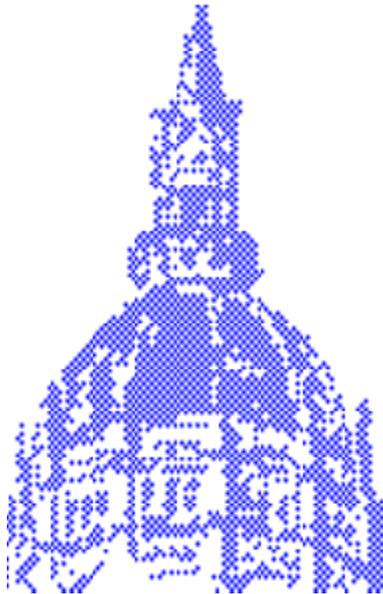


Office of Legislative Research
Connecticut General Assembly



OLR ACTS AFFECTING

TAXES



2009-R-0370

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October 28, 2009

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NOTICE TO READERS

This report provides highlights of new laws affecting taxes enacted during the 2009 regular and special legislative sessions. Not all provisions of the acts are included here. Complete summaries of all 2009 public acts passed will be available when OLR's Public Act Summary book is published; most are already available 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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CORPORATION TAX

Surcharge

An act imposes a 10% corporation tax surcharge for income years beginning in 2009, 2010, and 2011. The surcharge does not apply to companies (1) with less than \$100 million in annual gross revenues or (2) whose total tax liability does not exceed the \$250 minimum tax. Corporation taxpayers subject to the surcharge for the 2009 income year must adjust their estimated tax payments for 2009 to reflect their additional tax liability from the surcharge. (**PA 09-3, June Special Session**, as amended by **PA 09-8, September Special Session**, effective on passage)

Combined Reporting Preference Tax

An act doubles, from \$250,000 to \$500,000, the maximum preference tax for groups of companies filing combined corporation tax returns. (**PA 09-3, June Special Session**, as amended by **PA 09-8, September Special Session**, effective upon passage and applicable to income years starting on or after January 1, 2009)

CIGARETTE AND TOBACCO PRODUCTS TAXES

Tax Increases

The legislature increased the cigarette tax by \$1, from \$2 to \$3 per pack (from 10 cents to 15 cents per cigarette), starting October 1, 2009. It also increased the tobacco products tax from 20% to 27.5% of the wholesale price and the tax on snuff tobacco from 40 cents to 55 cents per ounce. The tobacco products tax applies to cigars, cheroots, pipe tobacco, and similar products. (**PA 09-3, June Special Session**, effective October 1, 2009)

SALES AND USE TAX

Contingent Rate Reduction

The legislature enacted a contingent reduction in the sales and use tax rates applicable to most taxable items and services from 6% to 5.5% starting January 1, 2010. But the reduction does not take effect if, before that date, the comptroller's monthly statement indicates that General Fund tax revenue for FY 10 is 1% or more below the FY 10 revenue estimate the Finance, Revenue and Bonding Committee adopted.

In addition, if the reduction takes effect and any of the comptroller's monthly statements issued between January 1, 2010

and June 30, 2010 show estimated General Fund revenue for FY 10 at least 1% below the adopted revenue estimate, the sales and use tax rate automatically returns to 6% on July 1, 2010. **(PA 09-3, June Special Session**, effective January 1, 2010)

Exemptions for Asphalt Manufacturers

An act makes a company that manufactures a finished product that it uses to fulfill a paving contract eligible for the same state sales tax exemptions available to other manufacturers for the machinery, materials, tools, and fuel they buy to make the product. **(PA 09-200**, effective on passage)

Use Tax Table

An act requires the revenue services (DRS) commissioner to include a use tax table on state income tax forms. The table must show the Connecticut use tax rate and the total taxes that would be due for various amounts spent. **(PA 09-3, June Special Session**, effective upon passage)

ESTATE AND GIFT TAXES

Tax Reduction

Starting with deaths occurring and gifts made on or after January 1, 2010, the legislature (1) increased, from \$2 million to

\$3.5 million, the value of an estate or the total value of lifetime gifts that are exempt from estate and gift tax; (2) reduced marginal tax rates on taxable estates and gifts by 25%; and (3) eliminated a tax “cliff” by applying the tax only to the portion of a gift’s or estate’s value that exceeds the taxable threshold rather its total value. **(PA 09-3, June Special Session**, as amended by **PA 09-8, September Special Session**, effective January 1, 2010)

Estate Tax Filing Deadline

An act reduces the time an executor has to file an estate tax return by making the filing deadline six, rather than nine, months after the date of death. The change applies to estates of those who die on or after July 1, 2009. **(PA 09-3, June Special Session** as amended by **PA 09-8, September Special Session**, effective upon passage)

INCOME TAX

Rate Increase

Starting with the 2009 tax year, an act increases income taxes for those with taxable incomes over \$1 million for joint filers, \$800,000 for heads of household, and \$500,000 for single filers and married people filing separately. It does so by adding a third, higher-income tax bracket and increasing the marginal tax rate on income in

that bracket from 5.0% to 6.5%. It also increases the flat income tax rate for trusts and estates from 5.0% to 6.5%.

Taxpayers making quarterly estimated tax payments for 2009 must adjust their January 15, 2010 payment to reflect the income tax rate changes applicable to the 2009 tax year. The DRS commissioner must issue new withholding tax rules for the 2009 tax year by October 1, 2009 and publish them on DRS' web site. **(PA 09-3, June Special Session, as amended by PA 09-8, September Special Session, effective on passage)**

Delay in Scheduled Reductions for Single Filers

The legislature delayed scheduled income tax reductions for single filers for three years. It did so by delaying scheduled increases in (1) such taxpayers' adjusted gross income exempt from the tax and (2) income thresholds for phasing out their personal exemptions and credits. **(PA 09-3, June Special Session, effective on passage and applicable to tax years starting on or after January 1, 2009)**

PROPERTY TAX

Disabled Veterans' Property Tax Exemption

An act eliminates the requirement that a veteran claiming the disabled veterans' property tax exemption provide

annual proof of disability unless he or she is age 65 or older or rated permanently disabled by the U.S. Veterans' Administration (VA). Under the new act, any veteran, regardless of age or disability rating, who submits initial proof of his or her VA disability rating to the town assessor must submit proof and reestablish eligibility in subsequent years only if the VA modifies the rating. **(PA 09-176, effective October 1, 2009)**

Property Tax Exemption for Wartime Veterans

An act expands the pool of people eligible for veterans' war service property tax exemptions by changing the start and end dates of Operation Earnest Will (escort of Kuwaiti oil tankers flying the U.S. flag in the Persian Gulf). The act also specifies that the 90 days qualifying war service required for exemption eligibility do not have to be consecutive. **(PA 09-117, effective on passage)**

Median Income Definition in Enterprise Zones

An act changes the criterion under which property owners qualify for a property tax exemption when they improve homes, apartments, condominiums, and other types of residential property in the state's 17 enterprise zones. Under prior law, they had to rent or sell the units to people earning

no more than 200% of the municipality's median family income. Under the act, property owners must rent or sell the units to people earning no more than 200% of the median income for the area in which the municipality is located, as determined by the U.S. Department of Housing and Urban Development (HUD). **(PA 09-93, effective on passage)**

Land Value Taxation Pilot Program

The legislature established a pilot program to allow municipalities to prepare plans to tax land at a higher rate than buildings (i.e., "land value tax"). A municipality qualifies for the program if it meets the act's criteria and applies to the Office of Policy and Management (OPM) secretary for approval. A town must prepare the plan according to the act's criteria and submit it to the legislature by December 31, 2009. Neither the act nor the law authorizes the municipality to implement the land value tax. **(PA 09-236, effective on passage)**

Municipal Assessments and Assessment Appeals

A new law makes several changes in how towns assess property taxes and hear assessment appeals. It (1) makes it easier for tax assessors to appraise large, income-producing property based on comparable sales and allows them to request

net income and expense data annually, not just after a property is built or improved or during a town-wide revaluation; (2) raises the ceiling above which boards of assessment appeals may refuse to hear appeals regarding specific types of property and allows property owners denied a hearing to appeal directly to the Superior Court; (3) freezes appeal board assessment changes until the town's next scheduled revaluation, unless the assessor must change the assessment for other specified reasons; (4) requires an assessor who changes the assessment for other reasons to state them in writing to the board and attach them to the property's card record; and (5) requires an assessor to record on the card the reasons for changing a valuation that was initially made by an appraisal company hired to conduct a town-wide revaluation. **(PA 09-196, effective on passage and October 1, 2009)**

Tax Exemption for Regional Planning Organizations

A new law exempts real property owned by or held in trust for a regional planning organization from the property tax, so long as (1) the property is used to advance the organization's official duties and (2) the municipality where the property is located approves the exemption. **(PA 09-226, effective October 1, 2009)**

Regional Revenue Sharing

An act allows the chief elected officials of two or more municipalities that belong to the same federal economic development district to enter into mutual agreements to (1) promote regional economic development and (2) share the real and personal property tax revenue from new economic development. The agreement must (1) provide that the municipalities not compete for new economic development and (2) specify the types of projects subject to the agreement. (**PA 09-231**, effective October 1, 2009)

Revaluations

An act allows a municipality to (1) delay a revaluation scheduled for the 2008, 2009, or 2010 assessment year until the 2011 assessment year and (2) suspend a current revaluation phase-in for up to three years, also until the 2011 assessment year. It allows two or more municipalities to agree to revalue their property for property tax purposes according to the same schedule, even if it requires some to revalue later than their individual statutory schedules require. Finally, the act repeals a law that allowed municipalities to adjust, with the approval of their legislative bodies, real property values in the assessment years

between revaluations. (**PA 09-60**, as amended by **PA 09-196**, effective on passage and applicable to assessment years starting on or after October 1, 2008).

OTHER TAX CHANGES

Real Estate Conveyance Tax

An act applies the real estate conveyance tax to property that is foreclosed by sale through a court-order. Prior law exempted such transfers from the tax. (**PA 09-3, June Special Session**, effective January 1, 2010)

Attorney Occupational Tax

The legislature increased the attorney occupational tax from \$450 to \$565 annually. (**PA 09-3, June Special Session**, as amended by **PA 09-8, September Special Session**, effective October 1, 2009 and applicable to calendar years starting on or after January 1, 2009)

Tax Incremental Financing

An act extends, from July 1, 2010 to July 1, 2012, the sunset dates for two Connecticut Development Authority programs that provide bond financing for large-scale development projects through use of the new or incremental tax revenues the projects generate to repay the bonds (i.e., tax increment financing). One program uses

incremental property tax revenue to repay the bonds issued for projects that clean up and redevelop contaminated property or involve the use of information technologies. The other uses incremental hotel, sales, dues, cabaret, and admission tax revenues to repay bonds issued for projects that create jobs or stimulate significant business activity. (**PA 09-61**, effective on passage)

TAX DEDUCTIONS AND CREDITS

Federal Qualified Domestic Activities Deduction

A new law bars companies and individuals from using the federal tax deduction for income from qualified domestic production activities when determining their taxable income for the state's corporation and income taxes. (**PA 09-3, June Special Session**, upon passage and applicable to income and tax years starting on or after January 1, 2009)

Tax Credit for Donating Open Space

A new law extends the period for which a company may carry forward unused corporation tax credits for donating open space from 15 to 25 years. (**PA 09-3, June Special Session**, effective on passage and applicable to tax years starting on or after January 1, 2009)

Film and Digital Animation Production and Infrastructure Tax Credits

The legislature made several changes in eligibility for, and administration of, the film and digital animation tax credits against the corporation and insurance premium taxes. Major changes include (1) increasing the minimum expenditures needed to qualify for a credit; (2) establishing a tiered production credit of from 10% to 30% based on expenditures; (3) eliminating credits for out-of-state expenditures as of January 1, 2010; (4) requiring 50% of principal photography days to occur, or 50% of post-production costs to be spent, in Connecticut; and (5) capping aggregate eligible expenditures for star talent. (**PA 09-3, June Special Session**, as amended by **PA 09-8, September Special Session**, effective on passage and applicable to tax years starting on or after January 1, 2010)

Green Buildings Tax Credit

Starting with income years beginning on or after January 1, 2012, the legislature authorized the state to establish a corporation tax credit for taxpayers who build buildings that meet certain energy and environmental standards ("green buildings"). The new act gives the Office of Policy and Management (OPM) secretary discretion on

whether to issue vouchers allowing taxpayers to claim the credits. It limits the credits for all projects to \$25 million.

Eligible projects would receive a base credit that increases with the project's green rating. The act also allows additional credits for mixed-use projects and those located in certain areas.

Taxpayers could claim only 25% of the credit in any tax year, with the remainder allowed to be carried forward for up to five years. (**PA 09-8, September Special Session**, effective on passage)

TAX ADMINISTRATION

Tax Settlement Initiative Program

A new act requires the DRS commissioner to send written statements to taxpayers who owe state taxes (other than motor carrier road tax), interest, or penalties for any taxable period for which DRS imposed (1) interest or penalties for late payment or underreporting of taxes, or (2) interest or additional tax because the taxpayer failed to file a return and DRS filed one for him. If, within 60 days after receiving the statement, a taxpayer pays all the taxes he owes for the applicable tax period, the act requires commissioner to waive (1) civil penalties and (2) 50% of the remaining interest due. (**PA 09-3, June Special Session**, effective on passage)

Economic Nexus for Corporation and Income Tax

A new act establishes "economic nexus" as the basis for determining whether an out-of-state business is subject to the Connecticut corporation tax, if it is a C corporation, or whether nonresident partners or members of a partnership or S corporation are subject Connecticut income tax on income from the business. The economic nexus determination depends on whether a company has a "substantial economic presence" in Connecticut, a determination based on such measures as the frequency, quantity, and systematic nature of its economic contact with the state. (**PA 09-3, June Special Session**, effective on passage and applicable to income and taxable years starting on or after January 1, 2010)

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