
OLR BILL ANALYSIS

SB 1007

***AN ACT CONCERNING THE GOVERNOR'S RECOMMENDATIONS
ON REVENUE.***

SUMMARY:

§§ 1-9 — CORPORATION AND INSURANCE PREMIUM TAXES

Insurance Premium Tax (§§ 1- 3)

The bill increases, from 1.75% to 1.95%, the premium tax paid by domestic, nonresident, and foreign insurance companies and health care centers (i.e., HMOs) doing business in Connecticut.

EFFECTIVE DATE: Upon passage, and applicable to calendar years beginning January 1, 2011.

70% Credit Limit (§§ 4 & 7)

For 2011 and 2012, the bill allows a company to exceed the 70% limit on total tax credits it claims against the insurance premium and corporation tax if it adds employees. The company can exceed the limit by an amount equal to \$6,000 times its average increase in employees, up to 100% of its total tax liability.

EFFECTIVE DATE: Upon passage, and applicable to income years beginning January 1, 2011

Corporation Tax Surcharge (§§ 5 & 9)

The bill extends the 10% corporation tax surcharge for two years to 2014. Under current law, unchanged by the bill, the surcharge applies to companies that have (1) at least \$100 million in annual gross income in those years and (2) a tax liability that exceeds \$250.

EFFECTIVE DATE: Upon passage, and applicable to income years beginning January 1, 2011

Film Production Tax Credit (§ 6)

The bill limits the transfer of film production credits allowed during the 2011 and 2012 income years to 50% and 25%, respectively, of the credit in any one income year.

EFFECTIVE DATE: Upon passage, and applicable to income years beginning January 1, 2011.

Corporation Tax Throwback (§ 8)

By law, a multi-state company doing business in Connecticut must apportion its income for corporation tax purposes among Connecticut and the other states where it operates wholly or partly based on the ratio of its Connecticut-based sales or receipts to its nationwide sales.

The bill requires companies to add or “throw back” to Connecticut-based sales any (1) untaxed sales to the federal government and (2) sales to purchasers in states that have no corporate income tax or where the company has no corporate tax nexus. A throwback increases the relative weight of Connecticut-based sales and thus the taxable income apportioned to this state.

EFFECTIVE DATE: Upon passage, and applicable to income years beginning January 1, 2011.

SALES AND USE TAX

Rate Increases (§§ 25-27)

Sales and Use Tax. The bill increases the sales and use tax rate from 6% to 6.25%.

Hotel Tax. The bill increases the hotel tax rate from 12% to 14%.

Luxury Goods Surcharge. The bill imposes an additional 3% sales and use tax on luxury motor vehicles, boats, jewelry, clothing, and footwear. The tax applies to the portion of the sales price that exceeds:

1. \$50,000 for motor vehicles,
2. \$100,000 for boats,

3. \$5,000 for jewelry, and
4. \$1,000 for clothing or footwear (including handbags, luggage, wallets, and watches).

Rental Car Surcharge. The bill imposes an additional 2% sales and use tax on short-term car rentals (30 days or less).

EFFECTIVE DATE: July 1, 2011, and applicable to sales on or after that date.

Exemptions Eliminated (§§ 18-23 & 46-47)

The bill eliminates sales tax exemptions for:

1. winter boat storage;
2. coupon discounts and credits;
3. containment or removal of hazardous waste or other contaminants;
4. valet parking at any airport;
5. yoga instruction at a yoga studio;
6. clothing and footwear costing less than \$50;
7. non-prescription drugs and medicine;
8. cloth or fabric for non-commercial sewing;
9. property or services used in operating solid waste-to-energy facilities;
10. yarn;
11. smoking-cessation products;
12. clothing and footwear sold for less than \$300 during the August sales-tax-free week; and

13. the trade-in value of motor vehicles, snowmobiles, aircraft, boats, farm tractors, construction equipment and machinery, and new or remanufactured component parts.

EFFECTIVE DATE: July 1, 2011, and applicable to sales on or after that date.

New Taxable Services (§§ 24, 25 & 29)

The bill imposes the sales and use tax on the following services:

1. motor vehicle storage;
2. packing and crating;
3. car washing, waxing, and detailing;
4. car towing and road services;
5. limousine with a driver;
6. barber and beauty shop;
7. noncommercial boat repair, maintenance, and cleaning;
8. pet grooming, boarding, and obedience classes;
9. cosmetic medical procedures;
10. manicures and pedicures; and
11. light aircraft (under 6,000 pounds) repair.

EFFECTIVE DATE: July 1, 2011, and applicable to sales on or after that date.

§§ 26, 28 & 39 — NEW MUNICIPAL TAXES

The bill imposes the following additional taxes and requires the state to distribute the revenue to the municipality where the sale occurred:

1. 0.1% on retail goods and services;

2. 1% on hotel occupancy for up to 30 days;
3. 1% on car rentals for 30 days or less; and
4. 3% on charges for admissions, food, drink, service, or merchandise at any place offering live music, dancing, or any other entertainment in addition to serving alcoholic drinks (“cabarets”).

EFFECTIVE DATE: July 1, 2011, and applicable to sales occurring on or after that date.

§§ 10-13 — CIGARETTE AND TOBACCO PRODUCTS TAXES

The bill increases:

1. the cigarette tax from \$3 to \$3.40 per pack,
2. the tax on snuff tobacco from 55 cents to \$1 per ounce, and
3. the tax on all other tobacco products from 27.5% to 50% of the wholesale price.

It requires sellers to pay the additional taxes on cigarettes and tobacco products in their inventories as of the close of business on June 30, 2011.

EFFECTIVE DATE: July 1, 2011, and applicable to sales on or after that date. The inventory tax is effective on passage.

§§ 14-17 & 45 — ESTATE AND GIFT TAX

The bill lowers the estate and gift tax threshold from \$3.5 million to \$2 million and extends the existing 7.2% rate to estates and gifts valued at between \$2 million and \$3.5 million.

EFFECTIVE DATE: Upon passage, and applicable to deaths or gifts on or after January 1, 2011.

§ 30-31 — ALCOHOLIC BEVERAGES TAX

The bill increases the excise tax on alcoholic beverages by 20%. It requires sellers to pay the additional taxes on alcoholic beverages (e.g.,

beer, wine, liquor) in their inventories as of the close of business on June 30, 2011.

EFFECTIVE DATE: Upon passage, and applicable to sales occurring on or after July 1, 2011. The inventory tax is effective on passage.

§ 32-34 — MOTOR AND DIESEL FUEL TAXES

The bill increases the (1) motor fuels tax from 25 cents to 28 cents per gallon and (2) base tax on diesel fuel from 26 cents to 28 cents per gallon. It requires sellers to pay the additional taxes on fuel in their inventories as of the close of business on June 30, 2011.

EFFECTIVE DATE: July 1, 2011, except the inventory tax is effective upon passage.

§ 35-36 — REAL ESTATE CONVEYANCE TAX

The bill makes the 0.25% municipal real estate conveyance tax permanent and allows all municipalities, not just 18 specified ones, the option of imposing an additional 0.25% conveyance tax.

EFFECTIVE DATE: July 1, 2011, and applicable to conveyances occurring on or after that date.

§ 37 — ELECTRIC GENERATOR TAX

The bill imposes a tax on electric generation facilities of 0.2 cents per net kilowatt hour of electricity generated and uploaded into the regional bulk power grid at Connecticut facilities. The tax does not apply to electricity generated through use of a fuel cell or alternative energy system.

EFFECTIVE DATE: July 1, 2011.

§ 38 — ADMISSIONS TAX EXEMPTIONS ELIMINATED

The bill eliminates exemptions from the 10% admissions tax for the following facilities and events:

1. Hartford Civic Center,
2. New Haven Coliseum,

3. New Britain Beehive Stadium,
4. New Britain Stadium,
5. New Britain Veterans Memorial Stadium,
6. Bridgeport Harbor Yard Stadium,
7. Stafford Motor Speedway,
8. Lyme Rock Park,
9. Thompson Speedway,
10. Waterford Speedbowl,
11. Tennis Foundation of Connecticut facilities,
12. William A. O'Neill Convocation Center,
13. Nature's Art,
14. Connecticut Convention Center,
15. Dodd Stadium,
16. Arena at Harbor Yard,
17. New Britain Rock Cats games,
18. New Haven Ravens games, and
19. Waterbury Spirit games.

EFFECTIVE DATE: July 1, 2011, and applicable to charges imposed on or after that date.

§§ 40-44 — INCOME TAX

Rate Increases (§§ 40-42)

The bill increases income tax rates for those with taxable incomes over \$100,000 for joint filers, \$50,000 for single filers and married people filing separately, and \$800,000 for heads of household. It does

so by:

1. increasing the number of tax brackets from three to eight,
2. increasing marginal tax rates on five of the new brackets from a flat 5.0% to a range of 5.5% to 6.5%,
3. increasing the marginal rate on the top bracket from 6.5% to 6.7%, and
4. increasing the flat tax rate for trusts and estates from 6.5% to 6.7%.

Table 1 shows tax rates and brackets under the current law and the bill. (Note: The tax rates shown apply only to the taxable income in the applicable bracket, not to all of a taxpayer's income.)

TABLE 1: CURRENT AND PROPOSED TAX RATES AND BRACKETS

TAX RATES		CT TAXABLE INCOME			
		<i>Married Filing Jointly</i>		<i>Single</i>	
<i>Current</i>	<i>Bill</i>	<i>Over</i>	<i>But Not Over</i>	<i>Over</i>	<i>But Not Over</i>
3.0%	3.0%	\$0	\$20,000	\$0	\$10,000
5.0%	5.0%	20,000	100,000	10,000	50,000
	5.5%	100,000	200,000	50,000	100,000
	5.75%	200,000	400,000	100,000	200,000
	6.0%	400,000	600,000	200,000	300,000
	6.25%	600,000	800,000	300,000	400,000
	6.5%	800,000	1,000,000	400,000	500,000
6.5%	6.7%	Over \$1,000,000		Over \$500,000	
TAX RATES		<i>Head of Household</i>		<i>Married Filing Separately</i>	
<i>Current</i>	<i>Bill</i>	<i>Over</i>	<i>But Not Over</i>	<i>Over</i>	<i>But Not Over</i>
3.0%	3.0%	\$0	\$16,000	\$0	\$10,000
5.0%	5.0%	16,000	80,000	10,000	50,000
	5.5%	80,000	160,000	50,000	100,000
	5.75%	160,000	320,000	100,000	200,000
	6.0%	320,000	480,000	200,000	300,000
	6.25%	480,000	640,000	300,000	400,000
	6.5%	640,000	800,000	400,000	500,000
6.5%	6.7%	Over \$800,000		Over \$500,000	

3% Tax Bracket Phase-Out (§§ 40- 41)

The bill phases out the lowest (3%) bracket starting with taxpayers with income over \$50,250 for married couples filing separately, \$56,500

for singles, \$78,500 for heads of household, and \$100,500 for joint filers. It does so by subjecting increasingly less taxable income to the 3% income tax rate as adjusted gross income (AGI) increases and moving the phased-out taxable income to the 5% bracket. Table 2 shows the phase-out of the 3% bracket for each type of filer.

TABLE 2: 3.0% BRACKET PHASE-OUT

SINGLE			MARRIED FILING JOINTLY		
AGI		3% Bracket	AGI		3% Bracket
<i>Over</i>	<i>But Not Over</i>	<i>Taxable Income Up to</i>	<i>Over</i>	<i>But Not Over</i>	<i>Taxable Income Up to</i>
0	56,500	\$10,000	0	\$100,500	\$20,000
56,500	66,500	9,000	100,500	110,500	18,000
66,500	76,500	8,000	110,500	120,500	16,000
76,500	86,500	7,000	120,500	130,500	14,000
86,500	96,500	6,000	130,500	140,500	12,000
96,500	106,500	5,000	140,500	150,500	10,000
106,500	116,500	4,000	150,500	160,500	8,000
116,500	126,500	3,000	160,500	170,000	6,000
126,500	136,500	2,000	170,500	180,500	4,000
136,500	146,500	1,000	180,500	190,500	2,000
Over \$146,500		None	Over \$190,500		None
HEAD OF HOUSEHOLD			MARRIED FILING SEPARATELY		
AGI		3% Bracket	AGI		3% Bracket
<i>Over</i>	<i>But Not Over</i>	<i>Taxable Income Up to</i>	<i>Over</i>	<i>But Not Over</i>	<i>Taxable Income Up to</i>
0	\$78,500	\$16,000	0	\$50,250	\$10,000
78,500	88,500	14,400	50,250	60,250	9,000
88,500	98,500	12,800	60,250	70,250	8,000
108,500	118,500	11,200	70,250	80,250	7,000
118,500	128,500	9,600	80,250	90,250	6,000
128,500	138,500	8,000	90,250	100,250	5,000
138,500	148,500	6,400	100,250	110,250	4,000
148,500	158,500	4,800	110,250	120,250	3,000
158,500	168,500	3,200	120,250	130,250	2,000
168,500	178,500	1,600	130,250	140,250	1,000
Over \$178,500		None	Over \$140,250		None

The bill requires the Department of Revenue Services to issue new withholding tables applicable for the 2011 tax year as soon as possible. It also requires estimated taxpayers to adjust their June 2011 payments to reflect the bill's income tax changes.

EFFECTIVE DATE: Upon passage and applicable to tax years starting on or after January 1, 2011.

Earned Income Tax Credit (§ 43)

The bill establishes a refundable state earned income tax credit equal to 30% of the federal credit and to the extent allowed under federal law, and specifies that the refund is not counted in determining eligibility for or the amount of aid under any need-based state or federal program.

EFFECTIVE DATE: Upon passage, and applicable to tax years beginning January 1, 2011.

Property Tax Credit Eliminated (§ 44)

The bill eliminates the \$500 maximum property tax credit against the personal income tax.

EFFECTIVE DATE: Upon passage, and applicable to tax years beginning January 1, 2011.

PRELIMINARY