



**Governor Ned Lamont
State of Connecticut**



FACT SHEET
2019 Legislative Session

**SENATE BILL 877
AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET**

Summary of Proposal:

This bill contains the major revenue elements of the Governor's plan to balance the FY 2020 and FY 2021 budgets. General Fund revenue would increase by \$1,061.2 million in FY 2020 and \$1,486.5 million in FY 2021 prior to accounting for the state's revenue cap. Transportation Fund revenue would decrease by \$83.6 million in FY 2020 and \$111.5 million in FY 2021 prior to accounting for the state's revenue cap.

Reason for Proposal:

To raise revenue to support Governor Lamont's proposed biennial budget.

Significant Impacts:

The bill will have the following impact on the state's revenue in FY 2020 and FY 2021 (all dollar amounts in millions):

<u>Sec.</u>	<u>Legislative Proposals – General Fund</u>	<u>Fiscal 2020</u>	<u>Fiscal 2021</u>
1	New income credit when property taxes exceed 6.5% of AGI	\$0.0	\$0.0
3,4	Eliminate increased exemption for social security income	24.2	17.4
3,4	Eliminate exemption for pension and annuity income	32.8	41.1
3,4	Permanently cap teachers' pension exemption at 25%	8.0	8.0
5,6	Maintain current 10% corporate surcharge set to expire in tax year 2019	60.0	37.5
7,8	Repeal the business entity tax of \$250	(11.0)	(44.0)
9-12	Repeal gift tax (3-year lookback for gifts in contemplation of death)	(9.0)	(9.0)
13	Delay estate filing from 6 months to 9 months to match federal	(33.6)	0.0
14,16	Increase tax on boats from 2.99% to standard 6.35% sales tax rate	2.3	2.3
14,16	Increase hotel occupancy tax from 15% to 17%	17.6	18.1
14,16	10% diversion of hotel tax to tourism account	(1.8)	(1.8)
14,16	Freeze diversion of the car sales tax to the STF at 8%	91.0	175.8
14,16,34	Eliminate the municipal revenue sharing account	0.0	0.0
15	Repair or maintenance of vessels - repeal sales tax exemption	1.9	3.9
15,17,23-29	Campground rentals – repeal sales tax exemption	0.4	0.8
18	Winter boat storage - repeal sales tax exemption	0.8	1.1
19-21	Increase sales tax on digital downloads from 1.0% to standard 6.35% rate	27.5	37.1
22	Expand sales tax to legal services	35.3	71.7
22	Expand sales tax to accounting services	5.0	10.2
22	Expand sales tax to architectural services	5.7	11.6

Contacts:

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<u>Sec.</u>	<u>Legislative Proposals – General Fund</u>	<u>Fiscal 2020</u>	<u>Fiscal 2021</u>
22	Expand sales tax to engineering services	21.1	42.7
22	Expand sales tax to interior design services	1.9	3.9
22	Expand sales tax to real estate activities and agents/brokers	33.8	68.6
22	Expand sales tax to veterinary services	9.1	18.6
22	Expand sales tax to barber shops and beauty salons	20.8	42.2
22,31	Expand sales tax to dry-cleaning and laundry services, incl. coin-operated	8.6	17.3
22	Expand sales tax to parking	1.8	3.7
22	Massage therapists and electrology services - repeal sales tax exemption	0.5	1.0
22	Expand sales tax to sports/recreation instruction and industries	3.0	5.9
22	Expand sales tax to horse boarding and training	0.3	0.5
22	Expand sales tax to travel arrangement and scenic transportation	0.6	1.2
22	Expand sales tax to services to buildings and dwellings	7.9	16.0
22	Expand sales tax to waste collection	0.5	1.1
22	Renovation and repair of residential property - repeal sales tax exemption	15.6	31.7
30	Non-prescription drugs - repeal sales tax exemption	14.9	30.5
33	Trade-ins for vehicles - repeal sales tax exemption	60.4	61.6
Var.	Special Transportation Fund Portion of Sales Tax Expansion	(27.4)	(44.3)
35, 36, 38	Implement recommendation of ambulatory surgical center tax study	(1.0)	(1.0)
36	Maintain Hospital User Fee at FY 2019 level of \$900 million	516.0	516.0
37	Technical fix to intermediate care facilities (ICF) user fee	0.1	0.1
39	Increase the rate on residential real estate > \$800k to 1.5% from 1.25%	7.7	7.9
40	Limit carryforward of new R&D tax credits to 15 years	0.0	0.0
41	Reduce cap on R&D and URA tax credits to 50.01%	34.4	21.5
42-44	Cap credits claimed against the public utilities tax at 50.01% of liability	2.0	2.0
45	Eliminate public utilities tax exemption for gas sold to facility with 775 MW of Capacity	3.6	3.6
46	Tax E-Cigarettes liquid at 75% wholesale	6.7	9.7
46	Increase in sales tax due to E-cigarettes tax	0.4	0.6
47-53	Raise the Age to 21 for cigarettes	(5.8)	(5.5)
47-53	Decrease in sales tax due to increase in cigarette age restriction	(0.8)	(0.8)
54	Reduce alcohol beverage excise taxes at craft breweries by 50%	(0.1)	(0.1)
55-56	Add 25 cent deposit on wine and liquor glass bottles	4.4	6.0
55-56	Add 5 cent bottle deposit to nips	0.5	0.6
57	Increase rate for movies from 6.0% to 6.35%	0.2	0.3
58	1.5¢ per ounce tax on sugar-sweetened beverages	0.0	163.1
60	Surcharge on Plastic Bags of 10 cents	30.2	26.8
61-63	Increase annual filing fee for LLC's and LLP's from \$20 to \$100	16.0	16.0
66,67	Repeal 7/7 Program	0.0	8.0
67	Eliminate 5 year, \$500 credit for STEM college graduates	3.9	7.9
68	Eliminate the sales tax free week	4.9	5.0
69	Text books, college & professional schools - repeal sales tax exemption	0.3	0.5

<u>Sec.</u>	<u>Legislative Proposals – General Fund</u>	<u>Fiscal 2020</u>	<u>Fiscal 2021</u>
69	Newspapers and magazines - repeal sales tax exemption	6.5	13.2
69	Connecticut credit unions - repeal sales tax exemption	0.3	0.5
69	Bicycle helmets - repeal sales tax exemption	0.1	0.2
69	Child car seats - repeal sales tax exemption	0.1	0.2
69	Vegetable seeds - repeal sales tax exemption	0.0	0.1
69	Safety apparel - repeal sales tax exemption	<u>0.1</u>	<u>0.1</u>
	TOTAL GENERAL FUND REVENUE	\$1,061.2	\$1,486.5

	<u>Legislative Proposals – Special Transportation Fund</u>	<u>Fiscal 2020</u>	<u>Fiscal 2021</u>
14,16	Freeze the diversion of the car sales tax from the GF at 8%	(\$91.0)	(\$175.8)
Var.	Sales tax attribution of sales tax expansions	27.4	44.3
65	Transfer FY 2020 revenue for use in FY 2021	<u>(20.0)</u>	<u>20.0</u>
	TOTAL SPECIAL TRANSPORTATION FUND REVENUE	(\$83.6)	(\$111.5)

Additional Information:

Section 1: New Property Tax Credit. The bill creates a new, nonrefundable property tax credit for filers with property taxes in excess of 6.5% of their AGI. Impacted filers are allowed a credit worth 1/3rd of their excess property tax up to a maximum of \$1,200. Renters are also entitled to the credit: the law assumes that 18% of rent paid accounts for property taxes. The credit is assumed to cost \$170 million per year when fully implemented. Effective 1/1/2023.

Section 2: Property tax credit. This bill makes technical and conforming changes to the existing property tax credit. Effective upon passage.

Sections 3-4: Social Security Exemption. The bill repeals the increased exemption for Social Security benefits from the income tax included in the FY 2018 – 2019 biennial budget and scheduled to take effect for the 2019 income year. Effective 1/1/2019.

Sections 3-4: Pension and Annuity Income Exemption. The bill repeals the phased in exemption for pension and annuity income included in the FY 2018 – 2019 biennial budget and scheduled to take effect beginning in the 2019 income year. Effective 1/1/2019.

Sections 3-4: Teachers' pension exemption. The bill permanently caps the amount of teachers' pensions that is exempt from the income tax at 25%; this amount was slated to increase to 50% in income year 2019 under current law. Effective 1/1/2019.

Sections 5 and 6: 10% Corporation Tax Surcharge. The bill extends the 10% corporation tax surcharge indefinitely. The 10% surcharge is on top of the existing 7.5% rate. The surcharge does not apply to companies (1) with less than \$100 million in annual gross revenues or (2) whose tax liability does not exceed the \$250 minimum tax. Effective 1/1/2019.

Sections 7 and 8: Repeal the Business Entity Tax. This bill eliminates the biennial \$250 tax paid by business entities. (see also sections 61-63). Effective 1/1/2019.

Sections 9-12: Repeal gift tax (with a three year lookback in contemplation of death). The bill eliminates the gift tax portion of the Gift and Estate Tax, effective 1/1/2019. Currently, Connecticut is the only state in the country with a gift tax. There will be, however, a lookback of three years from date of death, for gifts given in contemplation of death.

Section 13: Delay estate tax filing from 6 months to 9 months to match the federal filing date. The bill delays the filing date for the estate tax return from six months to nine months, to mirror the federal filing date.

Sections 14 and 16: Hotel occupancy tax. This bill raises the hotel occupancy tax rate from 15% to 17%, and the tax on bed and breakfasts from 11% to 13% effective 7/1/2019. 10% of this increase will be diverted to the Tourism Fund, per P.A. 17-2, JSS Sections 168-169.

Sections 14, 16, and 34: Eliminate the municipal revenue sharing account. This bill eliminates the transfer of 0.5% of sales tax to the municipal revenue sharing account. The transfer to the municipal revenue sharing account was eliminated for fiscal years 2020 and 2021; this bill permanently eliminates the transfer which was to be restored in FY 2022.

Sections 14 and 16: Freeze diversion of the car sales tax from the General Fund to the Special Transportation Fund at 8%. This bill freezes the diversion from the sales tax on motor vehicles to the Special Transportation Fund at the FY 2019 level of 8% effective 7/1/2019. Previously, the diversion was supposed to increase over four years to 100% of sales tax on motor vehicle sales in FY 2023.

Sections 15, 17, 22-30, 33 ,69: Repeal exemptions within sales and use tax. This bill repeals a number of exemptions currently in the sales and use tax code, including massage therapists, electrology services, renovation and repair of residential property, non-prescription drugs, text books, newspapers and magazines, Connecticut credit unions, campground rentals, bicycle helmets, child car seats, vegetable seeds, safety apparel, and repair or maintenance of vessels effective 1/1/2020. The exemptions for trade-in of vehicles and the lower sales tax rate of 2.99% on sales of vessels is repealed effective 7/1/2019. Finally, the exemption for winter boat storage is repealed effective 10/1/2019.

Sections 19-21: Increase the tax on digital goods from 1.0% to the standard 6.35% sales tax rate. This bill increases the sales and use tax rate on digital goods from 1% to the standard 6.35% rate, effective 10/1/2019. Digital goods includes electronically accessed or transferred audio works, visual works, reading materials, ring tones, and software applications.

Section 22: Expand the sales and use tax to professional services. This bill expands the sales and use tax to encompass professional services including legal, accounting, architectural, engineering, interior design, and real estate activities and agents effective 1/1/2020. Professional services purchased by businesses will be exempt from this sales tax expansion.

Sections 22, 31: Expand the sales and use tax to personal services. This bill expands the sales and use tax to encompass personal services including veterinary services, barber shops, beauty salons, dry-cleaning and laundry services, parking, sports/recreation instruction and industries, horse boarding and training,

travel arrangement and scenic transportation, services to buildings and dwellings, and waste collection effective 1/1/2020.

Section 35-38: Health Provider changes. This bill makes the following changes to the state's health provider taxes effective July 1, 2019:

- *Hospitals:*
 - The hospital user fee is maintained at the FY 2019 level of \$900 million on inpatient and outpatient total net revenue. (The fee had been scheduled to decrease to \$384 million under current law beginning in FY 2020)
 - Updates base year to 2017 net patient revenue.
 - Sets the inpatient rate at 6% net patient revenue with the outpatient rate to be an amount such that combined \$900 million is collected.
 - States that if a merger or other action happens, the succeeding entity is responsible for paying user fees
 - States that if a hospital ceases to exist, revenue is forgone.
 - Adds a provision that if it is determined by DSS that the amount collected in inpatient review exceeds 6%, DRS is required to issue refunds equal to the amount of overage.
- *Ambulatory Surgical Centers:* The bill makes the following changes to the 6% ambulatory surgical centers tax to ensure conformity with federal regulations:
 - Limits the tax to gross receipts from facility fees (excludes surgical procedures)
 - Eliminates the exemption for the first \$1 million in receipts
 - Prohibits credits claimed against the cap
 - Maintains exemption on Medicaid and Medicare revenue
- *Intermediate Care Facilities:* The bill corrects a drafting error in PA 17-4, June Special Session which inadvertently reduced the per bed day tax on intermediate care facilities from \$27.26 to \$27.76.

Section 39: Increase Real Estate Conveyance Tax on residential real estate over \$800,000 from 1.25% to 1.5%. This bill increases the real estate conveyance tax rate for residential properties above the \$800,000 threshold from 1.25% to 1.5% effective 7/1/2019. Higher rate only applies on the amount above \$800,000.

Section 40: R&D Tax Credit Carryforwards. This bill prevents R&D tax credits issued during or after 2019 from being carried forward for a period of more than 15 years. Such credits can currently be carried forward indefinitely. Almost all other credits have carry forward periods of 0 to 15 years. Effective 1/1/2019.

Section 41: Cap on R&D and URA Credits. This bill caps the amount that research and development, research and experimental expenditures, and urban reinvestment act tax credits can reduce a corporate taxpayers liability to no more than 50.01%, conforming to other business tax credits. Effective 1/1/2019.

Sections 42-44: Public Utilities Credit Cap. This bill caps the amount public utilities taxpayers can offset their tax using credits at 50.01% of their quarterly liability. Effective 7/1/2019.

Section 45: Eliminate exemption for gas sold to facility with 775 MW of Capacity. This bill eliminates an exemption in section CGS 12-264 effective 7/1/2019, which applies to natural gas sold to facility comprised of three gas turbines with a total capacity of 775 MW.

Section 46: Tax on electronic Cigarettes. This bill adds a 75% wholesale tax on all electronic cigarette products that contain nicotine liquid. The rate would bring parity with the existing cigarette tax. Effective October 1, 2019.

Sections 47-53: Raise the Age to 21 for Tobacco Products. This bill increases the age to purchase tobacco products, including e-cigarettes, from 18 to 21 years of age. Effective 7/1/2019.

Section 54: Reduce Alcoholic Beverage tax at crafter brewers. This bill reduces the alcoholic beverage tax on beer sold for off premise consumption at a craft brewer from 24 cents per gallon to 12 cents per gallon (50% reduction). Effective 7/1/2019.

Sections 55-56: 25 cent bottle deposit on wine and liquor. This bill adds a new 25 cent bottle deposit for wine and liquor bottles. This works the same way the state's current bottle bill operates. Consumers will be credited the 25 cents if the bottle is returned to a redemption center or liquor store. Effective 10/1/2019.

Sections 55-56: 5 cent to 50 ml liquor bottles (nips). This bill adds a new 5 cent bottle deposit for 50 ml liquor bottles. This works the same way the state's current bottle bill operates. Consumers will be credited the 5 cents if the bottle is returned to a redemption center or liquor store. Effective 10/1/2019.

Section 57: Increase admission tax rate for movies. This increases the admission tax on movie theatre tickets from 6.0% to 6.35% to be equivalent to the sales tax rate. Effective 10/1/2019.

Section 58: 1.5¢ per ounce tax on sugar-sweetened beverages. This bill applies a 1.5 cents per ounce tax on sugar-sweetened beverages, to be collected by the retailer at point of sale effective 7/1/2020. The sugary-sweetened beverages tax applies to sodas (including fountain drinks), fruit drinks, sports drinks, ready-to-drink tea and coffee, enhanced water, and energy drinks. This tax does not apply to artificially sweetened sodas and diet drinks, freshly served coffee, milk products, 100% juice products, powders (fruit drink powder mixes).

Section 59: Junk food study. This bill directs the Secretary of OPM, in consultation with the Commissioners of Public Health and Revenue Services, to conduct a study to define junk food and the administrative feasibility of imposing a tax on junk food. The report is due 1/1/2020 to the joint standing committees of the General Assembly having cognizance of matters relating to public health and finance and revenue.

Section 60: Surcharge on Plastic Bags of 10 cents. This bill applies a 10 cents per plastic bag surcharge for all single-use plastic bags provided at point of sale effective 10/1/2019. Plastic bags that are excluded from the surcharge include compostable plastic bags, newspaper bags, laundry or dry-cleaner bags, and bags provided to contain meat, seafood, loose produce, or other unwrapped food items.

Sections 61-63: Increase annual filing fee for LLC's and LLP's. This bill increases the annual Secretary of State's annual filing fee from \$20 to \$100. This fee increase would impact the state's LLC's and LLP's, a similar group that currently pays the business entity tax. Effective 7/1/2019.

Section 64: Insurance Fund Children's Health Initiatives. This bill creates a funding source to support the appropriation to the Children's Health Initiatives account under the Department of Public Health. The

Legislature moved this account from the General Fund to the Insurance Fund in FY 2018, but established no offsetting revenue stream. Effective July 1, 2019.

Section 65: Transfer FY 2020 revenue to FY 2021. This bill transfers \$20 million in revenue from the Special Transportation Fund in Fiscal Year 2020 to be used as revenue in the Special Transportation Fund in FY 2021. Effective 7/1/2019.

Sections 66 and 67: Repeal 7/7 Program. This bill repeals CGS 32-776, thereby eliminating the 7/7 tax credit program for development on brownfield sites effective 1/1/2019. The 7/7 program would provide the following benefits:

- A 100% credit against the corporation tax for income attributable to the brownfield site for the first seven years of operation. (If the business is a pass-through, the owners will receive the same credit against their personal income tax).
- An exemption from the sales and use tax for items purchased in the course of business at the brownfield site for the first seven years of operation.
- A deduction from the corporation tax worth 8.57% of remediation costs in the eighth through fourteenth years of operation of the site, or approximately 60% total. (If the business is a pass-through, the owners will receive the same deduction against their personal income tax).
- Local governments will be compelled to assess the brownfield site at its underutilized level for five years following the issuance of a building permit.

Section 67: STEM credit. The bill eliminates the new \$500 income tax credit, available for five years, for recent graduates of a science, technology, engineering, or math (STEM) program scheduled to take effect for the 2019 income year. Effective 1/1/2019.

Section 68: Eliminate the sales tax free week. This bill eliminates the sales tax free week. The sales tax free week is held the third week of August, and exempts clothing and footwear less than \$100 from the sales tax.