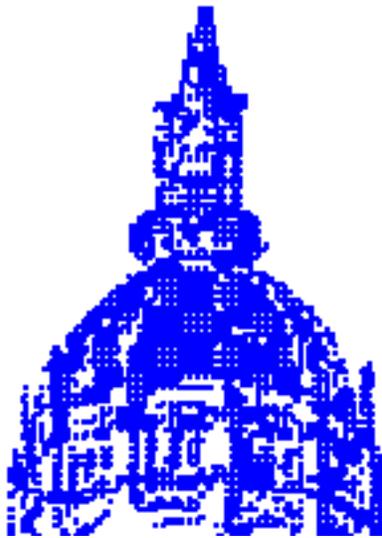


Office of Legislative Research
Connecticut General Assembly



OLR ACTS AFFECTING

Taxes



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NOTICE TO READERS

This report provides brief highlights of new laws (public acts) affecting state and local taxes passed during the 2006 session. At the end of each summary we indicate the public act (PA) number.

Not all provisions of the acts are included here. Complete summaries of all 2006 public acts will be available in the fall when OLR's *Public Act Summary* book is published; some are already on OLR's webpage:

<http://www.cga.ct.gov/olr/OLRPASums.asp>

Readers are encouraged to obtain the full text of acts that interest them from the Connecticut State Library, the House Clerk's Office, or the General Assembly's website: <http://www.cga.ct.gov/>

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ADMISSION TAX

An act exempts admissions charges for events at Nature's Art, near Waterford; the Arena at Harbor Yard in Bridgeport; and Dodd Stadium in Norwich from the 10% admissions tax. (**PA 06-186**, effective April 1, 2006 for Nature's Art and November 1, 2006 for Dodd Stadium and the Arena at Harbor Yards.)

BUSINESS TAXES

Corporation Tax Surcharge

The act eliminates the 15% corporation tax surcharge for the 2007 income year. The surcharge applies to all corporations except those that owe only the \$250 minimum tax. The 20% surcharge for 2006 remains in effect. (**PA 06-186**, effective July 1, 2006 and applicable to income years starting on or after January 1, 2006.)

Municipal Electric Company Gross Earnings Tax

An act applies the same gross earnings tax rates to municipal electric utilities as to all other electric companies, increasing their tax rates from 4% to 6.8% on gross receipts from transmitting power to residential customers and from 5% to 8.5% from transmissions to

nonresidential customers. (**PA 06-186**, effective July 1, 2006 and applicable to income years starting on or after January 1, 2006.)

Cable TV Company Tax Set-Aside for Connecticut Television Network

An act increases the cable TV company gross earnings tax set-aside for Connecticut Television Network (CTN) coverage of state government deliberations and public policy events from \$2 million to \$2.5 million annually, beginning in FY 07. (**PA 06-187**, effective July 1, 2006.)

Railroad Express, Telegraph, and Cable Company Taxes Eliminated

An act eliminates gross earnings taxes of 2% on railroad express companies and 4.5% on telegraph and undersea cable companies, along with interstate apportionment requirements and requirements for filing annual tax returns. (**PA 06-159**, effective October 1, 2006.)

Business Entity Tax Clarifications

The act makes S corporations, limited liability companies, limited liability partnerships, and limited partnerships subject to the \$250 business entity tax whether they are formed under the laws of Connecticut or

another jurisdiction; requires businesses to pay the tax if they are required to register with the secretary of the state to operate here, whether or not they have actually done so; and specifies that businesses are liable for the tax for each year or part of a year that they meet the act's definitions. (**PA 05-159**, effective on passage.)

BUSINESS TAX CREDITS

Film and Digital Media Production

An act establishes transferable corporation business tax credits for companies that produce films and other types of television, video, and digital programming in Connecticut. The credit equals 30% of the eligible production costs incurred here. The Connecticut Commission on Culture and Tourism administers the credit. (**PA 06-83** and **PA 06-186**, effective July 1, 2006 and applicable to income years beginning on or after January 1, 2006; **PA 06-172**, effective October 1, 2006.)

Housing

The legislature increased, from \$5 million to \$10 million, the amount of annual tax credits the Connecticut Housing Finance Authority (CHFA) can award to businesses that contribute funds to nonprofit housing developers. It also required CHFA to set aside

\$1 million in credits for developing housing for workers. (**PA 06-186**, effective July 1, 2006 and applicable to income years starting on or after January 1, 2006.)

The legislature eliminated the employer-assisted tax credit, which allowed businesses to claim a credit of up to \$100,000 in any tax year for contributions they made to a revolving loan fund for making loans to their low- and moderate-income employees. (**PA 06-189**, effective upon passage.)

Job Creation

An act establishes up to \$10 million in total annual business tax credits for companies that relocate to Connecticut; create at least 50 new, full-time jobs here; and fill them with Connecticut residents and keep them employed for at least 12 months. The credit equals up to 25% of the state income tax withheld from the new employees' wages and applies for five years. (**PA 06-186**, effective July 1, 2006 and applicable to income years starting on or after January 1, 2006.)

Hiring Displaced Workers

The act gives a \$1,500-per-worker business tax credit to companies that hire Connecticut workers previously laid off because of a corporate restructuring in which least 10

Connecticut workers lost their jobs. (**PA 06-186**, effective July 1, 2006 and applicable to income years starting on or after January 1, 2006.)

Rehabilitating Historic Structures

A new law authorizes up to \$15 million annually in corporate tax credits for rehabilitating historic commercial and industrial properties for residential use. The maximum credit is 25% of the qualified rehabilitation costs, up to \$2.7 million. The Connecticut Commission on Culture and Tourism administers the credits. (**PA 06-186**, effective July 1, 2006 and applicable to income years starting on or after January 1, 2006.)

Urban and Industrial Sites Reinvestment

New laws expand the range of projects that qualify for corporate business tax credits under the Urban and Industrial Sites Reinvestment Program, change the legislative process for approving urban and industrial site projects that receive state tax credits totaling more than \$20 million, and include urban and industrial site tax credits when measuring the state economic development assistance

threshold that subjects a project to certain statutory accountability requirements. (**PA 06-184 and 06-187**, effective on passage.)

Donating Computers to Private Schools

A new act makes businesses donating computers to private schools eligible for the same tax credit as companies that donate computers to public schools. The maximum credit is 50% of the computer's fair market value when donated. (**PA 06-145**, effective July 1, 2006 and applicable to income years starting on or after January 1, 2006.)

Authorization to Pass Through Corporation Tax Credits

A new law sets conditions under which certain types of businesses that are not corporations can pass through corporation tax credits to their constituent companies that are. The pass-through authorization applies to partnerships, limited partnerships, LLCs, or other types of pass-through businesses in which one or more corporations have an interest as a general or limited partner. These entities can pass through credits they would receive for their activities if they were corporations, if they sponsor an "employment expansion project" that creates at least 400 jobs in the state over five years. (**PA 06-**

187, as amended by **PA 06-189**, effective on passage and applicable to projects with commencement dates on or after September 1, 2005.)

Apprenticeship Programs

An act extends to nonunion businesses the corporation tax credit for hiring construction trade apprentices that was available only to businesses that sponsored a four-year apprenticeship program jointly with a union. It postpones awarding the credit until an apprentice completes a program that lasts at least four years. The credit is capped at 50% of apprentices' wages or a fixed amount and a business's total annual credit cannot exceed its tax liability for the year. Under the act, that credit limit is \$4,000 over the first four years of the apprenticeship; under prior law, it was \$1,000 per year. (**PA 06-174**, effective July 1, 2006.)

ESTATE AND GIFT TAXES

Estate Tax Penalty

An act imposes a minimum penalty of \$50 for failure to pay estate tax by the due date. The law already imposed a penalty of 10% of the unpaid tax but did not specify any minimum amount. (**PA 06-194**, effective on passage and applicable to taxes payable on or after that date.)

Estate and Gift Tax Appeals

An act requires an aggrieved party to appeal all Department of Revenue Services (DRS) estate and gift tax decisions, other than those concerning a decedent's domicile, to Superior Court instead of to the probate court. (**PA 06-194**, effective on passage.)

Estate Tax Affidavits

An act eliminates references to sworn affidavits in the estate tax law, making it conform to the elimination of affidavit requirements for most other state taxes enacted in 2000. (**PA 06-159**, effective on passage.)

Time Limit for Assessing Tax on Undisclosed Gifts

Except when a taxpayer has filed a fraudulent or willfully false return in an attempt to evade gift tax, the law requires DRS to assess additional tax within three years from the date the original return was either due or actually filed, whichever is later. The act allows DRS to impose additional tax after more than three years, if a gift was inadequately disclosed or not disclosed on a filed return. (**PA 06-194**, effective on passage and applicable to gifts made during calendar years starting on or after January 1, 2006.)

Gift Tax Return and Payment Due Date

In general, gift tax returns and payments are due by April 15th of the year after the calendar year in which the donor made the gift. But when the donor dies in the calendar year when he makes the gift, this act makes the due date the same as the due date for estate tax returns and payments, i.e., nine months after the death date. (**PA 06-194**, effective on passage and applicable to gifts made on or after January 1, 2006.)

Interest on Gift Tax Overpayments

An act requires DRS to pay interest on gift tax overpayments at the rate of 0.66% for each month or part of a month beginning on the payment date or gift tax return due date, whichever is later. (**PA 06-194**, effective on passage and applicable to taxes due for calendar years starting on or after January 1, 2005.)

INCOME TAX

Property Tax Credit Increased

An act increases the maximum property tax credit against the income tax from \$400 to \$500. (**PA 06-186**, effective July 1, 2006 and applicable to tax years starting on or after January 1, 2006.)

Deduction For College Savings Contributions

The act allows taxpayers to deduct contributions to the Connecticut Higher Education Trust (CHET), which is Connecticut's state-sponsored college savings plan, from their Connecticut AGI for state income tax purposes. The maximum annual deductions are \$5,000 for individual taxpayers and \$10,000 for joint filers. Taxpayers may carry forward any unused deductions for contributions on or after January 1, 2006 for five years as long as each deduction does not exceed the annual maximum. (**PA 06-186**, effective July 1, 2006 and applicable to tax years starting on or after January 1, 2006).

Group Returns for Pass-Through Entities

Among other things, a new law eliminates optional group income tax returns for Connecticut partnerships, S corporations, and other pass-through entities with nonresident partners, shareholders, or members and instead requires all these businesses to pay the income taxes their nonresident members owe on their income from businesses. (**PA 06-159**, effective upon passage and applicable to tax years starting on or after January 1, 2006.)

PAYMENTS IN LIEU OF TAXES (PILOTS)

An act entitles Voluntown to an additional \$60,000 annually to offset property tax revenue lost due to the tax-exempt status of any state-owned forest in the town and doubles New London's annual grant to offset lost tax revenue for the U. S. Coast Guard Academy from \$500,000 to \$1 million. (**PA 06-187**, effective July 1, 2006.)

PETROLEUM PRODUCTS GROSS EARNINGS TAX

Exemption for Biofuels

A new law exempts a commercial heating oil blend containing not less than 10% of alternative fuels made from agricultural produce, food waste, waste vegetable oil, or municipal solid waste, including biodiesel and low-sulfur dyed diesel fuel, from the petroleum products gross earnings tax. (**PA 06-143**, effective July 1, 2006 and applicable to income years beginning on or after January 1, 2006.)

Transportation Projects and Tax Revenue Transfers

An act authorizes \$1 billion in new special tax obligation bonding for strategic transportation projects and initiatives to be partially funded by petroleum products gross earnings tax revenues. It

increases quarterly transfers of petroleum products tax revenue to the Special Transportation Fund by \$20 million in FY 07 through FY 10 (\$80 million total each fiscal year) and \$25 million in FY 11 and thereafter (\$100 million total each fiscal year). It also allows revenues from any petroleum products sales to be transferred, not just those from motor vehicle fuel sales (**PA 06-136**, as amended by **PA 06-187**, effective July 1, 2006.)

PROPERTY TAX

Exemption for Manufacturing Machinery and Equipment

An act exempts all manufacturing machinery and equipment (MME) from property taxes and reimburses towns for the revenue loss after a five-year phase-in. It extends the MME exemption to include recycling equipment acquired on or after July 1, 2006. The act also requires the state to pay municipalities the full 80% payment in lieu of taxes (PILOT) for MME exempted under the existing five-year MME exemption program. And in the October 1, 2006 through October 1, 2011 assessment years, the act requires local assessors to use the same depreciation methods to determine MME valuations that they used for valuing the same or similar property in the

October 1, 2005 assessment year. (**PA 06-83 and PA 06-186**, applicable to assessment years starting on or after October 1, 2006.)

Elderly Property Tax Freeze Authorized

An act allows towns to freeze property taxes on homes owned by people age 70 or older who have lived in the state at least one year and to surviving spouses who are at least age 62 when the homeowner dies. Homeowners must meet income limits. Towns may put a lien on the property and set asset limits for eligibility. There is no state reimbursement for revenue towns lose from the freeze. (**PA 06-176**, effective October 1, 2006 and applicable to assessment years starting on or after that date.)

Authorizing Municipalities to Abate Taxes on Open Space Land

A new law sets conditions under which municipalities, including boroughs and special taxing districts, may abate property taxes on open space land. This abatement is separate from the property tax benefit available to open space land owners under the 490 program, under which certain land is taxed

at a lower rate. (**PA 06-128**, effective October 1, 2006 and the property tax provisions are applicable to assessment years beginning on or after that date.)

Veterans Property Tax Exemptions

A new law excludes veterans' disability payments when determining income for purposes of income-based property tax exemptions for veterans, the blind, and people with total disabilities. It also explicitly includes the reserve components of the U. S. Armed Forces, including the National Guard performing duty under Title 32 of federal statutes (e.g., on certain homeland security missions), in the definition of "armed forces. It thereby makes guard members' Title 32 service qualifying service for state veterans' benefits, including local property tax exemptions, as is already the case with federal Title 10 service. (**PA 06-153**, effective October 1, 2006.)

Revaluation Impact Phase-In

An act creates a new method for phasing in increases from a property revaluation over five years and eliminates several previous methods. It also allows a town to phase in all or part of the revaluation increase. If it phases in part of an increase, a town may choose how much of it to implement in each phase-in year, provided it implements at

least 25% of the increase in the first year. (**PA 06-176**, as amended by **PA 06-196**, effective October 1, 2006 and applicable to assessment years beginning on or after October 1, 2005.)

Revaluation Procedures

An act modifies how local tax assessors gather or verify property data when conducting a revaluation; authorizes the Office of Policy and Management (OPM) to adopt regulations for gathering, recording, and maintaining revaluation data; and changes the penalty for failing to implement a scheduled revaluation and the procedures under which it can be waived. It changes some procedures and requirements for implementing, deferring, or postponing a revaluation; authorizes a new method for phasing in revaluations; extends the maximum phase-in period to five years; and requires local legislative bodies to approve a phase-in method. (**PA 06-148**. Certain provisions are effective on passage and others are effective October 1, 2006 and applicable to assessment years beginning on or after that date.)

Delinquent Telecommunications Property Tax

A new act allows town tax collectors to impose the same 1.5% per month interest penalty on delinquent

telecommunications property tax payments as on all other delinquent property taxes. It applies to telecommunications companies that pay personal property taxes at the statewide rate of 47 mills. (**PA 06-183**, effective on passage and applicable to assessment years starting on or after October 1, 2006.)

Brownfields

The act exempts towns from the Transfer Act when they acquire a tax delinquent property that they intend to sell for back taxes and when they convey property they acquired through a tax warrant sale or foreclosure of tax lien and cleaned up under a new pilot program. (**PA 06-184**, effective on passage.)

Hartford Property Tax Relief Program

The act allows Hartford to implement a special property tax relief program limiting annual tax increases for residential and apartment property resulting from a revaluation to 3.5% per year for five years. To implement the program, the act exempts Hartford from the statutory requirement that all property be assessed for property tax purposes at 70% of its fair market value. The act also repeals the authorization for the city to impose up to a 15% surcharge on nonresidential property and requires it to use

the revenue from the tax increases on residential and apartment property to the surcharge on other property classes to no more than 7.5% by the October 1, 2010 assessment year. (**PA 06-183**, effective July 1, 2006. The tax relief provisions apply to municipal assessment years starting on or after October 1, 2006 and the surcharge authorization repeal applies to municipal assessment years starting on or after October 1, 2010.)

Municipal Tax Agreements For Land Bought From The State

The act allows a municipality that buys state land to enter into an agreement that exempts the land or any part of it from municipal property taxes entirely or makes the land fully or partially taxable. It also allows municipalities to agree to PILOT or to a fixed tax on the land and to set the amounts, duration, and terms of these agreements, which must be approved by their legislative bodies. (**PA 06-194**, effective July 1, 2006.)

Tax Exemption Procedural Waivers

An act waives the deadline for a Wallingford person to ask the OPM secretary to reconsider the secretary's denial or modification of a property tax exemption for

new manufacturing machinery and equipment for the October 1, 2000 assessment year. (**PA 06-163**, effective on passage.)

Another act allows several people and organizations to receive property tax exemptions for particular assessment or grand list years even though they missed their application filing deadlines, extends a filing deadline for a Bloomfield MME property tax exemption appeal for the 2003 grand list, allows specified nonprofit organizations to keep their property tax exemptions for the 2005 grand list despite missing filing deadlines, and validates certain actions by the Westport tax assessor and board of assessment appeals even though they did not hold hearings within the statutory time limits. (**PA 06-189**, effective October 1, 2006 for the provisions relating to urban industrial site projects and upon passage for the waiver provisions.)

SALES TAX EXEMPTIONS

Residential Weatherization Products

A new law exempts residential weatherization and energy efficiency products and energy efficient heating equipment from the sales tax from June 1, 2006 to July 1, 2007. An earlier exemption for these items expired on April 1, 2006. (**PA 06-187**, effective July 1, 2006.)

Hybrid Cars

An act defines “hybrid passenger car” for the purposes of a sales tax exemption for new vehicles purchased between October 1, 2004 and October 1, 2008. (**PA 06-161**, effective October 1, 2006.)

Aircraft Repair

A new law extends the sales tax exemption for aircraft repair or replacement parts and aircraft repair services to all aircraft, not just aircraft (1) owned or leased by certificated air carriers or (2) with a maximum certificated takeoff weight of 6,000 pounds or more. (**PA 06-186**, effective July 1, 2006.)

Business Services Provided by Joint Venture Participants

An act makes LLCs eligible for the existing sales tax exemption for specified business services rendered between participants in certain kinds of joint ventures under a joint venture agreement. The legislature also extended the exemption's duration from 10 to 20 consecutive years and specified that the exemption starts from the date the joint venture is formed, incorporated, or organized. (**PA 06-187**, effective upon passage.)

Yoga Instruction

The act exempts charges for yoga instruction provided at a yoga studio from the sales tax. (**PA 06-187**, effective July 1, 2006.)

Connecticut Center for Science and Exploration Materials and Services

The act extends to the Connecticut Center for Science and Exploration an existing sales tax exemption for items or service used, incorporated into, or otherwise consumed in building the Hartford convention center, Rentschler Field, and related parking facilities and infrastructure improvements. (**PA 06-187**, effective July 1, 2006.)

SPECIAL TAXING DISTRICTS

Derby

The act establishes a procedure, which largely mirrors the statutory procedure, for Derby to form a special taxing district to provide various services. It allows the district to issue up to \$45 million in bonds to finance improvements; delineates the district’s geographic boundaries; and establishes procedures for forming, operating, and terminating it, with approval of district voters. The district must enter into an interlocal agreement with Derby and

submit quarterly project activity reports to the OPM secretary and the chairmen of the Finance, Revenue and Bonding Committee. The reports must provide information and updates on the district's projects. (**PA 06-194**, effective on passage.)

East Lyme

A 2005 act authorized establishment of a special taxing district within East Lyme and allowed the district to issue bonds to finance development. Before issuing any bonds, the district had to make an interlocal agreement with the town. This act requires the interlocal agreement to be ratified at a town meeting called for the purpose instead of by the town's legislative body. (**PA 06-194**, effective July 1, 2006.)

Redding

An act changes the legal description of property included in a special taxing district in Redding, if the district's voters approve. (**PA 06-163**, effective on passage.)

STATE TAX ADMINISTRATION AND PROCEDURES

Tax Return Information

The act requires DRS to report specified tax return information to the Office of Fiscal Analysis (OFA) for OFA's revenue estimating and forecasting only

and after deleting certain personally identifying information. It allows OFA to share the information as needed with a contractor providing it with revenue estimating and forecasting services. (**PA 06-159** and **PA 06-194**, effective July 1, 2006.)

Electronic Signature on Tax Liens

Under a new law, the revenue services commissioner can use an electronic signature on certificates filing or discharging tax liens on real property, and town clerks must accept these signatures and record the certificates. It validates, as of the date originally filed, otherwise valid certificates with the commissioner's electronic signature that are filed with town clerks before the law's effective date. (**PA 06-194**, effective on passage.)

State-Certified Tax Collectors

This act expands the actions the OPM secretary can take against state-certified tax collectors to include suspending or denying a certification or recertification. (**PA 06-88**, effective July 1, 2006.)

Business Tax Credit Documentation

The act eliminates requirements that companies claiming certain business tax credits attach eligibility documents to, or file them with, their tax returns. (**PA 06-159**, effective on passage and applicable to tax years starting on or after January 1, 2006.)

Alcoholic Beverages Distributor Tax Requirements

The act eliminates requirements that (1) distributors who ship alcoholic beverages to a military reservation in Connecticut automatically file a duplicate invoice with DRS showing the amount shipped and its classification under the alcoholic beverages tax law and (2) distributors file monthly alcoholic beverages tax returns under oath, instead requiring the distributor's treasurer or authorized agent to sign the return under penalty of false statement. (**PA 06-159**. The provision on duplicate invoices is effective on passage. The provision concerning sworn returns takes effect October 1, 2006 and applies to returns for calendar months starting on or after that date.)

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