 million.

Section 15: This section is deleted. It would have increased the assessments cap on antique cars from \$500 to \$1,000.

Sections 16-17: Allowing an exemption from the motor vehicle tax on the first \$20,000 of the assessed value of motor vehicles beginning in the 2018 assessment year will result in a revenue loss to municipalities and a revenue gain to the state beginning in FY 20. The fiscal impact will depend upon the grand list values during the 2018 assessment year.

Section 18: Establishing a tax credit for gas companies that provide financial incentives for certain customers to convert to natural gas will result in an annual General Fund revenue loss of \$5 million beginning in FY 15.

Section 19: Auctioning the electric generation load for the state's standard offer will result in a one-time General Fund revenue gain of \$100 million in FY 14.

Sections 20-21: This section is deleted. It would have stopped payments for FY 14 and FY 15 under the Mashantucket Pequot and Mohegan Sun Grants.

Section 101: A one-time payment by the Connecticut Resources Recovery Authority (CRRA) will result in a General Fund revenue gain of \$30 million in FY 14. The CRRA payment is related to the transfer of care and control of the five CRRA post-closure landfills to the state. The section will also result in an on-going cost of approximately \$1 million to the Department of Energy and

Environmental Protection to manage ongoing testing and maintenance of the landfills.

Sections 102-103: These sections transfer \$3.4 million in FY 14 and \$3.5 million in FY 15 from the Public Education and Governmental Programming and Education Technology Investment account to the General Fund.

Section 104: This section transfers \$62.5 million in FY 14 and \$3.4 million in FY 15 from the Special Transportation Fund to the General Fund.

Sections 105-108: Applying the general sales tax rate of 6.35% to computer and data processing service sales to consumers, including digital downloads, will result in a General Fund revenue gain of \$20.5 million FY 14 and \$22.1 million in FY 15.

Sections 109-110: Exempting vessels that cost over \$100,000 from the 7.0% luxury tax will result in an estimated annual General Fund revenue loss of approximately \$70,000. These vessels would be taxed at the regular 6.35% sales tax rate rather than the luxury tax rate.

Section 111-112: Exempting vessels docked in the state for 60 days or less in a calendar year from the sales and use tax will result in an annual General Fund revenue loss of approximately \$2.0 million.

Section 113-114: Eliminating the increase in cap on the aggregate annual amount of credits available under the Neighborhood Assistance Act tax credit program has no fiscal impact.

Sections 115-118: Raise several municipal fees and the state portion of the fee for marriage licenses. The anticipated annual state revenue gain is \$120,000. The revenue increase to municipalities associated with the fee increase to marriage licenses is \$280,000 annually in aggregate. These sections also raise several other municipal fees, including fees for the filing of liquor permits, marriage licenses, maps, burials, cremations, notary information, and miscellaneous documents.

There is a revenue increase to municipalities, expected to be minimal, associated with this increase in fees. It is anticipated that the increases in the remaining fees, other than the marriage license fee, would generate less than \$10,000 annually for the City of New Haven, for instance.

Fiscal Summary

sSB 843: Revenue Impact			
(\$ - millions)			
Section Number	Change Description	FY 14	FY 15
Section 1	Tax Amnesty	35.0	(7.0)
Section 2	Divert Stem Cell Transfer and Biomedical Trust Fund Transfer	14.0	14.0
Section 4	Maintain Credit Cap for IY 13 & 14	27.0	27.0
Sections 5-6	Maintain 20% Surcharge for IY 14 & 15	44.4	74.0
Sections 8-9, 35	Eliminate MRSA Transfer	92.4	97.9
Section 11	Reduce EITC	21.1	11.0
Sections 12-13, 104	STF Transfers	77.3	3.4
Section 14	Increase URA Tax Credits	-	-
Sections 16-17	Motor Vehicle Property Tax Elimination	-	-
Section 18	Incentivize Natural Gas Conversion	-	(5.0)
Section 19	Standard Offer Auction	100.0	-
Section 101	CRRA Transfer	30.0	-
Sections 102-103	Public Education and Governmental Programming Account Transfer	3.4	3.5
Sections 105-108	Digital Downloads and Computer/Data Processing Services to Consumers Taxed at 6.35%	20.5	22.1
Sections 109-110	Eliminate Luxury Tax on Boats	(0.1)	(0.1)
Sections 111-112	60-Day Use Tax Exemption for Boats	(2.0)	(2.0)
Sections 113-114	Neighborhood Assistance Act	-	-
Sections 115-118	Minor Fees	0.7	0.8
TOTAL sSB 843		463.7	239.6
Other Items Not in sSB 843:			
(\$ - millions)			
sSB 842	Delay Amortization of GAAP deficit	30.0	30.0
sSB 842	Alternative Refinancing of ERNs	46.0	46.0
Anticipated, legislation not required	Enhanced Sales Tax Collections (Amazon)	15.0	15.0
CGS 2-35	Reduce Mashantucket Pequot and Mohegan Fund Transfer	73.2	73.2
Net Finance Committee Budget Impact		627.9	403.8

Summary of Substitute Bill:

§ 1 – Tax Amnesty Program

The bill requires the Department of Revenue Services (DRS) commissioner to establish a tax amnesty program for individuals, business, or other taxpayers that owe Connecticut state taxes (other than motor carrier road taxes). The amnesty runs from September 16, 2013 to November 15, 2013 and covers any taxable period ending on or before November 30, 2012.

If a taxpayer pays the taxes due by November 15, 2013, the bill reduces the interest rate on those taxes to one fourth of the interest that the department's records show to be due and payable as of the application's filing. The interest rate on overdue taxes is generally 1% per month.

The bill imposes a penalty on any taxpayer who (1) owes any tax for the applicable tax periods for which a tax return was required, but not previously filed, and (2) fails to file a timely amnesty application. The penalty (1) is equal to 25% of the tax owed and (2) may not be waived.

EFFECTIVE DATE: July 1, 2013

§ 2 – Biomedical and Stem Cell Research Transfers

The bill eliminates the following transfers from the Tobacco Settlement Fund: (1) \$4 million each fiscal year to the Biomedical Research Trust Fund and (2) \$10 million in FY 14 and 15 to the Stem Cell Research Fund.

EFFECTIVE DATE: Upon passage

§§ 3, 22-34 – PILOTs for State-Owned Property and Bradley International Airport Property – Sections Deleted

§ 4 – Insurance Premium Tax Credit Limit

The bill extends, for two additional years, the temporary cap on the maximum insurance premium tax liability that an insurer may offset through tax credits.

The caps are part of a structure that, under existing law, (1) classifies insurance premium tax credits into three types for calendar years 2011 and 2012, (2) specifies the order in which an insurer must apply the three credit types to offset liability, and (3) establishes the maximum liability that an insurer can offset in those years by claiming one or more of these types of credits.

For 2012, the three credit types and the maximum tax reduction from each type are:

1. Type 1: digital animation credits, 55%
2. Type 2: insurance reinvestment fund credits, 70%
3. Type 3: all other credits, 30%

The bill extends the temporary cap to the 2013 and 2014 calendar years.

EFFECTIVE DATE: Upon passage and applicable to calendar years starting on or after January 1, 2013

§§ 5-6 – Corporation Income Tax Surcharge

The bill extends the temporary 20% corporation income tax surcharge for two additional years, to the 2014 and 2015 income years. As under current law, the surcharge for 2014 and 2015 applies to companies that have more than \$250 in corporation tax liability and either (1) have at least \$100 million in annual gross income in those years or (2) file combined or unitary returns, regardless of the amount of annual gross income.

EFFECTIVE DATE: Upon passage

§ 7 – Electric Generation Tax – Section Deleted

§§ 8-9 & 35 –Municipal Revenue Sharing Account

The bill eliminates the requirement that the DRS commissioner allocate a portion of the following taxes to the Municipal Revenue Sharing Account:

1. 1.57% of the revenue from the 6.35% sales and use tax on most taxable goods and services;
2. 1.43% of the revenue from the 7% sales and use tax on specified luxury items; and
3. 33% and 20%, respectively of the revenue from the state real estate conveyance tax on (a) sales of unimproved land and certain bank foreclosures and on the first \$800,000 of the sale price of residential property and (b) sales of nonresidential property and any amount of the sale price of a residential property that exceeds \$800,000.

EFFECTIVE DATE: July 1, 2013

§ 10– Sales Tax Exemption on Clothing and Footwear – Section Deleted

§ 11– Earned Income Tax Credit (EITC)

The bill reduces the EITC from 30% to 25% for the 2013 tax year, increases it to 27.5% in the 2014 tax year, and restores it to 30% for the subsequent tax years.

EFFECTIVE DATE: Upon passage and applicable to tax years beginning on or after January 1, 2013.

§§ 12-13 & 104 – Special Transportation Fund (STF) Transfers

As Table 1 shows, the bill changes the amounts annually transferred to the STF from the revenue generated by the petroleum products gross earnings tax and the General Fund. It also adds a one-time transfer of \$62.5 million from the STF to the General Fund for FY 14.

Table 1: STF Transfers
(in millions)

FY	Transfers from the Petroleum Products Gross Earnings Tax Revenues			Annual Transfers from the General Fund			One-Time Transfer from the General Fund
	Current Law	Bill	Difference	Current Law	Bill	Difference	Bill
2014	\$222.7	\$380.7	\$158.0	\$172.8	0	(\$172.8)	\$62.5
2015	226.8	379.1	152.3	172.8	\$20..5	(152.3)	0
2016	231.4	377.3	145.9	172.8	152.8	(20.0)	0
2017 and there after	231.4	377.3	145.9	172.8	162.8	(10)	0

EFFECTIVE DATE: July 1, 2013

§ 14– Urban and Industrial Sites Reinvestment Tax Credits

The bill increases the total amount of business credits available under the Urban and Industrial Sites Reinvestment Program by \$150 million, from \$650 million to \$800 million. The credits are available to businesses (1) investing in development projects in economically distressed municipalities or (2) that clean up and redevelop contaminated property anywhere in the state.

EFFECTIVE DATE: January 1, 2014

§ 15– Antique, Rare, and Special Interest Motor Vehicles and Manufacturing Machinery and Equipment Property Tax Exemption – Section Deleted

§ 16—Motor Vehicle Property Tax Exemption

Beginning in the 2018 assessment year, the bill exempts from local property taxes the first \$ 20,000 of a motor vehicle’s net assessed value (i.e., a vehicle’s assessed value after subtracting all the real and personal exemptions for which the vehicle’s owner’s qualifies). The exemption applies to people who own or lease cars, light duty trucks, pickup trucks, or motorcycles on the list the motor vehicles commissioner provides to municipalities for property taxation.

EFFECTIVE DATE: Upon passage and applicable to assessment years beginning October 1, 2018.

§ 17—Motor Vehicle Property Tax Abatement – Section Deleted

§ 18—Natural Gas Conversion Credit

Beginning July 1, 2014, the bill establishes a credit against the utility companies tax for gas companies that provide financial incentives for certain customers who convert to natural gas. The credit equals the amount credited by a gas company to an eligible customer, up to \$500 per customer.

To claim the credit, a gas company must establish, to the DRS commissioner's satisfaction, that it has passed the credit on to each eligible customer on his or her monthly bill or invoice. The total amount of credits may not exceed \$5 million in each fiscal year, starting with FY 15.

EFFECTIVE DATE: July 1, 2013

§19—Auctioning Standard Service Customers

Aggregation of Customers. The bill requires the state to auction the right to provide competitively priced electric generation service to residential and commercial customers who have not contracted for such services with a supplier as of June 1, 2013. Under the bill, those customers receiving services from a supplier as a result of an auction can still choose to obtain service from any other licensed supplier at any time.

The bill specifies the process and method for auctioning the service. It requires the Public Utilities Regulatory Authority's procurement manager to issue a request for proposals (RFP) to all licensed suppliers for bids to provide a full service contract to blocks of residential customers and small commercial customers. The procurement manager must issue the initial RFP by July 1, 2013.

The bidders must offer to serve these customers for at least three years and at a price that is at least 5% below the standard offer rate for the customer's class (there are several residential and small commercial rate classes) as of April 1, 2013.

EFFECTIVE DATE: July 1, 2013

§§ 20-21 – Mashantucket Pequot and Mohegan Fund Grants – Section Deleted

§§ 101-103 – Transfers to the General Fund

The bill transfers the following amounts to the General Fund:

1. \$30 million in FY 14 from the Connecticut Resources Recovery Authority, and
2. \$3.4 million in FY 14 and \$3.5 million in FY 15 from the Public, Educational, Governmental Programming and Education Technology Investment Account.

EFFECTIVE DATE: July 1, 2013

§§ 105-106 – Digital Products

The bill imposes the state's 6.35% sales tax rate on charges for electronically transferring digital products, rather than the 1% rate that currently applies to computer and data processing services. It applies to digital product transfers that allow the buyer the right to license, use, retain, or copy the product. It excludes business-to-business transactions from the 6.35% tax, thus keeping these transactions taxed at the current 1% rate.

EFFECTIVE DATE: July 1, 2013, and applicable to sales on or after that date.

§§ 107-108 – Computer and Data Processing Services

Current law imposes a reduced sales and use tax rate of 1% on the sale of computer and data processing services. The bill limits the services subject to this reduced rate to sales and use by and to a business entity, when the services are used directly in or by a business, thus subjecting all other computer and data processing services to the general 6.35% tax rate.

EFFECTIVE DATE: July 1, 2013, and applicable to sales on or after that date.

§§ 109-112 – Sales and Use Tax on Boats

The bill (1) exempts from the sales and use tax vessels docked in the state for 60 days or less in a calendar year and (2) reduces, from 7% to 6.35%, the sales and use tax rate on boats costing more than \$100,000.

EFFECTIVE DATE: Upon passage, an applicable to sales on or after that date.

§§ 113-114 – Neighborhood Assistance Act (NAA) Tax Credit Program

The bill makes business investments in neighborhood advocacy projects in one of the state's 17 targeted investment communities eligible for a 100% NAA tax credit.

By law, the annual limits on NAA credits are \$ 150,000 per business (\$50,000 for child care facility investments) and a total of \$5 million for all businesses.

EFFECTIVE DATE: Upon passage

§§ 115-118 – Municipal Fee Increases

The bill increases several municipal fees, as shown in Table 2 below.

Table 2: Proposed Municipal Fee Increases

CGS §	Fee	Current Fee	Proposed Increase
30-53	Liquor Permit Filing	\$2	\$20
7-34a	Miscellaneous Document Filing	5	10
7-34a	Map Filing and Index	10	20
7-34a	Map Filing and Index for Subdivisions	20	30
7-34a	Notary Public: Oath and Commission Filing	10	20
7-34a	Notary Public: Character Certification	2	5
7-73	Marriage License Fee	30 (Municipality keeps \$11 and the state receives \$19)	50 (\$25 for the municipality and \$25 for the state)
7-73	Burial or Burial Transit Removal/Disinterment Permit	3	10
19a-323	Cremation Permit Fee	3	10

EFFECTIVE DATE: July 1, 2013