House of Representatives

General Assembly

File No. 854

January Session, 2025

House Bill No. 5977

House of Representatives, May 8, 2025

The Committee on Finance, Revenue and Bonding reported through REP. HORN of the 64th Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

AN ACT EXEMPTING THE SALE AND USE OF CERTAIN TANGIBLE PERSONAL PROPERTY FOR MIXED-INCOME DEVELOPMENTS FROM THE SALES AND USE TAXES.

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

Section 1. Subdivision (29) of section 12-412 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2025, and applicable to sales occurring on or after October 1, 2025*):

(29) (A) (i) Sales of and the storage, use or other consumption of tangible personal property acquired for incorporation into or used and consumed in the operation of housing facilities for low and moderate income families and persons and sales of and the acceptance, use or other consumption of any service described in subdivision (2) of section 12-407 that is used and consumed in the development, construction, rehabilitation, renovation, repair or operation of housing facilities for low and moderate income families and persons, provided such facilities are constructed under the sponsorship of and owned or operated by nonprofit housing organizations or housing authorities, as defined in

subsection (b) of section 8-39. The nonprofit housing organization or housing authority sponsoring the construction of or owning or operating such housing facility shall obtain from the commissioner a letter of determination that the housing facility has, to the satisfaction of said commissioner, met all the requirements for exemption under this [subsection] subparagraph and subparagraph (B) of this subdivision.

(ii) At the time of any sale or purchase that is exempt under this [subsection] subparagraph, the purchaser shall present to the retailer a copy of the determination letter that was issued to the nonprofit housing organization or housing authority together with a certificate from the purchaser, in such form as the commissioner may prescribe, certifying that the tangible personal property or services that are being purchased from the retailer are to be used or consumed exclusively for the purposes of incorporation into or in the development, construction, rehabilitation, renovation, repair or operation of the housing facility identified in the letter of determination.

(iii) For the purposes of this [subsection, (i)] subparagraph and subparagraph (B) of this subdivision, (I) "nonprofit housing organization" means any organization [which] that has as one of its purposes the development, construction, sponsorship or ownership of housing for low and moderate income families as stated in its charter, if it is incorporated, or its constitution or bylaws, if it is unincorporated, and [which] that has received exemption from federal income tax under the provisions of Section 501(c) of the Internal Revenue Code, as amended from time to time, provided the charter of such organization, if it is incorporated, or its constitution or bylaws, if unincorporated, shall contain a provision that no officer, member or employee thereof shall receive or at any future time may receive any pecuniary profit from the operation thereof, except a reasonable compensation for services in effecting the purposes of the organization; [(ii)] (II) "housing facilities" means facilities having as their primary purpose the provision of safe and adequate housing and related facilities for low and moderate income families and persons, notwithstanding that said housing provides other dwelling accommodations in addition to the primary purpose of providing dwelling accommodations for low and moderate income families; [(iii)] (III) "related facilities" means those facilities defined in subsection (d) of section 8-243; and [(iv)] (IV) "low and moderate income families" means those families [as] defined in subsection (h) of [said] section 8-243.

(B) Sales of and the acceptance, use or other consumption of any service described in subdivision (2) of section 12-407 that is used or consumed in the development, construction, renovation or operation of housing facilities for low and moderate income families and persons, provided such facilities are owned or sponsored by a mutual housing association, as defined in subsection (b) of section 8-214f, and operated as mutual housing by such association at a location that was conveyed to such association by the United States Secretary of Housing and Urban Development prior to September 1, 1995.

(C) (i) Sales of and the storage, use or other consumption of tangible personal property acquired for incorporation into or used and consumed in the development, construction, rehabilitation, renovation, repair or operation of dwelling units certified by the commissioner as part of a mixed-income development.

(ii) At the time of any sale or purchase that is exempt under this subparagraph, the purchaser shall present to the retailer a copy of the certification issued by the commissioner to the purchaser together with a certificate from the purchaser, in such form as the commissioner may prescribe, certifying that the tangible personal property that is being purchased from the retailer is to be used or consumed exclusively for the purposes of incorporation into or in the development, construction, rehabilitation, renovation, repair or operation of dwelling units of a mixed-income development.

(iii) For the purposes of this subparagraph: "Median income" means, after adjustments for family size, the lesser of the state median income or the area median income for the area in which the municipality containing the mixed-income development is located, as determined by the United States Department of Housing and Urban Development, and

<u>"mixed-income development" means a development in which (I) not less than forty per cent of the dwelling units will be conveyed by deeds containing covenants or restrictions that shall require that, for at least forty years after the initial occupation of the proposed development, such dwelling units shall be sold or rented at or below prices that will preserve the units as housing for which persons and families pay thirty per cent or less of their annual income, where such income is less than or equal to eighty per cent of the median income, and (II) of the dwelling units conveyed by deeds containing covenants or restrictions, a number of dwelling units equal to not less than fifteen per cent of all dwelling units in the development shall be sold or rented to persons and families whose income is less than or equal to sixty per cent of the median income and the remainder of the dwelling units conveyed by deeds containing covenants or restrictions shall be sold or rented to persons and families whose income is less than or equal to eighty per cent of the median income.</u>

This act shall take effect as follows and shall amend the following sections:		
Section 1	*October 1, 2025, and applicable to sales occurring on or after October 1, 2025*	12-412(29)

FIN *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the 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 chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 26 $	FY 27 $
Department of Revenue Services	Various - Revenue Loss	2.25 million	3 million
Department of Revenue Services	GF - Cost	Up to 100,000	None
Department of Revenue Services	GF - Potential Cost	75,000	100,000
State Comptroller - Fringe Benefits[1]	GF - Potential Cost	30,533	40,710

Note: Various=Various; GF=General Fund

Municipal Impact: None

Explanation

The bill results in an estimated $2.25 million revenue loss in FY 26 and $3 million revenue loss annually thereafter to the state by exempting certain tangible personal property for mixed-income development from the sales and use tax. By fund, the annualized revenue loss is anticipated to be $2.5 million to the General Fund and $250,000 each to the Special Transportation Fund and the Municipal Revenue Sharing Fund.[2]

This analysis assumes up to 300 new units of housing would qualify

[1]The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 40.71% of payroll in FY 26.

[2] By statue, 0.5 percentage points of the 6.35% rate (or 7.87% of collections) is deposited into the Special Transportation Fund and Municipal Revenue Sharing Fund each. The remaining 5.35 percentage points (or 84.25% of collections) is deposited into the General Fund.

for this exemption under the bill with an average construction cost of $160,000 per unit. The actual revenue loss is dependent upon the (1) cost of materials and (2) number of qualifying construction projects, both of which may fluctuate annually based on market conditions.

Department of Revenue Services Costs

The bill also results in a one-time General Fund cost of up to $100,000 to the Department of Revenue Services (DRS) in FY 26 associated with programming updates to the CTax tax administration system and myconneCT online portal, as well as development of an exemption certificate.

To the extent the number of units that must be certified by the DRS commissioner is significant, there is a potential ongoing cost of $105,533 (partial year) in FY 26 and $140,710 in FY 27 for one auditor position (annualized cost of $100,000 for salary and $40,710 for fringe benefits).[3]

The Out Years

The annualized ongoing fiscal impacts identified above would continue into the future subject to inflation.

[3] To receive an exemption under the bill, the DRS commissioner must certify that all units are in a development in which, for at least 40 years after initial occupancy, at least 40% of the units are deed-restricted so they must be sold or rented (1) at or below a cost equal to no more than 30% of the annual household income of those earning no more than 80% of the applicable median income and (2) to households below certain income thresholds.

OLR Bill Analysis
HB 5977

AN ACT EXEMPTING THE SALE AND USE OF CERTAIN TANGIBLE PERSONAL PROPERTY FOR MIXED-INCOME DEVELOPMENTS FROM THE SALES AND USE TAXES.

SUMMARY

This bill exempts from the sales and use tax purchases of tangible personal property for building, renovating, or operating dwelling units in qualifying mixed-income developments. Specifically, the exemption applies to the sale or purchase of tangible personal property (1) acquired for incorporation into these dwelling units or (2) used and consumed in developing, constructing, rehabilitating, renovating, repairing, or operating the units.

To receive the exemption, the Department of Revenue Services (DRS) commissioner must certify that the units are part of a qualifying mixed-income development. Under the bill, this is a development in which for at least 40 years after initial occupancy, at least 40% of the units are deed-restricted so they must be sold or rented (1) at or below a cost equal to no more than 30% of the annual household income of those earning no more than 80% of the applicable median income and (2) to households below certain income thresholds. Specifically,

1. at least 15% of the units must be deed restricted to households earning 60% or less of the median income and

2. the remainder of the income-restricted units must be deed restricted to households earning 80% or less of the median income.

Under the bill, median income is the lesser of the state median income or the applicable municipality's area median income, after adjusting for family size, as determined by the U.S. Department of Housing and

Urban Development.

Purchasers may claim the exemption by giving the retailer a copy of the DRS certification for the mixed-income development and a DRS-prescribed certificate indicating that the tangible personal property will be used or consumed exclusively as described above.

EFFECTIVE DATE: October 1, 2025, and applicable to sales made on or after that date.

BACKGROUND

Existing Sales and Use Tax Exemption for Low- and Moderate-Income Housing Facilities

Existing law exempts from sales and use tax tangible personal property or services used in the development, construction, rehabilitation, renovation, repair, maintenance, or operation of eligible low- or moderate-income housing facilities. To qualify for the exemption, the housing facility must be sponsored and owned or operated by a nonprofit housing organization or housing authority. The exemption applies to (1) materials that will be physically incorporated into the construction project or supplies or equipment that will be used and consumed in the facility's operation after its construction and (2) renovation, repair, maintenance, janitorial, landscaping, or other services (CGS § 12-412(29)).

An exemption also applies to sales and purchases of services used or consumed in developing, constructing, renovating, or operating low- and moderate-income housing facilities when the facilities are owned or sponsored by a mutual housing association (generally, a Department of Housing-approved nonprofit that develops and operates housing projects for low- and moderate-income people who are members of the association and participate in its operation and management) (CGS § 12-412(29)(B)).

Related Bill

SB 1262 (File 71), favorably reported by the Housing Committee, decreases the sales and use tax rate, from 6.35% to 3%, for tangible personal property purchased to build a new residential development project with at least (1) 50 dwelling units of affordable housing or (2) 20% of its units comprised of affordable housing (i.e. housing for which households earning no more than the federally determined area median income pay 30% or less of their annual income).

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable
Yea 42 Nay 10 (04/24/2025)