



STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

SN 2006(8)

25 Sigourney Street
Hartford CT 06106-5032

SPECIAL NOTICE

2006 Legislative Changes Affecting the Corporation Business Tax

Purpose: The purpose of this Special Notice is to summarize 2006 legislation affecting the corporation business tax.

Effective Date: The effective dates of the legislative changes are noted herein.

Statutory Authority: Conn. Gen. Stat. §§8-395(h) and (i); 10-228; 10-416(j); 12-217p(d); 12-217e(f); 12-217n(e) and (f); 12-217t(d); 12-217u(j); 12-636; 32-9t(k); and 33a-88a(h).

Surtax: New legislation repeals subsection (b)(6) of Conn. Gen. Stat. §12-214 (surtax on net income) and subsection (b)(6) of Conn. Gen. Stat. §12-219 (surtax on capital) to delete the surtax of 15% that was to apply for income years beginning on or after January 1, 2007, and prior to January 1, 2008.

Note: The surtax of 20% (.20) remains for income years beginning on or after January 1, 2006, and prior to January 1, 2007. The surtax does not apply to the minimum tax of \$250.

2006 Conn. Pub. Acts 186, §§66 and 67

Tax Credit Attachments: For income years beginning on or after January 1, 2006, legislative changes were implemented for the following business tax credits to delete the requirement that taxpayers attach any specific agency certification to their tax return. The Department of Revenue Services (DRS) will now obtain this information directly from the agency responsible for the certification:

Computer Donation Tax Credit

Conn. Gen. Stat. §10-228(a) and (b), as amended by 2006 Conn. Pub. Acts 159, §1;

Employer-Assisted Housing Tax Credit

Conn. Gen. Stat. §12-217p(d), as amended by 2006 Conn. Pub. Acts 189, §23;

Historic Homes Rehabilitation Tax Credit

Conn. Gen. Stat. §10-416(j) (formerly Conn. Gen. Stat. §10-320j), as amended by 2006 Conn. Pub. Acts 159, §2;

Manufacturing Facility Credit for Facilities Located in a Targeted Investment Community/Enterprise Zone

Conn. Gen. Stat. §12-217e(f), as amended by 2006 Conn. Pub. Acts 159, §7;

Research and Development Credit

Conn. Gen. Stat. §12-217n(e) and (f), as amended by 2006 Conn. Pub. Acts 159, §8;

Electronic Data Processing Equipment Property Tax Credit

Conn. Gen. Stat. §12-217t(d), as amended by 2006 Conn. Pub. Acts 159, §10;

Financial Institutions Tax Credit

Conn. Gen. Stat. §12-217u(j), as amended by 2006 Conn. Pub. Acts 159, §11;

Neighborhood Assistance Act Tax Credit

Conn. Gen. Stat. §12-636, as amended by 2006 Conn. Pub. Acts 159, §19;

Urban and Industrial Site Reinvestment Tax Credit

Conn. Gen. Stat. §32-9t(k), as amended by 2006 Conn. Pub. Acts 159, §20; and

Insurance Reinvestment Fund Tax Credit

Conn. Gen. Stat. §33a-88a(h), as amended by 2006 Conn. Pub. Acts 159, §21.

Computer Donation Tax Credit: For income years beginning on or after January 1, 2006, Conn. Gen. Stat. §10-228b(a) is amended to expand the computer donation tax credit to include donations of new or used computers to nonpublic schools.

2006 Conn. Pub. Acts 145, §1

Employer-Assisted Housing Tax Credit Repealed: Effective June 7, 2006, Conn. Gen. Stat. §12-217p, which provided a tax credit for taxpayers that set up a revolving loan fund to provide housing assistance for their low to moderate income employees, is repealed.

2006 Conn. Pub. Acts 189, §23

Apprenticeship Training Credit in Manufacturing, Plastics, Plastics-Related, or Construction Trades: Effective July 1, 2006, Conn. Gen. Stat. §12-217g(c) is amended to delete the requirement that the qualified apprenticeship training program be jointly administered by labor and management trustees and be administered according to 29 U.S.C. §186(c).

In addition, the credit is now awarded upon completion and notification of completion of the program in the income year in which the completion and notification occur, rather than annually. As amended, the available tax credit is \$4,000 or 50% of actual wages paid over the first four income years, whichever is less.

2006 Conn. Pub. Acts 174, §1

Housing Program Contribution Tax Credit: Effective July 1, 2006, Conn. Gen. Stat. §8-395(h) and (i) is amended to:

- Increase the tax credits allowed to all business firms from \$5 million to \$10 million in any one fiscal year;
- Increase the amount of tax credits that must be set aside until November 1 of each year for the Supportive Housing Pilots Initiative or the Next Steps Initiative from \$1 million to \$2 million; **and**

- Require that \$1 million of the total amount of all tax credits under this section be set aside for workforce housing, as defined by the Connecticut Housing Finance Authority (CHFA) through its written procedures.

The tax credit that may be earned by an organization conducting a housing program or programs eligible for funding is increased from \$400,000 to \$500,000, for any fiscal year.

2006 Conn. Pub. Acts 186, §65

Film Production Credit (New): For income years beginning on or after January 1, 2006, a tax credit is available for qualified film production expenses. Any eligible production company incurring qualified production expenses or costs in excess of \$50,000 is eligible for a credit against the tax imposed under Chapter 208 of the general statutes equal to 30% of such production expenses or costs.

This new credit can be earned by corporations, partnerships, limited liability companies, or other business entities that are qualified by the Secretary of the State to engage in business and that are in the business of producing “qualified productions” either on a one-time or on-going basis.

The credit must be claimed in the income year in which final certification is made by the Connecticut Commission on Culture and Tourism (CCCT) and may be carried forward for the three immediately succeeding income years. The tax credit will be administered by CCCT and application must be made to CCCT 90 days after the first production expenses and costs are incurred in order to earn the credit. Then, not later than 90 days after the last production expenses or costs are incurred, the eligible production company applies to CCCT for a production tax credit certificate.

Any credit allowed may be sold, assigned, or otherwise transferred, in whole or in part, to one or more taxpayers provided such taxpayers may claim the credit only for an income year in which the eligible production company would have been eligible to claim the credit.

Visit CCCT’s Web site at www.cultureandtourism.org for more information.

2006 Conn. Pub. Acts 186, §83 (original language adopted in 2006 Conn. Pub. Acts 83, §20, as amended by 2006 Conn. Pub. Acts 187, §79)

New Jobs Creation Tax Credit (New): For income years beginning on or after January 1, 2006, a tax credit for the creation of “new jobs” is available. This tax credit is available to a person subject to the tax imposed under Chapter 207, 208, or 212 of the general statutes that was not conducting business in Connecticut prior to relocation to Connecticut.

Relocation to Connecticut means that the taxpayer creating the “new job” shall not have been conducting business in Connecticut prior to the taxpayer’s application to the Commissioner of the Department of Economic and Community Development (DECD) for an eligibility certificate.

A **new job** is defined as a job which did not exist prior to the application and which is filled by a person hired by the taxpayer to fill a job, which requires at least thirty-five or more hours per week and which is not temporary or seasonal. The credit is allowed for taxpayers who create at least 50 “new jobs.”

The credit allowed is an amount up to 25% of the income tax deducted and withheld from the wages of new employees and paid over to the state according to Chapter 229 of the Connecticut general statutes. For each new employee, credits may be granted for five successive years. The credit is claimed in the income year in which it is earned and any credits not used in a tax year expire. This credit requires an application process that is administered by the Commissioner of DECD stating the nature of the relocation, number of “new jobs,” and all other information required by DECD. DECD determines the viability of the relocation and whether the taxpayer is eligible for the credit.

At the completion of the taxpayer’s income year, data is again provided to DECD showing the number of new employees and all related information. DECD will issue a certificate of eligibility if the taxpayer has met all of its commitments. Failure to meet the criteria stated in the credit allocation notice shall result in a recapture of all or a portion of the credit. The program is capped at \$10 million annually.

2006 Conn. Pub. Acts 186, §80

Displaced Worker Tax Credit (New): For income years beginning on or after January 1, 2006, a new tax credit is available for employers that hire “displaced workers.”

A **displaced worker** is defined as any person employed in Connecticut whose position was terminated because of a business restructuring in which at least ten employees were terminated and whose new salary is at least 75% of their previous annual wages or salary. It does not include any person whose former employer is or was at the time of termination a “related person” with respect to the taxpayer.

The available credit is \$1,500 for each displaced worker hired by a taxpayer on or after January 1, 2006. The credit is allowed for the income year during which the displaced worker first completes twelve full months of full-time employment with the taxpayer. The credit may only be taken once with respect to any displaced worker, and no taxpayer may claim the credit under this section and under Conn. Gen. Stat. §12-217bb for the same displaced worker. This credit may be applied against the insurance premiums tax imposed under Chapter 207, the corporation business tax imposed under Chapter 208, or the utilities company tax imposed under Chapter 212 of the general statutes.

2006 Conn. Pub. Acts 186, §81

Historic Structure Rehabilitation Tax Credit (New): For income years beginning on or after January 1, 2006, a new tax credit administered by Connecticut Commission on Culture and Tourism (CCCT) is available to owners rehabilitating certified historic structures for residential use. This credit is similar to the tax credit for rehabilitation of historic homes set forth in Conn. Gen. Stat. §10-416. This credit may be applied against the tax imposed under Chapter 207, 208, 209, 210, 211, or 212 of the general statutes.

Prior to any rehabilitation work taking place, the owner must submit a rehabilitation plan to CCCT along with an estimate of the qualified expenditures.

CCCT will certify the plan and reserve credits equal to 25% of the projected expenditures, not to exceed \$2.7 million. No more than \$15 million in credits will be awarded in the aggregate. Upon completion of the project, the owner submits the required documentation. CCCT verifies the owner's compliance with the rehabilitation plan and issues a credit voucher. This tax credit may be assigned.

2006 Conn. Pub. Acts 186, §82

Flow-Through of Tax Credits Allowed in Limited Circumstances: Certain “sponsors” are allowed to earn tax credits which may flow through to their “constituent corporations” provided the “sponsor” is involved in an “approved employment expansion project.” This credit requires an application process that will be administered by DECD.

A *sponsor* means a partnership, limited partnership, limited liability company, or other entity that is treated as a flow-through entity for federal income tax purposes.

A *constituent corporation* means any corporation that holds or has held an interest in the sponsor of an approved employment project and is subject to the corporation business tax under Chapter 208 of the Connecticut General Statutes either directly or by virtue of holding an interest in such sponsor.

An *employment expansion project* is a project that:

- Will result in the creation of at least 400 new jobs in the state over a period of not more than five full income years following the income year in which the beginning date occurs;
- Needs the allowance of the credits to attract the project to this state;
- Will be economically viable and will generate direct and indirect benefits to this state; **and**
- Is consistent with the strategic economic development priorities of the state and the municipalities in which the jobs will be created.

Each constituent corporation will be allowed credits that otherwise would have been allowed under Chapter 208 had such constituent corporation itself conducted its pro rata share of the business conducted by the sponsor during any relevant income year. Credits are allowed for those income years beginning on or after the commencement date of the approved expansion project.

Any credit allowed to a constituent corporation may be assigned to another constituent corporation, provided the credit is claimed with respect to an income year in which the constituent corporation could have claimed the credit. The assignor and the assignee must jointly provide notice of the assignment to DECD within 30 days of the assignment. There may not be multiple assignments of the credit.

The tax credits are allowed as stated in a certificate of eligibility issued by the Commissioner of DECD. If the aggregate number of “new jobs” at the end of any of the five income years is less than 90% of the aggregate number of “new jobs” stated in the certificate of eligibility for such income year, no credits attributable to the activities of the sponsor during such income year shall be allowed.

2006 Conn. Pub. Acts 187, §19

Effect on Other Documents: The “Surtax” section on Page 2 of **Special Notice 2005(7)**, *2005 Legislative Changes Affecting the Corporation Business Tax*, is modified and superseded.

Effect of This Document: A Special Notice announces a new policy or practice in response to changes in state or federal laws or regulations or to judicial decisions. A Special Notice indicates an informal interpretation of Connecticut tax law by DRS.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only), **or**
- **860-297-5962** (from anywhere).

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Visit the DRS Web site at www.ct.gov/DRS to download and print Connecticut tax forms and publications at any time; or
- **Telephone:** Call **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only) and select **Option 2** from a touch-tone phone, or **860-297-4753** (from anywhere).

Paperless Filing/Payment Methods (fast, easy, free, and confidential):

- **For business returns:** Use *Fast-File* to file sales and use taxes, business use tax, room occupancy tax, estimated corporation business tax, business entity tax, attorney occupational tax, nursing home provider fee, admissions and dues tax, or withholding tax returns over the Internet. Visit the DRS Web site at www.ct.gov/DRS and click on *File/Register OnLine*.
- **For payment of business taxes other than those listed above:** Use *Fast-File* to pay your business taxes over the Internet or by phone. Visit the DRS Web site at www.ct.gov/DRS and click on *Electronic Services* for a list of eligible taxes. The ACH debit method is used to make the transfer. No preregistration is required.

- **For resident income tax returns:** Use *WebFile* to file personal income tax returns over the Internet. Visit the DRS Web site at www.ct.gov/DRS and click on *File/Register OnLine*.
- **For electronic filing of income tax extensions, estimated payments, and for electronic bill payments:** Use *WebFile* to electronically file personal income tax returns over the Internet. You can also use *WebFile* to make an electronic income tax payment for a prior year. Visit the DRS Web site at www.ct.gov/DRS and click on *File/Register OnLine*.

DRS E-News Service: Get connected to the latest news from DRS. Receive notification by e-mail of changes to legislation, policies, and procedures. **DRS E-News** is easy to sign up for – visit www.ct.gov/DRS and follow the directions. Subscription services are available for employer’s withholding tax, *Fast-File* information, Alerts, News – Press Releases, and Top 100 Delinquency List.