

LEGISLATIVE SUMMARY

2017 GENERAL ASSEMBLY REGULAR & SPECIAL SESSIONS

Connecticut Department of Revenue Services Fiscal Year 2016-17 Annual Report

ADMISSIONS TAX

Public Act 17-147

Establishes conditions under which DRS may impose bond requirements under the admissions tax.

Public Act 17-2, June Special Session

- Expands the local option admissions tax to certain places of entertainment; and
- Eliminates the admissions tax exemptions for events at the following venues: XL Center; Webster Bank Arena in Bridgeport; Dunkin Donuts Park in Hartford, and New Britain Stadium. Effective December 1, 2017.

CIGARETTE & TOBACCO PRODUCTS TAXES

Public Act 17-147

- Expands successor liability for the cigarette and tobacco products taxes;
- Codifies federal exemption for cigarette sales on armed services bases;
- Requires access to tobacco products records on premises; and
- Adds tobacco products to the Corrupt Organizations and Racketeering Activity Act (C.O.R.A.) statute.

Public Act 17-2, June Special Session

- Increases the cigarette tax from \$3.90 a pack to \$4.35 a pack. Effective for sales on or after December 1, 2017;
- Establishes a floor tax due and payable December 15, 2017 for inventory as of November 30, 2017;
- Increases the tax on snuff tobacco from \$1 per ounce to \$3 per ounce, effective December 1, 2017; and
- Provides for a 50% reduction in either the cigarette or tobacco products tax rate for any product recognized by the Secretary of the United States Department of Health and Human Services as a “modified risk tobacco product.” Effective for sales on or after December 1, 2017.

2017 LEGISLATIVE SUMMARY (cont.)

CORPORATION BUSINESS TAX

Public Act 17-147

Provides corporations one month from their federal due date to file their state return, or, where no federal return is required, the due date is the fifteenth day of the fifth month following the close of the income year.

Public Act 17-2, June Special Session

- Creates brownfield revitalization (“7/7”) credits, effective for income years commencing on or after January 1, 2017;
- Extends the FAS 109 corporation income tax deduction for publicly-traded companies over 30 years. This provision was further amended in Public Act 17-4, June Special Session (see below); and
- Requires the Department of Economic Development (DECD) to administer programs to allow businesses to use stranded research and development (R&D) tax credits in exchange for undertaking certain capital projects, or making certain venture capital investments. Additionally, requires DECD, in consultation with the Department of Revenue Services (DRS) and Connecticut Innovations, Inc., to hold tax credit auctions or enter into agreements to allow taxpayers holding stranded incremental and non-incremental R&D tax credits to use the credits in exchange for making investments in their corporate venture capital fund.

Public Act 17-4, June Special Session Delays the first year in which certain publicly-traded companies may claim the FAS 109 corporation income tax deduction from the 2018 income year to the 2021 income year.

ESTATE AND GIFT TAX

Public Act 17-2, June Special Session

- Increases the gift and estate tax threshold over three years to: \$2.6 million for decedents dying on or after January 1, 2018; \$3.6 million for decedents dying on or after January 1, 2019; and, the federal exclusion amount for decedents dying on or after January 1, 2020; and
- Effective for taxable gifts made and estates of decedents dying on or after January 1, 2019, the \$20M payment cap is reduced to \$15M.

2017 LEGISLATIVE SUMMARY (cont.)

HOSPITAL NET REVENUE TAX

Public Act 17-2, June Special Session and Public Act 17-4, June Special Session The hospital net revenue, nursing home, and intermediate care facilities taxes are sunset as of June 30, 2017. Effective July 1, 2017, new health provider taxes are established.

INSURANCE PREMIUMS TAXES

Public Act 17-125

The bill allows the insurance commissioner to designate a domestic insurance company as a domestic surplus lines insurer, which is subject to a 4% gross premiums tax.

Public Act 17-198

The bill reduces the minimum unimpaired paid-in capital and surplus requirement a sponsored captive insurance company must have in order to obtain or retain a license from \$500,000 to \$225,000.

Public Act 17-2, June Special Session

- Allows for the creation of a special captive insurance company to provide assistance to homeowners affected by crumbling foundations;
- Reduces the insurance premiums tax from 1.75% to 1.5%. Effective for income years commencing on or after January 1, 2018;
- Extends and makes permanent the three-tiered tax credit cap that expired for income years on or after January 1, 2017; and
- Prohibits the film and digital media production credits from being used on motion pictures that are not state-certified, prior to July 1, 2013.

INTERMEDIATE CARE FACILITY USER FEE

Public Act 17-2, June Special Session and Public Act 17-4, June Special Session The hospital net revenue, nursing home, and intermediate care facilities taxes are sunset as of June 30, 2017. Effective July 1, 2017, new health provider taxes are established.

2017 LEGISLATIVE SUMMARY (cont.)

MISCELLANEOUS TAXES

Public Act 17-140

This bill establishes regulations for Transportation Network Companies.

Public Act 17-147

- Changes the application of payments to satisfy penalty, then tax, and, lastly, interest. Currently, penalty and interest are satisfied before the principal (tax);
- Requires taxpayers, who the commissioner determines must pay on a weekly basis, to do one of two options: deposit the tax collected in a separate bank account in trust for the state, or contract with a certified service provider who will remit the tax to the state;
- Requires reporting entities as defined in I.R.C. §6050W (e.g., payment settlement entities) to file a duplicate copy of the 1099-K that they filed with the IRS to DRS within thirty days of their federal filing;
- With respect to warrants issued by the department, provides for a continuous order to withhold for up to 180 days;
- Defines terms and prohibits tax preparers and facilitators from charging excess fees and engaging in other unfair practices. Requires non-accountants and other nonregulated tax preparers to register with DRS. Excludes accountants, enrolled agents, and attorneys;
- Exempts from the dry cleaning surcharge businesses that accept clothing or other fabrics to be dry cleaned by another establishment (“drop stores”); and
- Provides for a one year statute of limitations on penalty waiver requests.

Public Act 17-214

This bill specifies that the CT Brownfield Land Bank is not subject to local or state taxes on revenue it may receive.

Public Act 17-2, June Special Session

- Creates brownfield revitalization (“7/7”) credits, effective for income years commencing on or after January 1, 2017;
- Makes permanent the \$5M Neighborhood Assistance Act tax credit cap. The program cap was slated to increase to \$10M in 2017;
- Eliminates the Green Buildings tax credit;

2017 LEGISLATIVE SUMMARY (cont.)

Public Act 17-2, June Special Session (cont.)

- Establishes a 10.5% tax on the gross receipts of fantasy sports contest operators. This provision is contingent upon amending the current gaming agreements between the Tribes and the state, and whether the amendments are approved by the state legislature and federal Department of the Interior. Effective for income and taxable years commencing on or after July 1, 2019;
- Eliminates the 3% motor vehicle rental surcharge. The bill allows companies to instead charge lessees certain itemized charges and fees. Effective January 1, 2018;
- Establishes a 25¢ fee per ride on transportation network companies, to be paid quarterly. Effective January 1, 2018;
- Establishes a “Fresh Start” compliance initiative for non-filers and under-reporters. The program runs from the bill’s passage through November 30, 2018, and is open for any tax return due on or before December 31, 2016. The program covers all taxes except for the motor carrier road tax. Under the program, all penalties and 50% of interest are waived.
- Requires the Office of Policy and Management, in consultation with the DRS and DECD to examine existing state expenditures, prioritize said expenditures, and identify sources to pay for them. They must report their findings to the Finance Committee by February 1, 2018; and
- Establishes a credit revenue bond program through the State Treasurers Office. The bonds would be based on withholding tax payments that are pledged as collateral for the bonds. The bill requires DRS to deposit the withholding tax revenues into a special account. Effective upon passage (October 31, 2017).

Public Act 17-219

This bill modifies the process requiring legislative approval for projects using Urban and Industrial Renovation tax credits. Legislative approval would be required for tax credits approved in excess of \$20 million, but less than \$30 million. Current law requires legislative approval for credits in excess of \$20 million. The bill also establishes Auditor of Public Accounts requirements pertaining to DECD.

Public Act 17-226

This bill expands the legislative oversight of economic development programs, and certain programs administered by DECD, particularly state programs that provide tax incentives to businesses, including those administered by other state agencies.

2017 LEGISLATIVE SUMMARY (cont.)

Public Act 17-244

This bill allows for the Invest CT Fund tax credit to be sold, assigned, or otherwise transferred to one or more taxpayers.

Special Act 17-16

This bill establishes a working group to study legislative and programmatic initiatives and develop a roadmap to foster the microbiome sector in the state. The Commissioner of DRS is a member of the working group. The group must make a presentation to the Governor and the General Assembly no later than February 1, 2018.

NURSING HOME USER FEE

Public Act 17-2, June Special Session and Public Act 17-4, June Special Session The hospital net revenue, nursing home, and intermediate care facilities taxes are sunset as of June 30, 2017. Effective July 1, 2017, new health provider taxes are established.

PERSONAL INCOME TAX

Public Act 17-110

This bill expands the eligibility for the angel investor tax credit to investments in any business, and no longer restricts the credit to the industries specified under current law. The bill also restricts the amount of credit that can be claimed for investments made in emerging technology.

Public Act 17-147

- Requires a taxpayer who has deferred compensation under I.R.C. §457A to include such “repatriated” income for purposes of the Connecticut income tax’;
- Allows for a bond requirement for the withholding tax;
- Mandates income tax withholding for pensions for federally taxable distributions to CT residents;
- Requires payers of non-payroll amounts to annually provide each payee a written statement showing the amount paid and deducted and withheld, and to file certain informational returns with DRS by January 31, annually;
- Clarifies ownership requirements for sourcing of income from real property; and
- Establishes an income tax check-off box for the mental health community investment account, established under this bill.

2017 LEGISLATIVE SUMMARY (cont.)

Public Act 17-2, June Special Session

- Creates brownfield revitalization (“7/7”) credits, effective for income years commencing on or after January 1, 2017;
- Establishes a \$500 tax credit for individuals who are employed in Connecticut, and receive a bachelor’s, master’s, or doctorate degree in the fields of science, technology, engineering or math (STEM credit). Individuals must reside in Connecticut, or move to Connecticut, within two years of receiving such degree. The credit may be claimed for five successive taxable years after the date of graduation, provided the requirements are met in each taxable year. Effective for taxable years commencing on or after January 1, 2019;
- Establishes an income tax subtraction modification for financial assistance received from the Crumbling Foundation Assistance Program established under the act. Effective for taxable years commencing on or after January 1, 2017;
- Increases the thresholds for the social security income tax 100% exemption from \$50,000 to \$75,000 for single filers and married filing separately, and from \$60,000 to \$100,000 for joint filers. Originally effective for taxable years commencing on or after January 1, 2018, however, the provision was further amended in P.A. 17-4, June Special Session (see below);
- Creates a subtraction modification under the personal income tax for expenses related to donating an organ for transplants. The deduction is for up to \$10,000 in expenses. Effective for taxable years commencing on or after January 1, 2017;
- Maintains the subtraction modification for 25% of the income received through the teacher’s retirement system through the 2018 taxable year. The subtraction modification now increases to 50% for taxable years commencing on or after January 1, 2019;
- Creates, and phases in, a subtraction modification for pension and annuity income, starting at 14% for taxable years commencing on or after January 1, 2019, then 28%, 42%, 56%, 70%, 84%, and 100% for taxable years commencing on or after January 1, 2025;
- Limits eligibility for the income tax credit for property taxes paid to individuals who are 65 years of age or older before the end of the applicable year, or validly claim at least one dependent on their federal income tax return for that year. Effective for taxable years commencing on or after January 1, 2017; and
- Reduces the EITC from 30% to 23%, effective for taxable years commencing on or after January 1, 2017.

2017 LEGISLATIVE SUMMARY (cont.)

Public Act 17-4, June Special Session Delays the start of the 100% exemption for social security benefits that was scheduled to begin with the 2018 taxable year. The start of threshold increases is now effective for taxable years commencing on or after January 1, 2019.

PUBLIC SERVICE COMPANIES TAXES

Public Act 17-147

Revises the utility companies tax to match PURA terminology and provide for determination of income for purposes of the tax.

Public Act 17-2, June Special Session

- Effective for income year commencing January 1, 2018, any film credit that is sold, assigned or otherwise transferred, in whole or in part, to one or more taxpayers, is allowed to be claimed against the taxes imposed under Chapter 211. The credits may be claimed only if there is common ownership of at least 50% between such taxpayer and the eligible production company that sold, assigned or otherwise transferred such credit. Such taxpayer may only claim 92% of the amount of such credit entered on their tax credit voucher;

SALES AND USE TAXES

Public Act 17-147

- Effective October 1, 2017, sales tax permits are renewed every two years. Previously, renewals were every five years;
- Applies a uniform 11% room occupancy tax rate on bed and breakfast establishments (B&Bs) instead of the current practice of 6.35% on meals and 15% on the room;
- Establishes conditions under which DRS may impose bond requirements under the sales and use tax; and
- Allows DRS to impose a penalty, of up to \$500 per violation, for failure to comply with the requirements to file informational reports on taxable goods and services relating to the use tax.

Public Act 17-2, June Special Session

- Expands the sales and use tax exemption for services rendered between parent and subsidiaries from businesses that own a 100% controlling interest in the other, to at least 80% ownership threshold, for media businesses organized as corporations or single-member LLCs, and who are principally located in the state. Effective July 1, 2019.