Office of Legislative Research
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OLR ACTS AFFECTING

TAXES

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NOTICE TO READERS

This report provides highlights of new laws affecting taxes enacted during the 2010 regular and special legislative sessions. Not all provisions of the acts are included here. Complete summaries of most acts are already available on OLR's webpage: http://www.cga.ct.gov/olr/OLRPASums.asp. The remaining PA summaries will be available soon.

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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TAX EXEMPTIONS AND DEDUCTIONS

Real Estate Conveyance Tax Exemptions

New legislation (1) restores a real estate conveyance tax exemption, eliminated in 2009, for transfers made pursuant to a foreclosure by sale. It also exempts from the tax transfers of a seller's principal residence when the transfer is (1) in lieu of a foreclosure or (2) a "short sale." (**PA 10-1, June Special Session,** effective October 1, 2010)

Sales and Use Tax Exemption for Renewable Energy

A new act exempts from the sales and use tax items sold, stored, used, or consumed in the renewable and clean energy technology industries. These industries produce, improve, or develop solar energy electricity generating systems, passive or active solar water or space heating systems, and wind power electric generation systems and related equipment. The exemption applies to machines; equipment; tools; materials; supplies; and fuel sold, stored, used, or consumed in these industries. (**PA 10-75**, effective July 1, 2010 and applicable to sales occurring on or after that date)

High School Sports Events at Rentschler Field

A new law exempts admission charges for interscholastic athletic events held at Rentschler Field from the 10% admissions tax. By law, charges for events benefiting federally tax-exempt organizations, such as schools, are exempt from the tax but, except for those specified in this act, charges for such events held at Rentschler Field are taxable. (**PA 10-146**, effective July 1, 2010 and applicable to admission charges imposed on or after that date)

Health Information Technology Exchange of Connecticut

A new law establishes the Health Information Technology Exchange of Connecticut and gives it the same state tax exemptions as other state quasi-public authorities. The exchange's purposes include promoting, planning, designing, developing, assisting, acquiring, constructing, maintaining, equipping, reconstructing, and improving health care information technology. (**PA 10-117**, effective July 1, 2010)

Captive REIT Deduction

A new law eliminates a state corporation tax deduction for federally deductible dividends companies receive from "captive" real estate investment trusts (REITs) unless the captive REIT is subject to the Connecticut corporation tax. Under the act, a "captive REIT" is one that (1) for any taxable year, qualifies for special federal tax treatment; (2) is not regularly traded on an established securities market; (3) has more than 50% of its shares directly or constructively owned or controlled by a single entity subject to the federal tax law on corporate distributions; and (4) is not a "qualified" REIT under existing state corporation tax law. (**PA 10-188**, effective on passage and applicable to income years starting on or after January 1, 2010)

TAX CREDITS

Historic Structures Tax Credit

Property owners who rehabilitate historic structures for mixed commercial and residential use are eligible for business tax credits. Those completing projects in phases can receive tax credit vouchers for completing work on, and placing in service, an identifiable part of the building. New legislation allows an owner to receive a voucher even if the completed portion includes no residential units. If the owner fails to complete the residential portion on schedule, he or she must repay 100% of the credit voucher unless the Commission on Culture and Tourism, which administers the tax credit program, extends the completion deadline. (**PA 10-188** effective July 1, 2010 and applicable to income years beginning on or after January 1, 2010)

Film Production Tax Credit

A 2010 law narrows the range of production expenses that qualify for film production credits by (1) excluding expenses for developing the idea for the production and (2) restricting eligible compensation expenses to base salaries and wages. The act also makes it easier for a production to qualify for a credit by decreasing the minimum share of its principal photography days it must spend in Connecticut from 50% to 25% or alternatively, allowing it to incur either a minimum of 50% or $1 million of its post-production expenses here. (**PA 10-107**, effective July 1, 2010 and applicable to income years beginning on or after January 1, 2010)

Film Infrastructure Tax Credit

Developers constructing buildings, facilities, and installations needed to produce films in Connecticut qualify for tax credits regardless of whether they intend to sell the infrastructure or lease it. A new law grants credits for leased facilities only if they are leased under a capital lease. (**PA 10-107**, effective July 1, 2010 and applicable to income years beginning on or after January 1, 2010)

Angel Investment Tax Credit

A 2010 law authorizes personal income tax credits for people who invest at least $100,000 in start-up, technology-based businesses in Connecticut ("angel investors"). Credits are 25% of the cash investment, up to $250,000. Aggregate credits are limited to $6 million per year in FY 11 through FY 13 and $3 million in FY 14. No new credits may be given after July 1, 2014. Only "accredited investors" under Securities and Exchange Commission rules (typically high net worth people or entities) or networks of such people qualify for the credits. (**PA 10-75**, effective July 1, 2010 and applicable to tax years beginning on or after January 1, 2010)

Insurance Company Investment Tax Credits

A new law authorizes credits against the insurance premium tax for insurance companies that invest, through state-certified investment funds, in businesses that meet certain criteria. The credits equal 100% of an insurance company's investment in a fund. The company must claim the credits over 10 years, beginning in the fourth year after it invested in the fund.

Businesses eligible to receive investments from the funds must (1) employ fewer than 250 people, (2) have netted no more than $10 million in the previous year; and (3) have at least 80% of their workers living here or 80% of their payrolls going to Connecticut residents. Aggregate credits issued are limited to $40 million per year and $200 million overall. (**PA 10-75**, effective July 1, 2010)

Insurance Reinvestment Tax Credits

A new law moves up, from July 1, 2015 to June 30, 2010, the expiration date of the Department of Economic and Community Development's (DECD) authority to issue new eligibility certificates for insurance reinvestment tax credits against the personal income, corporation, and insurance premium taxes.

It also temporarily lifts, until June 30, 2010, the ban on allocating credits to funds formed after July 1, 2000 and allows investors accessing credits through established funds to claim them only if the fund invests at least $1 million by July 1, 2011. Finally, it tightens the criteria an insurance business must meet to qualify for credit-eligible investments and specifies that investors who received credits before January 1, 2010 may carry them forward as the law allows. (**PA 10-75**, effective July 1, 2010)

Small Business Job Creation Tax Credit

A new law authorizes three-year insurance premium, corporation business, or personal income tax credits for small businesses (fewer than 50 employees in Connecticut) that create new, full-time jobs filled by new employees living in Connecticut. The maximum credit is $200 per month per new employee. Businesses qualify for the credits only for jobs they create between May 6, 2010 and December 31, 2012. The act imposes a combined $11-million-per-year cap on these credits, the vocational rehabilitation job creation credits (see below), and those authorized under an existing job incentive tax credit program. (**PA 10-75**, effective on passage and applicable to income years beginning on or after January 1, 2010)

Vocational Rehabilitation Job Creation Tax Credit

A new act authorizes three-year insurance premium, corporation business, and personal income tax credits for businesses hiring Connecticut residents who have physical or mental impairments that make it hard for them to find work. The maximum credit is $200 per month for each new employee.

A business qualifies for credits only for employees hired after May 6, 2010 for the income years beginning on or after January 1, 2010. The employee must live in Connecticut, meet disability requirements, work at least 20 hours per week for at least 48 weeks per calendar year, and be on the payroll at the close of the business' income year.

The act imposes a combined $11-million-per-year cap on these credits, the small business job creation credits (see above), and the credits authorized under the existing job incentive tax credit program. (**PA 10-75, as amended by PA 10-1, June Special Session,** effective on passage and applicable to income years beginning on or after January 1, 2010)

Review of Tax Credits and Abatements

A new law requires the DECD commissioner, in consultation with the Department of Revenue Services (DRS) commissioner, to evaluate and report every three years on the effectiveness of each state tax credit and abatement designed to recruit and retain businesses. The commissioner must submit the reports to the governor; the Office of Policy and Management secretary; and the Appropriations, Commerce, and Finance, Revenue and Bonding committees starting by January 1, 2011. (**PA 10-1, June Special Session**, effective July 1, 2010)

Neighborhood Assistance Act Tax Credits

A new law increases Neighborhood Assistance Act (NAA) credits for business investments in community-based alcoholism prevention or treatment programs from 40% to 60% of the investment, thus making it match the credits generally applicable to most other NAA activities. It also eliminates municipalities' role in approving NAA tax credit proposals from individual businesses, while continuing to require that they approve the credit-eligible programs. (**PA 10-188**, effective July 1, 2010 for the provision eliminating the municipal approval requirement and upon passage for the other provisions).

Tax Credits Eliminated

The act eliminates three corporation tax credits starting with the income years beginning on or after January 1, 2014. The three are:

1. a 50% credit for donating new or used computers to public or private schools;
2. a 10-year, 50% credit for financial institutions developing facilities and creating jobs and a 25% credit for an additional five years; and
3. a 100% credit for Small Business Administration guaranty fees.

(**PA 10-75**, effective July 1, 2011)

Tax Credit Set-Aside for Housing Programs

Businesses qualify for tax credits in exchange for contributions to nonprofit organizations developing low- and moderate-income housing through a program administered by the Connecticut Housing Finance Authority (CHFA). CHFA must set aside a total of $3 million of the $10 million annual credit limit for specified housing programs. A new law moves the deadline for establishing the annual set-aside to 60 days after CHFA publishes its list of credit-eligible housing programs (September 1 in practice), rather than after November 1. It also makes any supportive housing initiative, not only the Supportive Housing Pilots and Next Steps initiatives, eligible for $2 million of the annual set-aside. (**PA 10-1, June Special Session,** effective July 1, 2010)

TARGETED TAX BENEFITS

Municipalities Hurt by Major Aerospace or Defense Cutbacks

A new law extends enterprise zone property tax exemptions and corporation business tax credits to businesses acquiring or developing facilities in municipalities hurt by major aerospace or defense plant closings, as determined by the DECD commissioner based on statutory criteria. (**PA 10-162**, effective on passage)

Municipalities Affected by UConn Health Network Initiatives

New legislation that establishes regional health network initiatives linked to construction of a new John Dempsey Hospital extends enterprise zone benefits to certain businesses in Bristol, Farmington, Hartford, and New Britain. These benefits include property tax exemptions, business tax credits, and sales tax exemptions for replacement parts. (**PA 10-104**, effective July 1, 2010)

Bradley Development Zone

New legislation designates an intermunicipal development zone around Bradley International Airport and authorizes state-reimbursed property tax exemptions and corporation business tax credits for manufacturers and other specified businesses that develop or acquire property in the zone and create jobs. The zone encompasses sections of East Granby, Suffield, Windsor, and Windsor Locks. (**PA 10-98**, effective October 1, 2011, with the (1) property tax exemptions applicable to assessment years beginning on or after October 1, 2012 and (2) corporation business tax credits applicable to income years beginning on or after January 1, 2013)

CONVEYANCE AND PROPERTY TAXES

Municipal Real Estate Conveyance Tax Rate

A 2010 law extends the expiration date of the basic 0.25% municipal real estate conveyance tax rate for one year, until July 1, 2011. The extension also maintains the optional rate of up to 0.5% allowable in 18 eligible towns for the same period. (**PA 10-1, June Special Session,** effective July 1, 2010)

Property Taxes on Telecommunications Companies

A new law eliminates the option for companies providing mobile telecommunications services to have their personal property taxed at a statewide mill rate and specifies how this property must be taxed. It also specifies how fully depreciated property as of the October 1, 2009 grand list must be treated. (**PA 10-171**, effective October 1, 2010 and applicable to assessment years beginning on or after that date)

Property Taxes on Contaminated Property

New legislation allows municipalities to (1) fix the assessment on contaminated property before the owner begins to remediate it and (2) forgive back taxes on a contaminated property if a developer proposes to remediate it under a state-approved plan.

The act also expands the circumstances under which municipalities can forgive some or all of the back taxes plus interest on a contaminated property. Prior law allowed them to do so only when a property was up for sale and the parties to the sale assessed the property's environmental condition and cleaned it up according to an approved plan. The act extends the option to any abandoned or underutilized property, regardless of whether it is up for sale, if its condition discourages developers from redeveloping it. (**PA 10-135**, effective July 1, 2010 and applicable to assessment years beginning on or after October 1, 2010)

Optional Property Tax Abatement for Visitable Housing

A new law authorizes DECD, in consultation with CHFA, to establish a program that encourages Connecticut developers to build "visitable homes" (homes that are easy for people with disabilities to visit). The act also allows municipal legislative bodies to adopt ordinances giving these developers property tax abatements. (**PA 10-56**, effective October 1, 2010)

Revaluation Delays Authorized

A new law permits Guilford, Madison, and Middletown, with the approval of their respective legislative bodies, to delay a property tax revaluation scheduled to occur before the 2013 assessment year. The subsequent revaluation must resume at the point in the schedule where the municipality was before the delay. If a revaluation is delayed, a duly authorized municipal official may prepare new rate bills based on the delay, notwithstanding any law, municipal charter, special act, or home rule ordinance to the contrary. (**PA 10-152**, effective upon passage)

TAX ADMINISTRATION

Amended Return Filing Requirements

A new law modifies and expands requirements for filing amended corporation and income tax returns when taxpayers file amended federal corporation tax returns or amended income tax returns with other states or the District of Columbia. Among other things, it specifies that the 90-day deadline for filing amended returns starts from the date of the final federal or other state determination on the amended return. It also specifies that the 90-day period for paying state refunds starts after the taxpayer submits the proof of the final determination. (**PA 10-188**, effective on passage and applicable to income years or tax years, as appropriate, starting on or after January 1, 2010.)

Sales Tax Permits Held by Inactive Sellers

The law already allowed the DRS, after notice and hearing, to revoke a sales tax permit when the holder has filed four successive monthly or quarterly sales tax returns showing no sales. A new law changes the standards and procedures for DRS to recover permits from inactive sellers by, among other things, allowing DRS to cancel a permit if a seller's returns show no sales for two successive annual periods, extending the hearing notice from 10 to 30 days, and eliminating a requirement that mail notice be sent by registered or certified mail. The new law bars DRS from issuing a new permit to replace a canceled one if it is not satisfied that the seller will make taxable sales. (**PA 10-188**, effective July 1, 2010)

Motor Carrier Road Tax Reports

A new law establishes uniform filing dates for all motor carrier road tax reports by requiring carriers to file reports quarterly on the last days of January, April, July, and October. It also requires DRS to exempt motor carriers that both operate and buy all their fuel only in Connecticut from all reporting and eliminates annual road tax reports. (**PA 10-188**, effective July 1, 2010 and applicable to quarters beginning on or after January 1, 2011)

Electronic Funds Transfer and Filing Requirements

New legislation increases DRS' authority to require taxpayers and employers to pay taxes or transfer withholding taxes electronically by reducing the thresholds for those subject to the requirement from an annual tax or withholding payment liability greater than $10,000 to (1) $4,000 or more in annual tax liability and (2) more than $2,000 in annual withholding tax payments. The new law also requires any taxpayer, other than a tax return preparer, who must file tax returns electronically to pay the applicable taxes in the same way. (**PA 10-188**, effective July 1, 2010)

Commissions and Report Eliminated

The 2010 legislature eliminated the Small- and Medium-Sized Business Users' Committee and the State Tax Review Commission. Both have been inactive for several years. It also eliminated a required DRS annual report to several legislative committees and a gubernatorially designated agency on its enforcement of laws barring cigarette sales to minors. (**PA 10-188**, effective on passage)

Organ Donation on State Tax Form

In order to help taxpayers to become registered organ donors, a new law requires DRS to include in state tax return form instructions, information indicating how a taxpayer may contact an organ donor registry organization or electronic links to such organizations. (**PA 10-117,** effective July 1, 2010)

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