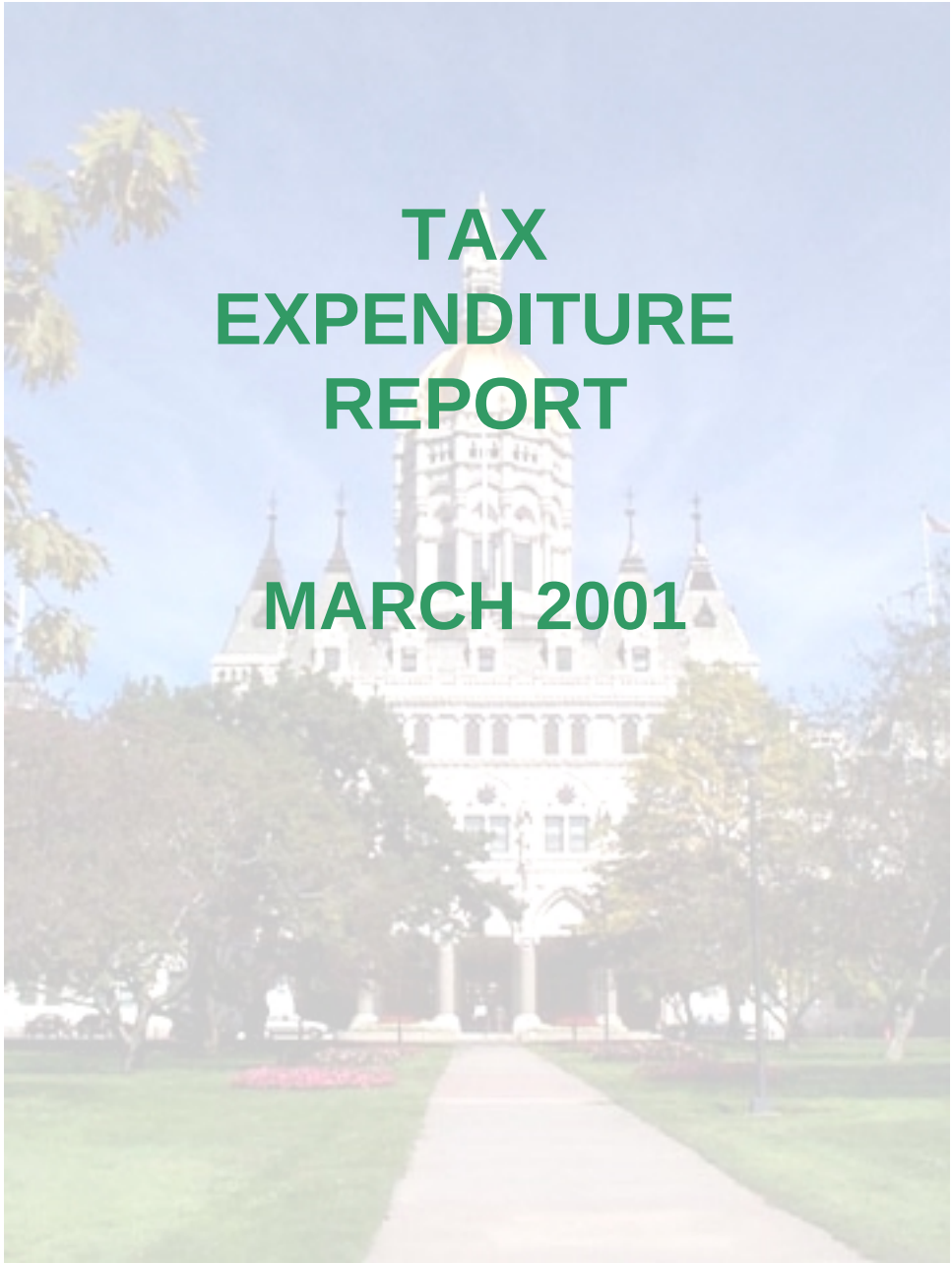
Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS



TAX EXPENDITURE REPORT

MARCH 2001

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INTRODUCTION

This report is prepared pursuant to Connecticut General Statutes Section 12-7b, subsection (e). The term "tax expenditure" may appear to be a contradiction. "Tax" means money coming into the government; "expenditure" means money going out. How can money be coming in and going out at the same time?

With a tax expenditure, the money does not come in and go out again: it does not come in at all. The reason it does not come in is that the law has provided for an exemption, deduction, credit, reduced rate, or other mechanism that lowers the amount of tax revenue that would otherwise be collected.

A tax expenditure is similar to a direct expenditure in that it can be used to accomplish public policy goals. It may be enacted either to encourage a certain activity or to limit the tax burden on taxpayers in a certain situation. For example, government can attempt to encourage economic development directly by providing financial assistance to businesses through grants or indirectly through tax expenditures such as Corporation Tax credits or Sales Tax exemptions.

A tax expenditure is different from a direct expenditure in that it does not need to be re-enacted. Unless a sunset date is placed on a tax expenditure provision, it continues indefinitely (or until amended or repealed), whereas direct expenditures must be appropriated for each budget period.

Not only does a tax expenditure not require re-enactment, its fiscal impact is usually not reviewed after it becomes law. When net revenues are forecast, most tax expenditures have already been excluded from the base. Typically, the fiscal impact of an existing provision is not estimated unless a proposal is made to change or repeal it.

The purpose of this report is to provide information. No conclusions are drawn nor are recommendations made regarding whether a provision should be continued, repealed, expanded, or restricted.

Tax Expenditure Criteria

Seven criteria have been used to evaluate tax expenditure provisions for this report. Some of the criteria are concepts used in the preparation of federal tax expenditure reports and others are based on a logical application of the tax expenditure concept. A provision must generally meet the following criteria in order to be considered a tax expenditure.

A provision is a tax expenditure if it:
- has an impact on a tax that is applied statewide;
- confers preferential treatment;
- results in reduced tax revenue in the applicable fiscal years;
- is not an appropriation;
- is included in the definition of the tax base;
- is not subject to an alternative tax; and
- can be amended or repealed by a change in state law alone.

This report lists exemptions and exclusions from each state tax. **Exemptions** would otherwise be taxed but are exempted by specific legislative action. **Exclusions** are not taxed simply because they are not part of the base defined by the tax law.

The following seven categories are used to classify each exemption or exclusion according to the rationale which underlies it.

1. **Perceived Equity** - The tax expenditure was created to remedy a perceived inequity in tax burden.

2. **Efficiency** - The cost of adequately collecting and administering the tax is high in comparison to the potential revenue that could be gained from taxation.

3. **Incentive** - The expenditure is intended to encourage the performance of certain desirable activities such as economic growth and development, charitable or nonprofit work, or conservation of resources.

4. **Redundancy and Cascading** - The entry is included in the base of one tax and excluded from the base of another to avoid over taxation. For example: The purchase of gasoline is subject to the motor fuels excise tax in lieu of the general sales and use tax. Cascading occurs when a tax imposed on a good or service at more than one stage of production process so that the total tax incorporated into the final price of the good or service is greater than the legislated tax rate.

5. **Clarification** - The entry clarifies the definition of what is taxable.

6. **Conformity** - The entry conforms the state statute with applicable constitutional and other federal requirements.

7. **Expediency** - Legislatures react to outside stimuli as does any organization or individual. Expenditures of this type violate one or more of the principles of a high-quality revenue system without any apparent counterbalancing or compensating precept. (Principles of a High-Quality State Revenue System, Second Edition, National Conference of State Legislatures, 1992).

Measuring the Fiscal Impact of Tax Expenditures

A summary table of major identifiable revenue reductions follows the Introduction.

This report estimates each provision in isolation, with other provisions in that tax and in other taxes held constant. The secondary impact of one provision over another provision is not taken into account. Because estimates measure the impact of the provision as it exists and not what would happen if it were repealed, no change in taxpayer behavior is assumed.

The precision of the estimates varies with the source of the data and with the applicability of the data to the tax expenditure provision. Data from Connecticut tax returns were used whenever possible. Other sources included federal tax expenditure estimates, data from federal tax returns, and other data for Connecticut and the nation. In some cases, because data was not available and resources were limited, an estimate of the expenditure could not be determined.

Unless otherwise noted, all revenue estimates presented in this report are effective for FY 2002. Differences between figures provided in this document and in previous versions of this document and other documents are generally due to revised data becoming available.

Any comments or questions concerning the information contained in this document, or suggestions would be welcomed by: **The Revenue Section, Office of Fiscal Analysis, LOB 5200, 300 Capitol Avenue, Hartford, CT 06106.** Visit the Office of Fiscal Analysis website at http://www.cga.state.ct.us/ofa to view or download this and other documents produced by the office.

Major Identifiable State Tax Expenditures*
Fiscal Year 2002
(In Millions)

Personal Income Tax	**FY 02**
Interest on US Obligations	$50.0
Dividends from Mutual Funds Derived from US Govt Obligations	5.0
Refunds of State and Local Income Taxes	30.0
Tier I Railroad Retirement Benefits	0.5
Beneficiary's share of Connecticut fiduciary adjustment	1.0
Gain on sale of Connecticut Bonds	0.5
Social Security Benefits	35.0
Other Deductions	10.0
Credit for Property Taxes Paid	385.0
Total Personal Income Tax	$517.0

Sales and Use Tax	**FY 02**
Consumer Goods	
Sales of Food Products for Human Consumption	$260.0
Items Purchased with Federal Food Stamps Coupons	1.0
Meals Delivered to Homes of Elderly, Disabled or Confined	0.1
Oxygen, Blood Plasma, Prostheses, Wigs, Hearing Aids, Crutches, Walkers, Wheel Chairs, Life Support Equipment, Apnea Monitors, Chairlifts, and Relate Repair Services, Reading Aids, Canes, and Support Hoses	10.0
Prescription Medicines, Syringes and Needles	90.0
Non-prescription Drugs and Medicines	15.0
Disposable Pads for Incontinence	0.5
Test Strips and Tablets, Lancets and Glucose Monitoring Equipment	0.3
Telephone Equipment Designed for Deaf or Blind Persons	0.1
Equipment Installed in Motor Vehicles for Persons with Disabilities	0.1
Smoking Cessation Products	0.2
Sales to Title XVIII or XIX of Social Security Act or CHAMPUS	20.0
Clothing Under $75.00	150.0
Cloth or Fabric Purchased for Non-Commercial Sewing	1.1
Sales Tax "Free Week"	3.0
Fuel for Heating Purposes	100.0
Certain Utilities Sales	5.0
Water Companies Purchases	4.0
Motor Vehicle Fuel	150.0
Fuel Used in Certain High-Occupancy Commuter Vehicles	0.1
Newspapers and Magazines	35.0
One Cent Vending Machine, Vending Machine Food Products & Certain Items	1.2
The first $2,500 of Burial or Cremation Services; Caskets	3.6
Vegetable Seeds	0.1
Firearm Safety Devices	0.1
Bicycle Helmets	0.2
Campground Rentals	0.1
Certain types of Lodging	0.1
Child Car Seats	0.5
College Text Books	3.5
Passenger Cars 50 MPG Highway or greater	0.1
Sub Total Consumer Goods	$855.0
Business and Agricultural Exemptions	
Machinery Used in Manufacturing	$125.0
Component Parts for Assembly of Manufacturing Machinery	10.0

Production Materials	10.0
Partial Exemption for Materials, Tools, Fuels, Machinery and Equipment used in Manufacturing	4.0
Replacement Parts in Enterprise Zones	0.7
Agriculture Production	5.5
Commercial Fishing	12.0
Flyable Aircraft	0.1
Aircraft Repair and Replacement Parts	0.1
Aircraft Repair Services	0.1
Materials, Tools, Fuel, Machinery and Equipment used in an Aircraft Manufacturing Facility	0.1
Certain Aircraft	0.1
Commercial Trucks, Trailers and Combination	3.0
Commercial Vehicles used in Inter-State Business	0.2
Motor Buses used in Inter-State Business	0.2
Motor Vehicles Exclusively Powered by Alternative Fuels or Electricity	0.1
Aviation Fuel Used in Testing	0.1
Aviation Fuel	2.0
Conversion Equipment for Motor Vehicles to Use Alt Fuels or Electricity	0.1
Equipment Associated with Compressed Natural Gas Filling Stations	0.1
Containers	0.1
Printed Material Sent Out of State	2.0
Commercial Printing	12.0
Typesetting, Color Separation and Finished Copy	0.5
Waste Treatment Facilities	1.3
Air Pollution Control Facilities	1.2
Motion Picture, Video, TV and Radio Production & Broadcast Equipment	2.0
Lease of Rental of Motion Pictures by Theater Owners	2.0
Motion Picture Leasing or Rental	0.5
Computer Related Cleaning Equipment	0.3
Mold, Dies, Patterns and Sand Handling Equipment for Metal Casting Foundries	0.3
Mold, Dies Patterns for Pattern shops and Metal Casting Foundries	0.3
Optical Lens Manufacturing Equipment	0.3
Safety Apparel	2.5
Commercial Photographic Film and Paper Processing Materials	0.2
Biotechnology	3.5
Connecticut Resource Recovery Authority	3.0
Tourism Districts	0.1
Solid Waste to Energy Facilities	0.2
Maintaining Railroad Right-of-ways	0.1
Data Transmission Equipment Sold to Telecom or CATV Companies	8.0
Sub Total Business and Agricultural Exemptions	$213.9
Service Exemptions	
Drug Testing Services	$3.0
Out of State Motor Vehicle Driving Services	0.1
Personnel Services; Marketing, Development, Testing or Research Services; Business Services in Joint Ventures	2.0
Services Between Parent Companies and Subsidiaries	12.0
Computer and Data Processing	100.0
Certain Sales of Computer and Data Processing Services	0.3
Landscaping, Horticulture, Window Cleaning or Maintenance Services Provided to Disabled Persons	0.1
Shoe Repair Services	0.1

Calibration and ISO Services	0.2
“Call Before You Dig” Services	0.1
Sale of Repair or Maintenance on Vessels	5.0
Renovation & Repair for Residential Property (tax is being phased out)	3.3
Patient Care Services	4.6
Leased Employees & Professional Contract Employees	0.2
Motor Vehicle Parking	2.5
Car Washes	1.0
Amusement and Recreation Services	0.3
Health and Athletic Club Services	0.3
Massage Therapist and Hypertrichologist Services	0.3
Sales Agent Services	2.0
Advertising	20.0
Tax Preparation	4.0
Winter Boat Storage	0.3
Hazardous Waste Removal Services	0.1
Environmental Consulting Services	0.1
Police and Fire Fighters	1.0
Training Services	0.3
Pilot Tax Credit for E-Commerce Donations to Higher Education	2.0
Sub Total Service Exemptions	$165.2
Non-Profit Organization Exemptions	
Municipal Publications, Sales by Public Libraries, Book Sales	$0.1
Connecticut Technology Park	0.1
Children’s Hospital and the John Dempsey Hospital	5.0
Sales to Nonprofit organizations	100.0
Sales by Nonprofit Hospitals, Nursing Homes and Rest Homes	0.5
Items not Costing More Than $20 sold by Nonprofit Orgs and Schools	0.1
Items not Costing More Than $100 by Nursing or Convalescent Homes	0.1
Sales by Participants in Certain Community Economic Dev Programs	0.1
Sales at Bazaars, Picnics, Tag Sales by Nonprofit Organizations	0.1
Sales by Historical Societies	0.1
Sale of Food and Meals at Educational Institutions and Health Care Facilities	0.1
Sub Total Government and Charitable Organizations	$106.3
Miscellaneous Exemptions	
Sales of US and CT Flags	$0.1
Gold or Silver Bullion, Legal Tender, Rare or Antique Coins	0.1
Motor Vehicles Purchased by Non-Residents to use Out of State	15.0
Vessels Brought in to the State for Storage, Maintenance or Repair	0.5
Casual or Isolated Sales	0.5
Tax on Casual Sales of Motor Vehicles, Vessels, Snowmobiles and Aircraft	2.0
Mobile Homes and Pre-Fabricated Homes	0.5
Sub Total Miscellaneous Exemptions	$18.7
Items Subject to a Lower Sales Tax Rate or Basis	
Motor Vehicles Sold to Members of the Armed Forces	$0.1
Sales of Vessels to Nonresidents	0.5
Trade-In of Certain Construction Equipment	0.5
Trade-In of Motor Vehicles, Snowmobiles, Vessels or Farm Tractors	40.0
Coupons and Discounts and Battery Deposits and Trade-Ins of Like Kind	2.5
Trade-In of Core Parts	1.2

Licensed Motor Vehicle Dealers	0.5
Sub Total of Items Subject to a Lower Sales Tax Rate or Basis	$45.3
Total of Sales and Use Tax	$1,404.4

Corporate Business Tax	**FY 02**
Exemptions and Deductions	
Income from Foreign Sales Corporations (FSC)	$25.0
Foreign Insurance Companies	10.0
Railroad Companies	0.8
Political Associations	2.5
Electric Cooperatives	2.8
Alternative Energy System Companies	0.3
Aero-Derived Gas Turbine Systems	0.1
Regulated Investment Co and REITs	1.1
Unpaid Loss Reserve Adjustment for Non-Life Insurance Cos	1.0
Subchapter S Corporations	26.0
Domestic Insurance Companies	10.0
Passive Investment Companies	20.0
Dividends from DISC or FSCs	25.0
Net Operating Loss Carry-Forward	50.0
Net Capital Loss Carry-Over	65.0
Capital Gains from Sales of Open Space or Watershed Land	1.0
Sub Total Exemptions and Deductions	$240.6
Credits	
Enterprise Zones	$0.6
New Manufacturing Facilities Located Within Enterprise Zones	2.0
Apprenticeship Training	1.5
Low and Moderate Income Housing and Rental Housing Programs	1.0
Neighborhood Assistance Tax Credits	2.0
Vehicles Powered by Clean Alternative Fuels or Electricity	0.5
Research and Experimentation Expenditures	25.0
Research and Development Expenses at Aerospace Companies	60.0
Employer Assisted Housing Credits	0.5
Small to Medium Sized Companies Capital Goods Expenditures	3.0
Traffic Management Programs	1.5
Credit for Personal Property Tax Paid on Data Processing Equipment	35.0
Fixed Capital Investment Credit	25.0
Human Capital Investment Credit	2.4
Subchapter S-Corporations	0.9
Donation of Land to be Preserved as Open Space or Watershed Land	1.0
Guarantee Fees Paid When Obtaining SBA Financing	2.0
Credit for Rehabilitation of Historic Homes	1.0
Sale of Certain Credits	0.2
Donation of New or Use Computers to Local Schools	0.5
Sub Total Credits	$165.6
Total Corporate Income Tax	$406.2

Inheritance Tax	**FY 02**
Tax Incentive for Open Space Land	$0.1
Class AA Exemption (Surviving Spouse)	90.0
Class A Exemption (Immediate Family)	105.0
Class B Exemption (Other Relatives)	20.0

Class C Exemption (All Others)	1.5
Total Inheritance Tax	$216.6

Gifts	**FY 02**
Gifts under $1 Million	$3.8

Public Service Companies Gross Earnings Tax	**FY 02**
Exemptions and Deductions	
Sales for Resale	$43.0
Appliance Sales	0.1
Railroad Property Taxes	0.1
Railroad Companies When Certified by DOT	2.0
Gas and Electricity Used by Industrial Consumers (SIC 2000-3999)	22.0
Sub Total Exemptions and Deductions	$67.2
Reduced Rate for Residential Utilities	$16.0
Credits	
Air Pollution Abatement	$0.1
Industrial Waste Treatment	0.1
Credit for Personal Property Tax Paid on Data Processing Equipment	2.0
Credit for Rehabilitation of Historic Homes	0.5
Sub Total Credits	$2.7
Total Public Service Companies Gross Earnings Tax	$85.9

Petroleum Companies Gross Earnings Tax	**FY 02**
#2 Heating Oil used for Heating Purposes	$40.0
Propane Used for Residential Heating	1.5
Bunker Fuel Oil, Intermediate Fuel, Marine Diesel Oil & Gas Oil	0.5
Kerosene Used for Residential Heating	0.5
Propane Gas Used as Motor Fuel	0.5
Fuel Used in Vessels Engaged in Interstate Commerce	0.5
Fuel Used by Industrial Consumers (SIC 2000-3999)	0.4
DOT Contracted Service Stations Along State Highways	1.5
Credit for Sale to Resellers Located Outside the State	5.0
Total Petroleum Companies Gross Earnings Tax	$50.4

Insurance Premiums Tax	**FY 02**
Ocean Marine Insurance	$0.5
Special Taxing Districts	0.1
State Employee Health Plans	2.0
Medicaid, HUSKY and General Assistance	7.0
Small Employer Health Insurance Plans	0.1
Credit for Personal Property Tax Paid on Data Processing Equipment	20.0
Credit for Rehabilitation of Historic Homes	0.5
Credit for HMOs Providing Coverage Through HUSKY A/B	10.5
Total Insurance Premiums Tax	$40.7

Cigarette and Tobacco Products Taxes	**FY 02**
Tobacco Products Exported Out of State	$5.0

Alcoholic Beverage Tax	**FY 02**
Sales to United States Military	$5.0

Admissions and Dues Taxes	**FY 02**
Admission Tax	
Charges less than $1.00 and Movies less than $5.00	$3.0
Nonprofit Charities	0.1
Hartford Civic Center, New Haven Coliseum, New Britain Beehive Stadium, New Britain Veterans Memorial Stadium, Tennis Foundation, O'Neill Convocation Center, Stafford Motor Speedway, Thompson Speedway, Waterford Speedbowl, Bridgeport Harbor Yard Stadium, New Haven Ravens Games, Waterbury Spirit Games, New Britain Rock Cats Games, CT Expo Center	6.3
Centers for Elderly Persons	0.1
Nonprofit Theater or Playhouse, Gateway's Candlewood House and Ocean Beach Park	0.2
Carnival or Amusement Rides	0.1
Sub Total Admissions Tax	$9.8
Dues Tax	
Annual Dues less than $100	$0.1
Clubs Sponsored by Charitable, Religious, Government or Other	0.1
Charges for Instructions	0.1
Portion of Dues Used to Acquire Open Space Land	0.1
Club Locker Rentals	0.2
Sub Total	$0.6
Total Admissions and Dues Taxes	$10.4

Motor Fuels and Motor Carrier Road Taxes	**FY 02**
Exemptions to Motor Fuels Tax	
US Government	$1.0
Municipalities, Transit Districts and the State	10.0
Fuel Distributors	711.0
Fuel Exported Out of State	113.0
Fuel Used for Heating	100.0
Alternative Fuels Used by Covered Fleets	0.5
Aviation Fuel	45.0
Sub Total Motor Fuels Tax Exemptions	$980.5
Refunds of Motor Fuels Tax	
Vehicles not Operated on Public Highways	$3.0
CT Motor Bus Companies and Other Livery Services	1.0
High-Occupancy Commuter Vehicles	0.5
Municipalities, Transit Districts, State, US Govt, and Ambulances	0.5
Farming	0.5
Meals on Wheels for Seniors	0.5
Sub Total Refunds of Motor Fuels Tax	$6.0
Credit for Motor Carrier Road Tax on Motor Fuels Tax Paid in State	$1.0
Sub Total Motor Fuels and Motor Carrier Road Taxes	$987.5
Grand Total--Major Identifiable State Tax Expenditures*	**$3,732.9**

*Identifiable revenue reductions of $100,000 or more.

PERSONAL INCOME TAX

During the 1991 June Special legislative Session the General Assembly enacted Public Act 91-3 which imposed a tax on the income of resident individuals, trusts and estates, and on the income of nonresident individuals, trusts and estates derived from sources within the state, at a rate of 4.5% for the income years commencing on or after January 1, 1992. It should be noted that the Income Tax rate for 1991 was 1.5%. Specifically, the tax is levied on Connecticut taxable income which is defined as adjusted gross income for federal income tax purposes with certain modifications and exemptions.

Computation of Tax

Tax Basis - The tax is levied on Connecticut adjusted gross income (AGI) above basic personal exemption levels that vary according taxpayer status and phase-out at higher income levels. The basic exempted amounts for each taxpayer status are considered to be outside the generally accepted tax base. They reflect the notion that income needed for bare sustenance should be free from tax. Thus, for the purpose of this document, these exemptions are not listed as tax expenditures. In addition, taxpayers whose income falls below a specified level are entitled to “no tax status”. For the same reason, this status is not listed as a tax expenditure.

Connecticut adjusted gross income (AGI) is defined as adjusted gross income for federal income tax purposes, subject to certain additions and deletions. Additions include such things as interest and dividends from obligations (such as bonds) from other states, or subdivisions of other states, unless federal law requires them to be exempt from state income taxes. The deletions include such things as (1) any income included in adjusted gross income that federal law exempts from state taxation, (2) the amount of refunds or credits for overpayments of income tax, (3) exempt dividends paid by a regulated investment company, and (4) tier one railroad retirement benefits. The deletion of moving expenses is eliminated, effective with the 1994 income year (PA 94-4 (MSS)).

For income years 1994 through 1997 the percentage of social security benefits that is included in state adjusted gross income is limited to the percentage that was taxable under the 1993 federal income tax rules (PA 94-4 May Special Session). Beginning with the 1998 income year, the amount of social security is reduced by one-half of the 50% or to 25% of benefits (PA 97-309 and PA 97-322). Beginning with the 1999 income year, PA 99-173 exempted the remaining 25% of Social Security Benefits from the State Income Tax for Joint filers with AGI under $60,000 and Single Filers with AGI under $50,000.

Beginning with the 2000 income, PA 00-82, year any restitution payments to survivors of various human rights abuses during World War II are exempted from the tax.

Special rules are established for determining whether the income of a nonresident or a part-year resident individual, a partner's distributive share of partnership income, a shareholder's pro rata share of S corporation or limited liability company (PA 93-267, effective 10/1/93) income and a beneficiary's share of trust or estate income is derived from sources within the state and how income gains, loss, and deductions are allocated.

The tax imposed on income earned by resident and nonresident trusts and estates is similar to the one applied to individuals except that the trusts and estates do not receive the exemptions and credits that individuals receive. The tax must be paid by the fiduciary. Special rules are established for determining what income is derived from sources within the state for nonresident and part-year resident estates, trusts and beneficiaries and how income, gains, loss and deductions are allocated.

Tax Rate - The tax is imposed on income of individuals, trusts and estates derived from sources within the state, at the rate of 1.5% for 1991 income years and 4.5% for 1992 and subsequent income years. The rate is reduced from 4.5% to 3.0% effective 7/1/96 for taxable income levels noted below (PA 95-160). The taxable income levels are increased for the 1997, 1998 and 1999 and subsequent income years, as follows (PA 97-309 and PA 97-322).

Amount of Taxable Income taxed at 3%
Type of Filer

Income Year	Effective Date	Joint	Head of Household	Single
1996	7/1/96	$ 9,000	$ 7,000	$ 4,500
1997	1/1/97	12,500	10,000	6,250
1998	1/1/98	15,000	12,000	7,500
1999 and after	1/1/99	20,000	16,000	10,000

Taxpayers are required to pay the higher of their liability under the state Personal Income Tax or the Connecticut Minimum Tax, effective 1/1/93 (PA 94-4 (MSS)). The Connecticut Minimum Tax is the lesser of 19% of Adjusted Federal Tentative Minimum Tax or 5% of adjusted federal alternative minimum taxable income.

Exemptions - An unmarried person prior to 1/1/2000 or a married person filing separately is entitled to a personal exemption of $12,000. Beginning at an AGI of $24,000, the exemption decreases by $1000 for each $1000 increase in AGI. There is no exemption if the taxpayer earns more than $35,000. The low income credit for the 1995 income year and after is as follows:

Connecticut AGI	Tax Credit
Below $12,000	100%
Over $12,000 but below $15,000	75%
Over $15,000 but below $15,500	70%
Over $15,500 but below $16,000	65%
Over $16,000 but below $16,500	60%
Over $16,500 but below $17,000	55%
Over $17,000 but below $17,500	50%
Over $17,500 but below $18,000	45%
Over $18,000 but below $18,500	40%
Over $18,500 but below $20,000	35%
Over $20,000 but below $20,500	30%
Over $20,500 but below $21,000	25%
Over $21,000 but below $21,500	20%
Over $21,500 but below $25,000	15%
Over $25,000 but below $25,500	14%
Over $25,500 but below $26,000	13%
Over $26,000 but below $26,500	12%
Over $26,500 but below $27,000	11%
Over $27,000 but below $48,000	10%
Over $48,000 but below $48,500	9%
Over $48,500 but below $49,000	8%
Over $49,000 but below $49,500	7%
Over $49,500 but below $50,000	6%
Over $50,000 but below $50,500	5%
Over $50,500 but below $51,000	4%
Over $51,000 but below $51,500	3%
Over $51,500 but below $52,000	2%
Over $52,000 but below $52,500	1%

For the 2001 income year the personal exemption amount for unmarried persons is increased from $12,000 to $12,500. The personal exemption amount is raised over an eight year period subsequently to $15,000 by the income year 2007 (PA 99-173 and PA 00-174). For income years beginning 1/1/2007 and thereafter the personal exemption will remain at $15,000. There are adjustments to the phase-out

schedule of the personal exemption, the low income tax credit, and the phase-down of the property tax credit for higher income levels accordingly for each year.

For income year 2001 an unmarried person is entitled to a personal exemption of $12,500. Beginning at an AGI of $25,000, the exemption decreases by $1000 for each $1000 increase in AGI. There is no exemption if the taxpayer earns more than $37,500. The low income credit for the 2001 income year is as follows:

Connecticut AGI	Tax Credit
Below $12,500	100%
Over $12,500 but below $15,600	75%
Over $15,600 but below $16,100	70%
Over $16,100 but below $16,600	65%
Over $16,600 but below $17,100	60%
Over $17,100 but below $17,600	55%
Over $17,600 but below $18,100	50%
Over $18,100 but below $18,600	45%
Over $18,600 but below $19,100	40%
Over $19,100 but below $20,800	35%
Over $20,800 but below $21,300	30%
Over $21,300 but below $21,800	25%
Over $21,800 but below $22,300	20%
Over $22,300 but below $26,000	15%
Over $26,000 but below $26,500	14%
Over $26,500 but below $27,000	13%
Over $27,000 but below $27,500	12%
Over $27,500 but below $28,000	11%
Over $28,000 but below $50,000	10%
Over $50,000 but below $50,500	9%
Over $50,500 but below $51,000	8%
Over $51,000 but below $51,500	7%
Over $51,500 but below $52,000	6%
Over $52,000 but below $52,500	5%
Over $52,500 but below $53,000	4%
Over $53,000 but below $53,500	3%
Over $53,500 but below $54,000	2%
Over $54,000 but below $54,500	1%

The exemption for head of household is $19,000. Beginning at an AGI of $38,000, the exemption decreases by $1000 for each $1000 increase in AGI. There is no exemption if the taxpayer earns more than $56,000. The low income credit for the 1995 income year and after is as follows:

Connecticut AGI	Tax Credit
Below $19,000	100%
Over $19,000 but below $24,000	75%
Over $24,000 but below $24,500	70%
Over $24,500 but below $25,000	65%
Over $25,000 but below $25,500	60%
Over $25,500 but below $26,000	55%
Over $26,000 but below $26,500	50%
Over $26,500 but below $27,000	45%
Over $27,000 but below $27,500	40%
Over $27,500 but below $34,000	35%
Over $34,000 but below $34,500	30%
Over $34,500 but below $35,000	25%

Over $35,000 but below $35,500	20%
Over $35,500 but below $44,000	15%
Over $44,000 but below $44,500	14%
Over $44,500 but below $45,000	13%
Over $45,000 but below $45,500	12%
Over $45,500 but below $46,000	11%
Over $46,000 but below $74,000	10%
Over $74,000 but below $74,500	9%
Over $74,500 but below $75,000	8%
Over $75,000 but below $75,500	7%
Over $75,500 but below $76,000	6%
Over $76,000 but below $76,500	5%
Over $76,500 but below $77,000	4%
Over $77,000 but below $77,500	3%
Over $77,500 but below $78,000	2%
Over $78,000 but below $78,500	1%

The exemption for married couples filing jointly is $24,000. Beginning at an AGI of $48,000, the exemption decreases by $1000 for each $1000 increase in AGI. There is no exemption if the couple earns more than $71,000. The low income credit for the 1995 income year and after is as follows:

Connecticut AGI	Tax Credit
Below $24,000	100%
Over $24,000 but below $30,000	75%
Over $30,000 but below $30,500	70%
Over $30,500 but below $31,000	65%
Over $31,000 but below $31,500	60%
Over $31,500 but below $32,000	55%
Over $32,000 but below $32,500	50%
Over $32,500 but below $33,000	45%
Over $33,000 but below $33,500	40%
Over $33,500 but below $40,000	35%
Over $40,000 but below $40,500	30%
Over $40,500 but below $41,000	25%
Over $41,000 but below $41,500	20%
Over $41,500 but below $50,000	15%
Over $50,000 but below $50,500	14%
Over $50,500 but below $51,000	13%
Over $51,000 but below $51,500	12%
Over $51,500 but below $52,000	11%
Over $52,000 but below $96,000	10%
Over $96,000 but below $96,500	9%
Over $96,500 but below $97,000	8%
Over $97,000 but below $97,500	7%
Over $97,500 but below $98,000	6%
Over $98,000 but below $98,500	5%
Over $98,500 but below $99,000	4%
Over $99,000 but below $99,500	3%
Over $99,500 but below $100,000	2%
Over $100,000 but below $100,500	1%

Taxpayers receive a tax credit for income taxes paid in another state.

Credits - For the 1996 income year a credit for up to $100 is provided for personal and real property taxes paid on the filers' primary residence in state or a motor vehicle. The amount of credit claimed cannot

exceed the filer's tax liability and may not be taken into account when calculating the amount of withholding or estimated payments due. The credit is effective beginning with taxes paid on the 10/1/95 grand list (PA 95-160).

PA 97-309 repealed the credit for property taxes paid on privately owned motor vehicles (PA 94-4 MSS) and in its place it increase the Property Tax Credit, for certain income levels, from the maximum $100 to a maximum of $215 effective for the 1997 income year and to a maximum of $285 effective for the income year 1998 and thereafter. PA 98-110 increased the Property Tax Credit from the maximum $285 to a maximum of $350 effective for income year 1998 and thereafter. PA 99-173 increased the Property Tax Credit from the maximum of $350 to a maximum of $425 for income 1999 and to a maximum $500 for income 2000 and there after. The credit is limited to two motor vehicles for joint filers and one motor vehicle for single, head of household, and married filing separate filers. The table below shows the credit.

Schedule of Property Tax Credit

Single CT AGI From	Single CT AGI To	Married Filing Separate CT AGI From	Married Filing Separate CT AGI To	Maximum Credit Above $100	Income Year 2001 $500 Credit
12,500	54,500	12,000	50,250	100%	$500
54,500	64,500	50,250	55,250	90%	$460
64,500	74,500	55,250	60,250	80%	$420
74,500	84,500	60,250	65,250	70%	$380
84,500	94,500	65,250	70,250	60%	$340
94,500	104,500	70,250	75,250	50%	$300
104,500	114,500	75,250	80,250	40%	$260
114,500	124,500	80,250	85,250	30%	$220
124,500	134,500	85,250	90,250	20%	$180
134,500	144,500	90,250	95,250	10%	$140
144,500	and Over	95,250	and Over	0%	$100

Couples Filing Jointly CT AGI From	Couples Filing Jointly CT AGI To	Head of Household CT AGI From	Head of Household CT AGI To	Maximum Credit Above $100	Income Year 2001 $500 Credit
24,000	100,500	19,000	78,500	100%	$500
100,500	110,500	78,500	88,500	90%	$460
110,500	120,500	88,500	98,500	80%	$420
120,500	130,500	98,500	108,500	70%	$380
130,500	140,500	108,500	118,500	60%	$340
140,500	150,500	118,500	128,500	50%	$300
150,500	160,500	128,500	138,500	40%	$260
160,500	170,500	138,500	148,500	30%	$220
170,500	180,500	148,500	158,500	20%	$180
180,500	190,500	158,500	168,500	10%	$140
190,500	and Over	168,500	and Over	0%	$100

PA 94-214 created a credit for investors in the Insurance Reinvestment Fund against the insurance premium tax, the corporate income tax, or the personal income tax. The Insurance Reinvestment Fund is established by this act to create new jobs by investing in CT companies engaged in the insurance business or providing services to insurance companies. The credit is equal to the following percentages of monies invested through a fund manager in a qualified insurance business: (a) 10% of the investment for tax year beginning 3 years after the date of investment to no later than 7 years after the date of investment, and (2) 20% of the investment for tax years beginning seven years and ending 10 years from the date of investment. Managers of eligible funds must have registered with the Commissioner of Economic and Community Development by July 1, 2000 in order for their investors to be able to claim this credit. No further credits will be allowed for investments in funds created on or after July 1, 2000.

Payment - Employers are required to withhold taxes from wages based on the employee's estimated tax liability for the income year.

Taxpayers with taxable income from which no withholding has been made, must make quarterly estimated payments if their liability on the non-withheld income is expected to exceed $500 beginning with their 1997 income year (PA 97-81). Prior to 1997 the limit was $200. To avoid penalty, the taxpayer must pay as follows:

Personal Income Tax Estimated Payments

	Due	Pay the lesser of:
1st	4/15	22.5% of current year or 25% of last year's liability
2nd	6/15	45% of current year or 50% of last year's liability
3rd	9/15	67.5% of current year or 75% of last year's liability
4th	1/15	90% of current year or 100% of last year's liability

An income tax return must be filed by the 15th day of the fourth month following the close of the taxpayer's taxable year. The tax due must be paid by that date whether or not a filing extension has been granted. S corporations and partnerships must file composite returns and make composite tax payments on behalf of some or all of their nonresident shareholders and partners.

In lieu of quarterly estimated payments, farmers and fishermen are permitted to make one estimated payment due on January 15th effective with the 1997 income year. Prior to 1997, farmers and fishermen were permitted to make two installment payments per income year on their estimated tax. Payments were due June 15th of the income year and January 15th of the following income year. Professional athletic teams are permitted to file composite returns for team members who are not state residents. The teams are also permitted to make estimated payments in lieu of withholding. (PA 97-286 and PA 95-263)

The interest rate for taxpayers is 1.0% per month on the unpaid tax. PA 95-263 reduced the interest rate from 1.25% to 1.0% effective 1/1/96. Penalty is 10% of the required payment. There are also penalties for failing to collect the tax and understating wages, and criminal penalties for failure to keep records or keeping fraudulent records.

State Exclusions--Connecticut Modifications

The Connecticut adjusted gross income of a resident, nonresident, and estate is defined as federal adjusted gross income with modifications as specified by CT General Statutes.

1. Interest on U. S obligations

   Description: Interest income derived from U.S. government obligations, which interest income federal law prohibits states from taxing. For example: U.S. government bonds such as Savings Bonds Series EE and Series HH, U.S. Treasury bills and notes. Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae), and Federal

Home Loan Mortgage Corporation (Freddie Mac) securities interest income is taxable for Connecticut income tax purposes.

Estimates: Between $35 and $50 million.

Rationale: Conformity.

2. Exempt Dividends from Mutual Funds Derived from U.S. Government Obligations.

Description: Dividends from certain mutual funds consisting of US Obligations. The mutual fund must have at least 50% of the value of its assets consisting of U.S. government obligations at the close of each quarter.

Estimates: Between $1 and $5 million.

Rationale: Conformity.

3. Refunds of state and local income taxes

Description: Taxable refunds of state and local income taxes reported on Line 10 of the federal Form 1040.

Estimates: Between $20 and $30 million.

Rationale: Redundancy.

4. Tier I Railroad Retirement benefits

Description: Tier I Railroad Retirement Benefits included in federal adjusted gross income in amounts greater than $25,000 for single taxpayers and greater than $32,000 for married taxpayers is deducted from Connecticut taxable income. Title 45 Section 231(m) of the United States Code prohibits states from taxing railroad retirement benefits.

Estimates: Less than $500,000.

Rationale: Conformity.

5. Beneficiary's share of Connecticut fiduciary adjustment

Description: Any income from an estate or trust, or any Connecticut fiduciary adjustment that apply to such income

Estimates: Between $900,000 and $1 million.

Rationale: Conformity.

6. Gain on sale of Connecticut bonds

Description: Gains from the sale or exchange of notes, bonds or other obligations of the State of Connecticut or its municipalities used in determining gain for federal income tax purposes.

Estimates: Less than $500,000

Rationale: Conformity.

7. Social Security Benefits

Description: In 1993 the federal government increased the amount of social security benefits which are taxable for federal income tax purposes. This deduction limits state taxation of social security benefits to the amount which was taxable for federal purposes prior to the 1993 change, effective with the 1994 income year.

For income years 1994 through 1997 the percentage of social security benefits which is included in state adjusted gross income is limited to the percentage that was taxable under the 1993 federal income tax rules (PA 94-4 May Special Session). Beginning with the 1998 income year, the amount of social security is reduced by one-half of the 50% or to 25% of benefits (PA 97-309 and PA 97-322). Beginning with the 1999 income year, PA 99-173 exempted the remaining 25% of Social Security Benefits from the State Income Tax for Joint filers with AGI under $60,000 and Single Filers with AGI under $50,000.

Estimates: $35 million FY 02.

Rationale: Expediency.

Taxpayers benefiting: 110,000

8. Holocaust Payments

Description: Beginning with the 2000 income year any restitution payments to survivors of various human rights abuses during World War II are exempted from the tax (PA 00-82).

Estimates: Precludes potential future revenue gain

Rationale: Expediency.

Taxpayers benefiting: Greater than 100.

9. Individual Development Accounts

Description: Interest earned on funds deposited in the Individual Development Account are exempted from the tax. The Individual Development Account was created by PA 00-192 to allow certain low-income and qualified disable taxpayers to open savings accounts and receive matching funds as an incentive for saving for specific purposes.

Estimates: Minimal

Rationale: Incentive.

Taxpayers benefiting: Greater than 100.

11. Other Deductions

Description: The following items are deductible in determining Connecticut adjusted gross income but not deductible in determining Federal adjusted gross income.

(a) Interest paid on indebtedness incurred to acquire investments that provide income which is taxable in Connecticut but not taxable for federal purposes, that is not deductible in determining federal adjusted gross income, and is attributable to a trade or business of that individual.

(b) Expenses paid or incurred for the production (including management, conservation, and maintenance of property held for production) or collection of income taxable in Connecticut but exempt from federal income tax, which were not deductible in determining federal adjusted gross income.

(c) Amortizable bond premium on bonds which provide interest income taxable in Connecticut but exempt from federal income tax, which premiums were not deductible in determining adjusted gross income.

(d) Any subtractions from federal adjusted gross income not listed. For instance, a deduction from Connecticut taxable income for any interest income from notes, bonds or other obligations of the State of Connecticut, interest income from which is included in federal adjusted gross income.

Estimates: Between $5 and $10 million.

Rationale: Conformity.

Potential number of taxpayers affected is estimated to be between 600,000 and 900,000 returns filed. Data for number of taxpayers applying subtraction from CT AGI is not available by category

Credits

1. Credit for Property Taxes Paid

Description: A credit for up to $500 is provided for Personal and Real Property Taxes paid on the taxpayer's primary residence or a motor vehicle effective with the October 1, 1995 Grand List/1996 Income year. PA 95-160 enacted the credit for up to $100, PA 97-309 and PA 97-322 increased the credit from up to $100 to $215 for the 1997 income year and $285 for the 1998 income year below certain income levels. PA 98-110 increased the credit from up to $285 to up to $350 for the 1998 income year and thereafter. PA 99-173 increased the maximum property tax credit from $350 to $425 for the 1999 income year and to $500 for income years beginning on or after 2000.

Estimates: $385 million in FY 02

Rational: Expediency.

Taxpayers benefiting: About 1 million returns is anticipated for Income Year 2001/Fiscal Year 2002.

SALES AND USE TAXES

The trend toward states enacting general sales taxes began in the 1930s and Connecticut became a sales tax state in 1947. As in other states, the relatively simple policy goal of the tax was to restore solvency to the state's treasury with a minimum of administrative problems and expense. To accomplish this, the tax was imposed on retail sales of tangible goods, which could be collected with relative ease. Since then, the tax has evolved into a complex structure with a lengthy list of taxable goods and services, and even lengthier list of items which are exempt.

Computation of Tax

Rate & Basis - Connecticut levies sales and use taxes on the gross receipts of retailers from the sale of tangible personal property and on the gross receipts from the rendering of certain business services. The treatment of services under the Sales and Use Tax differs fundamentally from the treatment of tangible personal property because sales of the latter are taxable unless specifically exempted, while sales of services are excluded unless enumerated under CGS Section 12-407(2)(i). The list of service exemptions under Item C are those that were explicitly subject to the tax and then repealed or were thought to be subject to the tax and it was clarified that they were not. On gross receipts from the sale, rental or leasing of tangible personal property, and rendering of certain business services the tax rate is 6%. On the rental of hotel rooms in a hotel or lodging house the tax rate is 12%.

The following six sections list exemptions and exclusions to the Sales and Use Tax, with the rationale and a brief legislative history for each. Estimates are for FY 00 unless otherwise indicated. Due to the nature of the Sales and Use Tax being a broad based tax as well as the fact that the seller collects and files the tax and not the ultimate consumer therefore the number of taxpayers benefiting is not included for this section.

A. Consumer Goods Exemptions

Food

1. Sales of food products for human consumption.

   Description: "Food products" include cereals and cereal products, milk and milk products, oleomargarine, meat and meat products, fish and fish products, eggs and egg products, vegetables and vegetable products, fruit and fruit products, spices and salt, sugar and sugar products other than candy and confectionery; coffee and coffee substitutes, tea, cocoa and cocoa products other than candy and confectionery. "Food products" do not include spirituous, malt or vinous liquors, soft drinks, sodas or beverages such as are ordinarily dispensed at bars and soda fountains, or in connection therewith, medicines except by prescription, tonics and preparations in liquid powdered, granular, tablet, capsule, lozenge and pill form sold as dietary supplements or adjuncts. "Food products" also do not include meals sold by an eating establishment or caterer. "Meal" means food products which are furnished, prepared or served in such a form and in such portions that they are ready for immediate consumption. A meal as defined in this subsection includes food products which are sold on a "take out" or "to go" basis and which are actually packaged or wrapped. The sale of a meal, as defined in this subsection, is a taxable sale. "Eating establishment" means a place where meals are sold and includes a restaurant, cafeteria, grinder shop, pizzeria, drive-in, fast food outlet, ice cream truck, hot dog cart, vending machine, refreshment stand, sandwich shop, private or social club, cocktail lounge, tavern, diner, snack bar or hotel or boarding house which furnishes both lodging and meals to its guests. CGS Sec. 12-412(13).

   Separate exemptions for food products and meals under $1 were provided when the tax was first imposed. In 1971, take-out meals were excluded from the food products exemption and included in the meals under $1 exemption. PA 83-18 repealed the exemption for meals under $1. PA 84-415

clarified that meals served at eating establishments are not exempt from the tax. PA 86-397 added an exemption for meals under $2. PA 87-177 amended the food products exemption to provide that a meal under $2 may include a nonalcoholic beverage which is not a food product. It also clarified the definition of a taxable meal. PA 89-251 repealed the exemption for meals under $2. PA 98-110 removed vending machines from the definition of "eating establishments".

Estimates: $260 million.

Rationale: Perceived Equity.

2. Items purchased with federal food stamp coupons.

   Description: Sales of any items purchased with federal food stamp coupons. CGS Sec. 12-412(57) and 12-412e.

   The exemption was created to comply with the provisions of the federal Food Stamp Act of 1985. It was created by PA 86-397.

   Estimates: $1.0 million.

   Rationale: Conformity.

3. Meals delivered to homes of persons who are elderly, disabled or otherwise confined.

   Description: Sales of home delivered meals to elderly, disabled and other homebound persons. CGS Sec. 12-412(46).

   The exemption was created by PA 84-415.

   Estimates: Less than $100,000.

   Rationale: Perceived Equity.

<u>Medical</u>

1. Oxygen, blood plasma, prostheses, custom-made wigs or hairpieces, hearing aids, crutches, walkers and wheel chairs, vital life support equipment, apnea monitors, inclined stairway chairlifts and related repair services, reading aids for the visually impaired, canes, and support hoses.

   Description: Sales of and the storage, use or other consumption of (A) oxygen, blood or blood plasma when sold for medical use in humans or animals; (B) artificial devices individually designed, constructed or altered solely for the use of a particular handicapped person so as to become a brace, support, supplement, correction or substitute for the bodily structure, including the extremities of the individual, and repair or replacement parts and repair services rendered to property described in this subparagraph; (C) artificial limbs, artificial eyes and other equipment worn as a correction or substitute for any functioning portion of the body, custom-made wigs or hairpieces for persons with medically diagnosed total and permanent hair loss as a result of disease or the treatment of disease, and artificial hearing aids when designed to be worn on the person of the owner or user, and repair or replacement parts and repair services rendered to property described in this subparagraph; (D) crutches, walkers, wheel chairs and inclined stairway chairlifts for the use of invalids and handicapped persons, and repair or replacement parts and repair services to property described in this subparagraph; and (E) any equipment used in support of or to supply vital life functions, including oxygen supply equipment used for humans or animals, kidney dialysis machines and any other such device used in necessary support of vital life functions, and apnea monitors, and repair or

replacement parts and repair services rendered to property described in this subparagraph. Repair or replacement parts are exempt whether purchased separately or in conjunction with the item for which they are intended, and whether such parts continue the original function or enhance the functionality of such item. As used in this subdivision, "repair services" means services that are described in subparagraph (Q) or (EE) of subdivision (2) (i) of section 12-407. CGS Sec. 12-412(19).

The exemption has been in effect since the imposition of the tax. PA 76-390 added vital life support equipment. PA 77-46 replaced the word "crippled" with "handicapped." PA 79-33 added walkers. PA 93-74 added custom-made wigs, repairs to hearing aids and apnea monitors. PA 95-160 added repair services. PA 95-359 extended the exemption for oxygen, blood and blood plasma to animals as well as humans. PA 97-316 exempted oxygen supply equipment used for animals from the tax. PA 99-173 added inclined stairway chairlifts and repair and replacement parts of equipment for persons with disabilities. PA 00-170 exempted equipment used as a reading aid by persons visually impaired, canes, and support hoses specially designed to aid circulation

Estimates: $10 million.

Rationale and History: Perceived Equity.

2. Prescription medicines, syringes and needles.

Description: Sales of and the storage, use or other consumption of medicine only by prescription as defined by federal or state law, including such medicine provided for no consideration and the sales of syringes and needles only by prescription. Sales of and the storage, use or other consumption of materials, including materials used in packaging, which become an ingredient or component part of medicine only by prescription, as defined by federal or state law. CGS Sec. 12-412(4).

Prescription medication has been exempt since the imposition of the tax. Syringes and needles were added in 1971.

Estimates: $90 million

Rationale: Perceived Equity.

3. Nonprescription drugs and medicines.

Description: Sales of the following drugs or medicines available for purchase without prescription for use in or on the human body: Vitamin or mineral concentrates; dietary supplements; natural or herbal drugs or medicines; products intended to be taken for coughs, colds, asthma or allergies; antihistamines; laxatives; anti-diarrhea medicines; analgesics; antibiotic, antibacterial, antiviral and anti-fungal medicines; antiseptics; astringents; anesthetics; steroidal medicines; anti-emetics; emetics and anti-emetics; antacids; and any medication prepared to be used in a person's eyes, ears or nose, excluding cosmetics, dentifrices, mouthwash, shaving and hair care products, soaps and deodorants. CGS Sec. 12-412(48).

The exemption was created by PA 85-159. PA 87-315 added nonprescription eye medication. PA 99-173 expanded the exemption to include all drugs and medicines used in humans. PA 00-170 clarified the exemption of nonprescription drugs and medicines used in animals (PA 99-173 unintentionally restricted the exemption to the use on human body.

Estimates: $15 million.

Rationale: Perceived Equity.

4. Disposable pads used for incontinence.

   Description: Sales of certain disposable pads prepared for use in the manner of a diaper or as an under-pad, and commonly used by persons who are incontinent. CGS Sec. 12-412(53).

   The exemption was created by PA 86-397.

   Estimates: Less than $500,000.

   Rationale: Perceived Equity.

5. Test strips and tablets, lancets and glucose monitoring equipment used in care of diabetes.

   Description: Sales of test strips and tablets, lancets and glucose monitoring equipment for purposes of certain tests and monitoring required in the care of diabetes and repair or replacement parts for such equipment, whether such repair or replacements parts are purchased separately or in conjunction with the sale of such equipment, and whether such parts continue the original function or enhance the functionality of such equipment. CGS Sec. 12-412(54).

   The exemption was created by PA 86-397 and amended by PA 88-364. PA 99-173 added repair and replacement parts of equipment.

   Estimates: Less than $250,000.

   Rationale: Perceived Equity.

6. Telephone equipment designed exclusively for deaf or blind persons.

   Description: Sales of and the storage, use or other consumption of any equipment designed exclusively for use by persons who are deaf or blind for purposes of communication by telephone. CGS Sec. 12-412(38).

   The exemption was created by PA 80-98.

   Estimates: Less than $100,000.

   Rationale: Perceived Equity.

7. Equipment for persons with physical disabilities installed in motor vehicles.

   Description: Sales and the storage, use or other consumption of special equipment installed in a motor vehicle for the exclusive use of a person with physical disabilities and repair or replacement parts for such equipment, whether such repair or replacement parts are purchased separately or in conjunction with such equipment, and whether such parts continue the original function or enhance the functionality of such equipment. CGS Sec. 12-412(80).

   The exemption was created by PA 92-17. PA 99-173 added replacement parts of equipment for persons with disabilities.

   Estimates: Less than $100,000.

   Rationale: Perceived Equity.

8. Sales of eligible benefits under Title XVII or XIX of Social Security Act or CHAMPUS.

   Description: Sales of items that are eligible benefits and that are made to an eligible beneficiary pursuant to Title XVIII, 42 USC Section 1395 et seq., or Title XIX, 42 USC Section 1396 et seq., of the Social Security Act or pursuant to the federal Civilian Health and Medical Program of the Uniformed Services, 10 USC Section 1071 et seq. CGS Sec 12-412(87).

   States are not permitted to levy taxes on the federal government under the US Constitution. The exemption was created by PA 94-175, which levied the Sales Tax on hospital services.

   Estimates: $20 million.

   Rationale: Conformity.

9. Smoking Cessation Products.

   Description: Exempt specially formulated gums, inhalants, or similar products designed to aid in cessation of smoking. CGS Sec. 12-412(111).

   The exemption was created by PA 00-170.

   Estimates: $200,000

   Rationale: Incentive.

<u>Clothing</u>

1. Articles of clothing or footwear costing under seventy five dollars.

   Description: Sales of any article of clothing or footwear intended to be worn on or about the human body and the cost of which to the purchaser is less than seventy five dollars. For purposes of this subdivision clothing or footwear shall not include (A) any special clothing or footwear primarily designed for athletic activity or protective use and which is not normally worn except when used for the athletic activity or protective use for which it was designed and (B) jewelry, handbags, luggage, umbrellas, wallets, watches and similar items carried on or about the human body but not worn on the body in the manner characteristic of clothing intended for exemption under this subdivision. CGS Sec. 12-412(47).

   An exemption for children's clothing was in effect when the tax was first imposed. The exemption for other types of clothing and footwear under $50 was added by PA 85-3. PA 85-159 raised the limit to $75. PA 91-3 eliminated the separate exemption for children's clothing and reduced the limit for all clothing and footwear to $50. PA 00-170 increased the exemption from $50 to $75.

   Estimates: $150 million.

   Rationale: Perceived Equity.

2. Cloth or fabric purchased for noncommercial sewing.

   Description: Any sale of cloth or fabric for purposes of noncommercial sewing, made of natural or synthetic fibers and of such composition, weight and texture as to be used commonly in clothing, and including in addition to such cloth or fabric, any items necessary in such sewing which become a component part of the clothing so made. CGS Sec. 12-412(52).

The exemption was created by PA 86-397.

Estimates: $1.1 million.

Rationale: Perceived Equity.

3. Yarn.

   Description: Any sale of yarn for noncommercial use made of natural or synthetic fibers. CGS Sec. 12-412(97).

   The exemption was created by PA 97-316.

   Estimates: Less than $50,000.

   Rationale: Perceived Equity.

4. Sales Tax "Free Week".

   Description: Establishes a sales tax 'free week' on items of clothing and footwear costing less than $300 beginning on the third Sunday in August until the next succeeding Saturday. CGS Sec. 12-407d.

   The exemption was created by PA 00-170.

   Estimates: $3.0 million.

   Rationale: Perceived Equity and Incentive.

<u>Utilities</u>

1. Fuel for heating purposes.

   Description: Sales of fuel used for heating purposes (i) in any residential dwelling or (ii) in any building, location or premise utilized directly in agricultural production, fabrication of a finished product to be sold or an industrial manufacturing plant, provided the exemption under this subdivision (ii) shall only be allowed with respect to a building, location or premise in which not less than seventy-five percent of the fuel used in such building, location or premise is used for the purpose of such production, fabrication or manufacturing. CGS Sec. 12-412(16) and 12-412h.

   The residential utilities portion has been in effect since the imposition of the tax. The manufacturing and agriculture provision was added by PA 89-251.

   Estimates: $90 to $100 million.

   Rationale: Perceived Equity as it relates to residential utilities. Incentive as it relates to manufacturing and agriculture, since the exemption is intended to reduce cascading.

2. Certain utilities sales.

Description: The subdivision presented below are part of CGS Sec. 12-412(3) and 12-412h.

(A) Gas and electricity for residential use and certain manufacturing or agricultural production. The sale, furnishing or service of gas, including bottled gas, and electricity when delivered to consumers through mains, lines, pipes or bottles for use (i) in any residential dwelling or (ii) directly in agricultural production, fabrication of a finished product to be sold or an industrial manufacturing plant, provided the exemption under this subdivision (ii) shall only be allowed with respect to a metered building, location or premise at which not less than seventy-five per cent of the gas, including bottled gas, or electricity consumed at such metered building, location or premise is used for the purpose of such production, fabrication or manufacturing. Bottled gas as used in this subsection means liquid propane gas.

(C) Water, steam and telegraph. The sale, furnishing or service of water, steam and telegraph when delivered to consumers through mains, lines, pipes or bottles.

(D) Monthly charges of one hundred fifty dollars or less for electricity not otherwise exempt. The sale or furnishing of electricity, not subject to the exemption under subparagraph (A) of this subsection, with respect to that portion of the charges applicable to such electricity for any month of service which is not in excess of one hundred fifty dollars.

(E) Gas, water, steam or electricity used in furnishing same to consumers. The sale, furnishing or service of gas, water, steam or electricity for use directly in the furnishing of gas, water, steam or electricity delivered to consumers through mains, lines or pipes.

An exemption for consumer sales of gas, water, electricity, telephone and telegraph services has been in effect since the imposition of the tax. PA 74-4 added bottled gas and community antenna television and cable services. PA 75-495 clarified that bottled gas is propane gas. PA 77-395 added sales of steam. PA 89-251 created the exemption in its present form.

Estimates: $3 to $5 million.

Rationale: Redundancy as it relates to residential utilities and water, steam and telegraph. Utility company gross receipts are taxable under the Utility Companies Tax at the rate of 4% for residential utilities, 5% for water and steam service and 4.5% for telegraph service. Incentive as it relates to businesses. The manufacturing and agriculture exemption is intended to reduce cascading. The portion exempting charges under $150/month is intended to reduce the cost of doing business for small firms.

3. Water Company Purchases.

Description: Sales of and the storage, use or other consumption of any personal property or any services to a water company, as defined in section 16-1, for use in maintaining, operating, managing or controlling any pond, lake, reservoir, stream, well or distributing plant or system employed for the purpose of supplying water to fifty or more customers. CGS Sec. 12-412(90). (This exemption is effective 7/1/96.)

Municipal water companies are exempt from the Sales Tax. The exemption was created by PA 94-4 of the May Special Session. PA 95-160 changed the effective date.

Estimates: $4.0 million

Rationale: Perceived Equity.

Other Consumer Good Exemptions

1. Motor vehicle fuel.

   Description: Gross receipts from the distribution of and the storage, use or other consumption in the state of motor vehicle fuel which is subject to the motor fuels tax. CGS Sec. 12-412(15).

   Estimates: $150 million.

   Rationale: Redundancy. Motor vehicle fuel sales are subject to the Motor Fuels Excise Tax. Firms that sell petroleum products are subject to the Petroleum Companies Gross Receipts Tax, which includes sales of motor vehicle fuel. The exemption has been in effect since the imposition of the tax.

2. Fuel for use in certain high-occupancy commuter vehicles.

   Description: Sales of and the storage, use or other consumption of any fuel with respect to which the tax imposed under chapter 221 has been refunded under subdivision (11) of subsection (a) of section 12-459. CGS Sec. 12-412 (37).

   Estimates: Less than $100,000.

   Rationale: Incentive, the exemption is intended to encourage the use of multiple-occupancy commuter vehicles. Taxpayers who qualify for a Motor Fuels Excise Tax exemption and who apply for a refund, are subject to Sales Tax on the amount exempted from the excise tax. This exemption prevents taxpayers who qualify for the Motor Fuels Excise Tax exemption on high-occupancy commuter vehicle fuel from paying Sales Tax on their excise tax refund. It was created by PA 79-627 and amended by 82-25.

3. Newspapers and magazines.

   Description: (A) Sales of magazines, including publications which only contain puzzles, by subscription; (B) sales of newspapers. CGS Sec. 12-412(6).

   The exemption also clarifies that puzzle magazines are nontaxable. Magazine subscriptions have been exempt since the imposition of the tax. At that time all newspaper sales were exempt. PA 78-172 clarified the exemption with regard to newspapers and PA 91-3 imposed the tax on newspapers sold over the counter. PA 94-4 of the May Special Session added the language regarding puzzle magazines. PA 98-110 extended the exemption to all sales of newspapers not just by subscription only.

   Estimates: $35 million.

   Rationale: Efficiency/Clarification. It would be costly and difficult to collect revenue and audit tax records for out-of-state companies selling magazines and newspapers by subscription.

4. One cent vending machines. Vending machine sales of food products and certain items.

   Description: (A) Sales of any items from one cent vending machines; or (B) sales of food products, as defined in subsection (13) of this section, sold through coin-operated vending machines and items costing 50 cents or less. CGS Sec. 12-412(27).

The exemption was created by PA 74-263. PA 95-160 added food sold through coin-operated vending machines. PA 00-170 extended the exemption to items sold through vending machines costing 50 cents or less.

Estimates: $1.2 million.

Rationale Efficiency: the amount of revenue which could be collected is considered too small to justify the administrative costs.

5. Property purchased from the United States.

   Description: The storage, use or other consumption in this state of property purchased from any incorporated agency or instrumentality of the United States, except (a) any property reported to the Surplus Property Board of the United States or any successor thereto, as surplus property by any owning agency; and (b) any property included in any contractor inventory, is exempted from the use tax. "Surplus property", "owning agency", and "contractor inventory" as used in this section have the meanings ascribed to them in that act of the Congress of the United States known as the "Surplus Property Act of 1944". CGS Sec. 12-413(2).

   The exemption has been in effect since the imposition of the tax.

   Estimates: Indeterminate.

   Rationale: Conformity: states are not permitted to levy taxes on the federal government under the US Constitution.

6. Purchase brought into state by resident.

   Description: The use tax shall not apply to the purchase of any articles of tangible personal property which have been brought into this state on the person of a resident of this state when the purchase price of the same does not exceed twenty-five dollars; provided such purchase shall be for personal use or consumption in this state and not for use or consumption in carrying on a trade, occupation, business or profession. CGS Sec. 12-413(3).

   The exemption has been in effect since the imposition of the tax.

   Estimates: Indeterminate.

   Rationale: Efficiency: the amount of revenue which could be collected is considered too small to justify the administrative costs.

7. Personal property used in burial or cremation with value up to two thousand five hundred dollars for any single funeral and caskets.

   Description: Sales of tangible personal property by any funeral establishment performing the primary services in preparation for and the conduct of burial or cremation, provided any such property must be used directly in the performance of such services and the total amount of such exempt sales with respect to any single funeral may not exceed two thousand five hundred dollars and caskets. CGS Sec. 12-412(55).

   The exemption was created by PA 86-397. PA 00-170 exempted caskets.

   Estimates: $3.6 million.

Rationale and History: Perceived Equity.

8. Vegetable seeds.

   Description: Sales of vegetable seeds suitable for planting to produce food for human consumption. CGS Sec. 12-412(96)

   The exemption was created by PA 97-316.

   Estimates: Less than $100,000.

   Rationale: Perceived Equity.

9. Firearm Safety Devices

   Description: Sales of and the storage, use or other consumption of firearm safety devices. For purposes of this subdivision, "firearm safety devices" shall include safes, lock boxes, trigger and barrel locks and other items designed to enhance home firearm safety. CGS Sec. 12-412(101)

   The exemption was created by PA 99-173

   Estimates: $100,000

   Rationale: Incentive.

10. Bicycle Helmets

    Description: Sales of and the storage, use or other consumption of bicycle helmets. For the purposes of this subdivision, "bicycle" means any vehicle propelled by the person riding the same by foot or hand power and "helmet" means protective headgear which conforms to the minimum specifications established by the American National Standards Institute or the Snell Memorial Foundation's Standard for Protective Headgear for Use in Bicycling. CGS Sec. 12-412(102)

    The exemption was created by PA 99-173.

    Estimates: $200,000

    Rationale: Incentive.

11. Campground rentals

    Description: Campground rentals (does not appear in statutory language)

    Campground rentals were made taxable by PA 92-184, effective 7/1/93 and were excluded from the tax by PA 93-74 and PA 93-332, effective 7/1/93.

    Estimates: Less than $100,000.

    Rationale: Incentive: The exclusion is intended to reduce cascading.

12. Lodging

    Description: (a) Privately owned and operated convalescent homes, residential care homes, homes for the infirm, indigent or chronically ill; (b) religious or charitable homes for the aged, infirm, indigent or chronically ill; (c) privately owned and operated summer camps for children; (d) summer camps for

children operated by religious or charitable organizations; (e) lodging accommodations at educational institutions; or (f) lodging accommodations at any facility operated by and in the name of any nonprofit charitable organization, provided the income from such lodging accommodations at such facility is not subject to federal income tax. CGS Sec. 12-407(17).

PA 90-186 added lodging accommodations operated by nonprofit organizations.

Estimates: Less than $100,000

Rationale: Expediency.

13. Cigarettes pack containing less than twenty cigarettes

Description: Prohibits the sale of single cigarettes or cigarettes in unopened packages containing less than twenty cigarettes. CGS Sec. 12-314(a)

PA 00-56 prohibited the sale of cigarettes in pack less than twenty but did not prevent the give away of such in free samples. Cigarette purchases are subject to the Sale Tax.

Estimates: $2,000 FY 01

Rationale: Expediency.

14. Child Car Seats

Description: Child car seats. CGS Sec. 12-412(108).

PA 00-170 exempted child car seats purchases from the Sale Tax.

Estimates: $500,000

Rationale: Expediency.

15. College Textbooks

Description: College textbooks purchased by matriculated students. CGS Sec. 12-412(109)

PA 00-170 exempted college textbook purchases from the Sale Tax.

Estimates: $3.5 million.

Rationale: Expediency.

16. Passenger Cars which get 50 MPG Highway or greater

Description: Exempts the sales of passenger cars occurring prior to July 1, 2002 that have an estimated highway gasoline mileage of at least 50 MPG.. CGS Sec. 12-412(110)

PA 00-170 exempted passenger cars which get 50 MPG on the highway or greater purchased from the Sale Tax.

Estimates: $100,000

Rationale: Expediency.

B. Business and Agricultural Exemptions

Machinery and Materials

1. Machinery used in manufacturing.

   Description: Sales of and the storage, use or other consumption of machinery used directly in a manufacturing production process. The word "machinery" as used in this subsection means the basic machine itself, and includes all of its component parts and contrivances, such as belts, pulleys, shafts, moving parts, operating structures and equipment or devices, which component parts and contrivances are used or required to control, regulate or operate the machinery or to enhance or alter its productivity or functionality, whether such component parts and contrivances are purchased separately or in conjunction with such machine and all replacement and repair parts for the basic machine or for its component parts and contrivances, whether such replacement or repair parts are purchased separately or in conjunction with such machine. For the purposes of this subsection, "machinery" includes machinery used exclusively to control or monitor an activity occurring during the manufacturing production process and machinery used exclusively during the manufacturing production process to test or measure materials and products being manufactured but shall not include office equipment or data processing equipment other than numerically controlled machinery used directly in the manufacturing process. CGS Sec. 12-412(34).

   It was created by PA 78-71. PA 89-123 removed references to agricultural production which were included in a separate subsection, (63), created by that act. PA 94-4 of the May Special Session specified "machinery" is limited to equipment directly related to manufacturing processes. PA 98-110 added the exclusion of component parts and contrivances whether purchased separately or in conjunction with a machine.

   Estimates: $125 million.

   Rationale: Cascading.

2. Component parts for assembly of manufacturing machinery.

   Description: The sale of any part of a machine purchased exclusively for the purpose of assembling a machine for use directly in a manufacturing production process, provided the purchaser submits a certified statement at the time of such purchase, on a form prepared by the commissioner of revenue services, certifying that such part is purchased exclusively for use in a machine to be assembled by the purchaser, or someone acting on behalf of the purchaser, and that such machine shall be used directly in a manufacturing production process. The purchaser shall prepare a record of the use of such part which shall be maintained by the purchaser for a period of not less than three years following the date of purchase. CGS Sec. 12-412(73).

   It was created by PA 91-3.

   Estimates: $10 million.

   Rationale: Cascading.

3. Production materials.

   Description: Sales of and the storage or use of materials, rope, fishing nets, tools and fuel or any substitute therefor, which become an ingredient or component part of tangible personal property to be sold or which are used directly in the fishing industry or in an industrial plant in the actual fabrication

of the finished product to be sold. Sales of and the storage or use of materials, tools and fuel or any substitute therefor, when such products are used directly in the furnishing of power to an industrial manufacturing plant or in the furnishing of gas, water, steam or electricity when delivered to consumers through mains, lines or pipes. CGS Sec. 12-412(18).

It has been in effect since the imposition of the tax and was amended in 1959 to include a definition of "machinery." PA 73-288 deleted references to "consumption." PA 89-123 created a separate subsection (63) for agricultural production.

Estimates: $10 million.

Rationale: Cascading.

4. Partial exemption for materials, tools, fuels, machinery and equipment used in manufacturing.

Description: CGS Sec. 12-412i. (a) The taxes imposed by this chapter shall not apply to the percentage set forth in subsection (c) of this section of the gross receipts from the sale of and the storage, use and consumption in this state of the following items: (1) Materials, tools and fuels or any substitute therefor which become an ingredient or component part of tangible personal property to be sold or which are used or consumed in an industrial plant in the manufacturing, processing or fabricating of products to be sold, in any process preparatory or related thereto or in the measuring or testing of such products or (2) machinery and equipment which will be used primarily in the process of manufacturing, processing or fabricating tangible personal property if: (A) The machinery or equipment is used for research and development, measuring or testing with respect to or in furtherance of the manufacturing, processing or fabricating of tangible personal property; (B) the machinery or equipment is used at any stage of the manufacturing, processing or fabricating process from the time any raw materials are received to the time the product is ready for delivery or storage, including overpacking and crating; (C) the machinery or equipment is used primarily to maintain or repair any machinery or equipment described in subparagraph (A) or (B) of this subdivision, or (D) the machinery or equipment is used primarily for metal finishing, provided this exemption shall not apply to any materials, tools, fuels, machinery or equipment which is used primarily in administration, general management, sales or any other activity which does not constitute manufacturing, processing or fabricating. The exemption under this subsection shall not apply to any materials, tools, fuels, machinery or equipment which is exempt under any other provision of this chapter.

(b) As used in this section: (1) "Manufacturing" means the activity of converting or conditioning tangible personal property by changing the form, composition, quality or character of the property for ultimate sale at retail or use in the manufacturing of a product to be ultimately sold at retail. Changing the quality of property shall include any substantial overhaul of the property that results in a significantly greater service life than such property would have had in the absence of such overhaul or with significantly greater functionality within the original service life of the property, beyond merely restoring the original functionality for the balance of the original service life; (2) "fabricating" means to make, build, create, produce or assemble components or tangible personal property so that they work in a new or different manner; (3) "processing" means the physical application of the materials and labor necessary to modify or change the characteristics of tangible personal property; (4) "machinery" means the basic machine itself, including all of its component parts and contrivances such as belts, pulleys, shafts, moving parts, operating structures and all equipment or devices used or required to control, regulate or operate the machinery, including, without limitation, computers and data processing equipment, together with all replacement and repair parts therefor, whether purchased separately or in conjunction with a complete machine, and regardless of whether the machine or component parts thereof are assembled by the taxpayer or another party; (5) "equipment" means any device separate from machinery but essential to a manufacturing, processing or fabricating process; and (6) "measuring or testing" includes both nondestructive and destructive measuring or testing, and the alignment and calibration of machinery, equipment and tools, in the furtherance of the manufacturing, processing or fabricating of tangible personal property.

(c) The gross receipts from the sale of and the storage, use and consumption in this state of the items set forth in subsection (a) of this section shall be exempt from the taxes imposed by this chapter, to the following extent: (1) For sales made on or after January 1, 1993, and prior to July 1, 1993, ten per cent of the gross receipts from such items; (2) for sales made on or after July 1, 1993, and prior to July 1, 1994, twenty per cent of the gross receipts from such items; (3) for sales made on or after July 1, 1994, and prior to July 1, 1995, thirty per cent of the gross receipts from such items; (4) for sales made on or after July 1, 1995, and prior to July 1, 1996, forty per cent of the gross receipts from such items; and (5) for sales made on or after July 1, 1996, fifty per cent of the gross receipts from such items. (d) The burden of proving that an item is subject to the exemption set forth in this section is upon the person who makes the sale unless he takes from the purchaser a certificate to the effect that the property is subject to such exemption. The certificate relieves the seller from the burden of proof only if taken in good faith by the seller. The certificate shall be signed by and bear the name and address of the purchaser. The certificate shall be substantially in such form as the commissioner prescribes. (e) If a purchaser who gives a certificate makes any use of the property other than the purposes set forth in this section, the use shall be deemed a use by the purchaser in accordance with this chapter, as of the time the property is first used by him, and the property shall be taxable to such purchaser in accordance with this chapter.

It was created by PA 92-193, the Manufacturing Recovery Act of 1992. Various other acts made technical changes and effective date changes.

Estimates: $4 million.

Rationale: Cascading.

5. Replacement parts in enterprise zones.

Description: Sales of any replacement parts for machinery to any business entity located in any enterprise zone designated pursuant to section 32-70 for use within such zone. CGS Sec. 12-412(43).

The exemption was created by PA 81-445.

Estimates: $700,000.

Rationale: Incentive.

6. Items sold for use in agricultural production by a farmer engaged in such production as a business.

Description: Sales of and the storage, use or other consumption of tangible personal property exclusively for use in agricultural production, as defined in this subsection, by a farmer engaged in agricultural production as a trade or business and to whom the department of revenue services has issued an agricultural sales tax exemption permit, provided in the immediately preceding calendar year such farmer's gross income from such agricultural production shall have been not less than two thousand five hundred dollars, as reported for federal income tax purposes on Schedule C or Schedule F attached to Internal Revenue Service Form 1040, 1041 or 1065 where the business is conducted by an individual, estate, trust or partnership or would be reportable on Schedule C or Schedule F but for the fact that the business is conducted by a corporation. The commissioner of revenue services shall adopt regulations in accordance with chapter 54 requiring periodic registration for purposes of the issuance of agricultural sales tax exemption permits, including (1) a procedure related to the application for such permit, (2) a form of notice concerning the penalty for misuse of such permit and (3) required notarization of the application of such permit. As used in this subsection, "agricultural production" means engaging, as a trade or business, in (A) the raising and harvesting of any agricultural or horticultural commodity, (B) dairy farming, (C) forestry, (D) the raising, feeding,

caring for, shearing, training or management of livestock, including horses, bees, poultry, fur-bearing animals or wildlife, (E) the raising and harvesting of fish, oysters, clams, mussels or other molluscan shellfish or (F) the operation or management of a farm and its buildings, tools and equipment; "farmer" means any person engaged in agricultural production as a trade or business. CGS Sec. 12-412(63).

Portions of it were formerly contained in subsections (18) and (34). Subsection (63) was created by PA 89-123. PA 93-122 clarified that fish raising and harvesting were included in the exemption. PA 00-174 made technical changes.

Estimates: $5.5 million.

Rationale: Cascading.

7. Commercial fishing vessels and machinery or equipment for use thereon.

   Description: Sales of and the storage, use or other consumption of any vessel, as defined in section 15-127, used exclusively in commercial fishing and any machinery or equipment for use on a commercial fishing vessel, provided in the calendar year ending immediately preceding the date of any such sale, storage, use or other consumption, not less than fifty per cent of the gross income of the purchaser shall have been derived from commercial fishing, subject to proof satisfactory to the commissioner of revenue services. For purposes of this subsection, commercial fishing vessels shall include any vessel with a certificate of documentation issued by the United States Coast Guard for coastwise fishery. CGS Sec. 12-412(40).

   It was created by PA 81-323. PA 82-192 applied the exemption to vessels, machinery or equipment used exclusively in commercial fishing rather than designed exclusively for use in commercial fishing. PA 92-123 and 92-17 expanded the exemption to include vessels with coastwise fishery certificates. PA 00-174 made technical changes and conformed the exemption to the Farmer's Sales Tax Exemption.

   Estimates: $8 to $12 million.

   Rationale: Cascading.

<u>Aircraft</u>

1. Flyable aircraft.

   Description: Sales of and the storage, use or other consumption, by a manufacturer of aircraft located in this state, of flyable aircraft complete with necessary equipment and modifications, but not separate engines and parts thereof sold to persons taking delivery and using such aircraft as certificated or licensed carriers of persons or property in interstate or foreign commerce under authority of the laws of the United States or any foreign government, or sold to any foreign government for use by such government outside of this state. or sold to persons who are not residents of this state and who will not use such aircraft in this state otherwise than in the removal of such aircraft from this state. CGS Sec. 12-412(20).

   It has been in effect since the imposition of the tax.

   Estimates: Less than $100,000.

Rationale: Clarification/Conformity. The exemption clarifies that such transactions are not taxable because they are out-of-state sales. It also conforms the statutes to the US Constitution, which prohibits states from violating the interstate commerce clause.

2. Aircraft repair or replacement parts.

   Description: . Sales of and the storage, use or other consumption of repair or replacement parts exclusively for use (A) (i) in aircraft owned or leased by a certificated air carrier or (ii) in aircraft having a maximum certificated takeoff weight of six thousand pounds or more or (B) in the significant overhauling or rebuilding of aircraft or aircraft parts or components on a factory basis. CGS Sec. 12-412(76).

   It was created by PA 92-17. PA 97-316 extended the exemption to all aircraft with a certified weight of 6,000 pounds or more

   Estimates: Less than $100,000.

   Rationale: Incentive: the exemption is intended to reduce cascading.

3. Aircraft repair services.

   Description: Sales of aircraft repair services when such services are rendered in connection with (A) (i) aircraft owned or leased by a certificated air carrier or (ii) aircraft having a maximum certificated takeoff weight of six thousand pounds or more or (B) the significant overhauling or rebuilding of aircraft or aircraft parts or components on a factory basis. CGS Sec. 12-412(77).

   It was created by PA 92-17. PA 97-316 extended the exemption to all aircraft with a certified weight of 6,000 pounds or more.

   Estimates: Less than $100,000.

   Rationale: Incentive: the exemption is intended to reduce cascading.

4. Materials, tools, fuel, machinery and equipment in an aircraft manufacturing facility.

   Description: On or after July 1, 1993, sales of and the storage, use or other consumption by an aircraft manufacturer operating an aircraft manufacturing facility in this state of materials, tools, fuel, machinery and equipment used in such facility. For purposes of this subsection, (A) "machinery and equipment" means tangible personal property (i) which is installed in an aircraft manufacturing facility operated by an aircraft manufacturer and (ii) the predominant use of which is for the manufacturing of aircraft or aircraft parts or components or for the significant overhauling or rebuilding of aircraft or aircraft parts or components on a factory basis and (B) "aircraft manufacturing facility" means that portion of a plant, building or other real property improvement used for the manufacturing of aircraft or aircraft parts or components or for the significant overhauling or rebuilding of aircraft or aircraft parts or components on a factory basis. CGS Sec. 12-412 (78).

   It was created by PA 92-17.

   Estimates: Less than $100,000.

   Rationale: Incentive: the exemption is intended to reduce cascading.

5. Certain aircraft.

   Description: Sales of and the storage, use or other consumption of, aircraft having a maximum certificated takeoff weight of six thousand pounds or more. "Certificated takeoff weight" means the maximum such weight contained in the type certificate or airworthiness certificate. CGS Sec 12-412(99).

   The exemption was created by PA 97-316.

   Estimates: $100,000.

   Rationale: Incentive: the exemption is intended to reduce cascading.

Motor Vehicles

1. Commercial trucks, truck tractors, tractors and semi-trailers and vehicles used in combination therewith.

   Description: Commercial trucks, truck tractors, tractors and semi-trailers and vehicles used in combination therewith. (A) Sales of and the storage, use or other consumption of commercial trucks, truck tractors, tractors and semi-trailers, and vehicles used in combination therewith, which (i) have a gross vehicle weight rating in excess of twenty-six thousand pounds or (ii) are operated actively and exclusively during the period commencing upon its purchase and ending one year after the date of purchase for the carriage of interstate freight pursuant to a certificate or permit issued by the Interstate Commerce Commission or its successor agency. As used in this subsection, "gross vehicle weight rating" means the value specified by the manufacturer as the loaded weight of the single or combination vehicle and, if the manufacturer has not specified a value for a towed vehicle, means the value specified for the towing vehicle plus the loaded weight of the towed unit. (B) Each purchaser of a commercial truck, truck tractor, tractor or semi-trailer or vehicle used in combination therewith exempt from tax pursuant to the provisions of subparagraph (A)(ii) of this subsection shall, in order to qualify for said exemption, present to the retailer (i) a copy of the certificate or permit that was issued by the Interstate Commerce Commission or its successor agency to the purchaser and (ii) a certificate, in such form as the commissioner may prescribe, certifying that such commercial truck, truck tractor, tractor or semi-trailer or vehicle used in combination therewith will be operated actively and exclusively for the carriage of interstate freight. The purchaser shall be liable for the tax otherwise imposed if, during the period commencing upon its purchase and ending one year after the date of purchase, such commercial truck, truck tractor, tractor or semi-trailer or vehicle used in combination therewith is not operated actively and exclusively for the carriage of interstate freight. CGS Sec. 12-412(70).

   It was created by PA 91-3. PA 95-359 requires vehicles purchased under the exemption be operated actively and exclusively for the carriage of interstate freight during the one year period following the purchase.

   Estimates: $3.0 million

   Rationale: Incentive.

2. Sales of commercial motor vehicles where seventy-five per cent of day-in-service revenue derives from trips involving other states.

   Description: Sales of commercial motor vehicles where seventy-five per cent of day-in-service revenue derives from trips involving other states. (A) The sale of and the storage, use or other

consumption of any commercial motor vehicle as defined in subparagraphs (A) and (B) of subdivision (11) of section 14-1, that is operating pursuant to the provisions of section 13b-88 or 13b-89, during the period commencing upon its purchase and ending one year after the date of purchase provided seventy-five per cent of its revenue from its days in service is derived from out-of-state trips or trips crossing state lines. (B) Each purchaser of a commercial motor vehicle exempt from tax pursuant to the provisions of this subsection shall, in order to qualify for said exemption, present to the retailer a certificate, in such form as the commissioner may prescribe, certifying that seventy-five per cent of such vehicle's revenue from its days in service will be derived from out-of-state trips or trips crossing state lines. The purchaser of the motor vehicle shall be liable for the tax otherwise imposed if, during the period commencing upon its purchase and ending one year after the date of purchase, seventy-five per cent of the vehicle's revenue from its days in service is not derived from out-of-state trips or trips crossing state lines.
CGS Sec. 12-412(82).

It was created by PA 93-74. PA 95-359 requires that the vehicles purchased under the exemption derived 75% of their revenue from out-of-state trips or trips crossing state lines.

Estimates: $200,000.

Rationale: Incentive.

3. Sales of motor buses where seventy-five per cent of day-in-service revenues derives from trips involving other states.

   Description: Sales of motorbuses where seventy-five per cent of day-in-service revenues derives from trips involving other states. (A) The sale of and the storage, use or other consumption of any motor bus, as defined in subdivision (44) of section 14-1, that is operating pursuant to the provisions of section 13b-88 or 13b-89, during the period commencing upon its purchase and ending one year after the date of purchase provided seventy-five per cent of its revenue from its days in service is derived from out-of-state trips or trips crossing state lines. (B) Each purchaser of a motor bus exempt from tax pursuant to the provisions of this subsection shall, in order to qualify for said exemption, present to the retailer a certificate, in such form as the commissioner may prescribe, certifying that seventy-five per cent of such bus's revenue from its days in service will be derived from out-of-state trips or trips crossing state lines. The purchaser of the motor bus shall be liable for the tax otherwise imposed if, during the period commencing upon its purchase and ending one year after the date of purchase, seventy-five per cent of the bus's revenue from its days in service is not derived from out-of-state trips or trips crossing state lines. CGS Sec. 12-412(83).

   It was created by PA 93-74. PA 95-359 requires that the vehicles purchased under the exemption derived 75% of their revenue from out-of-state trips or trips crossing state lines.

   Estimates: $200,000.

   Rationale: Incentive.

4. New motor vehicles exclusively powered by clean alternative fuel or electricity.

   Description: Sales of and the storage, use or other consumption, prior to January 1, 2002, of a new motor vehicle which is exclusively powered by a clean alternative fuel. As used in this subsection and subsections (68) and (69), "clean alternative fuel" shall mean natural gas or electricity when used as a motor fuel or propane when used as a motor vehicle fuel if such a vehicle meets the federal fleet emissions standards under the federal Clean Air Act or any emissions standards adopted by the Commissioner of Environmental Protection as part of the state's implementation plan under said act. CGS Sec. 12-412(67).

The exemption was created by 91-179. PA 92-188 added vehicles powered by electricity. PA 99-173 extended the sunset to January 1, 2002.

Estimates: Less than $100,000.

Rationale and History: Incentive.

Fuel

1. Aviation fuel used exclusively and directly in the experimental testing of any product.

   Description: Sales of and storage, use or other consumption of any aviation fuel used exclusively and directly in the experimental testing of any product. CGS Sec. 12-412(59).

   The exemption was created by PA 87-119.

   Estimates: Less than $100,000.

   Rationale: Incentive/Redundancy. The exemption is intended to reduce cascading. Also, the first instate sale of petroleum products, including aviation fuel, is subject to the 5% Petroleum Companies Gross Receipts Tax. This fuel is not subject to the Motor Fuels Excise Tax.

2. Aviation fuel.

   Description: Sales of and storage, use or other consumption of aviation fuel used exclusively for aviation purposes. CGS Sec. 12-412(75).

   Formerly, aviation fuel was taxed at 2.5% but was exempted by PA 92-17.

   Estimates: $2.0 million.

   Rationale: Incentive/Redundancy. The exemption is intended to make in-state businesses more competitive with those out of state. Also, the first instate sale of petroleum products, including aviation fuel, is subject to the 5% Petroleum Companies Gross Receipts Tax. This fuel is not subject to the Motor Fuels Excise Tax.

3. Marine fuel.

   Description: Sales and the storage, use or other consumption of bunker fuel oil, intermediate fuel, marine diesel oil and marine gas oil for use in any vessel having a displacement exceeding four thousand dead weight tons or for use in any vessel primarily engaged in interstate commerce. CGS Sec. 12-412(79).

   The exemption was created by PA 92-17. PA 97-243 clarified the exemption of fuels for use in vessels primarily engaged in interstate commerce.

   Estimates: Indeterminate.

   Rationale: Incentive/Redundancy. The exemption is intended to make instate businesses more competitive with those out of state. Also, the first instate sale of petroleum products, including marine fuel, is subject to the 5% Petroleum Companies Gross Receipts Tax. This fuel is not subject to the Motor Fuels Excise Tax.

4. Conversion equipment associated with converting vehicles to exclusive use of clean alternative fuel or dual use of such fuel and any other fuel.

   Description: Sales of and the storage, use or other consumption, prior to January 1, 2002, of conversion equipment incorporated into or used in converting vehicles powered by any other fuel to either exclusive use of a clean alternative fuel or dual use of any other fuel and a clean alternative fuel, including, but not limited to, storage cylinders, cylinder brackets, regulated mixers, fill valves, pressure regulators, solenoid valves, fuel gauges, electronic ignitions and alternative fuel delivery lines. CGS Sec. 12-412(68).

   The exemption was created by PA 91-179. PA 92-188 added vehicles powered by electricity. PA 99-173 extended the sunset date to January 1, 2002.

   Estimates: Less than $100,000.

   Rationale: Incentive.

5. Equipment associated with compressed natural gas filling stations.

   Description: Sales of and the storage, use or other consumption, prior to January 1, 2002, of equipment incorporated into or used in a compressed natural gas filling or electrical recharging station for vehicles powered by a clean alternative fuel, including but not limited to, compressors, storage cylinders, associated framing, tubing and fittings, valves, fuel poles and fuel delivery lines used for cleaning alternative fuel storage and filling facilities. CGS Sec. 12-412(69).

   The exemption was created by PA 91-179. PA 92-188 added vehicles powered by electricity. PA 99-173 extended the sunset date to January 1, 2002.

   Estimates: Less than $100,000.

   Rationale: Incentive.

6. Fuel Used in Portable Power Systems

   Description: Sales of, and the storage, use or other consumption of, diesel fuel to be used exclusively in portable power system generators that are larger than one hundred fifty kilowatts.

   The exemption was enacted by PA 99-173.

   Estimates: Less than $50,000

   Rationale: Expediency.

<u>Other Business Purchases</u>

1. Commodities in the form traded on boards of trade and not converted to use by purchaser.

   Description: Sales and storage of any commodity in the form traded on any contract market or other board of trade as defined in the Commodity Exchange Act, as amended, provided this exemption shall not apply to any commodity subsequently converted to use by a purchaser and in such event such purchaser shall be liable for the tax under section 12-411 unless otherwise exempt under any of the provisions of this section. CGS Sec. 12-412(30).

   The exemption was created by PA 77-266.

Estimates: Indeterminate.

Rationale: Incentive: the exemption is intended to reduce cascading. It applies to items such as agricultural commodities, which are sold in the line of business and not used directly by the purchaser. This is analogous to sale for resale, which is not taxable.

2. Containers.

Description: (A) Non-returnable containers and returnable dairy product containers when sold without the contents to persons who place the contents in the container and sell the contents together with the container; (B) containers when sold with the contents if the sales price of the contents is not required to be included in the measure of the taxes imposed by this chapter; (C) returnable containers when sold with the contents in connection with a retail sale of the contents or when resold for refilling. As used herein, "returnable containers" means containers of a kind customarily returned by the buyer of the contents for reuse, but does not mean non-refillable beverage containers, as defined in subsection (10) of section 22a-243. All other containers are "non-returnable containers". Nothing in this subsection shall be construed so as to tax the gross receipts from the sale of or the storage, use or other consumption in this state of bags in which feed for livestock and poultry, as defined in subsection (12) is customarily contained. CGS Sec. 12-412(14).

The exemption has been in effect since the imposition of the tax. PA 87-50 clarified that returnable containers do not include non-refillable beverage containers. The language concerning returnable dairy product containers was added by PA 92-17. Please note that the reference to subsection (12) is outdated because that exemption was repealed by PA 91-3.

Estimates: Less than $100,000.

Rationale: Incentive: the exemption is intended to reduce cascading. It applies to containers used as packaging for contents which will be sold at retail.

3. Printed material manufactured for purchaser in Connecticut to be delivered for use outside the state.

Description: Sales of any printed material which has been manufactured in Connecticut to the special order of a purchaser and which, within thirty days following delivery to such purchaser, is to be delivered for use outside Connecticut, provided such purchaser presents written certification to the seller when such material is received by such purchaser that such material shall be delivered for use outside Connecticut within thirty days. CGS Sec. 12-412(31).

It was created by PA 77-370.

Estimates: $2.0 million.

Rationale and History: Incentive: the exemption is intended to make in-state businesses more competitive with those out of state.

4. Machinery, equipment, tools, materials and supplies used in commercial printing.

Description: Sales of and the storage, use or other consumption of machinery, equipment, tools, materials and supplies used exclusively in the production of printed material by a commercial printer or publisher. For purposes of this subsection, "the production of printed material" is defined to include all processes necessary to convert manuscript copy into printed material, including but not limited to, layout, color separation and typesetting. CGS Sec. 12-412(71).

It was created by PA 91-3 of the June Special Session and amended by PA 92-5 of the May Special Session.

Estimates: $12 million

Rationale: Incentive: the exemption is intended to reduce cascading.

5. Machinery, equipment, tools, materials and supplies for typesetting, color separation, finished copy, or similar products.

   Description: Sales of and the storage, use or other consumption of machinery, equipment, tools, materials and supplies used exclusively in the production of typesetting, color separation, finished copy with type proofs and artwork or similar content mounted for photomechanical reproduction, or other similar products to be sold for use in the production of printed materials. CGS Sec. 12-412(72).

   It was created by PA 91-3 of the June Special Session.

   Estimates: Less than $500,000.

   Rationale: Incentive: the exemption is intended to reduce cascading.

6. Personal property for incorporation into or used in waste treatment facilities.

   Description: Sales of and the storage, use or other consumption of tangible personal property acquired for incorporation into or used and consumed in the operation of facilities for the treatment of industrial waste before the discharge thereof into any waters of the state or into any sewerage system emptying into such waters, the primary purpose of which is the reduction, control or elimination of pollution of such waters, certified as approved for such purpose by the commissioner of environmental protection. For the purposes of this subdivision "industrial waste" means any harmful thermal effect or any liquid, gaseous or solid substance or combination thereof resulting from any process of industry, manufacture, trade or business or from the development or recovery of any natural resource. CGS Sec. 12-412(21).

   The exemption was created in 1967 and amended in 1969.

   Estimates: $1.3 million.

   Rationale and History: Incentive.

7. Personal property incorporated into or consumed in air pollution control facilities.

   Description: Sales of and the storage, use or other consumption of tangible personal property or supplies acquired for incorporation into or used and consumed in the operation of facilities, the primary purpose of which is the reduction, control or elimination of air pollution, certified as approved for such purpose by the commissioner of environmental protection. Said commissioner may certify to a portion of such tangible personal property or supplies acquired for incorporation into such facilities to the extent that such portion shall have as its primary purpose the reduction, control or elimination of air pollution. CGS Sec. 12-412(22).

   The exemption was created in 1967 and amended in 1969 and 1971.

   Estimates: $1.2 million.

   Rationale: Incentive.

8. Certain motion picture, video, television and radio production and broadcast equipment.

   Description: Certain motion picture, video, television and radio production and broadcast equipment. (A) Sales of and the storage, use or other consumption of any filmed and taped television and radio programs and any materials which become an ingredient or component part of films or tapes which are used directly in the production and transmission of finished programs (i) broadcast to the general public by a television or radio station or (ii) used on or after October 1, 1986, for purposes of accredited medical or surgical training, including any equipment used for such purpose; (B) sales of and the storage, use, rental, lease or other consumption of any motion picture or video production equipment or sound recording equipment purchased or leased for use in this state for production activities which become an ingredient or component part of any master tapes, records, video tapes or film produced for commercial entertainment, commercial advertising or commercial educational purposes; or (C) sales of and the storage, use, rental or lease of equipment, including, but not limited to, antennas used directly in the production or broadcast of programs to the general public by a television or radio station. CGS Sec. 12-412(44).

   It was created by 82-444 and was amended by PA 90-295 to include (A)(ii). PA 91-3 of the June Special Session narrowed the exemption by excluding equipment for both (A)(i)and (A)(ii). PA 93-44 expanded (ii) to include equipment used for medical or surgical training. PA 95-160 added subparagraph (B) and PA 97-316 added subparagraph (C).

   Estimates: $2.0 million.

   Rationale: Incentive: the exemption is intended to reduce cascading.

9. Lease or rental of any motion picture film for display by theater owner or operator.

   Description: The leasing or rental of any motion picture film by the owner or operator of a motion picture theater for purposes of display at such theater. CGS Sec. 12-412(50).

   The exemption was created by 85-513.

   Estimates: $2 million.

   Rationale: Expediency.

10. Motion Picture Leasing or Rental

    Description: The leasing or rental of any motion picture film by the owner or operator of a motion picture theater for purposes of display at such theater shall not constitute a sale within the meaning of this subsection. CGS Sec. 12-407(2)(j).

    PA 85-13 created the exemption.

    Estimates: Less than $500,000

    Rationale: Expediency.

11. Computer-related cleaning equipment.

    Description: Sales of and the storage, use or other consumption of equipment used directly in the production and cleaning of computer discs for purposes of creating and maintaining the atmospheric environment necessary in the area immediately surrounding such production and cleaning process, including with respect to such area, climate control, air quality and a positive pressure mode adapted

to the particular climate and air quality requirements of such production and cleaning process. CGS Sec. 12-412(64).

It was created by PA 90-262 and PA 90-336.

Estimates: Less than $250,000.

Rationale: Incentive: the exemption is intended to reduce cascading.

12. Molds, dies, patterns and sand handling equipment for metal casting foundries.

    Description: The purchase and sale by metal casting foundries of molds, dies, patterns and sand handling equipment. CGS Sec. 12-412(65).

    It was created by PA 90-336.

    Estimates: Less than $250,000.

    Rationale: Incentive: the exemption is intended to reduce cascading.

13. Molds, dies, patterns for pattern shops and metal casting foundries.

    Description: The sale by pattern shops of molds, dies and patterns to metal casting foundries or their customers for use in such foundries, and the purchase and use of such items by pattern shops in connection with any such sales. CGS Sec. 12-412(66).

    It was created by PA 90-336.

    Estimates: Less than $250,000.

    Rationale: Incentive: the exemption is intended to reduce cascading.

14. Optical lens manufacturing equipment.

    Description: Sales of and the storage, use or other consumption of machinery, equipment, tools and materials used exclusively in the fabrication of optical lenses. CGS Sec. 12-412(81).

    It was created by PA 93-360.

    Estimates: Less than $250,000.

    Rationale: Incentive: the exemption is intended to reduce cascading.

15. Safety apparel.

    Description: Sales of and the storage, use or other consumption of safety apparel. For the purposes of this subsection "safety apparel" means any item of clothing or protective equipment worn by an employee for protection during the course of the employee's employment. CGS Sec. 12-412(91).

    The exemption was created by PA 94-4 of the May Special Session. PA 95-160 changed the effective date.

    Estimates: $2.5 million.

    Rationale: Incentive.

16. Commercial photographic film and paper processing materials.

    Description: Sales of and the storage, use or other consumption of machinery, equipment, tools and materials used exclusively in the commercial processing of photographic film and paper. CGS Sec. 12-412(88).

    The exemption was created by PA 96-172.

    Estimates: $200,000.

    Rationale: Incentive.

17. Machinery, equipment, tools, materials, supplies and fuel used in the biotechnology industry.

    Description: Sales of and the storage, use or other consumption of machinery, equipment, tools, materials, supplies and fuel used directly in the biotechnology industry. For the purposes of this subsection, "biotechnology" means the application of technologies, such as recombinant DNA techniques, biochemistry, molecular and cellular biology, genetics and genetic engineering, biological cell fusion techniques, and new bioprocesses, using living organisms, or parts of organisms, to produce or modify products, to improve plants or animals, to develop microorganisms for specific uses, to identify targets for small molecule pharmaceutical development, to transform biological systems into useful processes and products or to develop microorganisms for specific uses. CGS Sec. 12-412(89).

    The exemption was created by PA 96-252.

    Estimates: $3.5 million.

    Rationale: Incentive.

18. Services or tangible personal property for the operation of projects of the Connecticut Resource Recovery Authority.

    Description: The sales and use of any services or tangible personal property to be incorporated into or used or otherwise consumed in the operation of any project of the Connecticut Resource Recovery Authority established pursuant to section 22a-261 whether such purchases are made directly by the authority or are reimbursed by the authority to the lessee or operator of such project. CGS Sec 12-412(92).

    The exemption was created by PA 97-316.

    Estimates: $3.0 million.

    Rationale: Incentive.

19. Tangible personal property or services to tourism districts.

    Description: Sales of tangible personal property or services to any tourism district, as defined in section 32-302. CGS Sec. 12-412(93).

    The exemption was created by PA 97-316.

    Estimates: $100,000

Rationale: Incentive

20. Services or tangible personal property used or consumed in operating solid waste-to-energy facilities.

    Description: The sales or use of any services or tangible personal property to be incorporated into or used or otherwise consumed in the operation of a solid waste-to-energy facility, certified as approved for such purpose by the Commissioner of Environmental Protection, whether such purchases are made directly by an authority or an operating committee, or are reimbursed by an authority or operating committee to the lessee or operator of such facility. CGS 12-412(95).

    The exemption was created by PA 97-316.

    Estimates: $200,000

    Rationale: Incentive.

21. Machinery and Equipment Used in Maintaining Railroad Right of Ways

    Description: Sales of and the storage, use or other consumption of railroad locomotives, track ballasts, ties, rails, machinery and equipment used to maintain the railroad right-of-way which is used or operated exclusively for the carriage of freight. CGS Sec 12-412(103).

    The exemption was created by PA 99-173.

    Estimates: $100,000

    Rationale: Expediency and Incentive.

22. Fulfillment Sales Companies

    Description: Fulfillment companies are exempt from any requirement to collect and sales tax on items it stores for an unaffiliated out-of-state retailer. CGS Sec 12-407(15)(C) and 12-407c.

    The exemption was created by PA 00-227

    Estimates: Minimal.

    Rationale: Expediency and Incentive.

23. Data Transmission Equipment Sold to Telecom or CATV Companies

    Description: Exempt the sales of equipment to a telecom company or CATV company that is used to provide high speed data transmission or broadband internet service. CGS Sec. 12-412(112).

    The exemption was created by PA 00-170

    Estimates: $8.0 million.

    Rationale: Expediency and Incentive.

C. Service Exemptions

1. Services to determine effect on human health of consumption or use of a product or substance.

   Description: Sales of services used to determine the probable consequences in relation to human health of the consumption or other use of any product, substance or element. CGS Sec. 12-412(41).

   It was created by PA 81-327.

   Estimates: $3.0 million.

   Rationale: Clarification: these services were considered to be related to medical services, which were not taxable when the exemption was passed.

2. Motor vehicle driving service performed out of state.

   Description: The sale of any motor vehicle driving service to the extent of that proportionate part of gross receipts from such service rendered which is directly related to actual driving performance outside the state. CGS Sec. 12-412(36).

   It was created by PA 79-419.

   Estimates: Less than $100,000.

   Rationale: Clarification.

3. Services related to personnel, management or research when company rendering service and recipient are participating in a joint for venture purposes of research and new product development.

   Description: Sales of any services rendered for purposes of (A) personnel services, (B) commercial or industrial marketing, development, testing or research services, or (C) business analysis and management services, whenever, pursuant to a joint venture agreement, the recipient of any such services is either a corporation or a partnership and such services are rendered by one or more corporate shareholders or a corporate partner in such joint venture, and in accordance with which the company rendering such service must have an ownership interest equivalent to not less than twenty-five per cent of total ownership in such joint venture, provided (i) the purpose of such joint venture is directly related to production or development of new or experimental products or systems and the marketing and support thereof, (ii) at least one of the corporations participating in such joint venture shall have been actively engaged in business in this state for not less than ten years, and (iii) exemption for such sales in accordance with this subsection, with respect to any single joint venture, shall not be allowed for a period in excess of ten consecutive years, or in the case of a joint venture in existence prior to January 1, 1986, within the aircraft industry, for a period in excess of thirty consecutive years, and such exemption shall be applicable to sales of such services rendered on or after January 1, 1986.CGS Sec. 12-412(58).

   It was created by PA 86-120. PA 99-173 extended the exemption from 10 years to 30 years for services provided between companies engaged in a joint venture.

   Estimates: $2.0 million.

   Rationale: Incentive.

4. Services rendered between parent companies and wholly-owned subsidiaries.

Description: Subject to the provisions of section 12-412f, sales of any enumerated services which are rendered for a corporation affiliated with the corporation rendering such service in such manner that (1) either corporation in such transaction owns or controls either directly or indirectly not less than 100% of the capital stock of the other corporation or (2) either corporation in such transaction is owned or controlled either directly or indirectly by interests which own or control either directly or indirectly not less than 100% of the capital stock of the other corporation, provided any such transaction is rendered for purposes of expense allocation and not for purposes of profit for the company rendering such service.

(A) Sales of any of the services enumerated in subdivisions (2) (i), (2) (k) or (2) (l) of section 12-407 that are rendered for a business entity affiliated with the business entity rendering such service in such manner that (i) either business entity in such transaction owns a controlling interest in the other business entity, or (ii) a controlling interest in each business entity in such transaction is owned by the same person or persons or business entity or business entities. (B) For purposes of this subdivision, (i) "business entity" means a corporation, trust, estate, partnership, limited partnership, limited liability partnership, limited liability company, single member limited liability company, sole proprietorship and non-stock corporation; (ii) "controlling interest" means, in the case of a business entity that is a corporation, ownership of stock possessing one hundred per cent of the total combined voting power of all classes of stock entitled to vote or one hundred per cent of the total value of shares of all classes of stock of such corporation; in the case of a business entity that is a trust or estate, ownership of a beneficial interest of one hundred per cent in such trust or estate; in the case of a business entity that is a partnership, limited partnership or limited liability partnership, ownership of one hundred per cent of the profits interest or capital interest in such partnership, limited partnership or limited liability partnership; in the case of a limited liability company with more than one member, ownership of one hundred per cent of the profits interest, capital interest or membership interests in such limited liability company; in the case of a business entity that is a sole proprietorship or single member limited liability company, ownership of such sole proprietorship or single member limited liability company; in the case of a business entity that is a non-stock corporation with voting members, control of one hundred per cent of all voting membership interests in such corporation; and in the case of a business entity that is a non-stock corporation with no voting members, control of one hundred per cent of the board of directors of such corporation; (iii) whether a controlling interest in a business entity is owned shall be determined in accordance with Section 267 of the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as from time to time amended, provided where a controlling interest is owned in a business entity other than a stock corporation, the term "stock" as used in said Section 267 of the Internal Revenue Code means, in the case of a partnership, limited partnership, limited liability partnership or limited liability company treated as a partnership for federal income tax purposes, the profits interest or capital interest in such partnership, in the case of a business entity that is a trust or estate, the beneficial interests in such trust or estate, and in the case of a business entity that is a non-stock corporation, the voting membership interests in such corporation, or if it has no voting members, the control of the board of directors; (iv) a business entity has "control of" the board of directors of a non-stock corporation if one hundred per cent of the voting members of the board of directors are either representatives of, including ex-officio directors, or persons appointed by such business entity, or "control of" one hundred per cent of the voting membership interests in a non-stock corporation if one hundred per cent of the voting membership interests are held by the business entity or by representatives of, including ex-officio members, or persons appointed by such business entity. CGS Sec. 12-412(62) and 12-412f.

Estimates: $12 million.

Rationale: Incentive/Clarification. Incentive because the exemption is intended to reduce cascading. Enumerated services, as defined in CGS 12-407(2), are taxable when provided by one unaffiliated

business entity to another, but nontaxable when divisions of a single entity provides these services for internal use. The exemption provides horizontal equity for firms which are organized into a parent company with wholly-owned subsidiaries, rather than divisions. Clarification because it was created in response to efforts by the Department of Revenue Services (DRS) to tax the services. Prior to 1986 DRS did not view them as taxable even though they were not specifically exempted in statute. DRS's policy changed in 1986, which resulted in passage of PA 87-1. The act exempted the services but this exemption was to be sunsetted 6/30/88. PA 88-307 deleted the sunset date. PA 99-173 expands the exemption to include sales between businesses, other than corporations, where the same interest owns 100% of each business. It also exempts telecom services and CATV services rendered between patent companies and wholly owned subsidiaries.

5. Computer and data processing services.

Description: CGS Section 12-408(1)(C) and 12-411(1)(E) phases out the tax on such services from the Sales and Use Taxes as follows:

Effective Date	Tax Rate
7/1/97	5%
7/1/98	4%
7/1/99	3%
7/1/00	2%
7/1/01	1%, except Internet Service Access Charges.
7/1/02	eliminated

It was enacted by PA 94-4 of the May Special Session. PA 95-160 delayed the effective date of the phase-out of the tax. PA 97-243 added the exemption to the use tax. PA 00-170 accelerated the phase-out on internet service access charges effective 7/1/01 from 1% to 0%.

Estimates: $100 million.

Rationale: Incentive: the phase out was intended to reduce cascading.

6. Certain sales of computer and data processing services.

Description: Certain sales of computer and data processing services. (A) Sales of computer and data processing services rendered to a customer (i) by a retailer which, on or after July 1, 1991, acquired the operations of a data processing facility from the customer, provided such customer operated the facility for its own use or (ii) by a retailer which, on or after July 1, 1993, acquired the operations of the data processing facility from the retailer described in subparagraph (A)(i) of this subsection, provided such customer formerly operated the facility for its own use. (B) Sales of computer and data processing services rendered to a customer by a retailer which, on or after July 1, 1995, acquired the data processing operations from the customer, provided such customer formerly conducted such data processing operations for its own use. Sales of and the storage, use or other consumption of computers or data processing equipment, when sold to the retailer described in this subparagraph and used by such retailer to provide the services described in this subparagraph. The provisions in this subparagraph shall not apply if the retailer is a related person, as defined in section 12-217w, with respect to the customer or the customer is a related person, as defined therein, with respect to the retailer. CGS Sec. 12-412(74).

It was created by PA 92-193. PA 93-332 added subparagraph (B), PA 95-160 made changes to it. PA 97-295 made technical changes. PA 00-170 and PA 00-174 clarified the exemption.

Estimates: $300,000.

Rationale: Incentive.

7. Landscaping, horticulture, window cleaning or maintenance services rendered to certain disabled persons.

   Description: Sales of any landscaping and horticultural services, window cleaning services or maintenance services, as described in subdivision (i) of subsection (2) of section 12-407, on or after July 1, 1994, which are rendered to a person determined to be eligible for, and currently receiving, total disability benefits under the Social Security Act, provided such services are rendered at the residence of such person. CGS Sec. 12-412 (85).

   The exemption was created by PA 93-74.

   Estimates: Less than $100,000.

   Rationale: Perceived Equity.

8. Shoe Repair Services

   Description: Sales of shoe repair services. CGS Sec. 12-412(105)

   The exemption was created by PA 99-173.

   Estimates: $100,000

   Rationale: Expediency.

9. Calibration Services and ISO Services

   Description: Sales, use or other consumption of (A) calibration services for machinery, equipment or instrumentation used in a manufacturing production process; or (B) other sales, use or other consumption of services or compliance practices associated with registration and compliance of quality management and quality assurance standards as part of standards created by the International Organization of Standards. For purposes of this subdivision, "calibration services" means independent inspection services performed to verify accuracy in the provision, calibration or recalibration of equipment used to test, measure, monitor or gage any quality, process or environmental equipment used in conjunction with maintaining quality standards or meeting regulatory requirements. CGS Sec. 12-412(104).

   The exemption was created by PA 99-173.

   Estimates: $200,000

   Rationale: Expediency and Incentive.

10. "Call Before You Dig" Services

    Description: Sales of services enumerated in subparagraph (J) of subdivision (2)(i) of section 12-407 ("Call Before You Dig"), on or after July 1, 1999, which services are rendered to the central clearinghouse organized and operated under the direction of the Department of Public Utility Control, by the public utilities of this state for receiving and giving the notices required by section 16-349. CGS Sec. 12-412(106).

    The exemption was created by PA 99-173.

    Estimates: $100,000

Rationale: Expediency.

11. Sale of repair or maintenance on vessels

Description: Sales of repair or maintenance or labor services on vessels as defined in CGS Sec. 15-127 is exempted as of 7/1/99 from the Sales and Use Taxes as follows: CGS Sec. 12-408(1)(D) and 12-411(1)(D).

It was enacted by PA 96-232 of the May Special Session. PA 99-173 added labor services to the Sales Tax Exemption.

Estimates: $5 million.

Rationale: Incentive: the exemption is intended to make instate businesses more competitive with those out of state.

12. Renovation and Repair for Residential Real Property

Description: Sales of renovation and repair services of paving of any sort, painting or staining, wallpapering, roofing, siding and exterior sheet metal work other than industrial, commercial or income producing real property, the Sales and Use tax is phased out as follows:. CGS Sec. 12-408(F) and 12-411(G).

Effective Date	Tax Rate
7/1/99	4%
7/1/00	2%
7/1/01	eliminated

It was created by PA 99-173.

Estimates: FY 00 $3.3 Million, FY 01 $6.7 million, and FY 02 $10 million (when completely phased out)

Rationale: Expediency.

13. Patient Care Services

Description: The tax rate on patient care services is 5 3/4% effective with retail sales occurring on or after 7/1/99. CGS Sec. 12-408(G) and 12-411(F).

It was created by PA 99-173. PA 00-170 and PA 00-174 clarified the exemption.

Estimates: $4.6 million.

Rationale: Expediency.

14. Payments for the services of leased or contract employees

Description: Payments for the services of leased or contract employees are excluded from the definition of "sales price" and "gross receipts" for retailers who have contracted to manage a service recipient's property or business premises. CGS Secs. 12-407(8) and 12-407(9).

PA 91-3 of the June Special Session clarified that the taxable basis for management services is only the amount charged for the service itself and not the salaries or fringe benefits of workers who render the service. PA 92-17 of the May Special Session further clarified the taxable basis of management

services. PA 93-332 specified that employee compensation for long-term leasing services, but not temporary employment services, are exempt. PA 00-170 extended the exemption to employees paid under professional employee contracts.

Estimates: $200,000.

Rationale: Clarification.

15. Motor vehicle parking

Description: Motor vehicle parking in metered space in a lot having thirty or more spaces, and (i) space in a seasonal parking lot provided by a person who is exempt from taxation under this chapter pursuant to subsection (1), (5) or (8) of section 12-412, (ii) space in a parking lot owned or leased under the terms of a lease of not less than ten years' duration and operated by an employer for the exclusive use of its employees, (iii) valet parking provided at any airport, and (iv) space in municipally-operated railroad parking facilities in municipalities located within an area of the state designated as a severe non-attainment area for ozone under the federal Clean Air Act. CGS Sec. 12-407(2)(i)(N).

Motor vehicle parking services were made taxable by PA 89-251. PA 91-3 of the June Special Session clarified the scope of motor vehicle parking. PA 92-17 of the May Special Session added the exclusion for employers to charge their employees for parking spaces without the administrative burden of remitting tax. It was intended to encourage employees to use public transportation or carpool. PA 93-74 excluded valet parking services at airports. PA 95-16 exempted parking facilities in municipalities located within an area of the state designated as a severe non-attainment area for ozone under the federal Clean Air Act.

Estimates: $2.5 million.

Rationale: Perceived Equity/Incentive/Expediency.

16. Car-washes

Description: Car-washes (does not appear in statutory language)

Car-washes were made taxable by PA 89-251. Coin-operated car-washes were excluded by PA 91-3 of the June Special session and all other car-washes were excluded by PA 93-74.

Estimates: $1.0 million.

Rationale: Expediency.

17. Amusement and recreation services

Description: Amusement and recreation services (does not appear in statutory language)

These services were first made taxable by PA 91-3 of the June Special Session. Several changes were made in subsequent years. PA 93-74 excluded these services entirely.

Estimates: Less than $250,000.

Rationale: Expediency.

18. Health and athletic club services

    Description: Health and athletic club services (does not appear in statutory language)

    These services were first made taxable by PA 91-3 of the June Special Session. Other amusement and recreation services were excluded by PA 93-74. This exclusion was created by PA 94-4 of the May Special Session.

    Estimates: Less than $250,000.

    Rationale: Expediency.

19. Licensed massage therapist and hypertrichologist services.

    Description: Services rendered by massage therapists licensed pursuant to chapter 384a, and services rendered by a hypertrichologist licensed pursuant to chapter 388,. CGS Sec. 12-407(2)(i)(CC).

    These services were excluded from the tax by PA 92-17 (May Special Session), effective 7/1/92. Effective 7/1/93, a licensing program was instituted for massage therapists by PA 92-202, with an initial application fee of $300. PA 95-160 of the May Special Session added hypertrichologist.

    Estimates: $300,000.

    Rationale: Perceived Equity.

20. Sales agent services

    Description: Services of the agent of any person in relation to the sale of any item of tangible personal property for such person, exclusive of the services of a consignee selling works of art, as defined in subsection (b) of section 12-376c, or articles of clothing or footwear intended to be worn on or about the human body other than (i) any special clothing or footwear primarily designed for athletic activity or protective use and which is not normally worn except when used for the athletic activity or protective use for which it was designed and (ii) jewelry, handbags, luggage, umbrellas, wallets, watches and similar items carried on or about the human body but not worn on the body in the manner characteristic of clothing intended for exemption under subdivision (47) of section 12-412, under consignment, exclusive of services provided by an auctioneer. CGS Sec. 12-407(2)(i)(S).

    These services were made taxable by PA 89-251. PA 90-148 excluded art work consignments under the incentive rationale and clarified that articles of clothing and footwear are exempt. PA 93-74 excluded wholesale motor vehicle auctioning services under the incentive rationale, to reduce cascading for a wholesale business. The legislature found it expedient to exclude all other auctioning services in PA 94-4 of the May Special Session. PA 95-160 added all services of an auctioneer.

    Estimates: $2.0 million.

    Rationale: Incentive/Clarification/Expediency.

21. Advertising agency services, advertising time and space in all media, and cooperative direct mail advertising

    Description: Advertising agency services, advertising time and space in all media, and cooperative direct mail advertising CGS Sec. 12-407(2)(i)(U).

Cooperative direct mail advertising was excluded from taxable advertising services by PA 91-3 of the June Special Session.

Estimates: $20 million.

Rationale: Incentive: the exemption is intended to reduce cascading.

22. Tax preparation services

Description: Tax preparation services (does not appear in statutory language).

Tax preparation services were made taxable by PA 91-3 of the June Special Session. An exclusion for businesses was provided by PA 93-74, effective 1/1/95. PA 94-4 of the May Special Session, excluded all other such services, effective 7/1/96.

Estimates: $4.0 million.

Rationale: Expediency.

23. Winter boat storage.

Description: Dry or wet storage or mooring of noncommercial vessels during the period commencing on the first day of November in any year to and including the thirtieth day of April of the next succeeding year. CGS Sec. 12-407(2)(m).

It was provided by PA 93-74.

Estimates: $300,000

Rationale: Incentive: the exemption is intended to make instate businesses more competitive with those out of state.

24. Hazardous waste removal services.

Description: Services rendered in the voluntary evaluation, prevention, treatment, containment or removal of hazardous waste, as defined in section 22a-115, or other contaminants of air, water or soil, provided income-producing property shall not include property used exclusively for residential purposes in which the owner resides and which contains no more than three dwelling units, or a housing facility for low and moderate income families and persons owned or operated by a nonprofit housing organization, as defined in subsection (29) of section 12-412. CGS Sec. 12-407(2)(i)(I).

It was provided by PA 94-4 of the May Special Session.

Estimates: Less than $100,000.

Rationale: Incentive.

25. Environmental consulting services.

Description: These services were excluded from taxable business analysis, management, management consulting, and public relations services, effective 7/1/89. CGS Sec. 12-407(2)(i)(J).

It was provided by PA 94-4 of the May Special Session.

Estimates: Less than $100,000.

Rationale: Incentive.

26. Police and Firefighters

Description: Services provided by off-duty police officers and fire fighters. CGS Sec. 12-407(2)(i)(D).

Enacted by PA 95-160 and expanded to include all services provided by off-duty police officers and firefighters by PA 97-316..

Estimates: $1.0 million.

Rationale: Incentive.

27. World Wide Web

Description: services rendered in connection with the creation, development hosting or maintenance of all or part of a web site which is part of the graphical, hypertext portion of the Internet, commonly referred to as the World-Wide Web. CGS Sec. 12-407(2)(i)(A).

Enacted by PA 97-316.

Estimates: Indeterminate.

Rationale: Incentive.

28. Training Services

Description: Any training services provided by an institution of higher education licensed or accredited by the Board of Governors of Higher Education pursuant to section 10a-34. CGS Sec. 12-407(2)(i)(J)(ii).

PA 99-173 created the exemption.

Estimates: $300,000.

Rationale: Expediency.

D. Non-Profit Organization Exemptions

Government

1. The United States.

Description: (A) Sales of tangible personal property or services to the United States. CGS Sec. 12-412(1).

The exemption has been in effect since the imposition of the tax.

Estimates: Indeterminate.

Rationale: See next entry.

2. Federal exemptions.

   Description: Sales of tangible personal property or services which this state is prohibited from taxing under the constitution or laws of the United States. CGS Sec. 12-412(2).

   The exemption has been in effect since the imposition of the tax. PA 75-213 added services.

   Estimates: Indeterminate.

   Rationale: Conformity: states are not permitted to levy taxes on the federal government under the US Constitution.

3. The state, subdivisions and NFL stadium.

   Description: (A) Sales of tangible personal property or services to tthe state of Connecticut or any of the political subdivisions thereof, or its or their respective agencies; (B) sales of tangible personal property or services used to develop property which the state of Connecticut is under contract to purchase through a long-term financing contract; (C) sales and use of any services or tangible personal property to be incorporated into or used or otherwise consumed in (i) the demolition, remediation or preparation of the stadium facility site or the training facility site, each as defined in section 32-621, (ii) the construction of the stadium facility, the infrastructure improvements, the training facility or the NFL pavilion, each as defined in said section 32-621, or (iii) the construction of any future capital improvement to said stadium facility. CGS Sec. 12-412(1).

   The exemption has been in effect since the imposition of the tax. PA 75-213 added services, PA 93-361 added subdivision (B), and PA 93-1 of the September Special Session added subdivision (C). PA 98-1 of the December 1998 Special Session replaced language in subdivision(C) which was originally added by PA 93-1 of the September Special Session.

   Estimates: To date no NFL team has relocated to Hartford.

   Rationale: Clarification: state government does not tax itself. Incentive: subdivision(C) intent is to lure an NFL franchise team to relocate to Hartford.

4. Municipal publications, sales by public libraries or by municipal auction and book sales by library support groups.

   Description: Sales of municipal publications such as information booklets and zoning regulations, tangible personal property sold by public libraries, the sale of any property at auction by a municipality, and book sales by library support groups. CGS Sec. 12-412(24).

   The exemption was created by PA 73-299. PA 95-160 includes book sales by library support groups.

   Estimates: Less than $100,000.

   Rationale: Efficiency: the amount of revenue which could be collected is considered too small to justify the administrative cost.

5. Connecticut Technology Park.

   Description: Sales of tangible personal property and services to The University of Connecticut Educational Properties, Incorporated, with regard to Connecticut Technology Park. CGS Sec. 12-412(84).

The exemption was created by PA 93-74.

Estimates: Less than $100,000.

Rationale: Incentive.

6. Children's Hospital and the John Dempsey Hospital

   Description: Any hospital which, on January 30, 1997, is within the class of hospitals licensed by the department as children's general hospitals. Also any short-term acute hospital operated exclusively by the state other than a short-term acute hospital operated by the state as a receiver pursuant to chapter 920 (John Dempsey Hospital of the University of Connecticut. CGS Sec. 12-407(28).

   PA 97-2 created the exemption for children's hospitals. PA 99-173 exempted John Dempsey Hospital from the Sales and Use Tax.

   Estimates: $5 Million

   Rationale: Expediency.

7. Property Removed from Inventory and Donated to Charity or Government

   Description: Exempt from the Sales and Use Tax any property removed by retailers from their inventory and donated to charity or a government agency. CGS Sec. 12-416(4).

   PA 00-174 created the exemption.

   Estimates: Less than $100,000

   Rationale: Expediency.

<u>Sales to Nonprofit Organizations</u>

For items listed below, number 1 through 5, the combined revenue foregone is estimated to be $100 million in FY 2000.

1. Personal property and services used or consumed in development, construction, rehabilitation, renovation, repair or operation of housing facilities for low and moderate income families and persons.

   Description: (A) Sales of and the storage, use or other consumption of tangible personal property acquired for incorporation into or used and consumed in the operation of housing facilities for low and moderate income families and persons and sales of and the acceptance, use or other consumption of any service described in subdivision (2) of section 12-407 that is used and consumed in the development, construction, rehabilitation, renovation, repair or operation of housing facilities for low and moderate income families and persons, provided such facilities are constructed under the sponsorship of and owned or operated by nonprofit housing organizations or housing authorities, as defined in subsection (b) of section 8-39. The nonprofit housing organization or housing authority sponsoring the construction of or owning or operating such housing facility shall obtain from the commissioner a letter of determination that the housing facility has, to the satisfaction of said commissioner, met all the requirements for exemption under this subsection. At the time of any sale or purchase that is exempt under this subsection, the purchaser shall present to the retailer a copy of the determination letter that was issued to the nonprofit housing organization or housing authority

together with a certificate from the purchaser, in such form as the commissioner may prescribe, certifying that the tangible personal property or services that are being purchased from the retailer are to be used or consumed exclusively for the purposes of incorporation into or in the development, construction, rehabilitation, renovation, repair or operation of the housing facility identified in the letter of determination. For the purposes of this subsection, (i) "nonprofit housing organization" means any organization which has as one of its purposes the development, construction, sponsorship or ownership of housing for low and moderate income families as stated in its charter, if it is incorporated, or its constitution or bylaws, if it is unincorporated, and which has received exemption from federal income tax under the provisions of Section 501(c) of the Internal Revenue Code, as amended from time to time, provided the charter of such organization, if it is incorporated, or its constitution or bylaws, if unincorporated, shall contain a provision that no officer, member or employee thereof shall receive or at any future time may receive any pecuniary profit from the operation thereof, except a reasonable compensation for services in effecting the purposes of the organization; (ii) "housing facilities" means facilities having as their primary purpose the provision of safe and adequate housing and related facilities for low and moderate income families and persons, notwithstanding that said housing provides other dwelling accommodations in addition to the primary purpose of providing dwelling accommodations for low and moderate income families; (iii) "related facilities" means those facilities defined in subsection (d) of section 8-243; and (iv) "low and moderate income families" means those families as defined in subsection (h) of said section 8-243. (B) Sales of and the acceptance, use or other consumption of any service described in subdivision (2) of section 12-407 that is used or consumed in the development, construction, renovation or operation of housing facilities for low and moderate income families and persons, provided such facilities are owned or sponsored by a mutual housing association, as defined in subsection (b) of section 8-214f, and operated as mutual housing by such association at a location that was conveyed to such association by the United States Secretary of Housing and Urban Development prior to September 1, 1995. CGS Sec. 12-412(29).

The exemption was created by PA 75-613. PA 97-243 added sales of services used and consumed in development, construction, rehabilitation, renovation, repair and operation of housing for low and moderate income families. PA 97-315 added provisions regarding services described in CGS Section 12-407(2). PA 99-173 expands the exemption of certain goods and services used in the development, construction, and rehabilitation of housing for low and moderate income housing organizations to include for profit organizations.

Estimates: See above for combined estimate for all sales to nonprofit organizations.

Rationale: Incentive.

2. Charitable and religious organization.

Description: Organizations exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as determined by the U.S. Treasury Department. Exemption qualification requirements. Sales of tangible personal property or services to any organization that is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as from time to time amended, and that the United States Treasury Department has expressly determined, by letter, to be an organization that is described in Section 501(c)(3) or (13) of said internal revenue code. At the time of the sale that is exempt under this subsection, the organization shall, in order to qualify for said exemption, do one of the following: (A) Present to the retailer (i) a copy of the United States Treasury Department determination letter that was issued to such organization and (ii) a certificate, in such form as the commissioner may prescribe, certifying that a United States Treasury Department determination letter has been issued to such organization and has not been revoked and that the tangible personal property or services that are being purchased from the retailer by such organization are to be used or consumed exclusively for the purposes for which such organization was established or (B) present to the retailer (i) a copy of the exemption permit that was issued pursuant to this subsection by the

commissioner to such organization before July 1, 1995, after a determination of eligibility by the commissioner and (ii) a certificate, in such form as the commissioner may prescribe, certifying that an exemption permit was issued pursuant to this subsection by the commissioner to such organization before July 1, 1995, and was not revoked and that the tangible personal property or services that are being purchased from the retailer by such organization are to be used or consumed exclusively for the purposes for which the organization was established. The organization shall be liable for the tax otherwise imposed if such tangible personal property or services are not used or consumed exclusively for the purposes for which the organization was established. CGS Sec. 12-412(8).

The exemption for tangible personal property has been in effect since the imposition of the tax. PA 75-567 added services. PA 93-44 added provisions to include sales to nonprofit organizations which receive at least 75% of their funding from the state or municipalities. PA 93-332 added the provision that state and municipal funds are considered as private donations to 501(c)(3) organizations for the purpose of this exemption. PA 95-359 placed the requirement that a letter of determination from the US Treasury on the regarding federal tax status is needed to qualify for the exemption.

Estimates: See above for combined estimate for all sales to nonprofit organizations.

Rationale: Incentive.

3. Nonprofit charitable hospitals, nursing homes, rest homes and homes for the aged.

   Description: Sales of tangible personal property or services to and by nonprofit charitable hospitals in this state, nonprofit nursing homes, nonprofit rest homes and nonprofit homes for the aged licensed by the state pursuant to chapter 368v for the exclusive purposes of such institutions except any such service transaction as described in subparagraph (GG) of subdivision (i) of subsection (2) of section 12-407. CGS Sec. 12-412(5).

   The exemption for sales of tangible personal property to and by nonprofit charitable hospitals has been in effect since the imposition of the tax. Services were added by PA 75-567. PA 93-44 and 93-332 added nonprofit nursing homes, nonprofit rest homes and nonprofit homes for the aged. PA 94-9 and 94-175 added the reference to section 12-407 to permit the taxation of patient care services provided by hospitals.

   Estimates: See above for combined estimate for all sales to nonprofit organizations.

   Rationale: Incentive/Expediency. Incentive with regard to sales to such institutions. Expediency with regard to sales by gift shops at such institutions.

4. Centers of service for elderly persons.

   Description: Sales of tangible personal property or services to any center of service for elderly persons as described in subdivision (d) of section 17b-425. CGS Sec. 12-412(35).

   The exemption was created by PA 79-400. PA 89-190 deleted a requirement that elderly service centers must be approved by the municipal tax assessor to qualify for the exemption.

   Estimates: See above for combined estimate for all sales to nonprofit organizations.

   Rationale: Incentive.

5. Services used or consumed in the development, construction, rehabilitation, renovation or repair of housing facilities for low and moderate income families in Qualified Census Tracts or Difficult Development Areas.

Description: Sales of and the acceptance, use or other consumption of any service described in subsection (2) of section 12-407 that is accepted, used or consumed in the development, construction, rehabilitation, renovation or repair of housing facilities for low and moderate income families and persons, provided such facilities are situated in Qualified Census Tracts or Difficult Development Areas as designated by the Secretary of the United States Department of Housing and Urban Development and provided, further, that the development of such facilities is assisted by an allocation of Low Income Housing Tax Credits pursuant to Section 42 of the Internal Revenue Code. For purposes of this subsection, (A) "housing facilities" means facilities having as their primary purpose the provision of safe and adequate housing and related facilities for low and moderate income families and persons, notwithstanding that said housing provides other dwelling accommodations for low and moderate income families; (B) "related facilities" means those facilities defined in subsection (d) of section 8-243; and (C) "low and moderate income families" means those families as defined in subsection (h) of said section 8-243. CGS Sec. 12-412(100).

The exemption was created by PA 97-4 of the June 18, 1997 Special Session.

Estimates: See above for combined estimate for all sales to nonprofit organizations.

Rationale: Incentive.

Sales by Nonprofit Organizations

1. Nonprofit charitable hospitals, nursing homes, rest homes and homes for the aged.

   Description: Sales of tangible personal property or services to and by nonprofit charitable hospitals in this state, nonprofit nursing homes, nonprofit rest homes and nonprofit homes for the aged licensed by the state pursuant to chapter 368v for the exclusive purposes of such institutions except any such service transaction as described in subparagraph (GG) of subdivision (i) of subsection (2) of section 12-407. CGS Sec. 12-412(5).

   The exemption for sales of tangible personal property to and by nonprofit charitable hospitals has been in effect since the imposition of the tax. Services were added by PA 75-567. PA 93-44 and 93-332 added nonprofit nursing homes, nonprofit rest homes and nonprofit homes for the aged. PA 94-9 and 94-175 added the reference to section 12-407 to permit the taxation of patient care services provided by hospitals.

   Estimates: Less than $500,000.

   Rationale: Incentive/Expediency. Incentive with regard to sales to such institutions. Expediency with regard to sales by gift shops at such institutions.

2. Items not costing more than twenty dollars each by certain nonprofit organizations and schools.

   Description: Sales of items for not more than twenty dollars each by any Connecticut eleemosynary organization, for purposes of youth activities which such organization is formed to sponsor and support, and by any accredited elementary or secondary school for purposes of such school or of organized activities of the students enrolled therein. CGS Sec. 12-412(26).

   PA 73-452 provided a $2 exemption which was increased to $5 by PA 85-462 and $20 by PA 90-255.

   Estimates: Less than $100,000.

   Rationale: Incentive.

3. Sales of items for not more than one hundred dollars each by nursing or convalescent homes or adult day care centers.

   Description: Sales of items for not more than one hundred dollars each by any nursing home, rest home, home for the aged, convalescent home or any adult day care center approved for such purpose by the commissioner on aging, provided (1) such sales are made through a gift shop located in such home or center and (2) any profit from such sales are retained by such home or center for the benefit of the patients, in the case of any such home, or persons using any such adult day care center. CGS Sec. 12-412(56).

   The exemption for nursing homes, rest homes, homes for the aged and convalescent homes was created by PA 86-397. PA 87-311 increased the limit to $100 and added adult day care centers. PA 89-123 made a technical change.

   Estimates: Less than $100,000.

   Rationale: Expediency.

4. Sales by an affiliate participating in certain community economic development programs.

   Description: Sales of services by an affiliate participating in implementation of the community economic development program established pursuant to section 8-240k to another affiliate participating in said program. CGS Sec. 12-412(86).

   The exemption was created by PA 94-82.

   Estimates: Less than $100,000.

   Rationale: Incentive.

5. Tangible personal property at bazaars, fairs, picnics, tag sales by nonprofit organizations.

   Description: Sales of tangible personal property by nonprofit organizations at bazaars, fairs, picnics, tag sales or similar events to the extent of five such events of a day's duration held during any calendar year. (CGS Sec. 12-412(94))

   The exemption was created by PA 97-316.

   Estimates: Less than $100,000.

   Rationale: Incentive.

6. Tangible personal property by historical societies.

   Description: Sales of tangible personal property by historical societies. CGS Sec. 12-412(98).

   The exemption was created by PA 97-316.

   Estimates: Less than $100,000.

   Rationale: Incentive.

7. Educational institution and certain health and care facility meals.

   Description: Sales of food products and meals in a student cafeteria, dining hall, dormitory, fraternity or sorority maintained in a private, public or parochial school, college or university, to members of such institutions or organizations and sales of food products and meals to patients in hospitals, homes for the aged, convalescent homes, nursing homes and rest homes. CGS Sec. 12-412(9).

   Educational institution meals have been exempt since the imposition of the tax. The exemptions for meals provided to patients in hospitals, homes for the aged, etc. were added in 1972. PA 00-174 clarified the exemption of candy and non-alcoholic beverage sold in educational institutions.

   Estimates: Less than $100,000.

   Rationale: Incentive.

8. Pilot Property Tax Credit for Computer Equipment

   Description: PA 00-170 established a pilot program of a credit against the Sales and Use Tax for the purchase of computer equipment to be used in electronic commerce for a business making a qualified investment in higher education for electronic commerce. The credit is capped at $2 million per year.

   Estimates: $2.0 million

   Rationale: Incentive.

E. Miscellaneous Exemptions

1. United States and Connecticut state flags.

   Description: Sales of United States and Connecticut state flags. CGS Sec. 12-412(23).

   The exemption was created by PA 73-196.

   Estimates: Less than $100,000.

   Rational: Expediency.

2. Gold or silver bullion, legal tender of any nation, rare and antique coins.

   Description: Sales of and the storage or use of rare or antique coins, gold or silver bullion and gold or silver legal tender of any nation, traded according to its value as precious metal, provided such exemption shall not be applicable with respect to any such sale, storage or use in which the total value of such bullion or legal tender sold by the retailer is less than one thousand dollars.
   CGS Sec. 12-412(45).

   The exemption as created by PA 83-509. PA 95-160 added rare and antique coins.

   Estimates: Less than $100,000.

   Rationale: Incentive: the exemption is intended to make instate businesses more competitive with those out of state.

3. A motor vehicle or vessel purchased but not registered in this state by a person who is not a resident of this state.

   Description: The sale of any motor vehicle or vessel, as defined in section 15-127, in this state when the purchaser of such motor vehicle or vessel is not a resident of this state and does not maintain a permanent place of abode in this state, provided such motor vehicle or vessel is not presented for registration with the Department of Motor Vehicles in this state and such purchaser submits any affidavit or other evidence as may be requested by the Commissioner of Revenue Services concerning such purchaser's residency or place of abode. CGS Sec. 12-412(60).

   It was created by PA 87-238. PA 99-173 added vessels to the exemption.

   Estimates: $15 million.

   Rationale: Incentive: the exemption is intended to make instate businesses more competitive with those out of state.

4. Property tax payments under motor vehicle leases.

   Description: Any payment made by a lessee of a motor vehicle to a lessor for the purpose of paying the property taxes on any such vehicle under a lease which is otherwise subject to the taxes imposed by this chapter if such lease requires the lessee to pay such property taxes and if a separate statement of the amount of any such property tax payment is contained in such lease or in any bill rendered pursuant to such lease. CGS Sec. 12-412(49).

   The exemption was created by PA 85-435.

   Estimates: Indeterminate.

   Rationale: Clarification: the tax applies only to the portion of the payment that covers the lease of the motor vehicle.

5. Exemption from use tax for vessels brought into the state exclusively for storage, maintenance or repair.

   Description: Notwithstanding the provisions of section 12-411, the tax imposed thereunder shall not be applicable, in the period commencing on the first day of October in any year to and including the thirtieth day of April next succeeding, with respect to the use of any vessel within this state exclusively for purposes of (1) delivery of such vessel to a facility in this state for storage, including dry storage and storage in water by means of apparatus preventing ice damage to the hull, maintenance or repair or (2) the actual process of storage, maintenance or repair of such vessel. The provisions of this section shall have no effect upon liability for tax under this chapter related to the sale or use of such vessel other than such liability which may be established in relation to the specific use of such vessel as described in this section. CGS Sec. 12-413a.

   It was created by PA 83-455.

   Estimates: Less than $500,000.

   Rationale: Incentive: the exemption is intended to make instate businesses more competitive with those out of state.

6. Payment of sales or use tax to another state.

   Description: If any service or article of tangible personal property has already been subjected to a sales or use tax by any other state or political subdivision thereof and payment made thereon in respect to its sale or use in an amount less than the tax imposed by this chapter, the provisions of this chapter shall apply, but at a rate measured by the difference, only, between the rate herein fixed and the rate by which the previous tax upon the sale or use was computed. If such tax imposed in such other state or political subdivision thereof is equivalent to or in excess of the rate imposed under this chapter at the time of such sale or use, then no tax shall be due on such article. CGS Sec. 12-430(5).

   The provision was added to the statutes prior to 1961.

   Estimates: Indeterminate.

   Rationale: Conformity: double taxation may violate the Interstate Commerce Clause of the US Constitution.

7. Casual or isolated sales.

   Description: (a) Since the tax is predicated upon a sale made by a person engaged in the business of making sales at retail, certain sales which are not sufficient in number, scope and character to constitute an activity requiring a seller's permit are described as casual or isolated sales. Such sales are exempt from the tax exempt, however, as they involve vessels, airplanes, snowmobiles and motor vehicles as hereinafter illustrated. (b)Casual sales are: (1)Infrequent sales of a nonrecurring nature made by a person not engaged in the business of selling tangible personal property; (2)Sales of articles of tangible personal property acquired for use or consumption by a seller and not sold in the regular course of business engaged in by such seller. DRS regulation 12-426 (17).

   The exemption is a regulation adopted by the Department of Revenue Services as authorized by CGS Section 12-426(1).

   Estimates: Less than $500,000.

   Rationale: Efficiency: the amount of revenue which could be collected is considered too small to justify the administrative cost.

8. Tax on casual sales of motor vehicles, vessels, snowmobiles and aircraft.

   Description: (a) In case of the purchase of any motor vehicle, snowmobile, vessel or aircraft other than from a licensed motor vehicle dealer or licensed motor vehicle lessor, a snowmobile dealer, a licensed marine dealer or a retailer of aircraft, respectively, the receipts therefrom shall not be included in the measure of the sales tax, but the purchaser thereof shall pay a use tax on the total purchase price thereof to the Commissioner of Revenue Services, as provided in section 12-411, in the case of tangible personal property purchased from a retailer, and, in the case of motor vehicles, vessels and snowmobiles, before obtaining an original or transferal registration, in accordance with regulations prescribed by the Commissioner of Revenue Services and on forms approved by the Commissioner of Revenue Services and the Commissioner of Motor Vehicles, and, in the case of aircraft, before obtaining an original or transferal registration, in accordance with regulations prescribed by the Commissioner of Revenue Services and on forms approved by the Commissioner of Revenue Services and the Commissioner of Transportation; provided no use tax shall be payable in cases of purchase (1) when the purchaser is the spouse, mother, father, brother, sister or child of the seller, (2) when a motor vehicle or vessel is sold in connection with the organization, reorganization or liquidation of an incorporated business, provided (A) the last taxable sale or use of the motor vehicle or vessel was subjected to a tax imposed by this chapter, (B) the purchaser is the

incorporated business or a stockholder thereof, and (C) any gain or loss to the seller is not recognized for federal income tax purposes under the provisions of the Internal Revenue Code and Treasury regulations and rulings issued thereunder, (3) when a motor vehicle is sold in connection with the organization or termination of a partnership or limited liability company, provided (A) the last taxable sale or use of the motor vehicle was subjected to a tax imposed by this chapter, (B) the purchaser is the partnership or limited liability company, as the case may be, or a partner or member, thereof, as the case may be, and (C) any gain or loss to the seller is not recognized for federal income tax purposes under the provisions of the Internal Revenue Code and Treasury regulations and rulings issued thereunder, or (4) when a motor vehicle which has been declared a total loss pursuant to the provisions of section 14-16c is rebuilt for sale or use, provided the purchaser was subjected to the tax imposed by this chapter for the last taxable sale of said vehicle. CGS Sec. 12-431(a).

The section was created prior to 1957 and was subsequently amended several times.

Estimates: $2 million.

Rationale: Expediency/Clarification. Expediency with regard to transfers to family members. Clarification with regard to business-related transfers.

9. Mobile manufactured home, modular or prefabricated home subject to sales tax when sold by manufacturer and subject to tax as a conveyance of realty when sold at its location in a mobile manufactured home park.

   Description: (a) On or after July 1, 1986, the sale of a new mobile manufactured home, and on or after July 1, 1993, the sale of a new modular or prefabricated home, from a manufacturer shall be subject to sales and use taxes under this chapter, except that for purposes of said taxes the sales price of such new mobile manufactured home or new modular or prefabricated home shall be deemed to be seventy per cent of the manufacturer's sales price applicable with respect to such sale. For the purpose of this subsection, "mobile manufactured home" means a home at least twelve feet in width, which cannot proceed under its own power, which is towed or placed on flatbed trucks to be taken to its destination and which requires a limited duration oversize load permit in order to be transported on the highways of this state, and a "new modular or prefabricated home" means a modular or prefabricated home, as defined in section 21-85, which has not been previously sold or occupied as a dwelling unit.

   (b) On or after July 1, 1986, the resale of any mobile manufactured home located in a mobile manufactured home park licensed pursuant to chapter 412 or located on a single-family lot as a permitted nonconforming use or as otherwise permitted by the zoning regulations of the municipality in which the home is located, and on or after July 1, 1993, the resale of any modular home, shall be exempt from the sales and use taxes imposed by this chapter and shall be taxed as a conveyance of realty in accordance with the provisions of chapter 223.

   CGS Sec. 12-412c.

   The resale exemption was created by PA 85-512 and the 30% exemption was created by PA 86-310. PA 93-332 added new modular or prefabricated homes.

   Estimates: Less than $500,000

   Rationale: Clarification/Redundancy. Clarification as it relates to 30% of a new unit's price. Sales Tax is due on the tangible personal property used in new home construction but not on the cost of labor. The 30% exemption represents the approximate labor cost for this type of dwelling. Redundancy as it relates to resale of mobile homes. The exemption prevents the double taxation of such transactions since they are subject to the Real Estate Conveyance Tax.

F. Items subject to a lower Sales Tax Rate or Basis

1. Motor vehicles sold to members of the armed forces.

   Description: Motor vehicles sold to members of the armed forces on full-time active duty in the state but whose permanent residence is elsewhere (4.5%). CGS Sec. 12-408(1)(B) and 12-411(1)(B).

   It was created by PA 84-545.

   Estimates: Less than $100,000.

   Rationale: Incentive: the lower rate is intended to encourage military personnel to buy and register their motor vehicles instate.

2. Sale of vessels to nonresidents at the lower of CT or resident's home state.

   Description: With respect to the sales of vessels to any resident of another state, the rate shall be the lesser of: (i) Six per cent of the gross receipts of any retailer from such sales or (ii) the percentage of such gross receipts that is payable as a sales tax by retailers engaged in business in the purchaser's state of residence provided such retailer requires and maintains an affidavit or other evidence, satisfactory to the commissioner of revenue services, concerning the purchaser's state of residence. CGS Sec. 12-411(1)(C).

   It was created by PA 91-3 of the June Special Session. PA 92-17 changed proof of the purchaser's state of residency to a signed affidavit rather than registration of the boat in the purchaser's home state.

   Estimates: Less than $500,000.

   Rationale: Incentive: the exemption is intended to make instate businesses more competitive with those out of state.

3. Determination of sales tax on certain construction equipment or machinery when such equipment or machinery is traded in on purchase.

   Description: In any sale at retail of construction equipment or machinery, the source of power for which is an integral part of any individual unit of such equipment or machinery, which sale is made by a retailer of such equipment or machinery who accepts a trade-in of such equipment or machinery in such sale, the sales tax with respect to such sale shall not be applicable to the entire purchase price of such equipment or machinery but shall be imposed on the difference between such purchase price and the amount allowed by the retailer on such equipment or machinery traded in as a credit against the entire purchase price of such equipment or machinery purchased. When any such equipment or machinery traded in is subsequently sold to a consumer or user, the tax imposed under this chapter shall be applicable to such sale. CGS Sec. 12-430a.

   It was created by PA 85-457.

   Estimates: Less than $500,000.

   Rationale: Incentive: The exemption is intended to make instate businesses more competitive with those out of state.

4. Trade-in of motor vehicles, snowmobiles, vessels or farm tractors.

   Description Where a trade-in of a motor vehicle is received by a motor vehicle dealer, upon the sale of another motor vehicle to a consumer, or where a trade-in of an aircraft, as defined in subdivision (5) of section 15-34, is received by an aircraft dealer, upon the sale of another aircraft to a consumer, or where a trade-in of a farm tractor, snowmobile or any vessel, as defined in section 15-127, is received by a retailer of farm tractors, snowmobiles or such vessels upon the sale of another farm tractor, snowmobile or such vessel to a consumer, the tax is only on the difference between the sale price of the motor vehicle, aircraft, snowmobile, farm tractor or such vessel purchased and the amount allowed on the motor vehicle, aircraft, snowmobile, farm tractor or such vessel traded in on such purchase. When any such motor vehicle, aircraft, snowmobile, farm tractor or such vessel traded in is subsequently sold to a consumer or user, the tax provided for in this chapter applies. CGS Sec. 12-430(4).

   It was added to the statutes prior to 1961. In 1961 it was limited to Connecticut motor vehicle dealers. In 1969 snowmobiles were added and references to instate dealers were deleted. PA 73-518 added vessels. PA 74-338 made a technical change. PA 94-4 of the May Special Session added the exemption for aircraft trade-ins.

   Estimates: $40 million.

   Rationale: Incentive: the exemption is intended to make instate businesses more competitive with those out of state.

5. Coupons and Discounts and Battery Deposits and Trade Ins of like kind.

   Description: Coupons and Discounts and Battery Deposits and Trade Ins of like kind are excluded from the definition of "sales price" and "gross receipts". CGS Secs. 12-407(8) and 12-407(9).

   PA 98-110 added coupons and discounts, battery deposits and trade-ins of like kind, effective 7/1/98.

   Estimates: $2.5 million.

   Rationale: Expediency.

6. Trade in of Core Parts

   Description: In any sale at retail of any new or remanufactured part of an item of tangible personal property to a purchaser, which sale is made by a retailer of such parts who will accept in return from such purchaser a core component or core part of such tangible personal property, the sales or use tax with respect to such sale shall be imposed on the difference between the purchase price and the amount allowed by the retailer on the returned core component or core part, provided the retailer shall collect the tax, at the time of sale, on the purchase price and, when the core component or core part is returned, shall refund such tax on the amount allowed by the retailer on the returned core component or core part. When any such core component or core part traded in is subsequently sold to a consumer or user, the taxes imposed under this chapter shall be applicable to such sale. CGS Sec. 12-412j.

   PA 95-327 created the exemption. PA 96-172 expanded exemption to motor bus parts. PA 98-110 clarified when the tax must be collected by the retailer.

   Estimates: $1.2 million.

   Rationale: Expediency.

7. Licensed motor vehicle dealers.

Description: When a licensed motor vehicle dealer replaces a motor vehicle which has been registered to such dealer and the replaced motor vehicle is no longer in the possession of or used by such dealer, the tax imposed by this chapter shall be applicable only with respect to the difference between such dealer's cost for the new motor vehicle being registered, which motor vehicle is the replacement for said replaced motor vehicle, and the wholesale value of said replaced motor vehicle at the time of its replacement, determined in accordance with a standard reference book for such values acceptable to the commissioner of revenue services. CGS Sec. 12-430(6).

It was created by PA 73-520.

Estimates: Less than $500,000.

Rationale: Incentive: the exemption is intended to reduce the cost of doing business for instate firms. It parallels the exemption for consumers (above), which permits trade-in allowances to be deducted from the purchase price of motor vehicles.

CORPORATION BUSINESS TAX

A tax is imposed on corporations for the privilege of carrying on business within the State or owning or leasing property or maintaining an office within the state.

Computation of Tax

Corporations are subject to tax on income derived from in-state sources.

Rate & Basis - The Corporation Business Tax consists of three components. The taxpayer's liability is the greatest amount computed under any of the three components. The three bases for most corporations are:

1. Net Income Base: This component is a tax measured by the net income of a taxpayer. Net income means federal income less certain deductions as those allowed under the Internal Revenue Service Code of 1986 as amended from time to time. The tax rate on net income is 8.5% for income year beginning on and after January 1, 1999 and 7.5% for income years beginning on or after January 1, 2000. (CGS Sec 12-214(a)(1), PA 93-74 and PA 95-160)

   A Corporation taxable solely within the state multiplies its entire net income by the tax rate. Business income when derived from the manufacture, sale, or use of tangible personal property is apportioned by a three factor formula that compares sales, payroll and tangible property in Connecticut to those factors from business carried on everywhere else. The sales factor is given a double weight. Motor Carriers which transport property for hire apportion net income based on the relative number of miles driven in state. The apportioned net income is then multiplied by the tax rate.

   Business income derived from services is apportioned based on a single gross receipts factor which compares gross receipts from businesses carried on within Connecticut to the nation.

   Companies providing management, distribution, or administrative services to or on behalf of a regulated investment company (mutual fund) or a securities brokerage firm have the option to base their tax liability on the proportion of shares in the fund owned by shareholders domiciled in Connecticut, and in the case of securities brokerage service companies to base their tax liability on the proportion of commissions and margin interest paid to accounts owned by clients domiciled in Connecticut. If the corporation is a manufacturer or a broadcaster, it is allowed to use a single factor formula to apportion their income for corporate income tax purposes. Manufacturers cannot apply the new formula to their first and second estimated payments in 2001. (CGS 12-218)

   If the corporation is a bank which issues credit cards and regularly engages in credit card activities, net income derived from credit card activities may base its tax liability on the proportion of receipts derived from credit card holders located within Connecticut. (PA 97-4 (JSS))

2. Capital Base: The capital base tax is .0031 or 3 1/10 mills per dollar of the average value of capital stock and surplus reserves (CGS Sec. 12-219). For income years beginning on or after January 1, 1999, financial service companies are excluded from the capital base and minimum tax. Corporations doing business in more than one state must use a two factor formula which measures the average monthly value of intangible and tangible assets located in Connecticut as compared to the nation to apportion their asset base (CGS 12-219a&b). The maximum tax liability under this base is $1 million.

3. Minimum Tax: If a corporation owes less than $250 under both the net income and capital base methods, it pays the minimum tax of $250. (CGS 12-219, 12-223c)

Combined Returns: Corporations filing combined returns are not be entitled to the first $25,000 of tax savings over what they would have paid if they filed separately (CGS 12-223f).

Subchapter S Corporations

PA 96-175 phases out the Corporate Income Tax on the net income of Subchapter S Corporations by reducing the percentage which is taxable until it is exempt in the 2001 income year. PA 00-170 allows S-Corporations to take the entire credit for low- and moderate-moderate income housing in the 1999 and 2000 income years. PA 99-83 originally allowed on 55% of net income for the 1999 tax year, 30% for 2000 and zero for 2001 and thereafter. (CGS 12-217(c))

Limited Liability Corporations

PA 93-267 created a new form of business that combines the limited liability characteristics of corporations with the tax status of partnerships, effective October 1, 1993. The Internal Revenue Service (IRS) has indicated that limited liability companies (LLC) that possess certain characteristics would be treated as partnerships for federal tax purposes. The test whether a business organization is an LLC or a corporation is the same test the IRS uses to distinguish partnerships from corporations. The IRS will not treat a business organization that has associates and a profit motive as a corporation if it has at least three of the following corporate characteristics: limited liability, continuity of life, free transferability of interest, and centralization of management.

PA 97-70 authorized single-member limited liability companies and allows an assignee of a single-member LLC to become a member if and to the extent the member gives him this right.

Unrelated Business Income Tax (Nonprofit Corporations)

Nonprofit corporations with income from businesses unrelated to their nonprofit status are subject to tax on income derived from in-state sources at the same rate as the tax on the net income of regular corporations. All business income is apportioned by a three factor formula which compares sales, compensation and tangible property in Connecticut to sales, compensation, and tangible property both inside and outside of Connecticut.

Payment - If the tax liability is expected to be more than $1,000, or the tax required to be paid in the preceding year exceeded $1,000, then the taxpayer is obligated to declare and pay estimated payments. Estimated payments are based on current year estimated annual tax liability using the following percentages: 30% in the third month, 70% in the sixth month, 80% in the ninth month, and 100% by the twelfth month of the income year, or 100% of the prior year's estimated tax payment.

The final payment of the tax is due by the first day of the fourth-month following the end of the income year. The minimum estimated payment is $100 (CGS Sec. 12-242c).

The interest rate on overdue or underpayment of estimated tax is 1% per month or 12% per year.

State Exclusions from Gross Income

1. Income from Foreign Sales Corporations

   Description: When a domestic corporation elects the foreign tax credit for federal income tax purposes, the amount that is treated as dividends received by the domestic US corporation from a foreign corporation is excluded for state tax purposes. (CGS Sec. 12-213)

   Estimate: $25 million

Rationale: Conformity.

Taxpayers benefiting: Less than 500.

State Exemptions from Gross Income

1. Foreign Insurance Companies

   Description: Insurance companies incorporated or organized under the laws of any other state or foreign government. (CGS Sec. 12-214)

   Modified by PA 73-350.

   Estimates: $10 million.

   Rationale: Conformity.

   Taxpayers Benefiting: 900.

2. Railroad Companies

   Description: Railroad companies subject to the utility gross earnings tax are exempt from the Corporate Business Tax. (CGS Sec. 12-214)

   Estimates: $0.8 million.

   Rationale: Redundancy.

   Taxpayers Benefiting: 7

3. Cooperative Housing Corporations

   Description: Cooperative housing corporations, as defined for in Section 21b of the IRS Code, are exempt from the corporation tax whether or not they had any federal taxable income. (CGS Sec 12-214).

   PA 94-4 of the Regular Session broadened the exemption to include cooperative housing corporations which had federal taxable income retroactively to income years beginning on or after January 1, 1990. Prior to this Act only cooperative housing corporations, as defined for federal income tax purposes, which had no federal taxable income were exempted for the corporation tax.

   Estimates: $50,000

   Rationale: Conformity.

   Taxpayers Benefiting: Less than 50.

4. Political Associations

   Description: Any organization or association established and operated for political purposes. (CGS Sec 12-214)

   Enacted by PA 75-101.

Rationale: Clarification.

Estimates: $2.5 million.

Taxpayers Benefiting: 25

5. Electric Cooperatives

Description: Electric cooperative are exempt from the Corporate Business Tax. (CGS Sec 33-240)

Estimates: $2.8 million.

Rationale: Clarification.

Taxpayers Benefiting: 6

6. Alternate Energy Systems Companies

Description: Any company which is not owned or controlled by any other company, whose gross annual revenues do not exceed $100 million, who is engaged in the research, design manufacture, sale or installation of alternative energy systems and whose net income is directly attributable to such purpose. (CGS Sec. 12-214)

Enacted by PA 80-406.

Estimates: $250,000

Rationale: Incentive: to promote the development of alternative energy systems.

Taxpayers Benefiting: 50

7. Aero-Derived Gas Turbine Systems

Description: Any company which engages in the research, design, manufacture or sale in Connecticut of aero-derived gas turbine systems used in advance industrial applications, developed after October 1, 1992. (CGS Sec. 12-214)

Enacted by PA 92-152.

Estimates: $100,000

Rationale: Incentive: to promote the development of aero-derived gas-turbine.

Taxpayers Benefiting: 10

8. Regulated Investment Co. and Real Estate Investment Trusts

Description: Regulated investment companies (mutual fund) and real estate investment trusts were made exempt from the Corporation Business Tax effective for income years beginning on or after January 1, 1993. (PA 93-74) (CGS Sec. 12-214)

Estimates: $1.1 million.

Rationale: Incentive.

Taxpayers Benefiting: 10

9. Unpaid Loss Reserve Adjustment for Non-Life Insurance Cos.

Description: The unpaid loss reserve adjustment required by the federal code for non-life insurance companies shall not be deducted from gross income, effective with the 1993 income year. (PA 93-74 and PA 93-332) (CGS Sec. 12-214)

Estimates: $1.0 million

Rationale: Clarification and Conformity.

Taxpayers benefiting: 10

10. Municipal Risk Pools

Description: PA 94-4 of the May Special Session clarifies that municipal risk pools are not liable for taxation under the corporate income tax, applicable to income years beginning on or after 1/1/80. (CGS Sec 12-219(d))

PA 94-4 clarified statute language.

Estimates: Indeterminate.

Rationale: Clarification and Expediency.

11. Subchapter S-Corporations

Description: PA 96-175 phases out the tax on the net income of subchapter S-Corporations by reducing the percentage which is taxable and exempting it effective with income years beginning on or after 1/1/2001. PA 98-244 eliminates the Corporate Income Tax payments for subchapter S-Corporations under the minimum and capital base effective 1/1/2000. (CGS 12-217)

Estimates: $26 million

Rationale: Expediency

Taxpayers benefiting: 30,000

12. Domestic Insurance Companies

Description: PA 98-110 exempts domestic insurance companies from the tax effective with the 1999 income year. (CGS 12-214)

Estimates: $10 million

Rational: Perceived Equity.

Taxpayers benefiting: 10

13. Passive Investment Companies

Description: PA 98-110 exempts Passive Investment Companies (PICs) from the tax effective with the 1999 income year. (CGS 12-214)

Estimates: $20 million

Rational: Incentive.

Taxpayers benefiting: 10

State Deductions from Gross Income

1. Exemption for the earnings of International Banking Facilities

   Description: Exemption for the earnings of international banking facilities as defined in federal regulations. (CGS Sec. 12-217)

   Enacted by PA 81-245.

   Estimate: Minimal.

   Rationale: Conformity.

   Taxpayers benefiting: Less than 100.

2. Dividends from DISC or FSCs

   Description: A deduction for income from foreign corporations received as dividends. (CGS Sec. 12-217)

   Estimate: $25 million

   Rationale: Conformity.

   Taxpayers benefiting: Less than 500.

3. Net Operating Loss Carry-Forward

   Description: Net operating losses incurred in the current year may be carried forward for up to 5 years to offset net income in future years. Federal law allows losses to be carried forward 15 years or carried back three years. This treatment, known as a loss carry- forward, acts to smooth out fluctuations in corporate profits which may change dramatically with economic conditions. Similar to federal law, prior year losses must be applied against income to the maximum extent possible and in a consecutive fashion during the carryover period. Losses from earliest years are always used first. (CGS Sec. 12-217)

   PA 99-173 extends the Net Operating Loss provisions from 5 years to 20 years resulting in additional revenue foregone of $6 million in FY 06 to $55 million in FY 11.

   Estimates: $50 million.

   Rationale: Conformity.

   Taxpayers benefiting: All net income corporate filers.

4. Net Capital Loss Carry-Over

Description: A deduction for net capital loss as defined by federal corporate income tax law is allowed as a capital loss carry-over to reduce any net capital gain in each of the following five years to the extent the net capital loss is not exhausted by net capital gains of any of the preceding five years capital gains. (CGS Sec. 12-217)

PA 99-173 extends the Net Capital Carry-Over provisions from 5 years to 20 years resulting in additional revenue foregone of $6 million in FY 06 to $55 million in FY 11.

Estimates: $65 million.

Rationale: Conformity.

Taxpayers benefiting: All net income corporate filers.

5. Capital Gains from the sale to be preserved as open space or watershed land

Description: PA 99-173 and PA 99-235 exempts capital gains realized from the sale of open space or land to the state, a municipality, or non-profit land conservation organization or to a water company where the land is permanently preserved space or as Class I or Class II watershed land.

Estimates: $1 million

Rationale: Expediency.

Taxpayers benefiting: 10

State Corporation Business Tax Credits

The following are credits which a corporation may take advantage to reduce its tax liability to the State.

1. Enterprise Zones

Description: Connecticut General Statutes Section 32-70 designates the establishment of the state's Enterprise Zones. The zone itself consists of a census tract or several contiguous tracts within a community. In order for a community to be eligible to establish an Enterprise Zone it must meet certain criteria related to social and economic conditions. Primary census tracts must meet at least one of the following: (1) a poverty rate of at least 25%, (2) an unemployment rate of two times the state average, and (3) at least 25% of the tract's population receives public assistance. Secondary census tracts must meet lower thresholds: (1) a poverty rate of 15%, (2) an unemployment rate of at least 1.5 times the state average, and (3) at least 15% of the tract's population receiving public assistance.

Eligible businesses include manufacturers, warehouse distributors (new construction/expansion only), and certain designated service related businesses. Benefits include: A 5-year, 80% abatement of local property taxes on all qualifying real and personal property that are new (note: existing real property which meets certification requirements is defined as new for the purpose of this program) to the Grand List of the City/Town as a direct result of a business expansion or renovation project; 10-year, 25% or 50% credit on that portion of the Connecticut Corporate Business Tax that is directly attributable to this business expansion or renovation project as determined by the Connecticut Department of Revenue Services and as provided under section 12-217(e) of the Connecticut General Statutes. $750 for each new full-time permanent job created

with a minimum of 3 jobs; if the criteria described in the paragraph below are met, the amount of the grant increases to $2,250 per job. The maximum amount of the grant is $75,000. The actual grant amount is determined by an audit of the number of permanent full time positions created as a direct result of a project. These positions must be in existence a minimum of three months, and must be created within twenty-four months from the inception of hiring for a certified project. The actual timing of the grant payment is subject to the availability of funds in the job incentive account within the General Fund of the State of Connecticut. In order to qualify for the increased benefits identified in (b) above, at least 30% of the new employees must be residents of the Enterprise Zone or residents of the Municipality in which the plant is located and eligible under the Federal Job Training partnership Act (JTPA). To be eligible for the increased benefits identified in (c), the minimum is 50% meeting such criteria. The Connecticut Department of Labor Job Service office is the contact concerning the availability of JTPA eligible job applicants in each community.

Also, within a zone, residential and commercial property owners are eligible by ordinance for the fixing of assessments on all real property in such zone for improvements made to their properties which are improved during the period when such area is designated as an Enterprise Zone. The fixed assessment will be for a period of seven years from the time of such improvement and shall defer any increase. Deferral on increased assessment due to improvement: 100% deferred in years 1 & 2, 50% in year 3, then declining 10% per year through year 7. These benefits are provided at the local level.

Any business which gets a Department of Economic Development eligibility certificate and is located in an enterprise zone, may receive a credit of 50% of its allocable tax if (1) it creates at least 150 jobs or (2) at least 30% of its newly created jobs are held by enterprise zone residents or municipal residents who are eligible for federal Job Training Partnership Act training. If the credit exceeds tax liability, the remaining credit may be taken in any of nine successive years. PA 93-311 allows towns with Enterprise Zones to establish Entertainment Districts for businesses involved in providing live or broadcast entertainment, and provides for tax benefits that are similar to Enterprise Zone businesses. This credit is available for income years beginning on or after 1/1/93. (CGS Sec. 32-70)

PA 95-354 expanded the definition of a manufacturing facility located within an Entertainment District to include plant, building, or other real property that is used in production of certain entertainment products.

Estimates: $600,000

Rationale: Incentive and Perceived Equity.

Taxpayers Benefiting: 50

2. New Manufacturing Facilities Located Within Enterprise Zones

Description: Manufacturing facilities in high unemployment areas and distressed municipalities, under sections 32-9p and 32-9r, receive a 50% tax credit on the tax allocable to manufacturing facility. In order to be eligible to take this credit, the Commissioner of Economic Development must certify that the corporation is occupying a new or renovated facility located within an enterprise zone. Should the corporation's credit exceed its tax liability, the remaining credit may be carried forward for nine years. (CGS Sec. 12-217e)

Estimates: $2.0 million.

Rationale: Incentive and Perceived Equity.

Taxpayers Benefiting: 100

3. Tax credit for qualifying corporations in enterprise zones.

Description: (a) As used in this section, "qualifying corporation" means a corporation which is created on or after January 1, 1997, in an enterprise zone and which either (1) has at least three hundred seventy-five employees, at least forty per cent of whom (A) are residents of the enterprise zone or the municipality in which the enterprise zone is located and (B) qualify under the Job Training Partnership Act or (2) has less than three hundred seventy-five employees, at least one hundred fifty employees of whom (A) are residents of the enterprise zone or the municipality in which the enterprise zone is located and (B) qualify under the Job Training Partnership Act. (b) There shall be allowed as a credit against the tax imposed on any corporation under this chapter which is created on or after January 1, 1997, in an enterprise zone, in an amount equal to (1) one hundred per cent of the tax liability of the corporation under said chapter with respect to the first three taxable years of the corporation and (2) fifty per cent of the tax liability of the corporation under this chapter with respect to the next seven taxable years of the corporation. (CGS Sec. 12-217v)

Enacted by PA 96-239.

Estimates: Indeterminate.

Rationale: Incentive.

4. Apprenticeship Training in Machine Tool and Metal Trades, Plastics and Construction Trades

Description: A credit for apprenticeship training in the machine tool and metal trades equal to $4.00 per hour of apprenticeship training, up to $4,800 per apprenticeship or 50% of the actual wages paid, whichever is less. A business's total tax credit cannot exceed its tax liability for any income year. (CGS Sec. 12-217g)

Enacted by PA 79-475 with the intent to offset some of the cost to businesses in the machine tool and metal trades associated with training unskilled labor. Revised by PA 94-4 of May Special Session which raised the apprenticeship hourly rate from $2.50 to $4.00 effective 1/1/94. The Act also changed the maximum credit from the lesser of $3,000 or 50% of actual wages to $4,800 or 50% of actual wages paid in the income year.

PA 95-284 expanded the credit to businesses that participate in qualified plastics trades apprenticeship programs. PA 97-295 added construction trades.

Estimates: $1.5 Million

Rationale: Incentive.

Taxpayers Benefiting: 200

5. Low and Moderate Income Housing Program/Rental Housing Assistance Trust Fund

Description: Tax credits to business firms making contributions to nonprofit organizations that develop, sponsor, or manage housing programs for families with low or moderate incomes. The maximum credit allowed is $50,000 annually per business firm or $5 million annually for all business firms. The minimum contribution on which a tax credit can be granted is $250. The credit is limited to $100,000 annually per business form and may be carried forward or backward five years. (CGS Sec 8-395)

Enacted by PA 86-395 by providing firms with a tax credit for contributions to nonprofit organization in order to stimulate the development, construction and management of low to moderate income housing.

PA 99-173 increased the cap on the credit from $1 million to $5 million effective 7/1/99.

Estimates: $1.0 million

Rationale: Incentive and Perceived Equity.

Taxpayers Benefiting: 25

6. Neighborhood Assistance Program

Description: Business firms participating in activities approved by municipalities consisting of providing neighborhood assistance, job training or education, community services, crime prevention, energy conservation construction or rehabilitation of dwelling units for families of low and moderate income, cash donations used for purchase of open space or community-based alcoholism prevention or treatment programs may claim tax credits up to either 50% or 60%, depending upon the nature of the programs, of the total amount contributed. Tax credits up to $75,000 annually per business firm but not to exceed $5 million dollars to all business firms. The minimum contribution for which a tax credit can be granted is $250.(CGS Chapter 228a and CGS Sec. 12-632)

Enacted by PA 82-469 to provide various tax credits to business choosing to engage in various community service activities. PA 97-251 increased the cap on the credit from $3 million to $4 million. PA 99-173 further increased the credit to $5 million.

Estimates: $2.0 million out of $5 million in NEA tax credits are anticipated to be claimed on the final tax returns filed.

Rationale: Incentive.

Taxpayers Benefiting: 250

7. Vehicles Powered by Clean Alternative Fuels or Electricity

Description: The alternative fuels credit enables a business to claim a credit up to 10% of its expenses in any one year for equipment associated with natural gas and electric powered vehicles. This includes equipment used in compressed natural gas filling and electric recharging station and the purchase of conversion equipment needed to convert a vehicle powered by another fuel to one using natural gas or both or electricity. This credit is effective for income years commencing on or after January 1, 1991, but no later than January 1, 2002. If the amount of credit exceeds the company's tax liability, the balance may be carried forward up to three successive years. (CGS Sec 12-217i)

Enacted by PA 91-179 to promote the Clean Air Act by providing an incentive to businesses to invest and convert to clean alternative fuel powered vehicles. PA 92-188 extended the credit to include electrically powered vehicles as a clean alternated fuel. PA 93-199 provides the 10%credit to business which purchase equipment for recharging electric powered vehicles and extends the credit for through 1997.

PA 97-295 changed the date from 1/1/1998 to 1/1/2000. PA 99-173 changed the date to 1/1/2002.

Estimates: $500,000

Rationale: Incentive.

Taxpayers Benefiting: 5

8. Research and Experimentation Expenditures

Description: This provision provides a tax credit for increasing expenditures for research and experiments conducted in Connecticut. For income years beginning on or after January 1, 1993, the amount of credit equals 10% of the amount spent in the preceding income year. For income years beginning on or after January 1, 1994, the amount of the credit is equal to 20% of the excess. (CGS Sec. 12-217j)

Enacted by the Manufacturing Recovery Act of 1992 (PA 92-193) and amended by PA 93-403 to expenditures for research and experiments conducted in Connecticut only. PA 96-252 provided for biotechnology companies for a 15 year carry forward for the 20% credit incremental increases in research and experimentation effective with the 1997 income year. PA 98-110 extended the credit carry forward to any corporation effective with the 2000 income year.

Estimates: $25 million.

Rationale: Incentive.

Taxpayers Benefiting: 250

9. Research and Development Expenses at Aerospace Companies

Description: PA 93-433 created a new corporation business tax credit for expenses of research and development conducted in Connecticut. This tax credit is allowable for income years beginning on or after January 1, 1993, however, the credit cannot be taken until January 1, 1995 or later. The amount allowed as credit increases ratably from 1% on the annual research and development expenses paid or incurred, where such expenses equal $50 million or less, to 6% where expenses exceed $200 million. This credit cannot be claimed if a credit is granted under the existing Research and Experimentation credit. Also, for those taxpayers whose research and development expenses exceed $200 million, there is a credit reduction provision based on work force reductions. The credit is subject to employment restrictions with regard to certain aerospace companies. (CGS Sec. 12-217n)

Enacted by PA 93-433 may not be taken until the 1995 income year. Its intent is to keep certain aerospace companies from eliminating or moving out of state research development centers in order to keep reduce lay-offs by providing a tax credit as an economic incentive. PA 98-110 extends the 6% credit to qualified small businesses with a gross income which does not exceed $100 million for income years beginning on or after 1/1/2000.

PA 99-173 modified the credit for companies with more than 2,500 employees, over $3 billion in revenue provided they are located in enterprise zones.

Estimates: $60.0 million.

Rationale: Incentive.

Taxpayers Benefiting: 1

10. Technology-related Research and Development Grants

Description: Credit for expenditures for grants to Connecticut institutions of higher education for research and development related to technological advancements. This 25% credit is available for income years beginning on or after January 1, 1994. (CGS Sec 12-217l)

Enacted by the Manufacturing Recovery Act of 1992 (PA 92-193) and applicable to income years beginning on or after January 1, 1994.

Estimates: $15,000

Rationale: Incentive.

Taxpayers Benefiting: 30

11. Employer Assisted Housing Credits

Description: PA93-74 established a credit available for income years beginning on or after January 1, 1994, for monies paid to a revolving loan fund to used to provide loans for housing located in the state for the business' low- and moderate-income employees. The program is to be administered by the Connecticut Housing Finance Authority and is capped at $1 million per year. The credit is limited to $100,000 annually per business form and may be carried forward or backward five years. (CGS Sec. 12-217p)

Enacted by PA 93-74 with the intent to provide housing for low- and moderate-income employees of a business located in this state by stimulating business to do so with a credit against their respective liabilities.

Estimates: $500,000

Rationale: Incentive.

Taxpayers Benefiting: 10

12. Small to Medium Sized Companies Capital Goods Expenditures

Description: Effective January 1, 1997 income year a credit is provided to small and medium sized companies for the increase in capital goods expenditures over the prior year. Companies with less than 250 full-time, permanent employees receive a 10% credit; companies with 250 to 800 employees receive a 5% credit. (CGS Sec. 12-217o)

Enacted by PA 93-382 as part of the "Small Business Financial Recovery Act of 1993" with the intent to benefit small and medium sized companies. May Special Session PA 94-4 increased the maximum number of full time employees from 500 to 800, effective 6/9/94. PA 95-160 changed the effective date from the 1995 income year to the 1997 income year.

Estimates: $3.0 Million.

Rationale: Perceived Equity.

Taxpayers Benefiting: 80

13. Credit for Expenses related to Traffic Management Programs

Description: Effective January 1, 1995 a credit to provide for 50% of the traffic management programs expenses related to attainment of Clean Air Act standards is created by PA 94-4 of the May Special Session. Companies are permitted a credit of up to $250 for each participating employee. The total amount of credit allowable for all companies combined is $1.5 million per year and the credit is effective with the 1995 income year. The Department of Transportation is required to adopt regulations which establish procedures for corporations to obtain and qualify for the tax credit. (CGS Sec. 12-217s)

Estimates: $1.5 million

Rationale: Conformity and Incentive.

Taxpayers Benefiting: 100

14. Property Tax Credit on Data Processing Equipment

Description: A credit is provided for 100% of the Property Tax paid on data processing equipment, effective with Property Tax paid on the 10/1/94 grand list. Electronic data processing equipment includes computers, printers, peripheral computer equipment, bundled software and any other related equipment reported as Code 20 on the Personal Property Declaration. The credit is only for the amount of Property Tax liability and excludes any interest or penalties which the taxpayer may also be required to pay. Corporations may take a credit for Property Tax paid on computer equipment only when filing Corporation Tax final returns and not when calculating estimated payments. (CGS Sec. 12-217t)

PA 94-4 MSS enacted the credit. PA 95-160 delayed the effective date of the credit from the 10/1/94 Grand List to 10/1/96 Grand List. PA 96-144 reinstated the original effective date of 10/1/94 Grand List.

Estimates: $35 million.

Rationale: Perceived Equity.

Taxpayers Benefiting: 4,500

15. Tax Credit for Financial Institutions Constructing New Facilities and Creating New Jobs.

Description: A credit was created by the October Special Session Public Act 94-1 which allows foreign banks to open certain federal or state licensed branches and other banking offices in Connecticut. It makes these foreign banks and other financial institutions eligible for up to $145 million in state tax credits over 15 years if they meet certain building and job creation requirements. The 50% credit against the corporation tax is allowed for a certain financial institution for up to 10 years provided it builds and uses a 900,000 square foot facility in Connecticut and create and maintain at least 2,000 new jobs in the state provided it has not received any state financial assistance. After 10 years, the institution may take a 25% credit for up to five years if it maintains at least 3,000 new jobs or positions. (CGS Sec. 12-217u.)

Under federal law, these foreign bank branches engage mainly in non-retail banking activities in the US, such as investment banking, commercial lending, trading, asset management, and accepting large uninsured deposit accounts over $100,000. They cannot generally accept retail deposits of less than $100,000 from US citizens.

PA 95-160 provided an annual credit of 40% for location of 1,600 jobs in state or 30% for the location of 1,200 jobs in state. Under PA 00-170 the taxpayer could not qualify for the credit for the first 10 years if it has received any financial assistance from the state.

Estimates: It should be noted that the taxpayer has not applied for certification with the Department of Economic and Community Development for the 10 year credit but presumably it would qualify. PA 00-170 provides the taxpayer with Manufacturers Assistance Act thus making it eligible for state financing. Thus then the taxpayer would be eligible for the up to $25 million credit over 5 years in years 11 through 15 after DECD certification

Rationale: Expediency and Incentive.

Taxpayers Benefiting: 1.

16. Displaced Workers Hired by Electric Suppliers

Description: PA 98-28 restructures the electric industry to allow consumers to choose their electric suppliers beginning January 1, 2000 for select groups and July 1, 2000 for all other consumers. Until competition begins, rates are capped at their December 31, 1996 levels. This will be accomplished by requiring each electric company to unbundle its electricity generation and distribution components. The generation component will be subject to competition from other suppliers. Suppliers are entitled to a one-time $1,500 corporation tax credit starting July 1, 1998 for each dislocated worker they employ for more than six months. (CGS Sec. 12-217bb)

Estimates: Potential revenue impact.

Rationale: Incentive and Expediency

Taxpayers Benefiting: Less than 10

17. Opportunity Certificates

Description: PA 97-295 established the tax credit of up to $125 for each month full when a business hires an individual who has been receiving Temporary Family Assistance (TFA) for at least nine months. PA 99-203 transferred administration of the program from the Department of Social Services to the Department of Labor. (CGS Sec. 12-217y)

Estimates: Potential revenue impact

Rationale: Expediency

Taxpayers Benefiting: 0, Program not established by DOL as of yet.

18. Fixed Capital Investment Credit

Description: Tangible personal property having a class life according to IRS of more than 4 years, is not acquired to be leased and will be held and used in this state for not less than 5 full years following its acquisition. The credit enacted by PA 97-295 is equal to 3% of the amount paid for the 1998 income year, 4% for 1999, and 5% thereafter. (CGS Sec. 12-217w)

Estimates: $25 million

Rationale: Clarification and Expediency

Taxpayers Benefiting: 250

19. Human Capital Investment Credit

Description: Human Capital Credit - 1) Job training; 2) work education; 3) donations or contributions to higher education institutions for the advancement of technology, including physical plant improvements; 4) day care facilities; 5) subsidies to employees for child care; 6) donations and contributions to the Individual Development Account. The credit enacted by PA 97-295 is equal to 3% of the amount paid for the 1998 income year, 4% for 1999, and 5% thereafter. PA 00-192 created the Individual Development Account to allow certain low-income and qualified disabled taxpayers to open savings accounts and receive matching funds as an incentive for saving for specific purposes. (CGS Sec. 12-217x)

Estimates: $2.4 million

Rationale: Clarification and Expediency

Taxpayers Benefiting: 300

20. Subchapter S-Corporations

Description: PA 97-283 Allows Subchapter S-Corporations to take tax credits on the same phase out schedule of the tax on S-Corporation net income, effective with the 1997 income year. (CGS Sec. 12-217)

Estimates: $500,000

Rationale: Expediency

Taxpayers Benefiting: 30,000

21. Credit for donation of land to be preserved as open space or watershed land

Description: PA 99-173 and PA 99-235 establish a credit equal to 50% of the land donated to the state, its subdivisions, or non-profit organization land conservation for open space. PA 00-203 extends the credit for land donated to the state to be carried forward 10 years. It also creates the Charter Oak Open Space Trust Account. (CGS Sec 12-218dd)

Estimates: $1 million

Rationale: Expediency.

Taxpayers Benefiting: Less than 100

22. Guarantee Fees

Description: PA 99-173 establishes a credit for guarantee fees paid when obtaining financing from the Small Business Administration (SBA). (CGS Sec. 12-217cc)

Estimates: $200,000

Rationale: Expediency

Taxpayers Benefiting: Less than 100

23. Rehabilitating Historic Homes

Description: PA 99-173 establishes a tax credit for expenses related to rehabilitating historic homes effective 1/1/2000. The credit applies to expenses over $15,000 with a cap on the credit of $30,000 for each home. The credit is capped at $3 million per year and can be carried forward for up to four years. (CGS Sec. 10-320j)

Estimates: $1 million

Rationale: Expediency

Taxpayers Benefiting: 250

24. Sale of Certain Credits

Description: PA 99-173 permits companies with sales of less than $70 million in gross sales to sell unused Research and Experiment Credits and Research and Development Credits tax credits back to the state at 65% of their value. (CGS Sec. 12-217ee)

Estimates: $14 million

Rationale: Expediency

Taxpayers Benefiting: 450

25. Donation of Computers to Local Schools

Description: PA 00-170 established a credit for the donation of new or used computers to local schools. (CGS Sec. 1a-228b)

Estimates: $500,000

Rationale: Expediency and Incentive

Taxpayers Benefiting: 450

26. Remediation of Urban Sites

Description: PA 00-170 established a site remediation tax credit for the remediation of urban sites. The amount of credit cannot exceed the amount of state revenue the Department of Economic and Community Development determines will be generated by the investment in the site. (CGS Sec. 32-9a)

Estimate: The revenue loss from the credit is expected to be offset by the tax revenue generated from the new development at the site.

Rationale: Expediency and Incentive

Taxpayers Benefiting: Less than 100

INHERITANCE AND ESTATE TAXES

Inheritance, Estate and Generation-Skipping Transfer Taxes

Death taxes (often called succession taxes) are excise taxes levied on the transfer of wealth at the time of death. There are two types of death taxes, an estate tax which is a tax on the total value of an estate, and the inheritance tax which is a levy on the separate shares of an estate passed to beneficiaries.

INHERITANCE TAX

The Connecticut Succession Tax was the first tax universally applied to all residents and property owners within the state in 1889. From 1889 to the late 1930s, the tax evolved into its present form. It has not changed greatly from the 1930s.

The succession tax is an inheritance tax that is applied to all real and tangible personal property inherited in the state and all intangible personal property inherited without regard to location. For nonresidents the tax base is all real and tangible personal property located in the state. The tax is a death tax based on the value at the time of death of the net taxable estate distributed to certain classes of beneficiaries.

Classification of Inheritors

Class	Description	Amount Exempt January 1, 2001
AA	Surviving spouse	Exempt
A	Immediate family such as parents or children	Exempt
B	Other relatives including siblings, nieces, and nephews	$600,000
C	All others including charitable organizations	$200,000

The net taxable estate consists of the gross value of estate assets less certain allowable deductions. Although the Connecticut inheritance tax is based on the value of the assets distributed to certain classes of beneficiaries, the tax is payable by the decedent's estate.

Farm land in an estate is valued at current use provided that (1) such farm land is transferred to beneficiaries included in classes AA, A and B, (2) such farm land was owned by the deceased or any beneficiaries included in classes AA, A and B for more than 5 years during 8 years immediately preceding the decedent's death, and (3) the deceased or any beneficiaries shall have engaged in active and substantial farming or agricultural operations directly related to such farm for more than 5 years during the 8 years prior to the decedent's death (CGS Sec. 12-349(a)). PA 98-244 classified farmland transferred by a decedent to a partnership, corporation or trust held by family members who are Class AA, A, or B inheritors, to be valued as current use for Succession Tax purposes.

Rates for the Inheritance Tax range from 2.15-14.00 percent, depending upon the relationship of the beneficiary and the size of the estate. In addition, both a 30 percent surtax and a 10 percent surtax are levied on the transfer of property (CGS Sec 12-344a).

The Inheritance Tax is scheduled to be phased out by increasing the exemption amount for each class of inheritor over 5 years as follows (CGS 12-344):

Exemption amount for property inherited by Class A:	Effective date of exemption increase:
Property under $50,000	Prior to 1/1/97
Property under $250,000	1/1/97
Property under $500,000	1/1/98
Property under $800,000	1/1/99
Property under $2,000,000	1/1/00
Tax on Class A is eliminated	1/1/01

Exemption amount for property inherited by Class B:	Effective date of exemption increase:
Property under $6,000	Current law
Property under $200,000	1/1/99
Property under $400,000	1/1/00
Property under $600,000	1/1/01
Property under $1,500,000	1/1/02
Tax on Class B is eliminated	1/1/03

Exemption amount for property inherited by Class C:	Effective date of exemption increase:
Property under $1,000	Current law
Property under $200,000	1/1/01
Property under $400,000	1/1/02
Property under $600,000	1/1/03
Property under $1,500,000	1/1/04
Tax on Class C is eliminated	1/1/05

Rate & Basis - The tax is based upon an heir or beneficiary's "privilege" to receive property. The following tax rates and exemption amounts are based on the relationship of the beneficiary to the decedent:

Inheritance Tax Rates
(Including Surtax)

Net Taxable Estate ($000) Column 1	Class A Tax on Col 1	Class A Rate on Excess Col 1	Class B Tax on Col 1	Class B Rate on Excess Col 1	Class C Tax on Col 1	Class C Rate on Excess Col 1
0 to 1	$0	0.0%	$0	0.0%	$0	0.0%
1 to 6	0	0.0	0	0.0	0	11.4
6 to 20	0	0.0	0	5.7	572	11.4
20 to 25	0	0.0	801	5.7	2,174	11.4
25 to 50	0	0.0	1,087	7.2	2,746	12.9
50 to 100	0	4.3	2,874	7.2	5,963	12.9
100 to 150	2,145	4.3	6,449	7.2	12,398	12.9
150 to 250	4,290	5.7	10,024	8.6	18,833	14.3
250 to 300	10,010	7.2	18,604	10.0	33,133	15.7
300 to 400	13,585	7.2	23,609	10.0	40,998	15.7
400 to 600	20,735	8.6	33,619	11.4	56,728	17.2
600 to 1,000	37,895	10.0	56,499	12.9	91,048	18.6
1,000 and up	77,935	11.4	107,979	14.3	165,408	20.0

In general, the closer the relationship (estate passes from parent to child) the larger the exemption and the lower the tax rate, the further the relationship (estate passes from decedent to a friend) the smaller the exemption and the greater the tax rate.

Payment - Inheritance tax is due at the death of the decedent and payable within six months thereafter (CGS Sec. 12-375). If the value of an interest in a closely held business exceeds 35% of the value of the gross estate, the tax may be paid in ten equal annual installments.

State Exclusions from Gross Taxable Estate

1. Payments to Beneficiary from Retirement or Profit-Sharing Plans

   Description: Excluded from the gross estate the value of payments to beneficiary after decedent's death under retirement or profit-sharing plan, except portion of payments attributable to contributions by the decedent. (CGS Sec. 12-349(b))

   Estimates: Indeterminate.

   Rationale: Conformity.

2. Social Security, Railroad Retirement and Survivor Benefits

   Description: Excluded from the gross estate the value of payments received after death of the decedent by other persons under the provisions of the Federal Social Security Act and the Railroad Retirement Act of 1937, Retired Serviceman's Family Protection Plan or the Survivor Benefits Plan for retired servicemen. (CGS Sec. 12-349(c))

   Created by PA 65-312.

   Estimates: Indeterminate.

   Rationale: Conformity.

3. Self-Employed Pension Plan

   Description: Excluded from the gross estate the value of payments receivable after decedents death under self-employed pension plan established in accordance with IRS Code 401(c). (CGS Sec. 12-349(d))

   Created by PA 87-459.

   Estimates: Indeterminate.

   Rationale: Conformity.

4. Transfers to Government and Other Entities

   Description: Transfer to the US, any state or territory, or any political subdivision thereof, including the District of Columbia and transfers to any corporation, institution, society, association or trust, formed for charitable, education, literary, scientific, historical or religious purposes. (CGS Sec. 12-347(a))

   Estimates: Indeterminate.

Rationale: Incentive.

5. Care of Cemetery Lot

Description: Transfers placed in trust for the care of any cemetery lot. (CGS Sec. 12-347(a))

Estimates: Indeterminate.

Rationale: Incentive.

6. Transfer of Open Space Land

Description: PA 84-366 exempted the transfer of open space land from the inheritance tax if the land will be used as open space in perpetuity. (CGS Sec. 12-347(c))

Estimates: Indeterminate.

Rationale: Incentive.

7. Life and Accident Risk Insurance

Description: Proceeds from an policy of life or accident insurance payable to a named beneficiary or beneficiaries, including such proceeds payable to a trustee or trustees under an inter vivos or testamentary trust or the proceeds of any insurance policy of a decedent payable at his death to his estate, the executors of his will or the administrators of his estate. (CGS Sec. 12-342)

PA 78-267 expanded the exemption to include proceeds of any insurance issued by the United States such as war risk insurance, US government life insurance or national service life insurance from the inheritance tax.

Estimates: Indeterminate.

Rationale: Expediency.

8. Jointly Owned Property

Description: Jointly owned checking or savings accounts in banks or savings banks, savings and loan associations or credit unions or US war or savings bonds if less than $5,000 is not subject to the Succession Tax. Property which is held jointly with the right of survivorship is considered a taxable transfer and therefor taxable under the inheritance tax. (CGS Sec. 12-343)

Modified by PA 78-121.

Estimates: Indeterminate.

Rationale: Incentive.

9. Tax Incentive for Open Space

Description: PA 99-173 repeals the requirement that land donated to be classified as open space for inheritance and Succession Tax purposes. Along with other taxes, this serves as an incentive for donation or discount sale of land to be preserved as open space. (CGS Sec. 12-347(c))

Created by PA 99-173 and modified by PA 99-235.

Estimates: $100,000

Rationale: Incentive

Deductions from Gross Taxable Estate in Computing Net Taxable Estate

In the case of the estate of a resident transferor (CGS Sec. 12-350), the net estate is computed by deducting from the gross taxable estate the following items:

(a) Debts against the decedent's estate,
(b) Unpaid taxes on real and personal property and income,
(c) Any tax on untaxed property assessed by the state,
(d) Special assessments or liens,
(e) Funeral expenses, headstone, and care of cemetery lot,
(f) Reasonable compensation of executors and administrators and reasonable attorney's fees,
(g) Allowance made during settlement of estate for the support of the widow, widower, dependent minor children or handicapped individuals,
(h) Unpaid mortgages not deducted in the appraisal of property mortgaged,
(i) Reasonable expenses of administration relating to intestate estates,
(j) Unpaid expenses of administering a trust prior to death.

In the case of the estate of a non-resident transferor (CGS Sec. 12-352), the net estate is computed by deducting from the gross taxable estate the following items:

(a) Fees of the Connecticut Probate Court,
(b) Advertising expenses incidental to administration in this state,
(c) Reasonable compensation of appraiser of real estate or tangible property located in this State,
(d) Expenses incurred in procuring fiduciary's bond filed in the Connecticut probate court,
(e) Commissions paid in connection with sales of real estate or tangible property located in this state,
(f) Reasonable compensation of executors and administrators of the Connecticut probate court and reasonable fees for Connecticut attorneys,
(g) Unpaid mortgages not deducted in the appraisal of property mortgaged located in Connecticut,
(h) Unpaid taxes on real and personal property located in this state,
(i) Any tax on untaxed property assessed by the state,
(j) Special assessments or liens on property in Connecticut.

State Exemptions from Net Taxable Estate

1. Class AA

   Description: The net taxable estate passing to the surviving spouse. (CGS Sec. 12-344)

   Estimates: $90 million.

   Rationale: Perceived Equity.

2. Class A

   Description: The first $2.0 million of the net taxable estate passing to parents, grandparents, adoptive parent and any natural or adopted descendent. (CGS Sec. 12-344)

   Estimates: $105 million net of Estate Tax (See explanation below).

Rationale: Perceived Equity.

3. Class B

Description: The first $400,000 of the net taxable estate passing to the husband or widower or widow, who has not remarried, of any natural or adopted child, stepchild, brother or sister of the full or half-blood or adopted brother or sister or any natural or adopted descendent of such brother or sister. (CGS Sec. 12-344)

Estimates: $20 million.

Rationale: Perceived Equity.

4. Class C

Description: The first $1,000 of the net taxable estate passing to any person, corporation or association not included in either Class AA or Class B. (CGS Sec. 12-344)

Estimates: $1.5 million.

Rationale: Perceived Equity.

ESTATE TAX

Under certain circumstances, Connecticut imposes an estate tax (CGS Sec. 12-391). The tax is intended to preserve revenue for the state that would otherwise go to the federal government and is considered a "sponge tax". The Connecticut estate tax allows the state to retain the maximum credit allowed under federal law. This tax acts as a revenue safety net, used only when the total state death tax liability falls below the maximum federal credit. This occurs when an estate is compromised of assets that are not taxed by the state, but are taxed by the federal estate tax, such as life insurance (CGS Sec. 12-342). In cases such as these, the state is able to retain funds that would have gone to the federal government up to the maximum allowable credit. Therefore the state can pick up revenue with no increase in tax liability to the decedent's estate (CGS Sec. 12-391). The Estate Tax is extended to real and personal property in Connecticut owed by nonresidents. (PA 97-165)

Payment - Inheritance tax is due at the death of the decedent and payable within six months thereafter (CGS Sec. 12-375). If the value of an interest in a closely held business exceeds 35% of the value of the gross estate, the tax may be paid in ten equal annual installments.

GENERATION-SKIPPING TRANSFER TAX

A tax is imposed on certain transfers of property under trusts whose beneficiaries are two or more generations below the transferor. Specifically, it applies to taxable terminations under federal Generation Skipping Tax laws that occur on or after July 1, 1997. The amount of the tax is the amount of federal credit allowed for generation skipping transfer tax paid to any state under the IRS Code.

A taxable termination occurs upon the termination of a trust interest (a current right to receive trust income or principal) if, after the termination, all trust interests are held by (1) beneficiaries who are two or more generations below that of the transferor or (2) a trust for the benefit of such people. A taxable distribution is any distribution from a trust or principal to such people or trusts. A direct skip is a outright transfer of a property interest to such people or trusts. Every personal is allowed a $1 million Generation Skipping Tax exemption.

Payment - The tax is due if there is a taxable distribution or termination under the federal law. The person responsible for paying the federal Generation Skipping Tax must pay the state tax by the initial deadline for filing the federal return, regardless of whether that deadline was extended. (Under federal law the trustee pays the tax on a taxable termination. The transferee pays it on a taxable distribution.) In the case of a direct skip, payment is due on the date in which an estate or gift tax payment is required. In all of the cases, the due date is on or before the 15th day of the 4th month after the close of the tax year of the person required to file the return. (PA 97-165)

GIFT TAX

A tax is imposed on gifts taxable under federal law (certain gifts worth over $10,000). The tax applies to the transfer of personal and real property situated within the state by residents and nonresidents of Connecticut. This tax is effective for gifts made on or after September 1, 1991 (PA 91-3 JSS). (Chapter 228c)

Computation of Tax

Gifts by resident and nonresident individual donors are subject to the Connecticut gift tax. Residents are taxed on all gifts of intangible property (such as interest-free and below market interest loans, certain loan guarantees, and dividends) and of real property and tangible personal property situated in Connecticut, provided the donor is required to file a federal Gift Tax Form 709. Nonresidents are taxed on gifts of real and tangible personal property situated in Connecticut and on tangible personal property within Connecticut if employed in carrying on a trade or business in Connecticut, provided the donor is required to file a federal Gift Tax Form 709. The first $10,000 of gifts to any donee of a present interest in property is excluded from tax. A married couple may not file a joint gift tax return. However, they may elect to have all gifts made to third parties be considered to have been made one-half by each spouse. Thus, the first $20,000 of gifts made by consenting spouses during the calendar year would not be subject to tax.

Rate & Basis - After 8/31/91, gifts that are taxable for federal purposes (certain gifts over $10,000) are subject to the Gift Tax. A taxable gift means the transfer by gift that is included in taxable gifts for federal gift tax purposes less federal gift tax deductions. Deductions from the Connecticut Gift Tax are the same as those allowed in Sections 2522 to 2524 of the IRS Code. (CGS Sec. 12-643) The tax rate is as follows, prior to January 1, 2001:

Amount of Taxable Gifts	Tax Rate
Not Over $25,000	1%
Over $25,000 but not over $50,000	$250, plus 2% of excess over $25,000
Over $50,000 but not over $75,000	$750, plus 3% of excess over $50,000
Over $75,000 but not over $100,000	$1,500, plus 4% of excess over $75,000
Over $100,000 but not over $200,000	$2,500, plus 5% of excess over $100,000
Over $200,000	$7,500, plus 6% of excess over $200,000

Beginning with the January 1, 2001 calendar year, PA 00-170 phases out the tax on gifts under $1 million over a six-year period. The tax rate schedule for each calendar year is as follows:

Amount of Taxable Gifts	Tax Rate
Effective January 1, 2001	
Over $25,000 but not over $50,000	$250, plus 2% of excess over $25,000
Over $50,000 but not over $75,000	$750, plus 3% of

	excess over $50,000
Over $75,000 but not over $100,000	$1,500, plus 4% of excess over $75,000
Over $100,000 but not over $675,000	$2,500, plus 5% of excess over $100,000
Over $675,000	$31,500, plus 6% of excess over $675,000

Effective January 1, 2002

Over $50,000 but not over $75,000	$750, plus 3% of excess over $50,000
Over $75,000 but not over $100,000	$1,500, plus 4% of excess over $75,000
Over $100,000 but not over $700,000	$2,500, plus 5% of excess over $100,000
Over $700,000	$32,500, plus 6% of excess over $700,000

Effective January 1, 2003

Over $75,000 but not over $100,000	$1,500, plus 4% of excess over $75,000
Over $100,000 but not over $200,000	$2,500, plus 5% of excess over $100,000
Over $700,000	$32,500, plus 6% of excess over $700,000

Effective January 1, 2004

Over $100,000 but not over $200,000	$2,500, plus 5% of excess over $100,000
Over $850,000	$40,000, plus 6% of excess over $850,000

Effective January 1, 2005

Over $950,000	$45,500, plus 6% of excess over $950,000

Effective January 1, 2006 and thereafter

Over $1,000,000	$47,500, plus 6% of excess over $1,000,000

Exemptions - Transfers of tangible personal property and real property located outside of the state are exempt.

Payment - The donor must file a return and pay the tax by April 15 for taxable gifts made in the previous calendar year. If the donor does not pay the tax, the recipient is liable for it. Effective for the 1994 income year, the due date of a return for the year in which a donor dies is the date for filing a federal gift tax return.

What is a transfer by gift? - A gift is a voluntary transfer (in any form or manner) of property (of any kind or nature) by one to another without consideration of compensation therefore. It is a gratuity. The gift tax applies to transfers made as gifts whether the gift is in trust or not, is directly or indirectly made, and regardless of the nature of the property. The gift tax is not imposed upon the receipt of the property by the donee, nor is it conditioned upon ability to identify the donee at the time of transfer. The gift tax is not a tax on property, but is a tax on the transfer of property that constitutes a "gift". (IRS Code Sec 2511)

State Exclusions

1. $10,000 Annual Exclusion

   Description: A donor may exclude from the total amount of gifts subject to tax the first $10,000 ($20,000 made by consenting spouses) in value of gifts of present interest to each donee during a calendar year. Gifts of present interests are those where the donee can immediately enjoy the property or its income. If the gifts are of future interest, however, no part of the value of gifts may be excluded. (CGS Sec 12-643, IRS Code Sec. 2503)

   Estimates: Indeterminate.

   Rationale: Conformity and Administrative Efficiency.

   Taxpayers benefiting: 7,000

2. Transfers Outside of the State

   Description: Transfer of tangible personal property and real property located outside the state of Connecticut are excluded from the Gift Tax. (CGS Sec. 12-641)

   Estimates: Indeterminate.

   Rationale: Administrative Efficiency.

3. Charitable Transfers and Similar Gifts

   Description: Transfers by gift to charity for a calendar year are excluded from the gift tax. (CGS Sections 12-644(c)(2) and 12-643, IRS Code Sec 2522)

   Estimates: Indeterminate.

   Rationale: Conformity and Administrative Efficiency.

4. Gifts to Spouse

   Description: All gifts made to a spouse are excluded from the tax. (CGS Sections 12-644(c)(2) and 12-643, IRS Code Sections 2523-2524)

   Estimates: Indeterminate.

Rationale: Conformity and Administrative Efficiency.

5. Gifts under $1 Million

Description: The tax on gifts under $1 million is phased out over a six year period beginning with gifts given after January 1, 2001.

Estimate: FY 01 $1.0 million
FY 02 $3.8 million
FY 03 $4.5 million
FY 04 $5.3 million
FY 05 $6.5 million
FY 06 $17.8 million
FY 07 $18.4 million

Rationale: Perceived Equity and Expediency

PUBLIC SERVICE COMPANIES TAX

The tax is imposed on the public service company gross earnings.

Computation of Tax

Rate & Basis - The basis for the tax is gross earnings from which the following deductions are made: (1) all sales for resale of steam, gas and electricity to public service corporations and municipal utilities and (2) any federal BTU energy tax. The following companies are taxed at the rates listed (CGS Sec. 12-249, 251, 255, 256, 264, 265):

Public Service Company	Tax Rate	CGS Section
Community Antenna and TV Systems	5.0%	12-258(3)
Gas, Electric & Power	5.0%	12-265(b)
Sale to residential customers electric power and gas	4.0%	12-265(b)
Telegraph & Cable	4.5%	12-258(2)
Railroad Companies	2-3.5% [1]	12-251(2)
Express Companies	2.0%	12-258(1)

[1] The rate of tax on gross earnings of railroads varies with the amount by which net railway operating income exceeds gross earnings (i.e., when net railway operating income does not exceed 8%, the rate of tax is two percent of gross earnings and the rate increases by one quarter of one percent for each additional 2% that net operating income exceeds gross earnings. When the net income exceeds eighteen per cent of gross earnings, the tax rate is three one-half percent.)

Payment - Railroad express companies must pay the annual tax by July 1. Community Antenna Television companies are required to pay their entire tax on or before April 1 (CGS Sec. 12-256). Gas, electric steam and power companies are required to pay their taxes in quarterly payments, due on the last days of January, April, July and October (CGS Sec. 12-264). Railroad companies are required to pay one-half of the preceding calendar year tax liability on June 15, and the remaining half on November 15, (CGS Sec. 12-253).

1. Deductions from gross earnings

Sales for resale. All sales for resale of water, steam, gas and electricity to public service corporations and municipal utilities, whether or not the purchasers are Connecticut public service corporations or Connecticut municipal utilities, and whether or not they are subject to the Public Service Companies Tax. CGS Sec. 12-265(b)(1).

Rationale and history: Incentive: the exemption is intended to reduce cascading. It was created prior to 1949.

Appliance Sales. The net invoice price plus transportation costs of appliances using water, steam, gas or electricity, sold by utility companies. "Net invoice price" means invoice price less trade discounts. CGS Sec. 12-265(b)(3).

Rationale and history: Redundancy: appliances are taxable under the Sales and Use Tax. The exemption was created prior to 1949.

Real Estate Property Taxes paid by railroad companies. The amount of taxes paid in any town in Connecticut on real estate not used exclusively in the business of the corporation, is deductable from the amount of tax on gross earnings. CGS Sec. 12-251(b).

Rationale and history: Incentive.

2. Other Exemptions

Manufacturing. The 5% tax on gas and electricity supplied to manufacturing customers in SICs 2000-3999 is be phased out as follows (CGS Sec. 265(c)):

Rationale and history: Incentive: the phase out is intended reduce cascading. It was enacted by PA 93-73 and PA 93-332.

3. Rate Reductions

Residential Utilities. Companies and municipal utilities are taxed at the rate of 4%, rather than 5%, on gross earnings from manufacturing, selling or distributing gas or electricity for residential light, heat or power. CGS Sec. 265(b).

Rationale and history: Perceived Equity. The rate reduction was created by PA 85-159.

4. Tax Credits

Air pollution abatement facilities and industrial waste treatment facilities. Tax credits for air pollution abatement facilities and industrial waste treatment facilities are available to all Public Service Companies Tax payers:

Statutory Citations for Public Service Companies Tax Credits

	Air Pollution Abatement Credit (CGS Sec.)	Industrial Waste Treatment Credit (CGS Sec.)
Rail Road Companies	12-252a	12-252b
Express, Telegraph, Cable and Community Antenna Companies	12-258b	12-258c
Utility Companies	12-265b	12-265c

Tax credit for expenditures for air pollution abatement facilities. The credit is equal to five per cent of the expenditures paid or incurred during an income year for the construction, rebuilding, acquisition, expansion or planning of an air pollution abatement facility. The credit must be approved by the commissioner of environmental protection and is available only for facilities constructed, rebuilt, acquired

or expanded after January 1, 1967. If the amount of credit exceeds the amount of precredit tax liability, the remaining credit may be taken in any of following nine income years.

Rationale and history: Incentive. A credit which could be taken over four years was created by PA 67-754. PA 69-758 extended this limit to nine years.

Tax credit for expenditures for industrial waste treatment facilities. The credit is equal to five per cent of the expenditures paid or incurred during an income year for the construction, rebuilding, acquisition, expansion or planning of an industrial waste treatment facility. The credit must be approved by the commissioner of environmental protection and is available only for facilities constructed, rebuilt, acquired or expanded after January 1, 1967. If the amount of credit exceeds the amount of pre-credit tax liability, the remaining credit may be taken in any of following four income years.

Rationale and history: Incentive. The credit was created by PA 69-291.

Tax Credit for Personal Property Tax paid on data processing equipment. A 100% credit is provided for Personal Property Taxes paid on computer equipment, including printers, peripheral equipment and bundled software. The credit is applicable to Corporation Tax and railroad, cable television and public utility gross earnings taxes. A business must apply the credit first to its Corporation Tax liability. Any remaining credit may then be applied to the Public Service Companies Tax. The credit begins for Personal Property Taxes paid on October 1994 grand lists. CGS Sec. 12-217t.

Rationale and history: Incentive: the phase out is intended reduce cascading. It was enacted by PA 94-4 of the May Special Session, PA 95-160 and PA 96-144. PA 95-160 delayed the Act from 10/1/94 Grand List to 10/1/96 Grand List. PA 96-144 reinstated the original effective date of 10/1/94 Grand List.

Tax Credit for rehabilitating historic homes. A tax credit for expenses related to rehabilitating historic homes is created by PA 99-173 effective 1/1/00. The credit applies to expenses over $15,000 with a cap on the credit of $30,000 for each home. The credit is capped at $3 million per year and can be carried forward for up to four years. The credit is also available under the Corporate Business Tax, Insurance Premiums Tax and other taxes. CGS Sec. 10-320j.

Rational and history: Expediency and incentive. Enacted by PA 99-173.

Remediation of Urban Sites. Description: PA 00-170 established a site remediation tax credit for the remediation of urban sites. The amount of credit cannot exceed the amount of state revenue the Department of Economic and Community Development determines will be generated by the investment in the site. (CGS Sec. 32-9a) The revenue loss from the credit is expected to be offset by the tax revenue generated from the new development at the site.

Rationale: Expediency and Incentive. Enacted by PA 00-170.

Public Service Companies Tax Expenditures

	FY 2002 Tax Expenditure ($ millions)
Deductions from Gross Earnings	
Sales for resale	43.0
Appliance sales	less than 0.1
Railroad Property Taxes	less than 0.1
Other Exemptions	
Railroad companies when certified by DOT	2.0
Manufacturing SIC 2000-3999 on gas and electricity	22.0
Rate Reductions	
Residential utilities	16.0
Tax Credits	
Air pollution abatement	less than 0.1
Industrial waste treatment	less than 0.1
Personal Property Tax on data processing equipment	2.0
Rehabilitating Historic Homes	0.5

PETROLEUM COMPANY GROSS EARNINGS TAX

The petroleum company gross earnings tax was enacted by PA 80-71. It subjects companies that distribute petroleum products in Connecticut to a 5% tax on the gross earnings from such sales or use in this state. (CGS Sec 12-587). Currently there are approximately 670 taxpayers remitting this tax on a quarterly basis.

Computation of Tax

Rate & Basis - A gross earnings tax is imposed on companies distributing petroleum products to wholesale and retail dealers for marketing and distribution in the state. The rate is 5% (effective 10/1/91) on gross earnings from sales of petroleum products in this state and gross earnings from sales of petroleum products in this state by any corporation in which the taxpayer owns twenty-five percent or more of the stock of such corporation. Petroleum products include gasoline, aviation fuel, kerosene, diesel fuel, benzol, distillate fuels, residual fuels, crude oil and derivatives of petroleum such as paint, detergents, antiseptics, fertilizers, nylon, asphalt, plastics and other similar products (CGS Sec. 12-587).

A use tax of 5% is imposed on companies that import petroleum products into the state for their own consumption if the value of these products in any quarter is more than $100,000.

Payment - The tax is payable on or before the last day of the month following each quarterly period of the year based on the preceding quarter's gross earnings from the in-state sale of petroleum products.

State Exemptions

The following are exempt from the 5% gross earnings tax.

1. #2 Heating Oil used for Heating Purposes

   Description: Number 2 heating oil used exclusively for Heating is exempt. (CGS Sec 12-587(a))

   Enacted by PA 85-159.

   Estimates: $40 million.

   Rationale: Perceived Equity.

2. #2 Heating Oil used in Commercial Fishing Vessels

   Description: Number 2 heating oil used exclusively in commercial fishing vessels is exempt. (CGS Sec 12-587(a))

   Enacted by PA 96-183

   Estimates: Minimal

   Rationale: Incentive.

3. Propane Used for Residential Heating

Description: An exemption for propane when sold in containers for use in residential heating or when sold and delivered to a stationary storage tank with a capacity of not more than 1,000 gallons for use in residential heating. (CGS Sec 12-587(a))

Enacted by PA 87-312.

Estimates: $1.5 million.

Rationale: Perceived Equity.

4. Bunker Fuel Oil, Intermediate Fuel, Marine Diesel Oil and Marine Gas Oil

Description: An exemption for bunker fuel oil, intermediate fuel, marine diesel oil and marine gas oil used in vessels displacing more than 4,000 dead weight tons. (CGS Sec 12-587(a))

Enacted by May Special Session PA 92-17.

Estimates: Less than $0.5 million.

Rationale: Incentive and Expediency.

5. Kerosene Used for Residential Heating

Description: An exemption for kerosene used exclusively for heating purposes, when the fuel is delivered via a truck with a metered delivery ticket. (CGS Sec 12-587(a))

Enacted by PA 93-74 and effective May 19, 1993.

Estimates: Minimal, less than $0.5 million.

Rationale: Perceived Equity.

6. Propane Gas used as a Motor Fuel

Description: Earnings from sales of propane gas used as motor vehicle fuel effective 7/1/95. (CGS Sec 12-587(a))

Enacted by PA 95-172

Estimates: Minimal, less than $0.5 million.

Rationale: Conformity.

7. Fuel used in Vessels Engaged in Interstate Commerce

Description: Phases out the tax 1% per year beginning 1/1/98 for fuel oil used in vessels primarily engaged in interstate commerce. (CGS Sec 12-587(a))

Enacted by PA 97-281

Estimates: $500,000

Rationale: Incentive.

8. Fuel used by Industrial Consumers

Description: Phases out the tax 1% per year beginning 1/1/98 for # 6 fuel oil used by industrial consumers in SIC 2000-3999. (CGS Sec 12-587(a))

Enacted by PA 97-281

Estimates: $400,000 in FY 00

Rationale: Incentive.

9. Paraffin and Microcrystalline Waxes

Description: Paraffin and microcrystalline waxes are exempted from the tax (CGS Sec. 12-587(a)).

Enacted by PA 00-174

Estimates: Less than $100,000

Rationale and history: Expediency

Other Exclusions

1. Fuel in Fuel Supply Tanks of Motor Vehicles When the Tanks are Connected to the Engine. (CGS Sec. 12-587(c))

Estimates: None, tax is collected under Motor Fuels.

Rationale: Redundancy.

2. DOT Contracted Service Stations Along State Highways

Description: PA 94-4 of the May Special Session changes the definition of gross receipts for service stations which are located along state and interstate highways pursuant to a contract with the Department of Transportation (DOT) effective with income years beginning on or after January 1, 1988. The definition for calculating the gross earnings tax based on retail price is changed to calculating the tax on the wholesale price of fuel, in this case, for service stations that contracted with DOT. The difference between retail price and the wholesale price basis is the dollar amount made tax exempt by this Act.

Enacted by PA 94-4.

Estimates: $1.5 million

Rationale: Incentive.

Credits

1. Credit for Sale of Petroleum Products to Reseller Located Outside the State

   Description: A tax credit for companies that sell petroleum products to resellers located outside the state. The company reimburses the purchaser for the tax paid on such products. (CGS Sec. 12-587a)

   Enacted by PA 82-157 and effective May 3, 1982.

   Estimates: $5.0 million

   Rationale: Conformity.

INSURANCE PREMIUMS TAX

Insurance Companies, Hospital & Medical Services Corporation Tax

A tax on insurance premiums was first enacted in Connecticut in 1935. The tax is imposed on domestic, foreign insurance companies and health care centers on all net direct premiums received from policies, written on property or risk located in Connecticut, at a rate of 1.75% of premium. Premiums for unauthorized insurance businesses are taxed at the rate of 4% of their receipts on Connecticut risk.

Domestic insurance companies are incorporated under Connecticut state law and licensed by the insurance commissioner to issue policies. Nonresident or foreign insurance companies are incorporated under the laws of another state or foreign government but must be licensed by the insurance commissioner in order to issue policies in this state. Unlicensed insurance companies must register with the insurance commissioner and may only then offer lines generally unavailable from licensed insurers.

Computation of Tax

Insurance Premiums Tax

Rate & Basis - The tax is levied as follows (CGS Sec. 12-202):

1. Domestic companies: 1.75% on all net direct insurance premiums derived from policies written in this state. (The tax on interest and dividends was terminated 12/31/73). (CGS Sec. 12-202)

2. Foreign companies: 1.75% on all taxable net direct premiums derived from policies written in this state.

Payment - Both domestic and foreign insurance companies are required to pay 30% of their estimated tax by March 15, 60% by June 15, 80% by September 15 and 100% by December 15. Any remaining tax is due on or before March 1 (CGS Sec. 12-204b, 205). Effective with the 1996 income year, companies have the option of making estimated payments based on (1) current year estimated tax liability or (2) the prior year's estimated tax payment (CGS 12-204c).

Prior to 7/1/95, domestic and foreign insurance companies must pay 1 2/3% interest per month or 20% per year on late payments and underpayment of estimated taxes and audit assessments. After 7/1/95, the interest rate is 1% per month or 12% annually (PA 95-26). Prior to the 1996 income year, interest is due if the first payment is less than 27%, the second payment less than 63%, the third payment less than 72% or the fourth payment less than 90% of the actual tax due for the income year (CGS Sec. 12-204b, 204c, 206, 212c). For income years beginning on or after 1/1/96, corporations may avoid interest by making estimated payments based on the prior year's estimated payment (CGS 12-204c).

Hospital and Medical Services Corporation Tax

Rate & Basis - The tax is imposed upon all hospital and medical service companies at a rate of 2% on the total net direct subscriber charges received by such corporations during the preceding year. (CGS Sec. 12-212a)

Payment - same as for the Insurance Premiums Tax (see above)

Unauthorized (Unlicensed) Insurance Company Tax

Rate & Basis - A 4% tax is levied on unlicensed companies on gross premiums derived from policies written in the state (CGS Sec. 38a-743).

Payment - The tax is due on the first of May, August, November, and February for the premiums paid in the preceding quarter.

Exemptions

1. Ocean Marine Insurance

   Description: Premiums from the sale of ocean and inland marine insurance of nonresident and foreign companies are exempt. (CGS Sec 12-210)

   Estimates: Less than $500,000

   Rationale: Expediency.

   Taxpayers benefiting: 80

2. Fraternal Benefit Societies

   Description: Fraternal benefit societies or associations are exempt from all state taxes but are subject to municipal taxes on real estate and office equipment. These societies are nonprofit, charitable organizations which provide life, sickness and/or accident benefits for their members. (CGS Sec. 38a-604)

   Enacted in 1935 and last modified by PA 57-448.

   Estimates: Indeterminate.

   Rationale: Incentive.

   Taxpayers benefiting: 44

3. Municipal Risk Pools

   Description: Municipal risk pools are not subject to the tax effective 7/1/94. (CGS Sec. 7-479e)

   Enacted by PA 93-297.

   Estimates: Negligible.

   Rationale: Redundancy, The state does not tax itself or its political subdivisions.

4. Special Taxing Districts

   Description: Insurance policies purchased by special taxing districts are exempt.
   (CGS Sec. 38a-743)

   Enacted by PA 96-75

   Estimates: $100,000

   Rationale: Redundancy, The state does not tax itself or its political subdivisions.

5. State Employee Health Plans

Description: Exempts insurance health policies written for State Employees. (CGS Sec. 12-202a)

Enacted by PA 97-11 June 18, 1997 Special Session.

Estimates: $2 Million

Rationale: Redundancy, The state does not tax itself or its political subdivisions.

6. Medicaid, HUSKY and General Assistance

Description: The tax on Medicaid contracts, contracts entered to serve children enrolled in the HUSKY program, and contracts to serve clients on General Assistance (welfare) is eliminated effective 1/1/98. (CGS Sec. 12-202a)

Enacted by PA 98-110.

Estimates: $7 Million

Rationale: Redundancy, The state does not tax itself or its political subdivisions.

7. Small Employer Health Insurance Plans

Description: Exempts individual health insurance plans issued to self employed people from the premiums tax and from the small employer health care plan law. (CGS Sec. 38a-566)

Enacted by PA 98-122

Estimates: $100,000

Rationale: Incentive.

Credits

1. Personal Property Tax on Data Processing Equipment

Description: A credit is provided for 100% of the Property Tax paid on data processing equipment, effective with the Property Tax paid in the 10/1/94 Grand List. (CGS Sec. 12-217t)

Enacted by PA 94-4 of the May Special Session and modified by PA 95-160 and PA 96-144.

Estimates: $20 Million FY 00

Rationale: Expediency.

Taxpayers benefiting: 10

2. Rehabilitation of Historic Homes

Description: A tax credit for expenses related to rehabilitating historic homes effective 1/1/00. The credit applies to expenses over $15,000 with a cap on the credit of $30,000 for each home. The

credit is capped at $3 million per year and can be carried forward for up to four years. (CGS Sec. 10-320j)

Enacted by PA 99-173.

Estimates: $0.5 Million FY 01

Rationale: Incentive.

Taxpayers benefiting: 10

3. HMOs providing coverage through HUSKY A or HUSKY B

Description: A tax credit for HMOs providing medical coverage through HUSKY A or HUSKY B. The credit is equal to $55 times the average monthly enrollment in the programs per calendar year.

Enacted by PA 00-170.

Estimates: $10.5 Million FY 02

Rationale: Incentive.

Taxpayers benefiting: 10

4. Insurance Guaranty Fund Payments

Description: A credit of 100% of payments made to the CT Insurance Guaranty and the CT Life and Health Insurance Guaranty Associations. (CGS Sec. 38a-866(h))

Enacted by PA 93-239. PA 00-174 increased the credit from 50% to 100% effective 1/1/2001.

Estimates:

Rationale: Incentive.

Taxpayers benefiting: More than 10.

5. Donation of Computers to Local Schools

Description: PA 00-170 established a credit for the donation of new or used computers to local schools. (CGS Sec. 1a-228b)

Enacted by PA 00-170.

Estimates: Included in the Corporate Income Tax explanation.

Rationale: Expediency and Incentive.

Taxpayers benefiting: More than 10.

6. Remediation of Urban Sites

Description: PA 00-170 established a site remediation tax credit for the remediation of urban sites. The amount of credit cannot exceed the amount of state revenue the Department of Economic and

Community Development determines will be generated by the investment in the site. (CGS Sec. 32-9a)

Enacted by PA 00-170.

Estimate: The revenue loss from the credit is expected to be offset by the tax revenue generated from the new development at the site.

Rationale: Expediency and Incentive

Taxpayers Benefiting: Less than 100.

7. Insurance Reinvestment Fund

Description: PA 94-214 created a credit for investors in the Insurance Reinvestment Fund against the insurance premium tax, the corporate income tax, or the personal income tax. The Insurance Reinvestment Fund is established by this act to create new jobs by investing in CT companies engaged in the insurance business or providing services to insurance companies. The credit is equal to the following percentages of monies invested through a fund manager in a qualified insurance business: (a) 10% of the investment for tax year beginning 3 years after the date of investment to no later than 7 years after the date of investment, and (2) 20% of the investment for tax years beginning seven years and ending 10 years from the date of investment. Managers of eligible funds must have registered with the Commissioner of Economic and Community Development by July 1, 2000 in order for their investors to be able to claim this credit. No further credits will be allowed for investments in funds created on or after July 1, 2000 (PA 00-170).

Enacted by PA 94-124.

Estimate: The revenue loss from the credit is expected to be offset by the tax revenue generated from the new development at the site.

Rationale: Expediency and Incentive

Taxpayers Benefiting: Less than 100.

REAL ESTATE CONVEYANCE AND CONTROLLING INTEREST TRANSFER TAXES

Real Estate Conveyance Tax

The Real Estate Conveyance Tax was enacted on the municipal level in 1967 and became a General Fund tax in 1983. It is imposed on the full purchase price of all conveyed real property and is due from the seller of the property.

Rate & Basis - (CGS Sec. 12-494) A tax is imposed on the conveyance of each deed, instrument or writing whereby any lands, tenements or other realty is granted, assigned, transferred or otherwise conveyed to a purchaser The tax rate depends on the property's classification and purchase price, as noted below:

Type of Property	Tax Rate	CGS Section
Unimproved land	0.5%	12-494(a)
Residential Dwelling:		
First $800,000 of purchase price	0.5%	12-494(b)(2)(A)
Portion that exceeds $800,000 of purchase price	1.0%	12-494(b)(2)(B)
Residential Property other than a dwelling	0.5%	12-494(a)
Nonresidential Property other than unimproved land	1.0%	12-494(b)(1)
Delinquent Mortgages	0.5%	12-494(b)(3)

Payment -The tax is paid to the town clerk upon the recording of the conveyance and remitted to the State within ten days.

Real Estate Conveyance Tax Exclusions and Exemptions

Data is not available for Real Estate Conveyance Tax exemptions.

Conveyances of less than two thousand dollars. CGS Sec. 12-494(a).

Rationale and history: Efficiency: the amount of revenue which could be collected is considered too small to justify the administrative costs. PA 67-693, which enacted the tax at the municipal level, exempted conveyances of one hundred dollars or less. PA 83-1 of the June Special Session, which enacted the tax at the state level, did not provide an exemption for conveyances below any dollar amount. PA 89-205 created the current exemption.

Burial Rights. CGS Sec 12-497a.

Rational and history: PA 95-62 exempted cemetery burial rights from the Real Estate Conveyance Tax an from filing requirements. Since the value of burial rights and cemetery plots a re less than $2,000, they are already exempted from the tax.

Deeds which this state is prohibited from taxing under the constitution or laws of the United States. CGS Sec. 12-498(a)(1).

Rationale and history: Conformity: states are not permitted to levy taxes on the federal government under the US Constitution. The exemption was contained in PA 67-693, which enacted the tax at the municipal level.

Deeds which secure a debt or other obligation. CGS Sec. 12-498(a)(2).

Rationale and history: Clarification: recording a debt-related encumbrance on a deed, such as a mortgage or lien, does not convey title to a new owner. The exemption was contained in PA 67-693, which enacted the tax at the municipal level.

Governmental entities. Deeds to which this state or any of its political subdivisions or its or their respective agencies is a party. CGS Sec. 12-498(a)(3).

Rationale and history: Clarification: state government does not tax itself. The exemption was contained in PA 67-693, which enacted the tax at the municipal level.

Tax deeds. CGS Sec. 12-498(a)(4).

Rationale and history: Clarification: state government does not tax itself. The exemption deals with the sale of land for nonpayment of taxes. It was contained in PA 67-693, which enacted the tax at the municipal level.

Releases. Deeds of release of property which is security for a debt or other obligation. CGS Sec. 12-498(a)(5).

Rationale and history: Clarification: the removal of a debt-related encumbrance on a deed, such as a mortgage or lien, does not convey title to a new owner. The exemption was contained in PA 67-693, which enacted the tax at the municipal level.

Deeds of partition. CGS Sec. 12-498(a)(6).

Rationale and history: Clarification: separation of the respective interests in land of joint owners does not convey title to a new owner. The exemption was contained in PA 67-693, which enacted the tax at the municipal level.

Deeds made pursuant to mergers of corporations. CGS Sec. 12-498(a)(7).

Rationale and history: Clarification: the original property owner (the merged company) is viewed as transferring title to itself as part of the new corporate entity. The exemption was contained in PA 67-693, which enacted the tax at the municipal level.

Corporate subsidiaries. Deeds made by a subsidiary corporation to its parent corporation for no consideration other than the cancellation or surrender of the subsidiary's stock. CGS Sec. 12-498(a)(8).

Rationale and history: Incentive: the exemption provides horizontal equity for firms which are organized as a parent company with wholly-owned subsidiaries with firms that are organized as a single entity with different divisions. (See Sales Tax section for discussion of horizontal equity.) The exemption was contained in PA 67-693, which enacted the tax at the municipal level.

Court decree. Conveyance of an interest in real property pursuant to a decree of the superior court under section 46b-81, 49-24 or 52-495. CGS Sec. 12-498(a)(9).

Rationale and history: Expediency. The exemption deals with court ordered title transfers due to divorce, annulment of marriage, foreclosure and division of property by heirs. It was created by PA 85-469.

Certificates of devise or distribution. CGS Sec. 12-498(a)(10).

Rationale and history: Expediency. The exemption deals with title transfers related to a bequest. It was created by PA 85-469.

Transfers for no consideration between parents and children. CGS Sec. 12-498(a)(11), as amended by PA 93-389, section 6.

Rationale and history: Expediency. The original exemption, which included transfers between spouses for no consideration, was created by PA 85-469. PA 93-389 moved the treatment of transfers between spouses to 12-498(a)(17).

Assignment. An assignment, with no consideration, of any interests, present or future, vested or contingent, in real property which endure for a period of time and the termination of which is not fixed or ascertained by a specific number of years. CGS Sec. 12-498(a)(12).

Rationale and history: Expediency. The exemption was created by PA 85-469.

An assignment, with no consideration, of the unexpired portion of a term or estate for life or of a term or estate for years. CGS Sec. 12-498(a)(13).

Rationale and history: Expediency. The exemption was created by PA 85-469.

Affiliated corporations. Transfers made by a corporation affiliated with the corporation to which such transfer is made, provided both of such corporations are exempt from taxation pursuant to paragraph (2), (3) or (25) of Sec 501(c) of the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as from time to time amended, and provided further such corporations are affiliated in such manner that (A) either corporation in such transaction owns or controls either directly or indirectly not less than one hundred percent of the capital stock of the other corporation or (B) either corporation in such transaction is owned or controlled either directly or indirectly by interests which own or control either directly or indirectly not less than one hundred percent of the capital stock of the other corporation. CGS Sec. 12-498(a)(14)

Rationale and history: Incentive. The exemption was created by PA 91-403.

Nonprofit corporations. Transfers made by a corporation which is exempt from taxation pursuant to paragraph (3) of Section 501(c) of the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as from time to time amended, to any corporation which is exempt from taxation pursuant to said paragraph (3) of said Section 501(c). CGS Sec. 12-498(a)(15).

Rationale and history: Incentive. The exemption was created by PA 91-403.

Conservation or recreation purposes. Transfers made on or after July 1, 1992, to any nonprofit organization which is organized for the purpose of holding undeveloped land in trust for conservation or recreation purposes. CGS Sec. 12-498(a)(16).

Rationale and history: Incentive. The exemption was created by PA 91-403.

Transfers between spouses. CGS Sec. 12-498(a)(17).

Rationale and history: Expediency. The exemption was created by PA 93-389. It was formerly part of CGS Sec. 12-498(a)(11), which specified that the exempt transfer had to be for no consideration. The current exemption includes all transfers between spouses.

Principal residence for persons on certain types of assistance. Transfer of the principal residence of any person if such person has been approved for assistance under section 12-129b or 12-170aa for the current assessment year of the municipality in which occurs within fifteen months of the completion of any municipal assessment year for which such person qualified for such assistance. CGS Sec. 12-498(b).

Rationale and history: Perceived Equity: the exemption is intended to reduce the tax burden on property owners receiving certain types of Local Property Tax relief. It was created by PA 85-159.

Enterprise Zones. Interest in property located in an area of any municipality designated as an enterprise zone in accordance with section 32-70. CGS Sec. 12-498(b)(2).

Rationale and history: Incentive. The exemption was created by PA 89-205.

Entertainment Districts. Deeds of property located in an entertainment district designated under section 1 of PA 93-311.

Rationale and history: Incentive. The exemption was created by PA 93-311.

Adriaen's Landing Site and Stadium. Exempt deeds of property for the Adriaen's Landing site or the stadium facility for the purpose of the overall project. It is assume that this is a one-time exemption: once the parcel is transferred by deed for the Adriaen's Landing site or stadium facility site, this particular exemption does not apply to any future transfer by deed for the each parcel.

Rationale and history: Incentive. The exemption was create by PA 00-140.

The Farm, Forest and Open Space Program

In 1963, the legislature established this program to preserve farm, forest and open space land using preferential taxation. The program permits land owners to pay a reduced amount of Property Tax on land which has been classified as farm, forest or open space for a period of ten years. The Property Tax reduction is accomplished by assessing the land's value based on its current use rather than its market value.

In an attempt to prevent abuse of the program and to help recover abated taxes, an additional Real Estate Conveyance Tax is levied on the sale of such land while it is in the program. For open space land, the additional tax is due if the land is sold within ten years of when it is classified for the program (CGS Sec. 12-504a(a)). For farm or forest land, the additional tax is due if the period of ownership of the land is ten year or less (CGS Sec. 12-504a(b)). The rate of additional tax begins with 10% in the first year and declines to 1% in the tenth year. If the property is sold after the tenth year, only Real Estate Conveyance Tax at the normal rate is due.

The exemptions to the additional tax on farm, forest and open space parallel those for the Real Estate Conveyance Tax, with the following exceptions:

Transfers of land resulting from eminent domain proceedings. CGS Sec. 12-504c(a).

Rationale: Clarification.

Strawman deeds and deeds which correct, modify, supplement or confirm a deed previously recorded. CGS Sec. 12-504c(d).

Rationale: Clarification: recording a such deeds does not convey title to a new owner.

Deeds with special covenants. Land subject to a covenant specifically set forth in the deed transferring title to such land to refrain from selling or developing such land in a manner inconsistent with its classification as farm, forest or open space land for a period of not less than eight years from the date of transfer. CGS Sec. 12-504c(m).

Rationale: Incentive: transferring deeds with such covenants is consistent with the goals of the program.

Farmland development right sold to the state. CGS 12-504c.

Rationale and history: Incentive. PA 99-173 exempts land development rights to agricultural land under the state farmland preservation program from the tax.

Controlling Interest Transfer Tax

A tax is imposed on the transfer of a controlling interest in a corporation, partnership, association, trust or other entity, where an entity owns an interest in Connecticut real property with a value of at least $2,000. In a corporation, "controlling interest" means more than 50% of the combined voting power of all classes of stock in the corporation. For all other entities, "controlling interest" is an amount greater than 50% of the capital, profits or beneficial interest in that entity. (CGS Sec 12-638b(a))

Rate & Basis - A tax of 1.11% is imposed upon the value of any real property held by any corporation, partnership, association, trust or other entity when the interest in the real property is transferred. An additional tax of 1.0% to 10.0% is added if the property was classified as farm land, open space or forest. The additional rate decreases, the longer the land has been held. A transfer is deemed to occur if more than 50% but less than 100% of the total combined voting power of all classes of stock is sold or transferred.

Payment - The payment is due on or before the last day of the month following the month in which transfer of controlling interest occurs.

Exemptions

Data is not available for Controlling Interest Transfer Tax exemptions.

Enterprise zones. The tax shall not apply to any sale or transfer of controlling interest in any entity which possesses an interest in real property located in an area of any municipality designated as an enterprise zone in accordance with section 32-70. CGS Sec. 12-638b(b).

Rationale and history: Incentive. The exemption was contained in PA 89-251, which enacted the tax.

Conveyances of less than two thousand dollars. CGS Sec. 12-638b(a).

Rationale and history: Efficiency: the amount of revenue which could be gained was considered too small to justify the administrative costs. The exemption was contained in PA 89-251, which enacted the tax.

CIGARETTE AND TOBACCO PRODUCTS TAX

Computation of the Tax

A tax is levied on all cigarettes held by distributors in the state (CGS Sec. 12-296) and on the use or storage of unstamped cigarettes (CGS Sec. 12-316). Distributors must pay a floor tax reflecting the increased taxes for cigarettes in inventory when higher taxes go into effect. Distributors, dealers and vending machine operators must be licensed by the Department of Revenue Services. A tax is imposed on all tobacco products held in this state by distributors or unclassified importers.

Rate & Basis - The Cigarette Tax is levied on all cigarettes held by distributors in the state at a rate of 25 mills per cigarette, or 50 cents per pack of 20, effective 7/1/94 (CGS Sec. 12-296). Payment of the tax is indicated by affixing heat applied decals to each pack of cigarettes. The decals are sold to licensed dealers and licensed distributors, who must report to the Commissioner of Revenue Services on a monthly basis. There are approximately 70 taxpayers who file monthly.

A tax is imposed on all tobacco products held in this state by distributors or unclassified importers at a rate of 20% of the wholesale price. The tax is levied on such tobacco products as cigars, cheroots, stogies, periques, chewing tobacco, but excludes cigarettes (CGS Sec. 12-330a). The tax on snuff is calculated at 40 cents per ounce instead of the 20% of the wholesale price (CGS Sec. 12-330c). Distributors must be licensed annually and file monthly returns. The tax has been in effect since July 1, 1989 (PA 89-251) and is paid by approximately 200 distributors.

Payment - Cigarette distributors must acquire stamps from the Department of Revenue Services, which are affixed to each package of cigarettes. The stamps may be paid for immediately or within 30 days from the date of purchase (CGS Sec. 12-298). The Tobacco Products Tax is payable on or before the tenth day of each month, for sales in the preceding calendar month (CGS Sec. 12-330d).

State Exclusions

1. Sales to the United States

   Description: Sales or purchases for the use of an instrumentality of the United States (military bases, embassies, etc.) are exempt from the excise tax as well as exempted from the sales and use tax.

   Cited from an October 26, 1937 ruling from the Attorney General's Office to the Tax Commissioner describing that sales to the US government where the US has exclusive jurisdiction over the property, such as military base and coast guard stations are considered sales occurring outside the state and therefore are exempt.

   Estimates: Minimal.

   Rationale: Conformity.

2. Cigarettes Sold in Any Institution

   Description: Cigarettes sold in any state institution, other than a correctional institution, or cigarettes purchased with revolving funds under the jurisdiction of any state institution, other than correctional institution, for distribution to or consumption by patients or inmates confined at such institutions. Sales to inmates at correctional institutions are taxable. (CGS Sec. 12-297)

   Estimates: $20,000

Rationale: Perceived Equity.

4. Tobacco Products

Description: Tobacco products that are exported from the state or are not subject to taxation under the laws of the United States. (CGS Sec. 12-330c(c))

Estimates: $5.0 Million

Rationale: Conformity.

5. Cigarettes brought into this state

Description: Cigarettes brought into this state in an amount not exceeding two hundred (ten packs of 20). (CGS Sec. 12-320)

Estimates: Indeterminate.

Rationale: Administrative Efficiency.

6. Cigarettes pack containing less than twenty cigarettes

Description: Prohibits the sale of single cigarettes or cigarettes in unopened packages containing less than twenty cigarettes. (12-314(a), PA 00-56 and PA 00-170)

Estimates: $5,000 FY 01

Rationale: Expediency.

ALCOHOLIC BEVERAGE TAX

Computation of the Tax

All distributors of alcohol beverages are required to pay tax to Connecticut on all sales of alcoholic beverages within the state (CGS Sec. 12-435). Distributors must be licensed by the Department of Revenue Services. There are approximately 80 distributors who file monthly with the Department of Revenue Services.

Rate & Basis - The tax rates for distributors of beer, liquor, and wine sold within the state are as follows (CGS Sec. 12-435):

Beer	$6.00 per barrel
Beer	.20 per gallon
Still Wines (1)	.60 per gallon
Still Wines from Small Wineries (2)	.15 per gallon
Sparkling Wines	1.50 per gallon
Alcohol	4.50 per proof gallon
Distilled Liquor	4.50 per gallon
Liquor Coolers	2.05 per gallon

(1) Still wine consist of 21% absolute alcohol, or less, per gallon.
(2) Small Wineries are Wineries which produce up to 55,000 gallons annually, (PA 93-74, effective 7/1/93).

Exemptions - Alcoholic beverage sales to licensed distributors; alcoholic beverage sales for transport out-of-state; malt beverage sales for on-premises consumption when covered by a manufacturer's permit.

Payment - The tax is payable on or before the last day of each month for sales in the preceding calendar month (CGS Sec. 12-437)

State Exclusions

1. Sales to the United States Military

   Description: Sales to federal military organizations located on federal bases in the state are exempt from the excise taxes as well as exempted from the sales and use tax. Cited from an October 26, 1937 ruling from the Attorney General's Office to the Tax Commission that sales to the US government where the US has exclusive jurisdiction over the property such as military base and coast guard stations are considered sales occurring outside the state.

   Estimates: $500,000

   Rationale: Conformity.

2. Sales of Alcoholic Beverages Transported Out of State

   Description: Sales of alcoholic beverages which are transported to another state. (CGS Sec. 12-435)

   Estimates: Indeterminate.

   Rationale: Conformity.

3. Sales of Malt Beverages Consumed on Premises.

   Description: The sales of malt beverages, beer, which is consumed on the premises of an establishment covered by a manufacturer's permit. (CGS Sec. 12-435)

   Estimates: Minimal

   Rationale: Expediency.

4. Sales of Alcoholic Beverages and Ethyl Alcohol

   Description: Sales of alcoholic beverages to licensed distributors (CGS Sec 12-435) and sales of ethyl alcohol intended for use or used in medical, scientific, chemical, mechanical or industrial uses and which are not sold as a beverage for human consumption (CGS Sec. 12-453). Also included in Section 12-453 is wine and distilled liquors which are used in the manufacture or preparation of pharmaceutical products or for the production of fruit preserves.

   Estimates: Indeterminate

   Rationale: Redundancy.

5. Alcoholic Beverages brought into this State

   Description: Alcoholic beverages brought into this state in an amount not exceeding four gallons. (CGS Sec. 12-436)

   Estimates: Indeterminate

   Rationale: Administrative Efficiency.

ADMISSIONS AND DUES TAXES

The Admissions and Dues Taxes (formerly Admissions, Dues and Cabaret Taxes) are two separate taxes which were enacted by PA 71-837. The Admissions Tax is levied on the admissions charge to a place of amusement, entertainment or recreation. (CGS Sec. 12-541)

The Dues Tax is levied on the amount paid as membership dues or initiation fees to a social, athletic or sporting club. (CGS Sec. 12-543)

The Cabaret Tax was repealed effective July 1, 1999 by PA 99-173. Originally, the Cabaret Tax was levied on the amount charged for admission, refreshment service or merchandise at a cabaret or similar place furnishing music, dancing privileges, or other entertainment for profit, at the rate of 5% (CGS Sec. 12-542--REPEALED). The tax is due only during the time that the entertainment is offered. PA 00-170 exempts establishments from the Admission Tax that were subject to the Cabaret Tax before July 1, 1999.

Rate & Basis:

1. The admission charge to any place of amusement, entertainment or recreation is taxed at 10% (CGS Sec. 12-541). PA 00-170 reduced the tax on movie theater tickets from a rate of 10% to 8% effective 7/1/00 and to 6% effective 7/1/01 and there after.
2. The amount paid as membership dues or initiation fees to any social, athletic or sporting club is taxed at 10% (CGS Sec. 12-543).

Payment - The tax is payable on or before the last day of each month for business conducted during the preceding calendar month.

1. Admissions Tax Exemptions

When the admission charge is less than one dollar or, in the case of any motion picture show, when the admission charge is less than five dollars. CGS Sec. 12-541(1).

Rationale and history: Efficiency/Expediency. Efficiency with regard to admissions under $1 because the amount of revenue which could be collected is considered to be too small to justify the administrative cost. Expediency with regard to movie tickets under $5. The exemption for charges less than $1 was contained in PA 71-837, which enacted the tax. The exemption was raised to $2 for movie tickets by PA 88-293, to $4.50 by PA 97-315, and to $5.00 by PA 99-173.

When a daily admission charge is imposed which entitles the patron to participate in an athletic or sporting activity. CGS Sec. 12-541(2).

Rationale and history: Expediency. PA 71-7 of the June Special Session created the exemption. PA 82-457 made a technical change by reorganizing the subsection.

To any event, all of the proceeds from which inure exclusively to an entity which is exempt from federal income tax under the Internal Revenue code, provided such entity actively engages in and assumes the financial risk associated with the presentation of such event. CGS Sec. 12-541(3).

Rationale and history: Incentive: such organizations are nonprofit charities. The exemption was contained in PA 71-837, which enacted the tax.

To any event which in the opinion of the commissioner of revenue services, is conducted primarily to raise funds for an entity which is exempt from federal income tax under the Internal Revenue code, provided the commissioner is satisfied that the net profit which inures to such

entity from such event will exceed the amount of admissions tax which, but for this subdivision, would be imposed upon the person making such charge to such event. CGS Sec. 12-541(4).

Rationale and history: Incentive. An exemption for tax exempt organizations was contained in PA 71-837, which enacted the tax. The exemption in its current form was created by PA 82-457.

To any event held at the Hartford Civic Center, the New Haven Coliseum, New Britain Beehive Stadium, New Britain Veterans Memorial Stadium, facilities owned or managed by the Tennis Foundation of Connecticut or any successor organization or the William A. O'Neill Convocation Center, Stafford Motor Speedway, Lime Rock Park, Thompson Speedway, Waterford Speedbowl, Bridgeport Harbor Yard Stadium, New Haven Ravens Games, Waterbury Spirit Games, and the Connecticut Expo Center. CGS Sec. 12-541(5).

Rationale and history: Expediency. The exemptions for the Hartford Civic Center and the New Haven Coliseum were created by PA 81-404. PA 82-457 made a technical change by reorganizing the subsection. PA 93-74 added the New Britain Beehive Stadium, the Tennis Foundation of Connecticut and the William A. O'Neill Convocation Center. The New Britain Veterans Memorial Stadium was added by PA 93-332. PA 99-173 exempted the following: Stafford Motor Speedway, Lime Rock Park, Thompson Speedway, Waterford Speedbowl, Bridgeport Harbor Yard Stadium, New Haven Ravens Games, and Waterbury Spirit Games. PA 99-1 JSS exempts the New Britain Stadium and the New Britain Rock Cats retroactive to when the stadium was placed in service. PA 00-170 exempts the Connecticut Expo Center.

Paid by centers of service for elderly persons, as described in subdivision (d) of section 17b-425. CGS Sec. 12-541(6).

Rationale and history: Expediency. An exemption for admissions paid for by groups of at least ten members of senior citizens centers was provided by PA 73-521. The exemption in its current form was created by PA 82-457.

To any production featuring live performances by actors or musicians presented at Gateway's Candlewood House, Ocean Beach Park or at any nonprofit theater or playhouse in the state, provided such theater or playhouse possesses evidence confirming exemption from federal tax under Section 501 of the Internal Revenue Code. CGS Sec. 12-541(7).

Rationale and history: Expediency. The exemption was created by PA 88-140. PA 97-315 exempts live performances held at Gateway's Candlewood House and Ocean Beach Park.

To any carnival or amusement ride. CGS Sec. 12-541(8).

Rationale and history: Expediency. The exemption was created by PA 94-4 of the May Special Session.

Health club charges. These are excluded from the definition of taxable admissions charges. (does not appear in statutory language)

Rationale and history: Expediency. Reference to health clubs was deleted by PA 75-473.

Charges for instruction. These are specifically excluded from the definition of taxable admissions charges. CGS Sec. 12-540(3).

Rationale and history: Expediency. The exclusion for instruction was made in PA 75-473.

2. Dues Tax Expemptions

A club shall be exempt from the dues tax if the annual dues of a member enjoying full privileges and any initiation fee required of such member are each one hundred dollars or less. CGS Sec. 12-543(b)(1).

Rationale and history: Perceived Equity. An exemption for dues and initiation fees of up to $50 each was contained in PA 71-837, which enacted the tax. PA 85-438 increased this amount to $100.

A club sponsored and controlled by a charitable or religious organization, a governmental agency or a nonprofit educational institution shall be exempt from the dues tax. CGS Sec. 543(b)(2).

Rationale and history: Incentive. The exemption was contained in PA 71-837, which enacted the tax.

Any society, order or association operating under the lodge system or any local fraternal organization among students of a college or university shall be exempt from the dues tax. CGS Sec. 12-543(b)(3).

Rationale and history: Expediency. The exemption was contained in PA 71-837, which enacted the tax.

Charges for instruction. These are specifically excluded from the definition taxable dues. CGS Sec. 12-540(4).

Rationale and history: Expediency. The exclusion for instruction was made in PA 75-473.

Charges for special assessments made for construction of facilities, additions to facilities, or furnishings and fixtures for a facility. These are specifically excluded from the definition taxable dues. CGS Sec. 12-540(4).

Rationale and history: Clarification. The exclusion was contained in PA 71-837, which enacted the tax.

Dues of Lawn Bowling Clubs. Exempt private lawn bowling clubs from the dues tax. CGS Sec. 12-543(b)

Rationale and history: Expediency. The exclusion was made in PA 99-173

Portion of dues used to acquire Open Space. Exempts the portion of dues paid by members of clubs (e. g. golf, social) to acquire open space. CGS Sec 12-540(4)

Rationale and history: Expediency and incentive. The exclusion was enacted by PA 99-173 and modified by PA 99-235.

Club Locker Rentals. Exempts club locker rentals. CGS Sec 12-540(4)

Rationale and history: Expediency and incentive. The exclusion was enacted by PA 00-170.

Admission, Dues and Cabaret Tax Expenditures

	FY 2002 Tax Expenditure ($ millions)
Admissions Tax	
Charges less than one dollar & movies less than five dollars	3.0
Daily charges for athletic participation	indeterminate
Nonprofit charities	less than 0.1
Hartford Civic Center, New Haven Coliseum, New Britain Beehive Stadium, New Britain Veterans Memorial Stadium, Tennis Foundation, O'Neill Convocation Center, Stafford Motor Speedway, Thompson Speedway, Waterford Speedbowl, Bridgeport Harbor Yard Stadium, New Haven Ravens Games, Waterbury Spirit Games, New Britain Rock Cats Games	6.3
Centers for elderly persons	less than 0.1
Nonprofit theater or playhouse, Gateway's Candlewood House, and Ocean Beach Park,	0.2
Carnival or amusement ride	less than 0.1
Health club charges	indeterminate
Dues Tax	
Annual dues less than one hundred dollars	less than 0.1
Club sponsored by charitable or religious organizations, Governmental agency or nonprofit educational institution	less than 0.1
Lodges or fraternal organizations at colleges or universities	indeterminate
Charges for instruction	less than 0.1
Special assessments for construction or furnishings	indeterminate
Lawn bowling clubs	Less than 0.01
Portion of dues used to acquire Open Space	0.1
Club Locker Rentals	0.2

MOTOR VEHICLE FUELS AND MOTOR CARRIER ROAD TAXES

The Motor Vehicle Fuels Tax is an excise tax imposed on motor vehicle fuel sold in the state.

The Motor Carrier Road Tax is levied on motor vehicle fuel used in the state by licensed motor carriers, at the same rate as the Motor Vehicle Fuels Tax (CGS Sec. 12-479).

Gasoline Tax

Rate & Basis - The tax is levied on distributors of motor fuel sold or used within the state. The rate on gasoline is 25 cents per gallon and gasohol is taxed at 1 cent less than the tax on gasoline (CGS Sec. 12-458 and 462). Diesel fuel, propane gas (PA 93-93) and natural gas (PA 95-159) used as motor vehicle fuel are taxed at 18 cents per gallon.

Payment - The tax is payable on or before the twenty-fifth day of each month based upon the preceding month's sales (CGS Sec. 12-458).

Motor Carrier Road Tax

Rate & Basis - The tax is imposed on motor carriers using Connecticut highways. It is based on the amount of motor fuel used by these carriers within the state. In the case of a motor carrier operating both within and without Connecticut, the amount of motor fuel used is determined by proportionate mileage. This tax is imposed at a rate equal to the current rate of tax per gallon on diesel fuel ($.18). A credit is allowed for the amount of taxes paid on motor fuels purchased by the motor carrier within Connecticut (CGS Sec. 12-478 to 480)

On January 1, 1996, Connecticut entered into the International Fuel Tax Agreement (IFTA), which is a cooperative agreement among most states and provinces of Canada to simplify the collection and reporting of fuel use tax by interstate motor carriers. (CGS 12-486)

Under IFTA, fuel tax returns are filed in the base jurisdiction of the motor carrier. The base jurisdiction of a motor carrier is where the vehicle is based for registration purposes and where operations are controlled and the vehicle is operated. For IFTA fuel tax reporting, a qualified motor vehicle is a vehicle that is designed to transport persons or property and that has: two axles and a gross vehicle weight or registered gross vehicle weight over 26,000 pounds; or three or more axles regardless of weight; or when used in combination, a combined gross vehicle weight over 26,000 pounds. Motor carriers who meet this qualification, and who travel solely within the State, are not required to file a return, but instead are subject tot he tax at the time of purchase. (CGS Sec. 12-478(5))

Refund - The payment of the tax shall be subject to refund when the credit for Connecticut motor fuel taxes paid exceeds the motor carrier road tax (CGS Sec. 12-480).

Payment - The tax is payable quarterly and due on January 31, April 30, July 31 and October 31 (CGS Sec. 12-483).

1. Exemptions to Motor Vehicle Fuels Tax

Fuel sold to the United States government. CGS Sec. 12-458(a)(1).
A refund of any tax paid by the United States government is available under CGS Sec. 12-459(a)(3).

History and Rationale: Conformity: states are not permitted to levy taxes on the federal government under the US Constitution. The exemption was included in PA 59-579, which replaced previous provisions.

Fuel used by a contractor performing services for a municipality. Fuel sales to a municipality for use by a contractor performing services for the municipality in accordance with a contract, when such fuel is used exclusively for the purposes of the contract. CGS Sec. 12-458(a)(2). A refund for tax paid on fuel purchased by municipalities for use by school bus contractors in transporting children to and from school, is available under CGS Sec. 12-459(a)(7).

History and Rationale: Clarification: state government does not tax itself and municipalities are a subdivision of the state. PA 73-636 created an exemption for school bus contractors and PA 78-322 applied it to all municipal contractors.

Fuel sold to municipalities, transit districts or the state. Fuel sales to municipalities, transit districts or the state, at other than a retail outlet, for governmental purposes and for use in vehicles owned and operated or leased and operated by the municipality, transit district or the state.CGS Sec. 12-458(a)(3). A refund of any tax paid by the state or a municipality is available under CGS Sec. 12-459(a)(6). A refund of any tax paid by a transit district is available under CGS Sec. 12-459(a)(10).

History and Rationale: Clarification: state government does not tax itself and municipalities and transit districts are subdivisions of the state. The exemption for municipalities was created by PA 71-784 and PA 71-8 of the June Special Session. PA 72-205 exempted fuel sold to the state. PA 75-511 exempted fuel sold to transit districts. PA 84-427 created the refund provision for transit districts.

Fuel distributors. CGS Sec. 12-458(a)(4).

History and Rationale: Incentive: the exemption is intended to reduce cascading. The exemption was included in PA 59-579, which replaced previous provisions.

Fuel transferred from storage within the state to some point out of state. CGS Sec. 12-458(a)(5).

History and Rationale: Clarification: the tax is levied on fuel consumed in the state. The exemption was included in PA 59-579, which replaced previous provisions.

Fuel purchased for export by a distributor licensed in another state. CGS Sec. 12-458(a)(6).

History and Rationale: Clarification: the tax is levied on fuel consumed in the state. The exemption was created by PA 65-58 and PA 65-325.

Fuel for farming. Fuel sold to any person engaged in the business of farming, provided (A) the fuel is not used in motor vehicles licensed or required to be licensed to operate on public highways, unless the vehicle is registered exclusively for farming purposes, (B) the fuel is not delivered to a tank in which the purchaser keeps fuel for personal and farm use and (C) an affidavit, prescribed by the commissioner of revenue services, affirming that the fuel is used exclusively for farming purposes, is submitted by the purchaser to the distributor. CGS Sec. 12-458(a)(7). Agricultural tractors and farm implements are also excluded from the definition of "motor vehicle" in CGS Sec. 12-455a(c). A refund for fuel used in farming is available under CGS Sec. 12-459(a)(2).

History and Rationale: Incentive: the exemption is intended to reduce cascading. A refund for farming was included in PA 59-579, which replaced previous provisions. The exemption for farming was created by PA 84-424.

Fuel for industrial fabrication, agricultural production or fishing industry. Fuel sold exclusively to furnish power for an industrial plant in the actual fabrication of finished products to be sold, or for an agricultural production process, or for the fishing industry. CGS Sec. 12-458(a)(8).

History and Rationale: Incentive: the exemption is intended to reduce cascading. It was created by PA 84-427.

Heating fuel. Fuel sold exclusively for heating purposes. CGS Sec. 12-458(a)(9).

History and Rationale: Perceived Equity. The exemption was created by PA 84-427.

Alternative fuels sold to covered fleet. On and after 7/1/94 and until 7/1/02, compressed natural gas, liquified petroleum gas and liquified natural gas are not subject to the tax when the fuel is sold for use in a covered fleet vehicle as defined in the federal Clean Air Act. CGS Sec. 12-458f.

History and Rationale: Incentive. The exemption was created by PA 94-170. Various public acts have extended the sunset of the Alternative Fuels exemption. PA 99-173 is the most recent act that extends the sunset from 7/1/2000 to 7/1/2002. PA 96-183 and PA 96-222 had extended the original sunset date of 7/1/99 to 7/1/2000.

Aviation fuel. Aviation fuel is specifically exempted by CGS Sec. 12-462 and 12-458(3)(a)(L) and aircraft are excluded from the definition of motor vehicle in CGS Sec. 12-455a(c).

History and Rationale: Incentive: the exemption is intended to make state businesses more competitive with out of state firms. The exemption was included in PA 59-579, which replaced previous provisions. PA 97-243 provides tax free sales of aviation fuel for aviation purposes at airports to sales occurring on or after 1/1/98.

2. Exclusions to Motor Vehicle Fuels Tax

Motorboat fuel. Motorboats are excluded from the definition of "motor vehicle" in CGS Sec. 12-455a(c).

History and Rationale: Clarification: the language parallels the definition of "motor vehicle" in CGS Sec. 14-1(a)(47).

Baggage truck fuel. Baggage trucks used around railroad stations are excluded from the definition of "motor vehicle" in CGS Sec. 12-455a(c).

History and Rationale: Clarification: the language parallels the definition of "motor vehicle" in CGS Sec. 14-1(a)(47).

Fuel for railroad trains, streetcars, etc. Vehicles which run only rails or tracks are excluded from the definition of "motor vehicle" in CGS Sec. 12-455a(c).

History and Rationale: Clarification: the language parallels the definition of "motor vehicle" in CGS Sec. 14-1(a)(47).

3. Refunds of Motor Vehicle Fuels Tax

Fuel used by vehicles not operated on public highways. Fuel used by vehicles, other than those used in farming, which are not licensed or required to be licensed for use on public highways. CGS Sec. 12-459(a)(1).

History and Rationale: Incentive: the refund is intended to reduce cascading. It was included in PA 59-579, which replaced previous provisions.

Fuel used by Connecticut motor bus companies. CGS Sec. 12-459(a)(4). A Connecticut motor bus company is defined under CGS Sec. 12-455a(c) as a common carrier motor bus company organized in the state which derives at least seventy-five percent of its gross operating revenue from instate

operations. Connecticut motor bus companies are also excluded from the definition of "motor carrier" for the Motor Carrier Road Tax under CGS Sec. 12-478(a).

History and Rationale: Incentive: the exemption is intended to reduce cascading. PA 84-541 provided the refund for Connecticut motor buses.

Fuel used by livery services. CGS Sec. 12-459(a)(12).

History and Rationale: Expediency. PA 85-437 provided the refund for livery services.

Fifty percent refund for fuel used by taxicabs and airport livery services and airport motor buses. A fifty percent refund is available for the tax paid on fuel used for instate travel by taxicabs and airport livery services and motor buses. CGS Sec. 12-459(a)(4)&(5).

History and Rationale: Expediency. PA 77-542 created the fifty percent refund for taxicabs and PA 78-322 applied it to airport livery services and motor buses. PA 77-542 created the refund provision for taxicabs and PA 78-322 applied it to airport livery services and airport motor buses.

Fuel used in ambulances owned by hospitals. Fuel purchased by hospitals for use in ambulances which they own. CGS Sec. 12-459(a)(8).

History and Rationale: Incentive. The refund was included in PA 59-579, which replaced previous provisions.

Fuel used in ambulances owned by nonprofit civic groups. Fuel purchased by nonprofit civic groups for use in ambulances which they own. CGS Sec. 12-459(a)(9).

History and Rationale: Incentive. The refund was included in PA 59-579, which replaced previous provisions.

Fuel used in high-occupancy commuter vehicles. Fuel used in high-occupancy commuter vehicles which seat at least ten, but not more than fifteen, people and have a minimum average daily usage of nine passengers, to and from work. CGS Sec. 12-459(a)(11).

History and Rationale: Incentive. The refund was created by PA 78-322.

Fuel used by the United States government. See section on Motor Vehicle Fuels Tax exemptions.

Fuel purchased by municipalities for use by school bus contractors in transporting children to and from school. See section on Motor Vehicle Fuels Tax exemptions.

Fuel used by the state, a municipality or a transit district. See section on Motor Vehicle Fuels Tax exemptions.

Fuel used in farming. See section on Motor Vehicle Fuels Tax exemptions.

Meals on wheels. Fuel used in vehicles to exclusively deliver meals to seniors citizens associated with federally funded programs.

History and Rationale: Expediency. PA 99-232 provided the refund for meal on wheels delivery services.

4. Exemptions to Motor Carrier Road Tax

Interstate charter and tour buses. Motor buses operating exclusively for the purpose of transporting a group of people who have acquired exclusive use of the motor bus under a single contract and at a fixed charge for the purpose of traveling together as a group to a specific destination. CGS Sec. 12-478(4).

History and Rationale: Incentive: the exemption is intended to promote tourism. The exemption was provided by PA 61-575.

Vehicles belonging to the United States government. CGS Sec. 12-493.

History and Rationale: Conformity: states are not permitted to levy taxes on the federal government under the US Constitution. The exemption was provided by PA 61-575.

School buses. CGS Sec. 12-493.

History and Rationale: Clarification: government does not tax itself. The exemption was provided by PA 61-575.

5. Credit for Motor Carrier Road Tax

Fuel purchased in state upon which the Motor Vehicle Fuels Tax has been paid. CGS Sec. 12-480(a).

History and Rationale: Redundancy: the credit prevents the taxation of fuel under both taxes. It was provided by PA 61-575.

Motor Vehicle Fuels and Motor Carrier Road Tax Expenditures

	FY 2002 Tax Expenditure ($ millions)
Exemptions to Motor Vehicle Fuels Tax	
US Government	1.0
Municipal contractors	Indeterminate
Municipalities, transit districts, state of Connecticut	10.0
Fuel distributors	711.0
Fuel transferred out of state	Indeterminate
Fuel exported by distributor licensed out of state	113.0
Farming	Indeterminate
Industrial fabrication, agricultural production, fishing	Indeterminate
Heating fuel	100.0
Alternative fuels used by covered fleet	less than 0.5
Aviation fuel	45.0
Refunds of Motor Vehicle Fuels Tax	
Vehicles not operated on public highways	3.0
Connecticut motor bus companies, livery services, & 50% refund for taxicabs, airport livery & airport bus services	1.0
High-occupancy commuter vehicles	less than 0.5
Municipalities, state of Connecticut, US government, transit districts, hospital ambulances & civic group ambulances	less than 0.5
Farming	less than 0.5
Meals on wheels for seniors	less than 0.5
Exemptions to Motor Carrier Road Tax	
Interstate charter & tour buses	Indeterminate
US Government	Indeterminate
School buses	Indeterminate
Credit for Motor Carrier Road Tax	
Motor Vehicle Fuels Tax paid on fuel purchased instate	1.0

MISCELLAENOUS TAXES

This section is provided for informational purposes. It integrates miscellaneous taxes into one document to provide a completed description of all taxes. The revenue collected from some of the tax sources explained below are earmarked for specific purposes such as funding environmental programs.

Boxing and Wrestling Matches Tax

Rate & Basis - The tax is imposed at the rate of 5% on the total receipts after the deduction of federal taxes from the paid admissions to boxing and wrestling matches.

Payment - The tax is payable within 24 hours after the end of a boxing exhibition or wrestling match and must be accompanied by a report stating ticket sales and gross receipts (CGS Sec. 21a-199).

Dry Cleaning Surcharge

Rate & Basis - The surcharge of 1% of gross receipts charged at retail by dry cleaning establishments is used to provide grants to dry cleaning establishments for the purpose of the containment and removal or mitigation of environmental pollution resulting from dry cleaning activity. The surcharge is also used to fund measures, which are approved by the Commissioner of Economic and Community Development, undertaken to prevent pollution. Monies collected are deposited into the Dry Cleaning Re-mediation Account, which is used to provide these grants. (CGS Sec. 12-263m)

Payment – Quarterly, by approximately 600 taxpayers.

Hazardous Waste Assessment

Rate & Basis - An assessment is imposed on generators of hazardous waste who are required to file a manifest, on treatment facilities required to file a manifest resulting from their treatment process, and on generators of hazardous waste who ship hazardous waste to treatment or disposal facilities in Connecticut. (CGS Sec. 22a-132)

Metal Hydroxide Sludge From Wastewater Treatment	5 ¢ per gallon 1/2 ¢ per pound $10 per cubic yard
Other Hazardous Waste	6 ¢ per gallon 3/4 ¢ per pound $12 per cubic yard

Exemptions -

- Hazardous waste that is recycled
- Residue resulting from the processing or treatment of hazardous waste at an approved facility
- Hazardous waste previously taxed
- Hazardous waste removed or relocated as part of property remediation projects

Payment – Quarterly, by approximately 1,800 taxpayers.

Marijuana and Controlled Substances Tax

Rate & Basis - An excise tax is imposed on marijuana and other controlled substances illegally purchased, acquired, transported or imported into the state. Taxes are assessed at the rate of $3.50 per gram of marijuana, $200 per gram of controlled substance and $2,000 per 50-dosage unit of controlled substance not sold by weight. (CGS Sec. 12-651)

Payment - Payment of the tax is indicated by stamps, which are issued in multiples of $10. Prior to 7/1/95, interest on unpaid taxes is 1.25% per month from the due date of the tax until payment. After 7/1/95, the interest rate is 1% per month or 12% annually (PA 95-26). Nonpayment penalty is 10% of the unpaid tax or $50, whichever is greater. If tax evasion was due to fraudulent intent, the penalty is 25% of the unpaid tax. Additional penalties include a fine of up to $10,000, imprisonment for up to 6 years and a penalty of 100% of the tax in addition to the tax.

Enacted by PA 91-397

Exclusion - Tax not applicable to persons lawfully in possession of marijuana or a controlled substance.

Passenger Motor Vehicle Rental Surcharge

Rate & Basis - A surcharge of 3% per day is imposed on the rental of each private passenger motor vehicle in Connecticut by a rental company for a period of less than 31 days. Rental companies must pay over the portion of the surcharge collected during the calendar year that exceeds the amount paid to Connecticut municipalities in personal property tax and the amount paid to the CT Department of Motor Vehicle in titling and registration fees. (CGS Sec. 12-692)

Enacted by PA 95-294

Exemptions -

- Motor vehicles delivered to a lessee outside Connecticut
- Rentals by an agency of the US Government
- Rentals of 31 days or more
- Rentals of motor vehicles by a person that is not a rental company

Payment – Annually, by approximately 300 taxpayers.

Non-Profit Prepaid Legal Services Corporation Tax

Rate & Basis - A tax is levied on all nonprofit legal service corporations at the rate of 2% of the total net direct subscriber charges (CGS Sec. 38-413); (net direct subscriber charges are gross direct subscriber charges less returned subscriber charges including cancellations).

Payment - The tax is payable on or before March 1, annually.

Occupational Tax

Rate & Basis - A tax of $450 a year is levied on any person who has been admitted as an attorney by the judges of the superior court and who is engaged in the practice of law including the performance of judicial duties (CGS Sec. 51-81b).

Enacted by PA 72-223 and modified by subsequent public acts with numerous technical changes regarding administration of the tax.

Exemptions -

- Judges and employees of the State
- Any attorney who has retired from the practice of law
- Any attorney serving on active duty with the US Armed Forces for more than six months of a given year
- Attorneys employed by the Probate Court

Payment - The tax is payable on or before January 15 for the preceding year by 13,150 taxpayers (CGS Sec. 51-81b).

Oyster Grounds Tax

Rate & Basis - The tax is imposed upon the owner of any oyster franchise or grounds within the exclusive jurisdiction of the state at the rate of 2% of the valuation of that franchise as determined by the Commissioner of Agriculture (CGS Sec. 26-207, 208).

Enacted prior to 1949. PA 71-872, PA 72-52 and PA 78-280 made numerous technical changes regarding administration of the tax.

Payment - The tax is payable on or before the first Monday in March, annually, based on the assessment performed in the preceding January (CGS Sec. 26-210).

Seed Oyster Tax

Rate & Basis - The tax is levied at 10% of the retail value of harvested seed oyster. All revenue collected from the tax is deposited into a special fund used for the Shellfish Program administered by the Department of Agriculture's Aquaculture Division. (CGS Sec. 26-237c)

Enacted by PA 87-246 for the purpose of funding for the seeding of state shellfish beds. PA 88-291, PA 91-236 and PA 95-26 made numerous technical changes regarding administration of the tax.

Payment – Quarterly, by 23 taxpayers.

Solid Waste Tax

Rate & Basis - The Solid Waste Tax is levied at $1.00 per ton of solid waste processed on the owners of commercial resource recovery facilities which process municipal solid waste to reclaim energy. (CGS Sec. 22a-232) The revenue is deposited in the solid waste account of the Environmental Quality Fund.

Enacted by PA 73-459

Payment – Quarterly, by 8 taxpayers.

Tourism Account Surcharge

Rate & Basis - A surcharge is levied on the rental and leasing of passenger motor vehicles for fewer than 30 days. Revenues generated by the surcharge are deposited into the "Tourism Account" to be allocated for the purpose of strategic marketing plans and challenge grants required under CGS Sec 32-300. The rate is $1.00 per rental/leasing day or portion thereof, of passenger motor vehicles. (CGS Sec. 12-665 to 12-668)

Enacted by PA 92-194.

Exemptions - The rental of leasing of a motor vehicle pursuant to a written agreement, which has a term of more than 30 days.

Payment – Quarterly, by 261 taxpayers and monthly, by 25 taxpayers.

PROPERTY TAX

Taxation of property predates most other forms of taxation in t he United States because property taxes were levied before the US Constitution was written. Thus, exemptions to property taxes have had a lengthy and well-documented history. The nature and breadth of modern property tax exemptions vary widely from state to state, due at least in part to the fact that the United States Constitution is silent on what types of exemptions are specifically granted or prohibited. [1]

Property Tax exemption policy is primarily based on the nature of the owner of the property. The following discussion deals with the exemptions granted to different classes of property owners in the state of Connecticut.

Federally-owned Property

CGS Sec. 12-81(1) grants an exemption for federally owned property. This is based on the rationale that only Congress has the power to authorize tax payments on federal property to lower level governments. Since Congress has not authorized such payments, the only circumstances under which federally-owned property is taxable by state and municipal governments is when such property is leased to a private business. [2]

State and Municipal Property

The rationale behind the exemption of state and municipal property (CGS. Sec. 12-81(2) and (4)) is that it would only transfer public funds within the state. This reasoning is strained with respect to state property, which imposes unreimbursed costs on the municipalities. In recognition of this, Connecticut reimburses municipalities in a payment in lieu of taxes (PILOT) formula for state-owned property.

The "public purpose" clause is absent in the state exemption (CGS Sec. 12-81(2)) but present in the municipal exemption (CGS Sec. 12-81(4)). This difference has not been clarified by court cases. Courts have disallowed exemptions for property owned by a city in another town which is devoted to a non-public use [3], and for municipal property available for use by only a limited number of persons. [4]

Property Devoted to Scientific Educational, Literary, Historical or Charitable Purposes

Under CGS Sec. 12-81(7), the exemption applies to organizations devoted to these uses provided "any officer, member, or employee does not receive financial reward in excess of 'reasonable compensation for services'." This language is similar to the wording used by other states for statutes with analogous clauses. What tends to differ among states are the types of organizations that qualify for this exemption.

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[1] Even the immunity of federally-owned property from taxation was not guaranteed; it was not until the Supreme Court ruled, in McCullock v. Maryland, 17 U.S. 579 (1819), that taxation of federal property by states was an interference with the former's sovereignty.

[2] City of Detroit v. Murray Corp., 355 U.S. 489 (1958); United States and Borg-Warner Corpo. V. City of Detroit, 355 U.S. 466 (1958); United States v. Township of Muskegon, 355 U.S. 484 (1958); and American Motors Corpo. V. City of Kenosha, 356 U.S. 21 (1958).

[3] Town of West Hartford v. Board of Water Commissioners of Hartford, 44 Conn. 360 (1877).

[4] Laurel Beach Association v. Milford, 148 Conn. 233, 169 A.2d. 748 (1961).

The rationale for this type of exemption is that such organizations perform functions that government would have to undertake in their absence, or that such functions are socially desirable, but are not within the scope of government activities. Instead of taxing such institutions and providing subsidies, the state grants a tax exemption.

To qualify for the exemption, an educational organization must clearly demonstrate that there is no opportunity for private gain from the existence or dissolution of its operations. Restrictive admission practices or high tuition are not sufficient reasons to deny exemption. However, the curriculum should consist of "systematic instruction and training for the young in preparation for the work of life."[5] Other court rulings have maintained this limitation of instructional latitude to correspond with instruction in government-supported schools within the state.

Qualification for an exemption for charitable purposes has been interpreted more liberally by the courts. A charitable purpose "no longer is restricted to mere relief of the destitute or the giving of alms, but comprehends activities ... which are intended to improve the physical, mental and moral condition of the recipients and make it less likely that they will become burdens on society and more likely that they will become useful citizens .... Charity embraces anything that tends to promote the well doing and the well-being of social man."[6] Only political activity and the opportunity for private gain appear to circumscribe tax exemptions for organizations devoted to charitable purposes.

A comparable case history on the exemptions for scientific, literary and historical purposes does not exist. Because government does not ordinarily provide services in these areas, it cannot be said that these organizations are relieving any governmental burden. Most states are more restrictive than Connecticut in granting exemptions for scientific, literary and historical purposes.

College Property

Colleges and universities qualify for exemption under CGS Sec. 12-81(7). In addition, the "funds and estate" of seven private Connecticut colleges[7] "respectively invested and held for the use of such institutions, with the income thereof" are exempt from taxation under CGS Sec. 12-81(8) "Provided none of said corporations shall hold in this state real estate free from taxation affording an annual income of more than six thousand dollars."

The exempt status of these schools is also specified by the General Assembly in their charters. There is a strong argument that the exempt status of these colleges is constitutionally irrevocable. Since the state granted the exemptions in the charters of these institutions, it cannot revoke them without impairing its contract obligations. Exemptions of dormitories and dining halls[8] as well as temporary housing for married students[9] owned by Yale University have been upheld in two court challenges.

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[5] Masonic Building Associates v. Town of Stamford, 119 Conn. 53, 59, 174 A. 301, 303 (1934).

[6] Camp Isabella Freedman of Connecticut v. Town of Canaan, 147 Conn. 510, 514-15, 162 A. 2nd 700, 703 (1960).

[7] Berkeley Divinity School, Connecticut College for Women, Hartford Seminary Foundation, Sheffield School, Trinity College, Wesleyan University and Yale University (sic).

[8] Yale University v. Town of New Haven, 71 Conn. 316, 42 A. 87 (1899

[9] Yale University v. Town of New Haven, 17 Conn. Supp. 166 (C/P/ 195-0).

The $6,000 limitation on income from real estate has been interpreted to apply only to relevant income-yielding property; other college-owned property does not lose its exempt status if this income limitation provision is violated. [10]

Cemetery Property

For reasons similar to charitable and educational property, cemetery property has been exempted from taxation (CGS Sec. 12-81(11)). Since no serious objection to this exemption has been raised, there have been no landmark court cases in this area. Cemetery property is frequently owned by religious organizations. Also, in New England, many municipalities own cemeteries. In such cases, the religious or municipal exemption would probably take precedence, which may explain the absence of challenges to this exemption.

Religious Property

CGS Sec. 12-81(12) exempts personal property of religious organizations. In CGS Sec. 12-81(13), "houses of religious worship, the land on which they stand, their pews, furniture and equipment" are exempted. Also, "real property and equipment" of "any religious organization and exclusively used as a school, a Connecticut non-profit camp or recreational facility for religious purposes, a parish house, an orphan asylum, a home for children, a reformatory or an infirmary" are exempted in CGS Sec. 12-81(14). Finally, "dwelling houses and the land on which they stand" used by "officiating clergymen" are exempted in CGS Sec. 12-81(15).

Exemption of property used for religious purposes has a longer history than other exemptions. In pre-Constitution America there was no doctrine of separation of church and state, but because churches were generally considered as related to government, they were exempted as public agencies. The exemption practice simply continued in post-constitution America. Statutes specifically exempting religious property were generally not enacted until the nineteenth century.[11]

The First Amendment of the Constitution -- which states that "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof" -- can be interpreted as either encouraging or prohibiting the taxation of churches. A Supreme Court decision upholding property tax exemption for churches [12] relied principally on arguments other than the establishment and free exercise clauses in the First Amendment. Yet, the wording and near-unanimity of that decision imply that any state which repealed its exemption of church property is likely to have its action reversed.

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[10] Yale v. New Haven (1899).

[11] Connecticut's exemption originated in the Statute of Charitable Uses, adopted in 1684 and revised in 1702, which exempted property "for the maintenance of ministries of the Gospel." The wording has changed over time: in 1822 "churches" were exempted by the statute, but other religious, organizations were not mentioned; in 1851, properties of benevolent organizations were also included. In 1925, the wording was altered so that "houses of religious worship" were exempted.

[12] Walz V. Tax Commissioner of the City of New York, 397 U.S. 664 (1970).

Presently, all 50 states exempt church property; 33 include the exemption in their state constitutions. In Connecticut, relatively few court-mandated restrictions have been placed on property used for religious purposes. A Masonic Temple was denied a religious exemption because, among other reasons, it "meets in secret", as a membership "dependent in part at least on social considerations", and its property was not "devoted to the practice of religious worship as it is customarily carried on ... in this state."[13] Recreational facilities of religious organizations were 'denied exemptions before they were specifically included in CGS Sec. 12-81(14) in 1955.

Hospital and Sanatoriums

The State exempts hospitals and sanatoriums (CGS Sec. 12-81(16)), provided that "no officer, member or employee thereof" receives "any pecuniary profit ... except reasonable compensation for services." Where an institution had become financially successful, the court ruled that under the statute**,** success alone (meaning that the institution was using sound financial management) did not transform the institution's purpose from one devoted exclusively charitable purposes.[14]

This exemption is analogous to that of educational, scientific and other such property. The rationale is the same: hospitals and sanatoriums provide services that would otherwise have to be provided by government. In many states, hospitals are operated by state or municipal government to a greater extent than in Connecticut. For example, New York City possesses an extensive municipal hospital system.

Other Governmental and Benevolent Exemptions

A number of exemptions similar to those outlined above are included in CGS Sec. 12-81. They are more specific in nature and in many cases, exempt an organization that would otherwise have qualified for the governmental or educational/charitable exemptions. Because the rationales for these have already been discussed, the items are only listed in the footnote below.[15]

Other Exempt and Non-Taxed Properties

In classifying property that is not subject to taxation, a distinction can be made between exempt and non-taxed property. Exempt property is not taxed under the existing ownership, but would be taxed under other ownership. The use to which the property is put or the nature of the owner gives exempt status to the property. Non-taxed property is not taxed regardless of ownership. For example, most personal property not taxed in Connecticut retains this, status regardless of ownership. much property that is not taxed, but does not appear on any exempt grand list can more accurately be called non-taxed.

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[13] Masonic Building Association of Stamford, Connecticut, Inc. v. Town of Stamford, 119 Conn. 53, 60, 61, 174 A. 301, 304.

[14] Institute of Living V. Hartford Board of Tax Review, 13 Conn. Supp. 372 (1945).

[15] They consist of: CGS Sec. 12-81(5), property held by trustees for public purposes; (6), property of volunteer fire companies; (9), personal property loaned educational institutions; (10), property owned or horticultural societies; (18), property organizations; (27), grand army posts; (29), the Red Cross; (45), Connecticut National Guard; (48), airport improvements; and (49), nonprofit camps or recreational facilities charitable purposes.

Some business-owned properties possess exempt status. For example, provisions are made for special treatment of the property of common carrier motor bus companies and railroad companies. For the former, buses used for carrying passengers are exempt; if the carrier is a Connecticut bus company, fifty percent of property taxes on the assessed value of its real estate and relevant personal property used directly in the conduct of its motor bus business is waived. All property of railroads, if used exclusively for railroad purposes, is exempt from taxation.

The statutes allow towns to abate property taxes for certain types of property and require them to abate the taxes for other types. Some of these abatements are intended to stimulate business activity, such as redeveloping abandoned industrial sites; others have narrower aims, such as preserving historic properties, but may have economic development spin-offs.

Table 1 lists the optional town tax abatements. Some are for development activities, such as rehabilitating stores, factories, and apartment houses. Other abatements serve different public needs, such as those for solar energy systems, historic properties, and low-income housing.

Table 2 lists the abatements towns must provide to properties meeting specific statutory criteria. Some are available only in certain towns to manufacturers that build or expand plants or buy new machinery and equipment, while others address different public needs, such as the tax abatement for pollution control equipment.

Exemptions to Individuals

Partial exemptions for property occupied as dwelling places are granted to the blind, veterans, disabled veterans, elderly and specified relatives. Also exempted are a limited amount of property of United States army instructors (CGS Sec. 12-81(28)) and one motor vehicle of a serviceman "if ... garaged outside the state". (CGS Sec. 12-81(53))

Exemptions for the blind and veterans have a long history in Connecticut. Exemption provisions for the blind first appeared in the Connecticut General Statutes in 1867 and a veterans, exemption first appeared in 1887. Relief for elderly homeowners was initiated in 1965 with a tax freeze program. In 1973, circuit breaker legislation was added as an option for elderly taxpayers. The freeze program option for new participants was eliminated in 1980. The last significant revision of the circuit breaker program was in 1985.

These exemptions have different rationales behind them. When the veterans' and servicemen exemptions were originally enacted they represented payment in recognition of services rendered to one's country. The rationale for the various expansions of local options was expediency with some attempt at perceived equity by imposing certain income limits. The exemption for the blind attempts to recognize the handicap such people possess in earning a living and owning a house. The elderly exemption attempts to ease the property tax burden on a class of people who generally must live on a reduced income when they retire, but do not find their property taxes reduced commensurately.

Most non-business tangible and intangible personal property is not taxed. Some categories are specifically exempted by law among CGS Sec. 12-81(30)-(35), (43) and (47) [16]; others are not mentioned. The major reason that non-business personal property is not taxed is that the difficulties in identifying and taxing such property are deemed to outweigh the possible revenue.

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[16] They are: CGS Sec. 12-81(30), Fuel and Provisions; (31), Household Furniture; (32), Private Libraries; (33), musical Instruments; (34), Watches and Jewelry; (35), Wearing Apparel; (43) Cash; (47), Carriages, Wagons, and Bicycles.

Much of this personal property was taxable in earlier times. In 1851, the general rule was adopted that all property not exempted by statute would be taxed. After this declaration, exemptions proliferated, particularly on personal property. The property tax on boats CGS Sec. 12-81(64)) was eliminated in 1981 and replaced with an annual registration fee. Towns receive a payment equal to the property taxes received from boat owners on the October 1, 1978 Grand List. The property tax on aircraft (CGS Sec. 12-71(f)) was eliminated in 1993, effective with the 1992 Grand List, and replaced with an annual fee. Towns receive payment based on the property tax the town would have received on the 1992 Grand List minus the revenue from the registration fee. The amount of the payments to the towns from the Special Transportation Fund is 100% on April 1, 1994 and 1995**,** 90%, 70%, 50%, 30% and 10% in 1996, 1997, 1998, 1999, 2000, respectively.

A final non-taxed category consists of streets and waterways. They represent the difference between what is called the total gross area and total net area of a municipality. Streets are truly public domain; thus, the "value" of streets is normally considered to be reflected in the value of facing property. Water areas represent (unless filled in) non-developable property. Neither, therefore, is subject to appraisal or assessment.

The following tables provide statewide aggregate information on various property tax exemptions. The tables indicate the effect on the grand list, whether the exemptions are mandatory or discretionary, whether the state reimburses the municipality and for exemptions affecting individuals, the number qualifying and participating in the tax relief.

Statewide Property Tax Grand List Reductions FY 2000

Governmental and Other Benevolent Organization Exemptions

Exemption Type	Citation	Grand List Reduction (000,000)	State Reimbursed	Percentage Exemption Grand List
Property of the United States	12-81(1)	$1,751.2	No	0.90%
State Property	12-81(2), (45)	$4,740.3	Partial*	2.44%
Motor Vehicles Leased to State Agencies	12-81(66)	$0.01	No	-
Municipal Property	12-81(4)	$10,239.6	No	5.30%
Public Purpose Property by Will or Trust	12-81(5)	$33.9	No	0.02%
City Beach Property Used for Public Purpose	12-81(67)	$244.6	No	0.10%
Municipal Airports	12-74	$74.8	No	0.04%
Municipal Water Supply Land	12-76	$197.0	No	0.10%
Volunteer Fire Company Property	12-81(6)	$128.5	No	0.10%
Property Used for Scientific, Educational, Literary, Historical or Charitable Purposes	12-81(7)	$2,003.6	No	1.20%
Property Leased to Charitable, Religious, or Non-Profit Organizations (Local Option)	12-81(58)	$2.8	No	0.001%
College Property	12-81(8)	$1,633.8	Partial*	0.80%
Personal Property Loaned to Tax Exempt Educational Institutions Used for Teaching or Research	12-81(9)	$12.8	No	0.007%
Connecticut Student Loan Foundation Property	10a-209	$3.8	No	0.002%
Connecticut Health and Educational Facilities Authority Property	10a-191	$0.1	No	0.0001%
Hospital and Sanitariums	12-81(16)	$2,212.1	Partial**	1.12%
Health Care Facility-HMO Property	38a-188	$3.6	No	0.002%
American National Red Cross Property	12-81(29)	$9.6	No	0.006%

Governmental and Other Benevolent Organization Exemptions (continued)

Exemption Type	Citation	Grand List Reduction (000,000)	State Reimbursed	Percentage Exemption Grand List
Property Held for Cemetery Use	12-81(11)	$293.0	No	0.20%
Property of Religious Organizations	12-81(12), (14), (15)	$2,745.6	No	1.46%
Ambulance Type Vehicles Used Exclusively for Transporting Medically Incapacitated Individuals and Property Owned by a Non-Profit Ambulance Company, may, by Local Option, be Exempt	12-81c	$5.4	No	0.004%
Nonprofit Camps/Recreational Facilities	12-81(49)	$236.4	No	0.14%
Agricultural or Horticultural Society Property	12-81(10)	$61.7	No	0.03%
CT Resource Recovery Authority Property, If PILOT on agreement between Leasee and Authority	22a-270a	$282.3	No	0.11%
CT Housing Authority Property	12-85	$13.8	No	0.007%
Property of Metropolitan Transportation Authority	12-81(69)	N/R	No	-
Veterans Organizations Property	12-81(18), (27)	$44.0	No	0.02%
Total Percentage of Grand List Exempted				14.1%

N/R = Not Reported

* State Reimbursement is 20% except 100% for Correction Facilities.
** State Reimbursement is 60%.

Statewide Property Tax Grand List Reductions FY 2000

Exemptions for Individuals

Exemption Type	Citation	Grand List Reduction (000,000)	State Reimbursed	Number of Taxpayers
Veteran Serving in Time of War In the Amount of $1,000	12-81(19)	$309.4	No	184,777
Servicemen and Veterans Having Disability Ratings: 10-25%= $750 26-50%=$1,000 51-75%=$1,250 76-100%=$1,500	12-81(20)	$72.2	No	17,782
Disabled Veterans With Severe Disability in an Amount to $10,000, Except the Loss of One Arm or Leg, in an Amount to $5,000	12-81(21)	$3.5	No	269
Surviving Spouse or Minor Child of Servicemen and Veterans in an Amount of $1,000, Except $3,000 if Death Occurred on Active Duty	12-81(22)	$31.7	No	18,603
Surviving Spouse Receiving Federal Benefits in an Amount of $1,000	12-81(23)	$1.2	No	609
Surviving Spouse and Minor Child Receiving Compensation from Veterans Administration in an Amount of $3,000	12-81(24)	$0.2	No	40
Surviving Parent of Deceased Serviceman or Veteran in an Amount of $1,000	12-81(25)	$0.1	No	48
Parents of Veterans in an Amount of $1,000	12-81(26)	$0.005	No	3
Without Regard to Income Veterans are Entitled to an Additional Exemption Equal to One-Half the Regular (12-81(19-26)) Exemption	12-81g(b)	$180.4	Yes	195,730

Exemptions for Individuals (continued)

Exemption Type	Citation	Grand List Reduction (000,000)	State Reimbursed	Number of Taxpayers
Motor Vehicle of a Servicemen if Vehicle is Garaged Out-of-State	12-81(53)	$3.5	No	457
Twice the Regular Veteran, (12-81(19-26)), Exemptions if Adjusted Gross Income and any other income is less than $29,300 (married) and $23,900 (unmarried) and 100% if VA Rating, and if AGI alone is less than $21,000 (married) and $18,000 (unmarried).	12-81g(a)	$88.4	Yes	21,066
Additional $1,000 Veteran's Exemption at Local Option if Veterans meets Income Test of $29,300 (married) and $23,900 (unmarried).	12-81f	$19.1	No	10,765
The Dwelling House of a Specially Adapted Dwelling House of a Veteran may at Local Option be Exempt from the Property Tax	12-81(21)(c)	$4.6	No	40
Property in the Amount of $1,000 of U.S. Army instructors and $2,000 if the Property is Necessary for the Performance of His Official Duties	12-81(28)	N/R	No	N/R
Motor Vehicles Owned by American Indians and Garaged on the Reservation	12-81(71)	$3.2	No	226
Personal Property (primarily motor vehicles) of Military Personnel	Federal Soldiers and Sailors Relief Act	$26.9	No	4,035
Property in the Amount of $1,000 of a Resident Who Receives Permanent Total Disability Benefits Under Social Security	12-81(55)	$12.3	Yes	12,013
Additional $1,000 Exemption at Local Option to Residents Receiving Permanent Total Disability Benefits Under Social Security	12-81i	$2.3	No	2,609

Exemptions for Individuals (continued)

Exemption Type	Citation	Grand List Reduction (000,000)	State Reimbursed	Number of Taxpayers
Property of Blind Persons in the Amount of $3,000	12-81(17)	$10.5	No	3,403
Additional $2,000 at Local Option if Blind Person's Certain Income Levels	12-81j	$0.7	No	362
Specially equipped motor vehicle for veterans having disability rating may at Local Option be Exempt from the Property Tax	12-81h	$1.3	No	230

Tax Relief for Individuals

Tax Relief Program	Citation	Amount of Credit	State Reimbursed	Number of Taxpayers
Freeze on both assessed value and mill rate for qualified elderly homeowners with $6,000 income (excluding Social Security) who applied before May, 1980	12-129b	$4.5	Yes	2,961
Circuit breaker for qualified elderly and disabled homeowners or Renters below certain income levels	12-170aa	$32.4	Yes	73,519
Additional relief for elderly or disabled homeowners, at local option, up to 75% of property tax without a lien and over 75% of property tax with a lien.	12-129n	N/R	No	N/R

N/R = Not Reported

Table I
Discretionary Tax Incentives

Type of Property	Eligibility Criteria	Citation and Initial Enactment	State Reimbursed	Grand List Reduction (000,000)
Low- and moderate-income housing	Property used solely for this purpose; owner must contract with the town for abatement; abated taxes must be used to reduce rents, achieve mixed income occupancy, or provide related facilities or services; abatement terminates when housing no longer used solely for low- & moderate-income families	8-125, 8-216 PA 67-522	Yes	$0.2
Real or personal corporate property	Corporation's inability to pay taxes is a bar to receiving working capital loan from U.S. government agency; OPM & attorney general must approve abatement; abatement rescinded if loan application withdrawn or rejected.	12-125 Enacted 1935	No	N/R
Dairy farm, fruit orchard, or wine grape vineyard Property	Up to 50% of taxes owed; may include recapture provision in case of sale.	12-81m PA 90-270	No	$0.3
Historic properties	Town determines eligible structures or can delegate to private body; owner must show that tax burden threatens structure's continued existence; if structure demolished or remodeled to destroy architectural or historic value after abatement, owner must pay total taxes abated.	12-127a PA 69-711	No	N/R
Redevelopment Property	Property acquired by town-designated redevelopment or housing site development agency.	8-129a, 213a PA 65-571 PA 69-555	No	N/R
Urban homesteading	Abatement of all or part of taxes due on property conveyed to an urban homestead (or deferral for up to 10 years).	8-169u PA 75-452	No	N/R

Table I (continued)
Discretionary Tax Incentives

Type of Property	Eligibility Criteria	Citation and Initial Enactment	State Reimbursed	Grand List Reduction (000,000)
Urban rehabilitation Property	Abatement of all or part of taxes due on commercial or industrial property conveyed to an urban rehabilitator (or deferral for up to 10 years, or deferral or increased assessment).	8-269 PA 77-503	No	N/R
Private airports	Improvements on or to land areas; airport must be licensed by DOT; owner must allow free use by public; must be approved by town meeting.	12-81 (48) PA 61-245	No	N/R
Solar energy heating and cooling systems	Equipment installed between 1976 and 2006; exemption is difference between value with solar and conventional equipment; exemption is for 15 years following installation.	12-81(56), (62) PA 76-409 PA 79-479	No	$1.5
Solar energy Electricity generating and Cogenerating System	Equipment must meet OPM standards; applies to equipment installed between 1977 and 2006 and cogeneration and electricity generating systems installed between 1981 and 2006; exemptions are for maximum of 15 years following installation.	12-81(57), (63) PA 77-490 PA 81-439	No	$0.4
Day care services	Businesses, other than day care business, which offers day care services to town residents; exemption is up to 100% of value of property used in providing service or 10% of the business's assessed value.	12-81n PA 90-298	No	N/R
Housing	Assessment may be fixed on housing project of three or more units that is part of a redevelopment, urban renewal, or community development project; assessment for land and improvement for land before improvements; assessment may be fixed for 15 years.	12-65 Enacted 1947	No	N/R

Table I (continued)
Discretionary Tax Incentives

Type of Property	Eligibility Criteria	Citation and Initial Enactment	State Reimbursed	Grand List Reduction (000,000)
Housing	Deferred increase in assessment due to rehab or new multi-family construction in designated rehabilitation area; town must adopt deferral criteria after notice and hearing; can fix assessment for up to 7 years during construction and gradually increase assessment for up to 11 yeas following construction.	12-65d, e PA 73-588	No	$4.5
Housing	Rehab or renovations to accommodate people with physical disabilities; fixed assessment for up to 5 years and deferred assessment increase attributable to improvement during same period; agreement must be approved by building official; work must be completed within 3 years of agreement.	12-65g PA 75-244	No	$0.01
Office, retail, homes and apartments, hotels and motels, manufacturing, warehouse, or multi-level parking connected to mass transit system	Fixed assessment for land and improvements based on total value of improvements; 7 years if total value more than $3 million, 2 years if total value between $500,000 and $3 million, and 50% of increased assessment for 3 years if total cost between $100,000 and $500,000; owner must sign contract with town. PA 71-471 originally applied to municipalities with populations over 80,000 and if the cost was $10 million or more. Over the last 16 years the statute was expanded to include all municipalities and to various improvements with lower costs.	12-65b PA 71-471	No	$128.0
Town/City Development Act Any Development Property	Any development property in whole or in part up to 20 years may be exempted.	7-498 PA 75-2(July Special Session)	No	$20.2

Table I (continued)
Discretionary Tax Incentives

Type of Property	Eligibility Criteria	Citation and Initial Enactment	State Reimbursed	Grand List Reduction (000,000)
Enterprise Zone	80% property tax abatement for businessess located in Enterprise Zones. State PILOT reimburses towns for 50% of property taxes abated.	31-70 PA 81-445	Partial	$25.0
Enterprise Zone Improvements	Improvements on Real Property in an enterprise zone must fix the assessment for 7 years and defer any increase as follows: Year — % Increase Deferred 1 — 100% 2 — 100% 3 — 50% 4 — 40% 5 — 30% 6 — 20% 7 — 10% PA 94-241 allows municipalities to fix assessments on portions of improvements which exceed $80 million in lieu of schedule above.	32-71 PA 81-445	No	$47.5

Table II
Mandatory Tax Incentives

Type of Property	Eligibility Criteria	Citation and Initial Enactment	State Reimbursed	Grand List Reduction (000,000)
Commercial fishing apparatus	Up to $500; must be used in main business.	12-81(36) Prior to 1949	No	$0.02
Commercial fishing Vessels	At least 50% of owner's income in year before assessment must be from fishing.	12-81(61) PA 79-82	No	N/R
Mechanic's and farming tools	Up to $500; mechanic's tools must be used in trade, farm tools exclusively used in farming.	12-81(37), (38) Prior to 1949	No	$0.8
Farm produce	Property owned and held by producer, including calves, colts, and lambs.	12-81(39) Prior to 1949	No	N/R
Farm animals, Livestock	Animals owned and kept in state. Horses and ponies limited to $1,000 unless used in farming.	12-81(40), (41), (42), (68) Prior to 1949	No	$2.8
Farm machinery	Machinery (except motor vehicles) up to $100,000 and horses and ponies used exclusively in farming; claimant must have at least $15,000 in gross sales or farm-related expenses in most recently completed tax year.	12-91 PA 57-18	No	$31.7
Nursery products	Produce, trees, or products while growing in nursery.	12-81(44) Prior to 1949	No	N/R
Temporary plant production devices	Devices or structures used in seasonal production, storage, or protection of plants, including hoop, poly, and shade houses; high tunnels; overwinter structures.	12-81(73) PA 91-257	No	$0.9
Manufacturers' wholesalers, and retailers' Inventories	Monthly average quantity of goods; manufactures goods include raw materials and parts for use in manufacturing process and in finished goods.	12-81(50), (54) 1965 acts	No	N/R

Table II (continued)
Mandatory Tax Incentives

Type of Property	Eligibility Criteria	Citation and Initial Enactment	State Reimbursed	Grand List Reduction (000,000)
Water and air pollution control structures and Equipment	Property must be certified by DEP and certification must be filed with assessor.	12-81 (51), (52) 1967	No	$80.0
Manufacturing and service facilities	Facilities acquired, constructed, or renovated after 1978 in a distressed municipality, or targeted investment community or enterprise zone, if DED approves; must be DED-certified; in enterprise zones includes certain service firms; exemption is 80% for five years; construction and renovation exemption is based on difference in value before and after.	12-81(59) & 32-9s PA 78-357	50%	$205.0
Manufacturing Equipment	Machinery and equipment installed in facility described above, which represents an addition to grant list; exemption is 80% for five years.	12-81(60) & 32-9s PA 78-357	Yes	$16.0
New machinery and equipment	New machinery and equipment acquired as part of a technological upgrading of a manufacturing process in a town with an enterprise zone; up to 50% of value for five years; business must have operated in state for more than five years and had less than $20 million in gross receipts in previous year; machinery must cost more than $200,000 or 200% of firm's average equipment expenditures in plant during three previous years.	12-81 (70) PA 88-287 PA 90-270	No	N/R
New machinery and equipment	New machinery and equipment acquired after October 1, 1990 and machinery and equipment newly acquired after July 1, 1992; 100% exemption for five years; and new machinery and equipment	12-81(72) PA 90-270	Yes	$2,344.0

Table II (continued)
Mandatory Tax Incentives

Type of Property	Eligibility Criteria	Citation and Initial Enactment	State Reimbursed	Grand List Reduction (000,000)
	acquired after July 1, 1996 and used in connection with biotechnology			
Vans and vanpool vehicles	Any van used to transport employees that is owned by an employer, a regional ride-share organization, or a dealer leasing vans to these entities.	12-81(65) & 12-81e PA 79-542 PA 82-449	No	$0.8
Merchandise in transit	Merchandise stored in a public commercial storage warehouse or wharf in the same name of the producer or manufacturer	12-95a &12-108 PA 65-603 1953	No	N/R
Vehicles used to transport freight	New commercial motor vehicles used exclusively to transport freight for hire	12-81(74) PA 96-265	Yes	$16.0
CT motor bus company	Any CT motor bus company carrying passengers for hire in CT	12-241 Prior to 1949	No	$7.6
CT Resource Recovery Authority	Property leased by CRRA in connection with the operation of solid waste management programs.	22a-270a PA 82-410	Partial*	$42.5
Water companies	Certain property of private water companies and property used for generating water power.	12-75, 12-77 Prior to 1949	No	$0.2
Railroad	Property of railroad companies used exclusively for railroad purposes.	12-255 Prior to 1949	No	$64.0
Public service companies	Certain property owned by telecommunication companies and railroad. (Motor vehicles.)	12-255,12-268j	No	$7.5

* Reimbursed via State grants.

N/R = Not Reported

Notes