

Senate, April 16, 1998. The Committee on Finance, Revenue and Bonding reported through SEN. LOONEY, 11th DIST., Chairman of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING ECONOMIC CLUSTERS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 12-217 of the general
2 statutes, as amended by section 1 of public act
3 97-119 and section 1 of public act 97-283, is
4 repealed and the following is substituted in lieu
5 thereof:

6 (a) (1) In arriving at net income as defined
7 in section 12-213, AS AMENDED, whether or not the
8 taxpayer is taxable under the federal corporation
9 net income tax, there shall be deducted from gross
10 income, (A) all items deductible under the
11 Internal Revenue Code effective and in force on
12 the last day of the income year except (i) any
13 taxes imposed under the provisions of this chapter
14 which are paid or accrued in the income year and
15 in the income year commencing January 1, 1989, and
16 thereafter, any taxes in any state of the United
17 States or any political subdivision of such state,
18 or the District of Columbia, imposed on or
19 measured by the income or profits of a corporation
20 which are paid or accrued in the income year, and
21 (ii) deductions for depreciation, which shall be
22 allowed as provided in subsection (b) of this
23 section, and (B) additionally, in the case of a

24 regulated investment company, the sum of (i) the
25 exempt-interest dividends, as defined in the
26 Internal Revenue Code, and (ii) expenses, bond
27 premium, and interest related to tax-exempt income
28 that are disallowed as deductions under the
29 Internal Revenue Code, and (C) in the case of a
30 taxpayer maintaining an international banking
31 facility as defined in the laws of the United
32 States or the regulations of the Board of
33 Governors of the Federal Reserve System, as either
34 may be amended from time to time, the gross income
35 attributable to the international banking
36 facility, provided, no expense or loss
37 attributable to the international banking facility
38 shall be a deduction under any provision of this
39 section, and (D) additionally, in the case of all
40 taxpayers, all dividends as defined in the
41 Internal Revenue Code effective and in force on
42 the last day of the income year not otherwise
43 deducted from gross income, including dividends
44 received from a DISC or former DISC as defined in
45 Section 992 of the Internal Revenue Code and
46 dividends deemed to have been distributed by a
47 DISC or former DISC as provided in Section 995 of
48 said Internal Revenue Code, other than thirty per
49 cent of dividends received from a domestic
50 corporation in which the taxpayer owns less than
51 twenty per cent of the total voting power and
52 value of the stock of such corporation.

53 (2) No deduction shall be allowed for (A)
54 expenses related to dividends which are allowable
55 as a deduction or credit under the Internal
56 Revenue Code and (B) federal taxes on income or
57 profits, losses of other calendar or fiscal years,
58 retroactive to include all calendar or fiscal
59 years beginning after January 1, 1935, interest
60 received from federal, state and local government
61 securities, if any such deductions are allowed by
62 the federal government.

63 (3) Notwithstanding any provision of this
64 section to the contrary, no dividend received from
65 a real estate investment trust shall be deductible
66 under this section by the recipient unless the
67 dividend is: (A) Deductible under Section 243 of
68 the Internal Revenue Code; or (B) received by a
69 qualified dividend recipient from a qualified real
70 estate investment trust and, as of the last day of
71 the period for which such dividend is paid,

72 persons, not including the qualified dividend
73 recipient or any person that is either a related
74 person to, or an employee or director of, the
75 qualified dividend recipient, have outstanding
76 cash capital contributions to the qualified real
77 estate investment trust that, in the aggregate,
78 exceed five per cent of the fair market value of
79 the aggregate real estate assets, valued as of the
80 last day of the period for which such dividend is
81 paid, then held by the qualified real estate
82 investment trust. For purposes of this section, a
83 "related person" is as defined in subdivision (7)
84 of subsection (a) of section 12-217m, AS AMENDED,
85 "real estate assets" is as defined in Section 856
86 of the Internal Revenue Code, a "qualified
87 dividend recipient" means a dividend recipient who
88 has invested in a qualified real estate investment
89 trust prior to April 1, 1997, and a "qualified
90 real estate investment trust" means an entity that
91 both was incorporated and had contributed to it a
92 minimum of five hundred million dollars worth of
93 real estate assets prior to April 1, 1997, and
94 that elects to be a real estate investment trust
95 under Section 856 of the Internal Revenue Code
96 prior to April 1, 1998.

97 (4) Notwithstanding anything in this section
98 to the contrary, (A) any excess of the deductions
99 provided in this section for any income year
100 commencing on or after January 1, 1973, over the
101 gross income for such year or the amount of such
102 excess apportioned to this state under the
103 provisions of section 12-218, AS AMENDED, shall be
104 an operating loss of such income year and shall be
105 deductible as an operating loss carry-over, FOR
106 OPERATING LOSSES INCURRED PRIOR TO INCOME YEARS
107 COMMENCING JANUARY 1, 1999, in each of the five
108 income years following such loss year, AND FOR
109 OPERATING LOSSES INCURRED IN INCOME YEARS
110 COMMENCING ON OR AFTER JANUARY 1, 1999, IN EACH OF
111 THE TWENTY INCOME YEARS FOLLOWING SUCH LOSS YEAR,
112 provided the portion of such operating loss which
113 may be deducted as an operating loss carry-over in
114 any income year following such loss year shall be
115 limited to the lesser of (i) any net income
116 greater than zero of such income year following
117 such loss year, or in the case of a company
118 entitled to apportion its net income under the
119 provisions of section 12-218, AS AMENDED, the

120 amount of such net income which is apportioned to
121 this state pursuant thereto, or (ii) the excess,
122 if any, of such operating loss over the total of
123 such net income for each of any prior income years
124 following such loss year, such net income of each
125 of such prior income years following such loss
126 year for such purposes being computed without
127 regard to any operating loss carry-over from such
128 loss year allowed by this subparagraph and being
129 regarded as not less than zero, and provided,
130 further, the operating loss of any income year
131 shall be deducted in any subsequent year, to the
132 extent available therefor, before the operating
133 loss of any subsequent income year is deducted,
134 and (B) any net capital loss, as defined in the
135 Internal Revenue Code effective and in force on
136 the last day of the income year, for any income
137 year commencing on or after January 1, 1973, shall
138 be allowed as a capital loss carry-over to reduce,
139 but not below zero, any net capital gain, as so
140 defined, in each of the five following income
141 years, in order of sequence, to the extent not
142 exhausted by the net capital gain of any of the
143 preceding of such five following income years, and
144 (C) any net capital losses allowed and carried
145 forward from prior years to income years beginning
146 on or after January 1, 1973, for federal income
147 tax purposes by companies entitled to a deduction
148 for dividends paid under the Internal Revenue Code
149 other than companies subject to the gross earnings
150 taxes imposed under chapters 211 and 212, shall be
151 allowed as a capital loss carry-over.

152 (5) This section shall not apply to a life
153 insurance company as defined in the Internal
154 Revenue Code effective and in force on the last
155 day of the income year. For purposes of this
156 section, the unpaid loss reserve adjustment
157 required for nonlife insurance companies under the
158 provisions of Section 832(b)(5) of the Internal
159 Revenue Code of 1986, or any subsequent
160 corresponding internal revenue code of the United
161 States, as from time to time amended, shall be
162 applied without making the adjustment in
163 Subparagraph (B) of said Section 832(b)(5).

164 (b) (1) For purposes of determining net
165 income under this section, the deduction allowed
166 for depreciation in the determination of net
167 income for purposes of the federal income tax

168 shall, for the income year of any company
169 commencing in 1981, 1982, 1983, 1984 or 1985, not
170 exceed as a percentage of the total amount of such
171 deduction allowed for federal income tax purposes,
172 ninety-six per cent for the income year commencing
173 in 1981, ninety-one per cent for the income year
174 commencing in 1982, eighty-four per cent for the
175 income year commencing in 1983, seventy-seven per
176 cent for the income year commencing in 1984, and
177 eighty-eight per cent for income years commencing
178 in 1985, provided the portion of such depreciation
179 allowed for federal income tax purposes but not
180 allowed with respect to any of such income years
181 in determining net income under this section,
182 shall be allowed as a deduction in determining net
183 income under this section, in equal amounts with
184 each of such amounts computed as one-fifth of the
185 total of such depreciation not allowed for such
186 income year, with respect to each of the five
187 successive income years of such company commencing
188 with the third income year immediately following
189 the income year in which such depreciation is not
190 allowed. (2) Alternatively, for purposes of
191 determining net income under this section, any
192 company qualified to claim deduction for
193 depreciation as described in subdivision (1) of
194 this subsection for the income year commencing in
195 1981, 1982, 1983, 1984 or 1985, may elect, in lieu
196 of the procedure under said subdivision (1), to
197 depreciate property placed in service on or after
198 January 1, 1981, in accordance with provisions of
199 the federal corporation net income tax law
200 applicable to depreciable property placed in
201 service immediately prior to January 1, 1981, and
202 such depreciation so determined for any of such
203 years shall be allowed as a deduction in
204 determining net income under this section for such
205 income year, provided the Commissioner of Revenue
206 Services may refuse to allow any such deduction
207 submitted in accordance with this subdivision if
208 the information in substantiation of such
209 deduction is deemed unsatisfactory by said
210 commissioner in relation to generally accepted
211 accounting procedures.

212 (c) (1) Notwithstanding the provisions of
213 subsections (a) and (b) of this section, "net
214 income", in the case of an S corporation, means
215 the percentage of the nonseparately computed

216 income or loss, as defined in Section 1366(a)(2)
217 of the Internal Revenue Code, of such S
218 corporation, without separate state adjustment
219 pursuant to section 12-233 or 12-226a for the
220 compensation of any officer or employee, to which
221 shall be added (A) any taxes imposed under the
222 provisions of this chapter which are paid or
223 accrued in the income year and (B) any taxes in
224 any state of the United States or any political
225 subdivision of such state, or the District of
226 Columbia, imposed on or measured by the income or
227 profits of a corporation which are paid or accrued
228 in the income year as provided in subdivision (2)
229 of this subsection.

230 (2) For income years commencing prior to
231 January 1, 1997, "net income" means one hundred
232 per cent of the amount computed under subdivision
233 (1) of this subsection; for income years
234 commencing on or after January 1, 1997, and prior
235 to January 1, 1998, "net income" means ninety per
236 cent of the amount computed under subdivision (1)
237 of this subsection; for income years commencing on
238 or after January 1, 1998, and prior to January 1,
239 1999, "net income" means seventy-five per cent of
240 the amount computed under subdivision (1) of this
241 subsection; for income years commencing on or
242 after January 1, 1999, and prior to January 1,
243 2000, "net income" means fifty-five per cent of
244 the amount computed under subdivision (1) of this
245 subsection; for income years commencing on or
246 after January 1, 2000, and prior to January 1,
247 2001, "net income" means thirty per cent of the
248 amount computed under subdivision (1) of this
249 subsection; for income years commencing on or
250 after January 1, 2001, net income of S
251 corporations as computed under subdivision (1) of
252 this subsection shall not be subject to the tax
253 under this chapter. Any S corporation subject to
254 the tax on net income as provided in this section
255 shall be eligible for any credit against the tax
256 otherwise available to taxpayers under this
257 chapter only to the extent and in the same
258 percentage as net income of such S corporation is
259 subject to taxation under this chapter.

260 (d) The commissioner may adopt regulations in
261 accordance with chapter 54, relating to mergers or
262 consolidations of corporations providing for the
263 deduction, by the surviving or new corporation

264 provided for in the plan of consolidation, of
265 operating losses that were incurred by a merging
266 or consolidating corporation, respectively, before
267 the merger or consolidation, respectively. Such
268 regulations may follow the provisions of the
269 Internal Revenue Code of 1986, or any subsequent
270 corresponding internal revenue code of the United
271 States, as from time to time amended, or the
272 regulations thereunder.

273 Sec. 2. Section 12-217j of the general
274 statutes is repealed and the following is
275 substituted in lieu thereof:

276 There shall be allowed as a credit against
277 the tax imposed on any corporation under this
278 chapter, (1) with respect to income years of such
279 corporation commencing on or after January 1,
280 1993, and prior to January 1, 1994, an amount
281 equal to ten per cent of the amount spent by such
282 corporation directly on research and experimental
283 expenditures, as defined in Section 174 of the
284 Internal Revenue Code of 1986, or any subsequent
285 corresponding internal revenue code of the United
286 States, as from time to time amended, which are
287 conducted in this state and which exceeds the
288 amount spent by such corporation during the
289 preceding taxable year of such corporation for
290 such expenditures and (2) with respect to any
291 taxable year of such corporation commencing on or
292 after January 1, 1994, an amount equal to twenty
293 per cent of the amount spent by such corporation
294 on such expenditures which exceeds the amount
295 spent by such corporation during the preceding
296 taxable year of such corporation for such
297 expenditures. A credit or any portion of a credit
298 that is allowed under this section WITH RESPECT
299 TO ANY TAXABLE YEAR COMMENCING ON OR AFTER JANUARY
300 1, 1999, but is not used by a [biotechnology
301 company] TAXPAYER because the amount of the credit
302 exceeds the tax due and owing by the
303 [biotechnology company] TAXPAYER shall be carried
304 forward to each of the successive income years
305 until such credit, or applicable portion of the
306 credit, is fully taken. In no case shall a credit,
307 or any portion of a credit, that is not used [by a
308 biotechnology company] be carried forward for a
309 period of more than [fifteen] TWENTY years. [For
310 the purposes of this section, "biotechnology
311 company" means a company engaged in the business

312 of applying technologies, such as recombinant DNA
313 techniques, biochemistry, molecular and cellular
314 biology, genetics and genetic engineering,
315 biological cell fusion techniques, and new
316 bioprocesses, using living organisms, or parts of
317 organisms, to produce or modify products, to
318 improve plants or animals, to develop
319 microorganisms for specific uses, to identify
320 targets for small molecule pharmaceutical
321 development, or to transform biological systems
322 into useful processes and products or to develop
323 microorganisms for specific uses.] ANY QUALIFIED
324 ASSIGNING SMALL BUSINESS, AS DEFINED IN SECTION
325 12-217n, AS AMENDED BY THIS ACT, ALLOWED A CREDIT
326 UNDER THIS SECTION MAY ASSIGN SUCH CREDIT ALLOWED
327 FOR ANY TAXABLE YEAR COMMENCING ON OR AFTER
328 JANUARY 1, 1999, TO ANOTHER PERSON PROVIDED SUCH
329 PERSON MAY CLAIM THE CREDIT ONLY WITH RESPECT TO A
330 CALENDAR YEAR FOR WHICH THE QUALIFIED ASSIGNING
331 SMALL BUSINESS WOULD HAVE BEEN ELIGIBLE TO CLAIM
332 THE CREDIT. THE COMMISSIONER MAY ADOPT REGULATIONS
333 IN ACCORDANCE WITH CHAPTER 54 TO CARRY OUT THE
334 PURPOSES OF THIS SECTION.

335 Sec. 3. Section 12-217n of the general
336 statutes is repealed and the following is
337 substituted in lieu thereof:

338 (a) There shall be allowed as a credit
339 against the tax imposed by this chapter the amount
340 determined under subsection (c) of this section in
341 respect of the research and development expenses
342 paid or incurred during any income year, subject
343 to the limitations of this section.

344 (b) For purposes of this section:

345 (1) "Research and development expenses" means
346 research or experimental expenditures deductible
347 under Section 174 of the Internal Revenue Code of
348 1986, as in effect on May 28, 1993, determined
349 without regard to Section 280C(c) thereof or any
350 elections made by a taxpayer to amortize such
351 expenses on its federal income tax return that
352 were otherwise deductible, and basic research
353 payments as defined under Section 41 of said
354 Internal Revenue Code to the extent not deducted
355 under said Section 174, provided: (A) Such
356 expenditures and payments are paid or incurred for
357 such research and experimentation and basic
358 research conducted in this state; and (B) such
359 expenditures and payments are not funded, within

360 the meaning of Section 41(d)(4)(H) of said
361 Internal Revenue Code, by any grant, contract, or
362 otherwise by a person or governmental entity other
363 than the taxpayer unless such other person is
364 included in a combined return with the person
365 paying or incurring such expenses;

366 (2) "Combined return" shall mean a combined
367 corporation business tax return under section
368 12-223a;

369 (3) "Commissioner" means the Commissioner of
370 Economic and Community Development;

371 (4) "QUALIFIED SMALL BUSINESS" MEANS A
372 COMPANY THAT (A) HAS GROSS INCOME FOR THE PREVIOUS
373 INCOME YEAR THAT DOES NOT EXCEED ONE HUNDRED
374 MILLION DOLLARS AND (B) HAS NOT, IN THE
375 DETERMINATION OF THE COMMISSIONER, MET THE GROSS
376 INCOME TEST THROUGH TRANSACTIONS WITH A RELATED
377 PERSON AS DEFINED IN SECTION 12-217m;

378 (5) "QUALIFIED ASSIGNING SMALL BUSINESS"
379 MEANS A COMPANY THAT (A) HAS GROSS INCOME FOR THE
380 PREVIOUS INCOME YEAR THAT DOES NOT EXCEED THIRTY
381 MILLION DOLLARS AND (B) HAS NOT, IN THE
382 DETERMINATION OF THE COMMISSIONER, MET THE GROSS
383 INCOME TEST THROUGH TRANSACTIONS WITH A RELATED
384 PERSON AS DEFINED IN SECTION 12-217m.

385 (c) (1) The amount allowed as a credit in any
386 income year shall be the tentative credit
387 calculated under subdivision (2) of this
388 subsection, modified as provided in subsection (e)
389 or (f) of this section, if applicable, EXCEPT THAT
390 IN THE CASE OF A QUALIFIED SMALL BUSINESS THE
391 TENTATIVE CREDIT ALLOWED FOR RESEARCH AND
392 DEVELOPMENT EXPENSES SHALL BE EQUAL TO SIX PER
393 CENT OF SUCH EXPENSES.

394 (2) Where the research and development
395 expenses paid or incurred in the income year
396 equal: (A) Fifty million dollars or less, the
397 tentative credit allowed shall be an amount equal
398 to one per cent of such expenses; (B) more than
399 fifty million dollars but not more than one
400 hundred million dollars, the tentative credit
401 allowed shall be equal to five hundred thousand
402 dollars plus two per cent of the excess of such
403 expenses over fifty million dollars; (C) more than
404 one hundred million dollars but not more than two
405 hundred million dollars, the tentative credit
406 allowed shall be equal to one million five hundred
407 thousand dollars plus four per cent of the excess

408 of such expenses over one hundred million dollars;
409 and (D) more than two hundred million dollars, the
410 tentative credit allowed shall be equal to five
411 million five hundred thousand dollars plus six per
412 cent of the excess of such expenses over two
413 hundred million dollars.

414 (d) (1) The credit provided for by this
415 section shall be allowed for any income year
416 commencing on or after January 1, 1993, provided
417 any credits allowed for income years commencing on
418 or after January 1, 1993, and prior to January 1,
419 1995, may not be taken until income years
420 commencing on or after January 1, 1995, and, for
421 the purposes of subdivision (2) of this
422 subsection, shall be treated as if the credit for
423 each such income year first became allowable in
424 the first income year commencing on or after
425 January 1, 1995.

426 (2) No more than one-third of the amount of
427 the credit allowable for any income year may be
428 included in the calculation of the amount of the
429 credit that may be taken in that income year.

430 (3) The total amount of the credit under
431 subdivision (1) of this subsection that may be
432 taken for any income year may not exceed the
433 greater of (A) fifty per cent of the taxpayer's
434 tax liability or in the case of a combined return,
435 fifty per cent of the combined tax liability, for
436 such income year, determined without regard to any
437 credits allowed under this section, and (B) the
438 lesser of (i) two hundred per cent of the credit
439 otherwise allowed under subsection (c) of this
440 section for such income year, and (ii) ninety per
441 cent of the taxpayer's tax liability or in the
442 case of a combined return, ninety per cent of the
443 combined liability for such income year,
444 determined without regard to any credits allowed
445 under this section.

446 (4) Credits that are allowed under this
447 section but that exceed the amount permitted to be
448 taken in an income year by reason of subdivision
449 (1), (2) or (3) of this subsection, shall be
450 carried forward to each of the successive income
451 years until such credits, or applicable portion
452 thereof, are fully taken. No credit permitted
453 under this section shall be taken in any income
454 year until the full amount of all allowable
455 credits carried forward to such year from any

456 prior income year, commencing with the earliest
457 such prior year, that otherwise may be taken under
458 subdivision (2) of this subsection in that income
459 year, have been fully taken.

460 (5) ANY QUALIFIED ASSIGNING SMALL BUSINESS
461 ALLOWED A CREDIT UNDER THIS SECTION MAY ASSIGN
462 SUCH CREDIT ALLOWED FOR ANY TAXABLE YEAR
463 COMMENCING ON OR AFTER JANUARY 1, 1999, TO ANOTHER
464 PERSON, PROVIDED SUCH PERSON MAY TAKE THE CREDIT
465 ONLY WITH RESPECT TO A CALENDAR YEAR FOR WHICH THE
466 QUALIFIED ASSIGNING SMALL BUSINESS WOULD HAVE BEEN
467 ELIGIBLE TO TAKE THE CREDIT.

468 (e) In addition to the wage base test set
469 forth in subsection (f) of this section, any
470 aerospace company or in the case of a combined
471 return, any combined group including an aerospace
472 company, shall be subject to this subsection for
473 any income year commencing on or after January 1,
474 1993, and prior to January 1, 1996. For purposes
475 of this subsection, an aerospace company is any
476 taxpayer, whether or not included in a combined
477 return, engaged principally in the aerospace
478 industry whose research and development expenses
479 during each of the income years beginning on or
480 after January 1, 1990, 1991 and 1992,
481 respectively, exceeded two hundred million
482 dollars. No aerospace company, or in the case of a
483 combined return, a combined group including an
484 aerospace company, shall be allowed any credit
485 under this section for any income year to which
486 this subsection applies in which the aggregate
487 transfers by an aerospace company, if any, of
488 historical economic base functions outside of this
489 state, other than to a location outside the United
490 States, since January 1, 1993, through the end of
491 such income year, have materially reduced the
492 historical economic base functions in this state.
493 For purposes of this subsection, the historical
494 economic base functions shall be those economic
495 base functions conducted by an aerospace company,
496 which need not be all economic base functions of
497 the aerospace company, in this state on January 1,
498 1993, whose continuance in this state, as
499 determined by the commissioner in his discretion,
500 will further the policies set forth in section
501 32-221. Such historical economic base functions
502 shall be set forth in a binding memorandum of
503 understanding between the commissioner and an

504 aerospace company that may be entered into at any
505 time prior to the expiration of the first income
506 year to which this subsection applies, with
507 sufficient specificity to allow the commissioner
508 and the aerospace company to determine in all
509 income years subject to this subsection whether
510 there has been such a reduction in said historical
511 economic base functions. As a prerequisite to the
512 allowance of any credit otherwise allowable under
513 this section for any income year to which this
514 subsection applies, each aerospace company shall
515 obtain a certificate of eligibility issued by the
516 commissioner to the aerospace company for such
517 income year. The aerospace company shall within
518 sixty days of the close of each income year to
519 which this subsection applies certify to the
520 commissioner that there has been no such aggregate
521 material reduction in the historical economic base
522 functions in this state for the income year just
523 completed that otherwise has not been offset as
524 provided below. Within sixty days thereafter, the
525 commissioner shall review the certification and,
526 if the commissioner determines that there has been
527 no such net aggregate material reduction in the
528 historical economic base functions in this state,
529 the commissioner shall issue a certificate of
530 eligibility for said income year. The following
531 shall not constitute a material reduction in the
532 historical economic base functions in this state:
533 (1) A reduction of not more than two per cent of
534 the historical economic base functions; (2)
535 transfer of an historical economic base function
536 to a person in this state; (3) transfer of a
537 historical economic base function outside of the
538 United States; or (4) reductions in historical
539 economic base functions attributable to reductions
540 in volume, productivity improvements or the
541 discontinuance of operations due to obsolescence
542 or the like. Any transfers that may otherwise be
543 counted in determining if a material reduction
544 occurred may be offset to the extent economic base
545 functions listed in, or comparable to those listed
546 in, the memorandum of understanding are increased
547 in this state, transferred into this state, or
548 established in this state. Any such increase,
549 transfer or establishment made during an income
550 year, or subsequent to such income year but prior
551 to the filing of the return for such income year,

552 shall be effective for such income year and all
553 income years thereafter. The commissioner may
554 issue or reissue a certificate of eligibility for
555 the applicable income year following any such
556 offset. The aerospace company, or in the case of a
557 combined return including an aerospace company,
558 the combined group, shall include its certificate
559 of eligibility and memorandum of understanding
560 with its corporation business tax return for any
561 applicable income year. Information provided under
562 this subsection and subsection (f) of this section
563 shall be treated as provided in subsection (k) of
564 section 32-11a.

565 (f) The tentative credit allowable to the
566 taxpayer, or in the case of a combined return, the
567 combined group, that pays or incurs research and
568 development expenses in excess of two hundred
569 million dollars for the income year shall be
570 reduced for any income year in which the workforce
571 reductions, if any, exceed the percentages set
572 forth below. For purposes of this subsection,
573 workforce reductions shall be reductions of the
574 historical Connecticut wage base of the taxpayer,
575 or in the case of a combined return, the combined
576 group, as a result of the transfer outside of this
577 state, other than to a location outside the United
578 States, of work done by employees of the taxpayer,
579 or in the case of a combined return, the combined
580 group. Such reduction in the tentative credit
581 shall be as follows: (1) If the historical
582 Connecticut wage base for the income year is so
583 reduced by not more than two per cent, the
584 tentative credit allowable for the income year
585 shall not be reduced; (2) if the historical
586 Connecticut wage base for the income year is so
587 reduced by more than two per cent but not more
588 than three per cent, the tentative credit
589 allowable for the income year shall be reduced by
590 ten per cent; (3) if the historical Connecticut
591 wage base for the income year is so reduced by
592 more than three per cent but not more than four
593 per cent, the tentative credit allowable for the
594 income year shall be reduced by twenty per cent;
595 (4) if the historical Connecticut wage base for
596 the income year is so reduced by more than four
597 per cent but not more than five per cent, the
598 tentative credit allowable for the income year
599 shall be reduced by forty per cent; (5) if the

600 historical Connecticut wage base for the income
601 year is so reduced by more than five per cent but
602 not more than six per cent, the tentative credit
603 allowable for the income year shall be reduced by
604 seventy per cent; and (6) if the historical
605 Connecticut wage base for the income year is so
606 reduced by more than six per cent, no credit for
607 the income year shall be allowed. The Connecticut
608 wage base for any income year shall be the total
609 wages assigned to Connecticut for such income year
610 under section 12-218, AS AMENDED, excluding wages
611 paid to the ten most highly-compensated executives
612 of the taxpayer, or in the case of a combined
613 return, the combined group, and any compensation
614 that does not subject the recipient thereof to
615 federal income tax thereon in said income year.
616 The historical Connecticut wage base shall be the
617 Connecticut wage base for the third full income
618 year immediately preceding the current income
619 year; provided the historical Connecticut wage
620 base for the first three income years commencing
621 on or after January 1, 1993, shall be the
622 Connecticut wage base for May 1993, converted to
623 an annual basis. The following shall not
624 constitute a workforce reduction for any income
625 year: (A) A reduction of wages attributable to the
626 transfer of work done by a taxpayer, or in the
627 case of a combined return, by the combined group,
628 in this state to a party in this state; (B) a
629 reduction of wages attributable to the transfer of
630 work done by a taxpayer, or in the case of a
631 combined return, by the combined group, outside
632 the United States; or (C) a reduction in wages
633 attributable to reductions in volume, productivity
634 improvements or the discontinuance of operations
635 due to obsolescence or the like. Solely for
636 purposes of determining whether the allowable
637 credit is to be reduced under this subsection for
638 any income year, the Connecticut wages
639 attributable to any new jobs or jobs moved into
640 this state by the taxpayer, or in the case of a
641 combined return, the combined group, during such
642 income year or subsequent to such income year but
643 prior to the filing of the return for such income
644 year shall be an offset to any workforce reduction
645 of a taxpayer, or in the case of a combined
646 return, the combined group, for said income year.
647 A new job shall be a job that did not exist in the

648 business of a taxpayer, or in the case of a
649 combined return, a member of the combined group,
650 in this state at the end of the income year just
651 completed. Notwithstanding subsection (g) of this
652 section, a taxpayer may elect for any income year
653 to separately compute its allowable tentative
654 credit under this subsection for any one or more
655 business units that had gross revenues for such
656 income year in excess of one hundred million
657 dollars. Any taxpayer subject to this subsection
658 shall within sixty days of the close of each
659 income year certify to the commissioner whether or
660 not there has been any workforce reduction for the
661 income year just completed, the amount thereof,
662 and any offsets thereto as provided above. Within
663 sixty days thereafter, the commissioner shall
664 review the certification and, if the commissioner
665 determines that there has been no more than a six
666 per cent workforce reduction, net of any such
667 offsets, the commissioner shall issue a
668 certificate of eligibility stating the amount of
669 net workforce reduction so determined for said
670 income year, if any. The commissioner shall not
671 issue a certificate of eligibility for any income
672 year in which the commissioner determines that
673 there has been more than a six per cent net
674 workforce reduction. The taxpayer, or in the case
675 of a combined return, the combined group, shall
676 file such a certificate of eligibility with any
677 return on which a credit subject to this
678 subsection is claimed.

679 (g) Where one or more taxpayers properly
680 included in a combined return pays or incurs
681 research and development expenses, all allowances
682 and limitations under this section shall be made
683 on an aggregate basis for all taxpayers included
684 in such combined return, PROVIDED, THE CREDIT
685 ATTRIBUTABLE TO A QUALIFIED SMALL BUSINESS MAY BE
686 TAKEN ONLY AGAINST THE COMBINED TAX LIABILITY
687 ATTRIBUTABLE TO SUCH QUALIFIED SMALL BUSINESS. THE
688 AMOUNT OF THE COMBINED TAX FOR ALL CORPORATIONS
689 PROPERLY INCLUDED IN A COMBINED CORPORATION
690 BUSINESS TAX RETURN THAT IS ATTRIBUTABLE TO A
691 QUALIFIED SMALL BUSINESS SHALL BE IN THE SAME
692 RATIO TO SUCH COMBINED TAX THAT THE NET INCOME
693 APPORTIONED TO THIS STATE OF THE QUALIFIED SMALL
694 BUSINESS BEARS TO THE NET INCOME, IN THE AGGREGATE
695 OF ALL CORPORATIONS INCLUDED IN SUCH COMBINED

696 RETURN. SOLELY FOR THE PURPOSES OF COMPUTING SUCH
697 RATIO, ANY NET LOSS APPORTIONED TO THIS STATE BY A
698 CORPORATION INCLUDED IN SUCH COMBINED RETURN SHALL
699 BE DISREGARDED.

700 (h) Any taxpayer, or in the case of a
701 combined return, any combined group of taxpayers,
702 that claims a credit under section 12-217j, AS
703 AMENDED BY THIS ACT, for any income year shall
704 reduce the amount of research and development
705 expenses that otherwise may be taken into account
706 in computing the allowable credit under subsection
707 (c) of this section for such income year by the
708 amount of excess research and experimental
709 expenditures, as computed under said section
710 12-217j, AS AMENDED BY THIS ACT, for which the
711 credit thereunder is given. Any taxpayer, or in
712 the case of a combined return, any combined group
713 of taxpayers, that claims a credit under section
714 12-217l for any income year shall reduce the
715 amount of research and development expenses that
716 otherwise may be taken into account in computing
717 the allowable credit under subsection (c) of this
718 section for such income year by the amount of
719 excess grants to institutions of higher education
720 in Connecticut, as computed under said section
721 12-217l, for which the credit thereunder is given.

722 (i) THE COMMISSIONER MAY ADOPT REGULATIONS,
723 IN ACCORDANCE WITH THE PROVISIONS OF CHAPTER 54,
724 TO CARRY OUT THE PURPOSES OF THIS SECTION.

725 Sec. 4. Section 32-222 of the general
726 statutes, as amended by sections 4 and 5 of public
727 act 97-211, is repealed and the following is
728 substituted in lieu thereof:

729 As used in sections 32-220 to 32-234,
730 inclusive, AS AMENDED:

731 (a) "Business development project" means a
732 project undertaken by an eligible applicant
733 involving one or more of the activities described
734 in subdivision (1), satisfying one or more of the
735 criteria set forth in subdivision (2) or involving
736 the activities described in subdivision (3), as
737 follows:

738 (1) The project involves (A) the
739 construction, substantial renovation, improvement
740 or expansion of a facility; (B) the acquisition of
741 an existing facility that has been idle for at
742 least one year prior to such acquisition, provided
743 if such facility is acquired through a lease, such

744 lease: (i) Shall be for an initial term of not
745 less than five years and (ii) shall be renewable
746 at the option of the lessee for an additional term
747 of not less than five years, provided the lease
748 may be subject to the option of the lessee to
749 purchase the facility at any time during the lease
750 term or thereafter. The commissioner may waive the
751 one year idleness requirement upon determination
752 that there is a high likelihood that the facility
753 will remain idle for one year. In making such
754 determination, the commissioner shall consider the
755 marketability of the facility, the general
756 economic condition of the municipality in which
757 the facility is located, the size of the facility,
758 the economic benefit of the proposed acquisition
759 to the municipality and the state, including, but
760 not limited to, the number of employment positions
761 proposed to be established at the facility, and
762 the degree to which the provision of financial
763 assistance under sections 32-220 to 32-234,
764 inclusive, AS AMENDED, is necessary as an
765 inducement to the eligible applicant to acquire
766 the facility; (C) the acquisition of new machinery
767 and equipment used directly in the manufacturing
768 of goods or products and acquired through purchase
769 as part of the technological upgrading of the
770 manufacturing process of a facility used in the
771 operation of a manufacturing or economic base
772 business which (i) has been in continuous
773 operation in the state for not less than five
774 years; and (ii) has incurred costs in acquiring
775 such machinery and equipment not less than the
776 greater of two hundred thousand dollars, or two
777 hundred per cent of the average annual expenditure
778 of the manufacturing or economic base business for
779 the acquisition of new machinery and equipment
780 used directly in the manufacturing of goods or
781 products at the facility during the three years
782 prior to the date upon which an application for
783 financial assistance is submitted pursuant to
784 subsection (c) of section 32-223, AS AMENDED, or
785 (D) the acquisition, improvement, demolition or
786 disposition of real property, or combinations
787 thereof, used or to be used in connection with the
788 operation of a manufacturing or economic base
789 business, provided, if the eligible applicant is
790 not a municipality or implementing agency, the
791 commissioner has determined that such project

792 would not be undertaken or completed in a timely
793 manner except for the provision of financial
794 assistance pursuant to sections 32-220 to 32-234,
795 inclusive, AS AMENDED, and that such project
796 promotes the economic stability and growth of the
797 state or any region thereof;

798 (2) A project which will: (A) Create at a
799 facility, within twenty-four months of the
800 initiation of a hiring program, not less than ten
801 new jobs or an increase in the number of persons
802 employed at the facility of twenty per cent,
803 whichever is greater; (B) promote the
804 diversification of the economy of an area of the
805 state or manufacturing or other economic base
806 business where such area or business is
807 substantially reliant upon defense and related
808 industry; (C) assist in the avoidance of an
809 imminent plant closing or relocation by a
810 manufacturing or other economic base business or
811 assist or improve the economy of an area of the
812 state which has been or is likely to be
813 significantly and adversely impacted by one or
814 more major plant closings or relocations; (D)
815 support research and development or
816 commercialization of technologies, products,
817 processes or techniques of a manufacturing or
818 other economic base business; (E) promote
819 community conservation or development or
820 improvement of the quality of life for urban
821 residents of the state; or (F) promote the
822 revitalization of underutilized, state-owned
823 former railroad depots and areas adjacent to such
824 depots;

825 (3) The project involves the creation of an
826 inventors workshop by an eligible applicant, to
827 enable (A) small manufacturing subcontractors
828 which manufacture parts and components exclusively
829 for other companies or (B) current or former
830 manufacturing employees or higher education
831 faculty or researchers, to design, test,
832 manufacture and market new products and
833 manufacturing techniques;

834 (b) "Business support services" means
835 activities related to a municipal development
836 project or business development project which
837 support the economic competitiveness of
838 manufacturing or economic base businesses or which
839 further the interests of the state, including, but

840 not limited to, facilities and services related to
841 day care, job training, education, transportation,
842 employee housing, energy conservation, pollution
843 control and recycling, provided activities related
844 to employee housing shall be limited to
845 feasibility and implementation studies;

846 (c) "Commissioner" means the Commissioner of
847 Economic and Community Development;

848 (d) "ECONOMIC CLUSTER" MEANS AN ECONOMIC
849 CLUSTER, AS DEFINED IN SECTION 32-4e, RECOGNIZED
850 BY THE COMMISSIONER;

851 [(d)] (e) "Department" means the Department
852 of Economic and Community Development;

853 [(e)] (f) "Development plan" means a plan for
854 a municipal development project prepared in
855 accordance with the provisions of subsection (b)
856 of section 32-223, AS AMENDED;

857 [(f)] (g) "Eligible applicant" means any
858 for-profit or nonprofit organization, or any
859 combination thereof, provided, in the case of a
860 defense diversification project, "eligible
861 applicant" means any for-profit or nonprofit
862 organization, municipality, regional planning
863 agency or any combination thereof and further
864 provided, in the case of a loan made by the
865 Connecticut Development Authority in which the
866 department purchases a participation interest,
867 "eligible applicant" means the for-profit or
868 nonprofit organization, or any combination
869 thereof, that will receive the proceeds of such
870 loan;

871 [(g)] (h) "Facility" means a plant, building
872 or other real property improvement, or part
873 thereof, used or to be used in connection with the
874 operation of a manufacturing or economic base
875 business;

876 [(h)] (i) "Financial assistance" means
877 grants, extensions of credit, loans or loan
878 guarantees, participation interests in loans made
879 to eligible applicants by the Connecticut
880 Development Authority or combinations thereof;

881 [(i)] (j) "For-profit organization" means a
882 for-profit partnership or sole proprietorship or
883 corporation which is a manufacturing or economic
884 base business or which has demonstrated to the
885 satisfaction of the commissioner that it has the
886 qualifications, including financial

887 qualifications, necessary to carry out a business
888 development project;

889 [(j)] (k) "Implementing agency" means one of
890 the following agencies designated by a
891 municipality under section 32-223, AS AMENDED: (1)
892 An economic development commission, redevelopment
893 agency; sewer authority or sewer commission;
894 public works commission; water authority or water
895 commission; port authority or port commission or
896 harbor authority or harbor commission; parking
897 authority or parking commission; (2) a nonprofit
898 development corporation; or (3) any other agency
899 designated and authorized by a municipality to
900 undertake a project and approved by the
901 commissioner;

902 [(k)] (l) "Manufacturing or economic base
903 business" means a business classified in
904 accordance with the standard industrial
905 classification system of the Bureau of Census of
906 the United States Department of Commerce as
907 belonging to a major industry group numbered 20 to
908 39, inclusive; a business engaged in research and
909 development directly related to (1) manufacturing,
910 (2) agriculture or (3) aquaculture; a business
911 engaged in the significant servicing, overhauling
912 or rebuilding of machinery and equipment for
913 industrial use; ANY BUSINESS THAT IS PART OF AN
914 ECONOMIC CLUSTER; or any establishment or
915 auxiliary or operating unit thereof, as defined in
916 the Standard Industrial Classification Manual,
917 which the commissioner determines will materially
918 contribute to the economy of the state by creating
919 or retaining jobs, exporting products or services
920 beyond the state's boundaries, encouraging
921 innovation in products or services, adding value
922 to products or services, or otherwise supporting
923 or enhancing existing activities that are
924 important to the economy of the state;

925 [(l)] (m) "Municipal development project"
926 means a business development project through which
927 real property is acquired by a municipality or
928 implementing agency as part of such project;

929 [(m)] (n) "Municipality" means a town, city,
930 consolidated town and city or consolidated town
931 and borough;

932 [(n)] (o) "Nonprofit organization" means a
933 municipality or nonprofit corporation as defined
934 in section 33-1002 and organized under the laws of

935 this state and for purposes of this chapter
936 includes any constituent unit of the state system
937 of higher education;

938 [(o)] (p) "Planning commission" means a
939 planning and zoning commission designated pursuant
940 to section 8-4a or a planning commission created
941 pursuant to section 8-19;

942 [(p)] (q) "Project" means a municipal
943 development project or business development
944 project;

945 [(q)] (r) "Project area" means the area
946 within which a municipal development project or
947 business development project is located;

948 [(r)] (s) "Real property" means land,
949 buildings and other structures and improvements
950 thereto, subterranean or subsurface right, any and
951 all easements, air rights and franchises of any
952 kind or nature;

953 [(s)] (t) "Site and infrastructure
954 improvements" mean improvements to: (1) Sanitary
955 sewer facilities; (2) natural gas pipes, electric,
956 telephone and telecommunications conduits and
957 other facilities and waterlines and water supply
958 facilities, except for any such pipes, wires,
959 conduits, waterlines or facilities which a public
960 service company, as defined in section 16-1, water
961 company, as defined in section 25-32a, or
962 municipal utility is required to install pursuant
963 to any provision of the general statutes or any
964 special act, regulation or order of the Department
965 of Public Utility Control or a certificate of
966 public convenience and necessity; (3) storm
967 drainage facilities, including facilities to
968 control flooding; (4) site grading, landscaping,
969 environmental improvements, parking facilities,
970 roadways and related appurtenances; (5) railroad
971 spurs; (6) public port or docking facilities; and
972 (7) such other related improvements necessary or
973 appropriate to carry out the project;

974 [(t)] (u) "State" means the state of
975 Connecticut;

976 [(u)] (v) "Targeted investment community"
977 means a municipality which contains an enterprise
978 zone designated pursuant to section 32-70, AS
979 AMENDED;

980 [(v)] (w) "Total project cost" means costs of
981 any kind or nature relating to the planning,

982 implementation and completion of a municipal or
983 business development project;
984 [(w)] (x) "Defense diversification project"
985 means a project undertaken during the period from
986 July 1, 1991, to June 30, 1998, inclusive, by an
987 eligible applicant, as defined in this subsection,
988 involving any of the following: (1) Conversion or
989 preparation for conversion of defense-related
990 production to other types of production; (2)
991 product diversification or capital, organizational
992 or technological modernization by an eligible
993 applicant engaged in defense-related production;
994 (3) product diversification or conversion of
995 business service activity for application or use
996 in other than defense-related business by any
997 subcontractor engaged in defense-related
998 production or business service activity; (4)
999 conversion by an eligible applicant of real
1000 property used in its entirety, or in part, for
1001 defense-related activity to a use primarily for
1002 other than defense-related activity, including use
1003 as a site related to the export of Connecticut
1004 products from the state for purposes of
1005 encouraging such exportation; (5) product
1006 diversification or conversion of business service
1007 activity by an eligible applicant engaged in
1008 production or business service activity which is
1009 not defense-related in a region of the state
1010 determined by the commissioner to be significantly
1011 impacted by the loss, or potential loss, of
1012 defense-related production or business service
1013 activity, including acquisition or development, or
1014 both, of real property by such applicant for
1015 purposes of such diversification or conversion;
1016 and (6) the creation or expansion of production,
1017 business service, research or research-related
1018 activities by an eligible applicant that will
1019 significantly increase employment opportunities
1020 for former employees of a contractor or
1021 subcontractor engaged in defense-related
1022 production. For purposes of any defense
1023 diversification project, as defined in this
1024 subsection, (A) "regional defense diversification
1025 plan" means a plan prepared or supported by an
1026 eligible applicant for purposes of (i) promoting
1027 or advocating defense diversification projects or
1028 (ii) supporting the retention of naval operations
1029 as an interim strategy for economic stability

1030 within a region seeking diversification, (B)
1031 "eligible applicant" means any for-profit or
1032 nonprofit organization, municipality, regional
1033 planning agency or any combination thereof and (C)
1034 "business service activity" means the rendering of
1035 any type of service to a business organization for
1036 consideration;

1037 [(x)] (y) "Legislative body" means (1) the
1038 board of selectmen in a town that does not have a
1039 charter, special act or home rule ordinance
1040 relating to its government or (2) the council,
1041 board of aldermen, representative town meeting,
1042 board of selectmen or other elected legislative
1043 body described in a charter, special act or home
1044 rule ordinance relating to its government in a
1045 city, consolidated town and city, consolidated
1046 town and borough or a town having a charter,
1047 special act, consolidation ordinance or home rule
1048 ordinance relating to its government.

1049 Sec. 5. Section 32-348 of the general
1050 statutes is repealed and the following is
1051 substituted in lieu thereof:

1052 (a) There is hereby established within the
1053 Department of Economic and Community Development a
1054 manufacturing extension service program for the
1055 purpose of awarding a grant to [a private
1056 nonprofit or public entity seeking to establish
1057 within the state a manufacturing extension service
1058 for small and medium-sized manufacturers] THE
1059 CONNECTICUT MANUFACTURING EXTENSION PARTNERSHIP
1060 AFFILIATE, WHICH SHALL BE KNOWN AS CONNSTEP, AS
1061 DESIGNATED BY THE UNITED STATES DEPARTMENT OF
1062 COMMERCE NATIONAL INSTITUTE OF STANDARDS AND
1063 TECHNOLOGY. Applications for a grant under this
1064 section shall be made and grants shall be awarded
1065 in the manner and form prescribed by the
1066 commissioner. The extension service's
1067 responsibilities shall include, but not be limited
1068 to, providing training for small and medium-sized
1069 businesses in high performance work practices.

1070 [(b)] The Commissioner of Economic and
1071 Community Development shall, within available
1072 appropriations, conduct a study of the feasibility
1073 of the consolidation of the business outreach
1074 center challenge grant program authorized under
1075 section 32-9qq and The University of Connecticut
1076 small business development center program into any
1077 extension service established with assistance

1078 provided under subsection (a) of this section. The
1079 commissioner shall submit a report on his findings
1080 and recommendations to the joint standing
1081 committee of the General Assembly having
1082 cognizance of matters relating to the Department
1083 of Economic and Community Development no later
1084 than January 15, 1994.]

1085 [(c)] (b) For the purposes described in
1086 subsection [(d)] (c) of this section, the State
1087 Bond Commission shall have the power, from time to
1088 time to authorize the issuance of bonds of the
1089 state in one or more series and in principal
1090 amounts not exceeding in the aggregate [one] THREE
1091 million dollars IN ANY CALENDAR YEAR.

1092 [(d)] (c) The proceeds of the sale of said
1093 bonds, to the extent of the amount stated in
1094 subsection (c) of this section, shall be used by
1095 the Commissioner of Economic and Community
1096 Development for the purposes of subsection (a) of
1097 this section.

1098 [(e)] (d) All provisions of section 3-20, or
1099 the exercise of any right or power granted thereby
1100 which are not inconsistent with the provisions of
1101 this section are hereby adopted and shall apply to
1102 all bonds authorized by the State Bond Commission
1103 pursuant to this section, and temporary notes in
1104 anticipation of the money to be derived from the
1105 sale of any such bonds so authorized may be issued
1106 in accordance with said section 3-20 and from time
1107 to time renewed. Such bonds shall mature at such
1108 time or times not exceeding twenty years from
1109 their respective dates as may be provided in or
1110 pursuant to the resolution or resolutions of the
1111 State Bond Commission authorizing such bonds. None
1112 of said bonds shall be authorized except upon a
1113 finding by the State Bond Commission that there
1114 has been filed with it a request for such
1115 authorization, which is signed by or on behalf of
1116 the Secretary of the Office of Policy and
1117 Management and states such terms and conditions as
1118 said commission, in its discretion, may require.
1119 Said bonds issued pursuant to this section shall
1120 be general obligations of the state and the full
1121 faith and credit of the state of Connecticut are
1122 pledged for the payment of the principal of and
1123 interest on said bonds as the same become due, and
1124 accordingly and as part of the contract of the
1125 state with the holders of said bonds,

1126 appropriation of all amounts necessary for
1127 punctual payment of such principal and interest is
1128 hereby made, and the Treasurer shall pay such
1129 principal and interest as the same become due.

1130 Sec. 6. Section 32-34 of the general statutes
1131 is repealed and the following is substituted in
1132 lieu thereof:

1133 As used in this chapter AND SECTIONS 8 AND 9
1134 OF THIS ACT, the following terms shall have the
1135 following meanings unless the context clearly
1136 indicates another meaning and intent:

1137 (1) "Corporation" means Connecticut
1138 Innovations, Incorporated as created under section
1139 32-35;

1140 (2) "Entrepreneur" means any person who seeks
1141 to organize, operate and assume the risk for a
1142 business enterprise, or who organizes, operates
1143 and assumes the risk for a business enterprise;

1144 (3) "Finance committee" means a committee or
1145 subcommittee organized by the corporation and
1146 having the authority to approve or deny
1147 applications for financial aid and to enter into
1148 agreements on behalf of the corporation to provide
1149 financial aid;

1150 (4) "Financial aid" means the infusion of
1151 [risk] capital [or operating capital] to persons,
1152 [for use in the research, development, application
1153 and exploitation of specific technologies,
1154 inventions and products and for education related
1155 to such technologies, inventions and products] IN
1156 ANY FORM WHATSOEVER, including, but not limited
1157 to, grants, loans, EQUITY, LEASES, GUARANTEES,
1158 ROYALTY ARRANGEMENTS, OTHER risk capital
1159 [investment] and other types of financial
1160 assistance;

1161 (5) "Incubator facilities" means a building,
1162 structure or complex designed, constructed,
1163 renovated or developed to house and provide
1164 research and other services to assist small
1165 technology-based companies;

1166 (6) "Invention" means any new product without
1167 regard to whether a patent has been or could be
1168 granted;

1169 (7) "Person" means any individual, GENERAL OR
1170 LIMITED partnership, corporation, limited
1171 liability company, institution of higher
1172 education, governmental entity or joint venture
1173 conducting research into ideas with commercial

1174 potential or carrying on business, or proposing to
1175 carry on business, within the state which (A) in
1176 the case of an individual, GENERAL OR LIMITED
1177 partnership, corporation, limited liability
1178 company or joint venture, demonstrates to the
1179 corporation the inability (i) to obtain
1180 conventional financing in satisfactory amounts or
1181 on satisfactory terms or (ii) to locate or
1182 continue operations in the state without
1183 assistance as provided in this chapter, and (B)
1184 demonstrates to the corporation that any project
1185 for research into or the development of specific
1186 technologies, products, devices, techniques or
1187 procedures or the marketing of services based on
1188 the use of such technologies, products, devices,
1189 techniques or procedures for which assistance
1190 under this chapter, is sought, (i) will create new
1191 or retain existing jobs in the state, (ii) will
1192 result in an increase in the amount of goods or
1193 services exported from the state, (iii) will help
1194 to strengthen the economy of the state, or (iv)
1195 will promote the development and utilization of
1196 technology in the state;

1197 (8) "Product" means any technology, device,
1198 technique, service or process, which is or may be
1199 exploitable commercially; such term shall not
1200 refer to pure research but shall be construed to
1201 apply to such technologies, products, devices,
1202 techniques, services or processes which have
1203 advanced beyond the theoretic stage and are
1204 readily capable of being, or have been, reduced to
1205 practice;

1206 (9) "Research" means the scientific and
1207 engineering analysis, investigation, collection of
1208 ideas and inquiry into concepts, processes and
1209 techniques, the purpose of which is intended to
1210 result in a commercially feasible product, process
1211 or technique;

1212 (10) "Seed venture" means a business or other
1213 entity in the early stage of development;

1214 (11) "Technical peer review committee" means
1215 a committee, subcommittee or other entity
1216 organized by the corporation to provide advice and
1217 counsel concerning the technological, marketing
1218 and management feasibility of projects in
1219 connection with each application for financial and
1220 technical assistance;

1221 (12) "Technology" means the conversion of
1222 basic scientific research into processes,
1223 techniques and products which may have commercial
1224 potential;

1225 (13) "Advanced technology center" means a
1226 cooperative research center in a specified field
1227 of science and technology established and funded,
1228 subject to the requirements in sections 32-40a,
1229 32-40b and 32-40c, through an academic, industrial
1230 and governmental partnership for purposes of
1231 technological research with a direct relationship
1232 to economic development in the state;

1233 (14) "Venture" means, without limitation, any
1234 contractual arrangement with any person whereby
1235 the corporation obtains rights from or in an
1236 invention or product or proceeds therefrom, or
1237 rights to obtain from any person any and all forms
1238 of equity instruments including, but not limited
1239 to, common and preferred stock, warrants, options,
1240 convertible debentures and similar types of
1241 instruments exercisable or convertible into
1242 capital stock, in exchange for the granting of
1243 financial aid to such person;

1244 (15) "VENTURE LEASE" MEANS A LEASE BY THE
1245 CORPORATION TO A TECHNOLOGY COMPANY OF ANY REAL OR
1246 PERSONAL PROPERTY, ON SUCH TERMS, INCLUDING LEASE
1247 PAYMENTS, LEASE TERM AND PURCHASE OPTIONS, AS THE
1248 CORPORATION SHALL DETERMINE;

1249 (16) "AFFILIATE" MEANS ANY PERSON THAT
1250 DIRECTLY OR INDIRECTLY THROUGH ONE OR MORE
1251 INTERMEDIARIES, CONTROLS OR IS CONTROLLED BY OR IS
1252 UNDER COMMON CONTROL WITH, ANOTHER PERSON,
1253 INCLUDING, BUT NOT LIMITED TO, ANY CORPORATION,
1254 GENERAL OR LIMITED PARTNERSHIP OR LIMITED
1255 LIABILITY COMPANY CONTROLLED, DIRECTLY OR
1256 INDIRECTLY, BY SUCH OTHER PERSON OR THE
1257 CORPORATION, PROVIDED, IN ADDITION TO OTHER MEANS
1258 OF BEING CONTROLLED, A GENERAL OR LIMITED
1259 PARTNERSHIP OR LIMITED LIABILITY COMPANY SHALL BE
1260 DEEMED TO BE CONTROLLED BY THE CORPORATION IF THE
1261 CORPORATION OR ONE OF ITS AFFILIATES ACTS AS A
1262 GENERAL PARTNER OR A MANAGER OF SUCH GENERAL OR
1263 LIMITED PARTNERSHIP OR LIMITED LIABILITY COMPANY;

1264 (17) "CAPITAL INITIATIVE" MEANS PROVIDING
1265 FINANCIAL AID THROUGH ONE OR MORE AFFILIATES AND
1266 RAISING THE CAPITAL FOR SUCH AFFILIATES, IN WHOLE
1267 OR IN PART, FROM SOURCES OTHER THAN THE STATE.

1268 Sec. 7. Section 32-39 of the general statutes
1269 is repealed and the following is substituted in
1270 lieu thereof:

1271 The purposes of the corporation shall be to
1272 stimulate and encourage the research and
1273 development of new technologies and products, to
1274 encourage the creation and transfer of new
1275 technologies, to assist existing businesses in
1276 adopting current and innovative technological
1277 processes, to stimulate and provide services to
1278 industry that will advance the adoption and
1279 utilization of technology, to achieve improvements
1280 in the quality of products and services, to
1281 stimulate and encourage the development and
1282 operation of new and existing science parks and
1283 incubator facilities, and to promote science,
1284 engineering, mathematics and other disciplines
1285 that are essential to the development and
1286 application of technology within Connecticut by
1287 the infusion of financial aid for research,
1288 invention and innovation in situations in which
1289 such financial aid would not otherwise be
1290 reasonably available from commercial or other
1291 sources, and for these purposes the corporation
1292 shall have the following powers:

1293 (1) To have perpetual succession as a body
1294 corporate and to adopt bylaws, policies and
1295 procedures for the regulation of its affairs and
1296 conduct of its businesses as provided in section
1297 32-36;

1298 (2) To enter into venture agreements with
1299 persons, upon such terms and on such conditions as
1300 are consistent with the purposes of this chapter,
1301 for the advancement of financial aid to such
1302 persons for the research, development and
1303 application of specific technologies, products,
1304 procedures, services and techniques, to be
1305 developed and produced in this state, and to
1306 condition such agreements upon contractual
1307 assurances that the benefits of increasing or
1308 maintaining employment and tax revenues shall
1309 remain in this state and shall accrue to it;

1310 (3) To solicit, receive and accept aid,
1311 grants or contributions from any source of money,
1312 property or labor or other things of value, to be
1313 held, used and applied to carry out the purposes
1314 of this chapter, subject to the conditions upon
1315 which such grants and contributions may be made,

1316 including but not limited to, gifts or grants from
1317 any department or agency of the United States or
1318 the state;

1319 (4) With the approval of the Secretary of the
1320 Office of Policy and Management, to invest in,
1321 acquire, lease, purchase, own, manage, hold and
1322 dispose of real property and lease, convey or deal
1323 in or enter into agreements with respect to such
1324 property on any terms necessary or incidental to
1325 the carrying out of these purposes; provided,
1326 however, that all such acquisitions of real
1327 property shall be subject to the provisions of
1328 section 4b-23 AND FURTHER PROVIDED THE FOREGOING
1329 REQUIREMENTS OF THIS SUBDIVISION SHALL NOT APPLY
1330 TO AFFILIATES WHICH ACQUIRE, LEASE, PURCHASE, OWN,
1331 MANAGE, HOLD OR DISPOSE OF REAL PROPERTY AND WHICH
1332 AFFILIATES ENGAGE IN SUCH ACTIVITIES PRIMARILY FOR
1333 USE BY OR FOR THE BENEFIT OF TECHNOLOGY COMPANIES;

1334 (5) To borrow money OR TO GUARANTEE A RETURN
1335 TO THE INVESTORS IN OR LENDERS TO ANY CAPITAL
1336 INITIATIVE, to the extent permitted under this
1337 chapter, AND SECTIONS 8 AND 9 OF THIS ACT;

1338 (6) To hold patents, copyrights, trademarks,
1339 marketing rights, licenses, or any other evidences
1340 of protection or exclusivity as to any products as
1341 defined herein, issued under the laws of the
1342 United States or any state or any nation;

1343 (7) To employ such assistants, agents and
1344 other employees as may be necessary or desirable,
1345 which employees shall be exempt from the
1346 classified service and shall not be employees, as
1347 defined in subsection (b) of section 5-270, AS
1348 AMENDED; establish all necessary or appropriate
1349 personnel practices and policies, including those
1350 relating to hiring, promotion, compensation,
1351 retirement and collective bargaining, which need
1352 not be in accordance with chapter 68, and the
1353 corporation shall not be an employer as defined in
1354 subsection (a) of section 5-270, AS AMENDED; and
1355 engage consultants, attorneys and appraisers as
1356 may be necessary or desirable to carry out its
1357 purposes in accordance with this chapter;

1358 (8) To make and enter into all contracts and
1359 agreements necessary or incidental to the
1360 performance of its duties and the execution of its
1361 powers under this chapter;

1362 (9) To sue and be sued, plead and be

1363 impleaded, adopt a seal and alter the same at
1364 pleasure;

1365 (10) With the approval of the State
1366 Treasurer, to invest any funds not needed for
1367 immediate use or disbursement, including any funds
1368 held in reserve, in obligations issued or
1369 guaranteed by the United States of America or the
1370 state of Connecticut and in other obligations
1371 which are legal investments for retirement funds
1372 in this state;

1373 (11) To procure insurance against any loss in
1374 connection with its property and other assets in
1375 such amounts and from such insurers as it deems
1376 desirable;

1377 (12) To the extent permitted under its
1378 contract with other persons, to consent to any
1379 termination, modification, forgiveness or other
1380 change of any term of any contractual right,
1381 payment, royalty, contract or agreement of any
1382 kind to which the corporation is a party;

1383 (13) To do anything necessary and convenient
1384 to render the bonds to be issued under section
1385 32-41 more marketable;

1386 (14) To acquire, lease, purchase, own,
1387 manage, hold and dispose of personal property, and
1388 lease, convey or deal in or enter into agreements
1389 with respect to such property on any terms
1390 necessary or incidental to the carrying out of
1391 these purposes;

1392 (15) In connection with any application for
1393 assistance under this chapter, or commitments
1394 therefor, to make and collect such fees as the
1395 corporation shall determine to be reasonable;

1396 (16) To enter into venture agreements with
1397 persons, upon such terms and conditions as are
1398 consistent with the purposes of this chapter to
1399 provide financial aid to such persons for the
1400 marketing of new and innovative services based on
1401 the use of a specific technology, product, device,
1402 technique, service or process;

1403 (17) To enter into limited partnerships or
1404 other contractual arrangements with private and
1405 public sector entities as the corporation deems
1406 necessary to provide financial aid which shall be
1407 used to make investments of seed venture capital
1408 in companies based in or relocating to the state
1409 in a manner which shall foster additional capital
1410 investment, the establishment of new businesses,

1411 the creation of new jobs and additional
1412 commercially-oriented research and development
1413 activity. The repayment of such financial aid
1414 shall be structured in such manner as the
1415 corporation deems will best encourage private
1416 sector participation in such limited partnerships
1417 or other arrangements. The board of directors,
1418 executive director, officers and staff of the
1419 corporation may serve as members of any advisory
1420 or other board which may be established to carry
1421 out the purposes of this subdivision;

1422 (18) To account for and audit funds of the
1423 corporation and funds of any recipients of
1424 financial aid from the corporation;

1425 (19) To advise the Governor, the General
1426 Assembly, the Commissioner of Economic and
1427 Community Development and the Commissioner of
1428 Higher Education on matters relating to science,
1429 engineering and technology which may have an
1430 impact on state policies, programs, employers and
1431 residents, and on job creation and retention;

1432 (20) To promote technology-based development
1433 in the state;

1434 (21) To encourage and promote the
1435 establishment of and, within available resources,
1436 to provide financial aid to advanced technology
1437 centers;

1438 (22) To maintain an inventory of data and
1439 information concerning state and federal programs
1440 which are related to the purposes of this chapter
1441 and to serve as a clearinghouse and referral
1442 service for such data and information;

1443 (23) To conduct and encourage research and
1444 studies relating to technological development;

1445 (24) To provide technical or other assistance
1446 and, within available resources, to provide
1447 financial aid to the Connecticut Academy of
1448 Science and Engineering, Incorporated, in order to
1449 further the purposes of this chapter;

1450 (25) To recommend a science and technology
1451 agenda for the state that will promote the
1452 formation of public and private partnerships for
1453 the purpose of stimulating research, new business
1454 formation and growth and job creation;

1455 (26) To encourage and provide technical
1456 assistance and, within available resources, to
1457 provide financial aid to existing manufacturers
1458 and other businesses in the process of adopting

1459 innovative technology and new state-of-the-art
1460 processes and techniques;

1461 (27) To recommend state goals for
1462 technological development and to establish
1463 policies and strategies for developing and
1464 assisting technology-based companies and for
1465 attracting such companies to the state;

1466 (28) To promote and encourage and, within
1467 available resources, to provide financial aid for
1468 the establishment, maintenance and operation of
1469 incubator facilities;

1470 (29) To promote and encourage the
1471 coordination of public and private resources and
1472 activities within the state in order to assist
1473 technology-based entrepreneurs and business
1474 enterprises;

1475 (30) To provide services to industry that
1476 will stimulate and advance the adoption and
1477 utilization of technology and achieve improvements
1478 in the quality of products and services;

1479 (31) To promote science, engineering,
1480 mathematics and other disciplines that are
1481 essential to the development and application of
1482 technology;

1483 (32) To coordinate its efforts with existing
1484 business outreach centers, as described in section
1485 32-9qq;

1486 (33) To do all acts and things necessary and
1487 convenient to carry out the purposes of this
1488 chapter;

1489 (34) To accept from the department: (A)
1490 Financial assistance, (B) revenues or the right to
1491 receive revenues with respect to any program under
1492 the supervision of the department, and (C) loan
1493 assets or equity interests in connection with any
1494 program under the supervision of the department;
1495 to make advances to and reimburse the department
1496 for any expenses incurred or to be incurred by it
1497 in the delivery of such assistance, revenues,
1498 rights, assets, or interests; to enter into
1499 agreements for the delivery of services by the
1500 corporation, in consultation with the department,
1501 the Connecticut Housing Finance Authority and the
1502 Connecticut Development Authority, to third
1503 parties which agreements may include provisions
1504 for payment by the department to the corporation
1505 for the delivery of such services; and to enter
1506 into agreements with the department or with the

1507 Connecticut Development Authority or Connecticut
1508 Housing Finance Authority for the sharing of
1509 assistants, agents and other consultants,
1510 professionals and employees, and facilities and
1511 other real and personal property used in the
1512 conduct of the corporation's affairs;

1513 (35) To transfer to the department: (A)
1514 Financial assistance, (B) revenues or the right to
1515 receive revenues with respect to any program under
1516 the supervision of the corporation, and (C) loan
1517 assets or equity interests in connection with any
1518 program under the supervision of the corporation,
1519 provided the transfer of such financial
1520 assistance, revenues, rights, assets or interests
1521 is determined by the corporation to be
1522 practicable, within the constraints and not
1523 inconsistent with the fiduciary obligations of the
1524 corporation imposed upon or established upon the
1525 corporation by any provision of the general
1526 statutes, the corporation's bond resolutions or
1527 any other agreement or contract of the corporation
1528 and to have no adverse effect on the tax-exempt
1529 status of any bonds of the state;

1530 (36) WITH RESPECT TO ANY CAPITAL INITIATIVE,
1531 TO CREATE, WITH ONE OR MORE PERSONS, ONE OR MORE
1532 AFFILIATES AND TO PROVIDE, DIRECTLY OR INDIRECTLY,
1533 FOR THE CONTRIBUTION OF CAPITAL TO ANY SUCH
1534 AFFILIATE, EACH SUCH AFFILIATE BEING EXPRESSLY
1535 AUTHORIZED TO EXERCISE ON SUCH AFFILIATE'S OWN
1536 BEHALF ALL POWERS WHICH THE CORPORATION MAY
1537 EXERCISE UNDER THIS SECTION, IN ADDITION TO SUCH
1538 OTHER POWERS PROVIDED TO IT BY LAW;

1539 (37) TO PROVIDE FINANCIAL AID TO ENABLE
1540 BIOTECHNOLOGY AND OTHER TECHNOLOGY COMPANIES TO
1541 LEASE, ACQUIRE, CONSTRUCT, MAINTAIN, REPAIR,
1542 REPLACE OR OTHERWISE OBTAIN AND MAINTAIN
1543 PRODUCTION, TESTING, RESEARCH, DEVELOPMENT,
1544 MANUFACTURING, LABORATORY AND RELATED AND OTHER
1545 FACILITIES, IMPROVEMENTS AND EQUIPMENT.

1546 Sec. 8. (NEW) (a) With respect to any
1547 affiliate created pursuant to section 32-39 of the
1548 general statutes, as amended by this act,
1549 liability shall be limited solely to the assets
1550 and revenues or other resources of any such
1551 affiliate and without recourse liability to
1552 Connecticut Innovations, Incorporated, its other
1553 funds or any other assets of the corporation,
1554 except to the extent of any express written

1555 guarantees by the corporation or any investments
1556 made or committed to by the corporation.

1557 (b) The provisions of sections 32-47 and
1558 1-125 of the general statutes shall apply to any
1559 officer, director, designee or employee serving at
1560 the request of the corporation as a member,
1561 director or officer or advisor of any such
1562 affiliate. Any such person so appointed shall not
1563 be personally liable for the debts, obligations or
1564 liabilities of any such affiliate as provided in
1565 said section 1-125. Any affiliate shall and the
1566 corporation may provide the indemnification to
1567 protect, save harmless and indemnify such officer,
1568 director, designee or employee as provided in said
1569 section 1-125.

1570 Sec. 9. (NEW) Guarantees issued by
1571 Connecticut Innovations, Incorporated, and all
1572 equity instruments and obligations, any of which
1573 include a guarantee of a return of capital or
1574 principal by the corporation, under the provisions
1575 of chapter 581 of the general statutes, as amended
1576 by this act, this section and section 8 of this
1577 act, are hereby made securities in which all
1578 public officers and public bodies of the state and
1579 its political subdivisions, all insurance
1580 companies, state banks and trust companies,
1581 national banking associations, savings banks,
1582 savings and loan associations, investment
1583 companies, executors, administrators, trustees and
1584 other fiduciaries may properly and legally invest
1585 funds, including capital in their control or
1586 belonging to them. Such instruments and
1587 obligations are hereby made securities which may
1588 properly and legally be deposited with and
1589 received by any state or municipal officer or any
1590 agency or political subdivision of the state for
1591 any purpose for which the deposit of bonds or
1592 obligations of the state is now or may hereafter
1593 be authorized by law.

1594 Sec. 10. Subsection (c) of section 32-70 of
1595 the general statutes, as amended by section 98 of
1596 public act 97-2 of the June 18 special session, is
1597 repealed and the following is substituted in lieu
1598 thereof:

1599 (c) (1) On or before September 30, 1993, the
1600 Commissioner of Economic and Community Development
1601 shall approve the designation of ten areas as
1602 enterprise zones, not more than four of which

1603 shall be in municipalities with a population
1604 greater than eighty thousand and not more than six
1605 of which shall be in municipalities with a
1606 population of less than eighty thousand. (2) (A)
1607 On or after October 1, 1993, the commissioner
1608 shall approve the designation of two areas as
1609 enterprise zones. Each such area shall be in a
1610 municipality with a population of less than eighty
1611 thousand, in which there are one or more base or
1612 plant closures. Such municipalities shall be in
1613 different counties. If the commissioner approves
1614 the designation of an area of a municipality as an
1615 enterprise zone because of a plant closure in the
1616 municipality and there is a closure of another
1617 plant in any other municipality in the state by
1618 the same business, the commissioner shall also
1619 designate an area in such other municipality as an
1620 enterprise zone. If any such designated area
1621 includes a portion of a census tract in which any
1622 such base or plant is located, the census tracts
1623 in such area shall not be required to meet the
1624 eligibility criteria set forth under subsection
1625 (a) of this section for enterprise zone
1626 designation. If any such area is located elsewhere
1627 in the municipality, the census tracts in such
1628 area shall meet such eligibility criteria. As used
1629 in this subparagraph, (i) "base" means any United
1630 States or state of Connecticut military base or
1631 facility located in whole or in part within the
1632 state; (ii) "plant" means any manufacturing or
1633 economic base business, as defined in subsection
1634 [(k)] (l) of section 32-222; and (iii) "closure"
1635 means any reduction or transfer in military
1636 personnel or civilian employment at one or more
1637 bases or plants in a municipality, which occurred
1638 between July 1, 1989, and July 1, 1993, or is
1639 scheduled to occur between July 1, 1993, and July
1640 1, 1996, and exceeds two thousand persons. Such
1641 employment figures shall be certified by the Labor
1642 Department. (B) On or after October 1, 1993, the
1643 commissioner shall approve the designation of
1644 three other areas as enterprise zones, one of
1645 which shall be in a municipality with a population
1646 greater than eighty thousand and two of which
1647 shall be in municipalities with a population of
1648 less than eighty thousand. The census tracts in
1649 such areas shall meet the eligibility criteria set
1650 forth under subsection (a) of this section for

1651 enterprise zone designation. The commissioner
1652 shall approve the designation of enterprise zones
1653 under this subparagraph for those municipalities
1654 which he determines to have experienced the
1655 largest increases in poverty from October 1, 1989,
1656 to October 1, 1993, inclusive, based on a weighted
1657 average of the unemployment rate, caseload under
1658 the temporary family assistance program and per
1659 capita income of less than ninety per cent of the
1660 state average between 1985 and 1989. In making his
1661 determination, the commissioner may also consider
1662 the vacancy rates for commercial and industrial
1663 facilities in a municipality and a municipality's
1664 program for the implementation of an effective
1665 enterprise zone program. To the extent
1666 appropriate, the commissioner shall use the
1667 Regional Economic Models, Inc. (REMI) system in
1668 making the calculations for such determination.
1669 (C) Notwithstanding the provisions of subsection
1670 (a) of this section, municipalities that were not
1671 distressed municipalities under the provisions of
1672 subsection (b) of section 32-9p on February 1,
1673 1986, shall be eligible to designate areas as
1674 enterprise zones under subparagraph (A) or (B) of
1675 this subdivision. (3) The commissioner shall not
1676 approve the designation of more than one
1677 enterprise zone in any municipality. The
1678 commissioner shall adopt regulations in accordance
1679 with chapter 54 concerning such additional
1680 qualifications for an area to become an enterprise
1681 zone as he deems necessary. The commissioner may
1682 remove the designation of any area he has approved
1683 as an enterprise zone if such area no longer meets
1684 the criteria for designation as such an area set
1685 forth in this section or in regulations adopted
1686 pursuant to this section, provided no such
1687 designation shall be removed less than ten years
1688 from the original date of approval of such zone.
1689 The commissioner may designate any additional area
1690 as an enterprise zone if that area is designated
1691 as an enterprise zone, empowerment zone or
1692 enterprise community pursuant to any federal
1693 legislation.

1694 Sec. 11. Section 32-23tt of the general
1695 statutes is repealed and the following is
1696 substituted in lieu thereof:

1697 As used in section 32-23ll, this section, and
1698 sections 32-23uu, 32-23vv and 32-235:

1699 (1) "Authority" means the Connecticut
1700 Development Authority established under the
1701 provisions of this chapter.

1702 (2) "Educational upgrades" means (A) programs
1703 designed to increase the basic skills of
1704 production workers including, but not limited to
1705 training, in written and oral communication,
1706 mathematics or science, or (B) training in
1707 innovative production methods and workplace
1708 oriented computer technical skills.

1709 (3) "Financial assistance" means grants,
1710 loans, loan guarantees or interest rate subsidies
1711 or any combination thereof.

1712 (4) "Manufacturing or economic base business"
1713 means a business defined under subsection [(k)]
1714 (l) of section 32-222.

1715 (5) "Production worker" means an employee of
1716 a manufacturer whose principal duties are located
1717 within the state, and consist of the assembly or
1718 construction of the manufacturer's product or a
1719 portion thereof.

1720 Sec. 12. This act shall take effect from its
1721 passage, except that sections 1 to 3, inclusive,
1722 shall be applicable to income years commencing on
1723 or after January 1, 1999.

1724 CE COMMITTEE VOTE: YEA 27 NAY 0 JFS C/R FIN
1725 FIN COMMITTEE VOTE: YEA 45 NAY 0 JFS

* * * * *

"THE FOLLOWING FISCAL IMPACT STATEMENT AND BILL ANALYSIS ARE PREPARED FOR THE BENEFIT OF MEMBERS OF THE GENERAL ASSEMBLY, SOLELY FOR PURPOSES OF INFORMATION, SUMMARIZATION AND EXPLANATION AND DO NOT REPRESENT THE INTENT OF THE GENERAL ASSEMBLY OR EITHER HOUSE THEREOF FOR ANY PURPOSE."

* * * * *

FISCAL IMPACT STATEMENT - BILL NUMBER sSB 599

STATE IMPACT	Revenue Loss, Cost, Implements a Provision in the Budget, see explanation below
MUNICIPAL IMPACT	None
STATE AGENCY(S)	Department of Revenue Services, Department of Economic and Community Development

EXPLANATION OF ESTIMATES:

STATE IMPACT: The bill is expected to result in a revenue loss of \$5.0 million in FY 99 and will increase to \$148.7 million by FY 10. **See the accompanying schedule for a complete breakdown of the revenue loss associated with each tax provision.**

The Department of Revenue Services will require \$25,000 in FY 00 for programming costs and \$225,000 in FY 01 for auditors and related costs.

Substitute House Bill 5021, An Act Making Adjustments To The State Budget For The Biennium Ending June 30, 1999, provides the Department of Economic and Community Development \$4 million for program and administrative costs for the economic cluster initiative.

The interest cost of bonding \$3 million at an interest rate of 6.25% over 20 years is \$2 million. Since the bill allows for the ConnSTEP program to bond up to \$3 million year in perpetuity, the effect is to additively increase annual debt service costs by \$.3 million.

* * * * *

OLR BILL ANALYSIS

sSB 599

AN ACT CONCERNING ECONOMIC CLUSTERS**SUMMARY:** This bill:

1. increases an existing research and development (R&D) tax credit for some companies and makes the carry-forward benefits of another R&D credit available to more companies;
2. allows some tax credit recipients to sell their credits to third parties;
3. extends, from five to 20 years, the period a company can carry forward and take a corporation tax deduction for an operating loss;
4. empowers Connecticut Innovations, Inc. (CII) to acquire, construct, and lease facilities and equipment on behalf of technology companies, create affiliates to raise funds and distribute financial aid, and guarantee a return to those who invest in or lend to an affiliate;
5. makes any business that is part of an economic cluster designated by the Department of Economic and Community Development (DECD) commissioner eligible for Manufacturing Assistance Act financing; and
6. increases bond funding for the state's manufacturing extension service (ConnSTEP) from a \$1 million total authorization to \$3 million annually.

EFFECTIVE DATE: Upon passage, with the tax provisions applicable to tax years beginning January 1, 1999.

FURTHER EXPLANATION

R&D Tax Credits

Rolling R&D Tax Credits. The bill allows a 6% R&D corporate tax credit for businesses with \$100 million or less in annual gross revenues. Businesses with higher annual revenues continue to be eligible for credits under the current structure, which grants credits ranging between 1% and 6%, depending on how much a company spends for R&D. The 6% credit goes to companies that spend over \$200 million.

If a company with under \$100 million in revenues qualifies for the 6% credit and files as part of a combined return, the credit must be taken against its share of the tax liability. Its tax liability, under the bill, is figured on the same ratio (excluding net operating losses) as its net income bears to all income in the combined return.

The bill allows companies with annual revenues under \$30 million to assign their credits to third parties. A business purchasing a credit may claim it only in a year the assigning company could claim it.

A business may not achieve the \$100 million or \$30 million revenue ceilings through transactions with another company it controls or by which it is controlled. The DECD commissioner makes these determinations and he may, under the bill, adopt regulations governing the credit process.

By law, a company's R&D spending must occur in Connecticut. A company can claim R&D expenses as defined by the Internal Revenue Code, including basic research expenses it does not claim on its federal return. The actual amount it can deduct in that year is further limited to the greater of (1) 50% of its tax bill without subtracting the credit or (2) the lesser of (a) twice the 6% credit or (b) 90% of its tax bill, again without subtracting the credit.

A company can claim no more than one-third of its allowable credit in any tax year; it must carry forward any remainder. It cannot claim new credits until it has used all of the credits carried over. A company cannot claim credits under this law for expenditures it claims under the incremental R&D tax credit (see below).

Incremental R&D Credits. The law grants any company that increases its R&D spending from one year to the next a credit equal to 20% of the incremental increase. It allows biotechnology companies to carry forward unused portions of their credits for 15 years. The bill extends this carry-forward privilege to all taxpayers and increases the carry-forward period to 20 years. The extension applies to credits earned after January 1, 1999.

It allows companies with annual revenues under \$30 million (as determined by the DECD commissioner) that earn a credit to assign it to third parties. An assignee may claim it only in a year the assigning company could claim it. The bill allows the revenue services commissioner to adopt regulations governing this credit.

Net Operating Losses

The law allows corporations to take a tax deduction for net operating losses, which they can carry forward for five years. The bill extends this carry-forward period to 20 years for losses incurred after January 1, 1999. Thus, a loss incurred in the 1998 tax year expires in 2003, while one incurred in 1999 expires in 2019.

Expanding CII's Powers

Financial Aid. The bill broadens CII's ability to provide financial aid by allowing it to provide such aid in any form it chooses and for any purpose for which it is authorized. It specifically permits CII to provide guarantees and authorizes it to guarantee a return to those who invest in or lend to one of its affiliates. It permits CII to lease real and personal property as a form of financial aid. And it authorizes CII to provide financial aid to biotechnology and other technology companies to lease, acquire, construct, maintain, or replace production, testing, research, laboratory, development, and manufacturing facilities, improvements, and equipment.

The bill repeals a requirement that CII's financial aid be used for research, development, application, and exploitation of specific technologies, inventions, and products and for education related to these purposes. It makes CII equity instruments, obligations, and

guarantees legal investments for public agencies and private financial institutions. And it allows public agencies to receive and deposit them in the same way they can for state bonds and notes.

Creating Affiliates. The bill enables CII to create affiliates that can exercise any of CII's powers and provide financial aid for any purposes that CII can. The bill specifies that an affiliate can be a general or limited partnership, corporation, or limited liability company. Under the existing law's definition of "person," an affiliate can also be an individual, college or university, government entity, or joint venture that conducts research into ideas with commercial potential. An affiliate can be controlled, directly or indirectly, by CII or another entity, but CII is deemed to be the controlling party if it or one of its affiliates is a general partner or manager of a general or limited partnership or a limited liability company.

The bill exempts CII affiliates that acquire, lease, own, manage, or dispose of real property primarily to benefit technology companies from the requirement, which applies to CII, that the Office of Policy and Management and the State Properties Review Board approve these actions.

The bill specifies that an affiliate has no recourse to CII to cover its financial liabilities, unless CII expressly guarantees such recourse or invests in the affiliate. It exempts CII officers, directors, and employees appointed to serve an affiliate from personal liability for the affiliate's actions and requires the affiliate to indemnify any of these people found to have been negligent in performing their duties, unless their act or failure to act was wanton, reckless, wilful, or malicious.

Manufacturing Extension Service

The extension service helps small- and medium-sized businesses address technical problems, learn about and apply new technologies and processes, and train employees in high performance work practices. Under current law, the extension service is provided by a private, nonprofit or public agency through a DECD grant. The bill specifies that the grant must go to the

federally designated Connecticut Manufacturing Partnership Affiliate, known as ConnSTEP. It also increases the ConnSTEP's bond authorization from \$1 million to \$3 million in any calendar year.

The bill also repeals an obsolete feasibility study and reporting requirement.

BACKGROUND

Economic Clusters

The law defines an economic cluster as a grouping of industries linked through customer, supplier, or other relationships. It requires the DECD commissioner to submit an annual report to the legislature identifying existing clusters. The 1997 report identified the following clusters (and some of their component industries):

1. telecommunications and information (communications, advertising, publishing, educational services, computer and office equipment);
2. financial services (life insurance, pension and health funds, banks, credit and savings institutions, security and commodities services);
3. health services (health and accident insurance, nursing and personal care, medical and dental laboratories, hospitals);
4. high technology industries (drugs, fiber optics, lasers, computer and data processing, medical instruments);
5. manufacturing (plastics, metalworking, electrical equipment, industrial machinery, ships and aircraft, plumbing and heating); and
6. tourism and entertainment (hotels, motion pictures, air and bus transportation, amusement and recreation).

COMMITTEE ACTION

Commerce Committee

Joint Favorable Substitute Change of Reference
Yea 27 Nay 0

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 45 Nay 0