



Connecticut General Assembly

Office of Fiscal Analysis  
Office of Legislative Research

TO: Members of the Finance, Revenue, and Bonding Committee

FROM: OFA & OLR Staff

RE: Items for April 21, 2011 Agenda

**FINANCE COMMITTEE BILLS FOR JF CONSIDERATION**

**1. S.B. No. 1007 AN ACT CONCERNING THE GOVERNOR'S RECOMMENDATIONS ON REVENUE. (JFS)**

Fiscal Impact: See Attached Schedule

**Summary of Substitute Bill:**

**INCOME TAX**

***Rate Increases***

The bill increases income tax rates for those with taxable incomes over \$100,000 for joint filers, \$50,000 for single filers and married people filing separately, and \$80,000 for heads of household. It does so by (1) increasing the number of tax brackets from three to six, and (2) increasing the flat tax rate for trusts and estates from 6.5% to 6.7%.

Table 1 shows tax rates and brackets for single and joint filers under current law and the bill.

**TABLE 1: CURRENT AND PROPOSED TAX RATES AND BRACKETS**

TAX RATES		CT TAXABLE INCOME			
		Married Filing Jointly		Single	
Current	Bill	Over	But Not Over	Over	But Not Over
3.0%	3.0%	\$0	\$20,000	\$0	\$10,000
5.0%	5.0%	20,000	100,000	10,000	50,000
	5.5%	100,000	200,000	50,000	100,000
	6.0%	200,000	400,000	100,000	200,000
	6.5%	400,000	500,000	200,000	250,000
6.5%	6.7%	500,000	1,000,000	250,000	500,000
		Over \$1,000,000		Over \$500,000	

### ***Earned Income Tax Credit***

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

### ***3% Tax Bracket Phase-Out***

The bill phases out the lowest (3%) income tax bracket starting with taxpayers with Connecticut adjusted gross incomes (CT AGI) over \$100,500 for joint filers, \$56,500 for singles, \$78,500 for heads of household, and \$50,250 for married couples filing separately. It does so by subjecting increasingly less taxable income to the 3% income tax rate as CT AGI increases and moving the phased-out taxable income to the 5% bracket.

### ***Property Tax Credit Reduced***

The bill reduces, from \$500 to \$300, the maximum property tax credit against the personal income tax and phases out the credit at a steeper rate than under current law. For example, for joint filers, the credit phases out completely once CT AGI reaches \$160,500 compared to \$190,500 under current law.

### ***Recapture of Benefits***

For taxpayers whose annual CT AGI exceeds specified thresholds, the bill imposes a "recapture" provision to eliminate the benefit a taxpayer receives from having a portion of his or her taxable income taxed at lower marginal rates. The bill phases in the effect of the recapture until, once a taxpayer's CT AGI reaches the threshold, 100% of his or her taxable income is taxed at the highest rate (6.7% under the bill). For example, under the bill, for joint filers, the recapture starts to phase-in at CT AGI over \$400,000 and is fully phased in when CT AGI exceeds \$700,000.

**EFFECTIVE DATE:** The income tax provisions are effective on passage, and applicable to tax years beginning January 1, 2011.

## **SALES AND USE TAX**

### ***Tax Rate Increases***

The bill increases the sales and use tax rate from 6% to 6.25% and the hotel tax rate from 12% to 14%.

### ***Luxury Goods Tax***

The bill imposes a 7% sales and use tax on the full sales price of motor vehicles, boats, jewelry, clothing, and footwear costing more than:

1. \$50,000 for motor vehicles,
2. \$100,000 for boats,
3. \$5,000 for jewelry, and
4. \$1,000 for clothing or footwear (including handbags, luggage, wallets, and watches).

### ***Rental Car Surcharge***

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

### ***Sales Tax Exemptions Eliminated***

The bill eliminates specified sales tax exemptions and extends the tax to additional services shown below.

<b><i>Exemptions Eliminated</i></b>	<b><i>New Services Taxed</i></b>
Containment or removal of hazardous waste or other contaminants	Motor vehicle storage
Valet parking at any airport	Packing and crating
Yoga instruction at a yoga studio	Car towing and road services
Clothing and footwear costing less than \$50	Limousine with a driver
Non-prescription drugs and medicine	Pet grooming, boarding, and obedience classes
Cloth or fabric for non-commercial sewing	Cosmetic medical procedures
Property or services used in operating solid waste-to-energy facilities	Manicures and pedicures
	Spa services
	Light aircraft (under 6,000 lbs) repair

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

## **CORPORATION TAX**

### ***Credit Limit***

By law, companies are barred from using tax credits to reduce their annual corporation tax liability by more than 70%. For 2011 and 2012, this bill allows a company that adds employees to reduce its tax liability by an additional amount equal to \$6,000 times its average increase in employees, up to 100% of its total tax liability.

### ***Corporation Tax Surcharge***

The bill increases the existing corporation tax surcharge, from 10% to 20%, and extends it for two years to January 1, 2014.



As under current law, the surcharge applies to companies that have (1) at least \$100 million in annual gross income in those years and (2) a tax liability that exceeds \$250.

**EFFECTIVE DATE:** Corporation tax changes are effective upon passage, and applicable to income years beginning January 1, 2011.

### **FILM PRODUCTION TAX CREDIT**

The bill limits the transfer of film production tax credits allowed (1) in 2011 to 50% of the credit in any one income year and (2) in 2012 and beyond to 25% of the credit in any one income year. The transfer restrictions apply to any entity that is not subject to the corporation or insurance premium tax. It exempts from these restrictions credits issued for any production occurring in a "qualified production facility."

Under the bill, a "qualified production facility" is a facility in the state that (1) is intended for film, television, or digital media production and (2) has a minimum investment of \$3 million, or less if the DECD commissioner determines it otherwise qualifies.

The bill also increases, from 25% to 50%, the minimum share of principal photography days a production company must spend in the state in order to qualify for a film production tax credit.

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

### **PUBLIC SERVICE COMPANY TAX (NATURAL GAS CONSERVATION PROGRAM)**

The bill eliminates automatic funding for natural gas conservation plans by repealing a provision that dedicates to such plans any utility company tax revenue that exceeds the legislatively adopted annual revenue estimate, up to a maximum of \$10 million per year. Under current law, the comptroller must transfer the dedicated revenue to the Energy Conservation Management Board account to be used to reimburse gas companies for their conservation expenditures.

**EFFECTIVE DATE:** Upon passage

### **ESTATE AND GIFT TAX**

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

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

### **INSURANCE PREMIUM TAX**

The bill (1) lowers, from 70% to 30%, the amount of by which an insurer can reduce its insurance premium tax liability through tax credits and (2) allows a company to offset additional tax liability if it adds employees, by an amount equal to \$6,000 times its average increase in employees, up to 100% of its total tax liability.

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

### **CIGARETTE AND TOBACCO PRODUCTS TAXES**

The bill increases:

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

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

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

### **PETROLEUM PRODUCTS TAX**

#### ***Special Transportation Fund Transfers***

The bill requires the DRS commissioner, by January 1, 2013 and biennially thereafter, to calculate the percentage of petroleum products gross earnings tax revenue from gasoline sold for the prior fiscal year and use this ratio as the basis for determining the required transfers from the General Fund to the Special Transportation Fund (STF). The commissioner must notify the Finance Committee chairpersons and ranking members and the OPM secretary of the calculated ratio.

The bill also increases the required transfers from the General Fund to the STF as follows:



FY	TRANSFERS TO STF	
	Current Law (million)	The Bill (millions)
2012	\$165.3	\$200.7
2013	165.3	203.4
2014	179.2	222.7
2015	179.2	226.8
2016 and thereafter	179.2	231.4

EFFECTIVE DATE: July 1, 2011

### **Fuel Oil Conservation Account Eliminated**

The bill eliminates the nonlapsing fuel oil conservation account, the conservation programs the account pays for, and the 13-member board that oversees the program. Under current law, the account is funded by annual revenue from the petroleum products gross receipts tax that exceeds the 2006 revenue, subject to a \$5 million annual cap.

EFFECTIVE DATE: July 1, 2011

### **ELECTRIC GENERATOR TAX**

The bill imposes a temporary tax on electric generation facilities of 0.0025 cents (1/4 of a cent) per net kilowatt hour of electricity generated and uploaded into the regional bulk power grid at Connecticut facilities. The tax applies to electricity generated from natural gas, coal, oil and nuclear power, but not through use of a fuel cell or alternative energy system. Under the bill, the tax expires on June 30, 2013.

EFFECTIVE DATE: July 1, 2011

### **ADMISSIONS TAX EXEMPTIONS ELIMINATED**

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

Hartford Civic Center	Lyme Rock Park	Dodd Stadium
New Haven Coliseum	Thompson Speedway	Arena at Harbor Yard
New Britain Beehive Stadium	Waterford Speedbowl	New Britain Rock Cats games
New Britain Stadium	Tennis Foundation of Connecticut facilities	New Haven Ravens games
New Britain Veterans Memorial Stadium	William A. O'Neill Convocation Center	Waterbury Spirit games
Bridgeport Harbor Yard Stadium	Nature's Art	

EFFECTIVE DATE: January 1, 2012, and applicable to charges imposed on or after that date.

### **ALCOHOLIC BEVERAGES TAX**

The bill increases the excise tax on alcoholic beverages by 20%. It requires sellers to pay the additional taxes on alcoholic beverages (e.g., beer, wine, liquor) in their inventories as of the close of business on June 30, 2011.

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

### **MOTOR AND DIESEL FUEL TAXES**

The bill increases the (1) motor fuels tax from 25 cents to 28 cents per gallon and (2) base tax on diesel fuel from 26 cents to 29 cents per gallon. It requires sellers to pay the additional taxes on fuel in their inventories as of the close of business on June 30, 2011.

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

### **NEW MUNICIPAL TAXES**

The bill imposes the following additional taxes and requires the state to distribute the revenue to municipalities:

1. 0.1% on all taxable goods and services;
2. 1% on hotel occupancy for up to 30 days;
3. 1% on car rentals for 30 days or less; and
4. 3% on charges for admissions, food, drink, service, or merchandise at any place offering live music, dancing, or any other entertainment in addition to serving alcoholic drinks ("cabarets").

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

### **REAL ESTATE CONVEYANCE TAX**

The bill (1) makes permanent the 0.25% base municipal real estate conveyance tax, currently scheduled to expire on July 1, 2011, and (2) increases state real estate conveyance tax rates by 0.25%. It requires the state to redistribute the revenue



from the state tax increase to municipalities.

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

#### **ABANDONED PROPERTY**

The bill requires the revenue estimates included in the budget act to be reduced by the estimated claims for abandoned property.

EFFECTIVE DATE: July 1, 2011

#### **CITIZENS' ELECTION FUND TRANSFERS**

The bill reduces, from \$18 million to \$10.6 million, the required FY 12 transfer to the Citizens' Election Fund.

EFFECTIVE DATE: July 1, 2011

#### **TRANSPORTATION STRATEGY BOARD UNSPENT BALANCE**

On July 1, 2011, the bill transfers the unspent balance in the Department of Transportation's nonlapsing Transportation Strategy Board project account to general state resources.

EFFECTIVE DATE: July 1, 2011

#### **PENALTY FOR FAILING TO REGISTER A MOTOR VEHICLE**

The bill increases, from between \$150 and \$300 to \$1,000, the penalty for a Connecticut resident who operates a motor vehicle he or she owns with an out-of-state registration in violation of the Connecticut's registration requirements. It requires the fine to be remitted to the town where the car is garaged, rather than the Special Transportation Fund.

By law, someone has 60 days from the time he or she takes up residence in the state to change his out-of-state registration to a Connecticut registration.

This provision would result in a revenue loss to the Special Transportation Fund of approximately \$150,000 annually by remitting revenue from these violations to the municipalities in which they occur. The provision effectively increases, from approximately \$100 to \$1,000, the fine that would be imposed on any such violation. The total revenue gain to municipalities is estimated to be \$1.5 million annually.

EFFECTIVE DATE: January 1, 2012



**2. S.B. No. 1004 AN ACT CONCERNING THE AUTHORIZATION OF SPECIAL TAX OBLIGATION BONDS OF THE STATE FOR CERTAIN TRANSPORTATION PURPOSES. (JFS)**

See attached.

**3. S.B. No. 1006 AN ACT INCREASING CERTAIN BOND AUTHORIZATIONS FOR CAPITAL IMPROVEMENTS. (JFS)**

See attached.

**4. S.B. No. 1008 AN ACT AUTHORIZING BONDS OF THE STATE FOR CAPITAL IMPROVEMENTS AND OTHER PURPOSES. (JFS)**

See attached.

**5. H.B. No. 6626 (RAISED) AN ACT CONCERNING THE IMPOSITION OF THE SALES TAX ON ROOM REMARKETERS (JFS)(NEW TITLE AND CONTENT)**

**Fiscal Impact:**

Agency Affected	Fund	Effect	FY 12 \$	FY 13 \$
Department of Revenue Services	General Fund	Revenue Gain	\$2.7 million	\$3.6 million

The bill results in an estimated total revenue gain of \$3.6 million annually by allowing the sale of alcohol on Sundays.

It is estimated that the allowance of sales on Sundays would increase the annual volume of alcohol sales by 2.8%. This increase would result in a \$2.4 million increase in sales and use tax revenue and a \$1.2 million increase in excise tax revenue, for a total revenue gain of \$3.6 million. Note that the FY 12 revenue gain would be equal to  $\frac{3}{4}$  of the annual revenue gain due to the October 1<sup>st</sup> effective date.

**Summary of Substitute Bill:**

The substitute bill allows, but does not require, permittees of package stores, drug stores, manufacturer for beer, and grocery stores to sell or dispense alcohol on Sunday. It also eliminates the requirement that these permittees close on the Monday following any Independence Day, Christmas, or New Year's Day that occur on a Sunday.

EFFECTIVE DATE: October 1, 2011