
OLR Bill Analysis

sHB 7166

AN ACT CONCERNING THE DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT'S RECOMMENDATIONS FOR REVISIONS TO CERTAIN TAX CREDIT STATUTES.

SUMMARY

This bill allows a limited liability company (LLC) that meets specified employment and industry parameters to earn R&D credits. To qualify for the tax credit, the LLC must (1) have over 3,000 employees in Connecticut and (2) be engaged in manufacturing, with expertise in mechatronics, alignment and sensor technology, and optical fabrication. By law, R&D tax credits apply only against the corporation business tax (for which an LLC is not liable). The bill does not correspondingly allow a qualifying LLC to claim the credit against any tax to which it is liable or transfer the credit to another taxpayer.

The bill also makes several changes to the state's tax credit programs for film and digital media production and film infrastructure development. Specifically, it:

1. exempts production companies that produce an interactive website from specified eligibility criteria;
2. requires all eligible production companies to apply to the Department of Economic and Community Development (DECD) for a film and digital media production credit voucher within 90 days after completing an independent certification of their production costs, rather than within 90 days after incurring their last production expense;
3. specifies that the administrative fee DECD charges to cover the department's costs to analyze film tax credit applications is nonrefundable; and

4. allows, rather than requires as under current law, DECD to adopt regulations to administer the film tax credit programs.

EFFECTIVE DATE: July 1, 2025, and the film production tax credit provisions are applicable to applications open or filed on or after that date.

ELIGIBILITY CRITERIA FOR INTERACTIVE WEBSITES

To qualify for the tax credit under existing law, eligible production companies must (1) conduct at least 50% of their principal photography days in Connecticut or (2) incur at least 50% or at least \$1 million of their post-production costs in the state. The bill exempts eligible production companies that produce an interactive website for public distribution or exhibition from these requirements.

Under existing law and the bill, an “interactive website” is a website with production expenses or costs that (1) exceed \$500,000 per income year and (2) are primarily (a) interactive games or end user applications or (b) animation, simulation, sound, graphics, story lines, or video created or repurposed for distribution over the internet. It excludes websites used primarily for institutional, private, industrial, retail or wholesale marketing, or promotional purposes, or containing obscene content.

BACKGROUND

R&D Tax Credit

The R&D credit generally applies to R&D spending that a business incurs in the state to develop or improve a product and qualifying research payments it makes to nonprofit organizations (i.e. nonincremental R&D spending) (CGS § 12-217n). The potential credit amount generally ranges from 1% for spending up to \$50 million to 6% for spending over \$200 million, except for eligible small businesses and certain companies headquartered in an enterprise zone.

The law also allows a separate research and experimental (R&E) tax credit that applies to R&D spending that a business incurs in Connecticut that exceeds the amount it spent during the preceding

income year (i.e. incremental R&D spending) (CGS § 12-217j). Eligible businesses receive a credit equal to 20% of their incremental R&D spending.

By law, qualified small businesses that earn R&D and R&E tax credits for R&D expenditures but cannot use them because they have no corporation business tax liability may receive a cash refund for 65% of the credit amount. A qualified small business is a company whose gross income for the prior year is \$70 million or less, including income from transactions with related entities. The refund is capped at \$1.5 million per company for each income year, and a qualified small business may carry its unused credits forward instead of applying for a cash refund.

Film and Digital Media Production Tax Credit

This tax credit is generally available to eligible production companies, including corporations, partnerships, LLCs, and other business entities, producing qualified film and digital media entertainment content in Connecticut (CGS § 12-217jj). The credit amount generally equals (1) 10% of qualified production expenditures between \$100,000 and \$500,000; (2) 15% of qualified expenditures exceeding \$500,000 but not exceeding \$1 million; and (3) 30% of qualified expenditure above \$1 million. The credit may be claimed against the community antenna and satellite TV companies tax, corporation business tax, insurance premiums tax, or sales and use tax.

Film Infrastructure Tax Credit

This tax credit is generally available to businesses that spend at least \$3 million developing buildings, facilities, and installations needed for film and digital media production (CGS § 12-217kk). The credit amount equals 20% of eligible investment expenditures and may be claimed against the corporation business or insurance premiums taxes. Infrastructure projects must be completed before the credit can be claimed.

COMMITTEE ACTION

Commerce Committee

Joint Favorable Substitute Change of Reference - FIN

Yea 19 Nay 1 (03/20/2025)

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 52 Nay 0 (04/24/2025)