OLR Bill Analysis
sSB 1462

AN ACT ESTABLISHING A TAX CREDIT FOR EMPLOYER CONTRIBUTIONS TO EMPLOYEES' CHET ACCOUNTS AND CONCERNING THE CONNECTICUT HIGHER EDUCATION TRUST AND CONNECTICUT BABY SCHOLARS FUND.

SUMMARY

This bill establishes a new business tax credit for contributions employers make to a qualifying employee's Connecticut Higher Education Trust (CHET) account. The credit equals 25% of the employer's contribution and is capped at $500 per employee per income or tax year. Taxpayers may apply the credit against the corporation business, insurance premiums, or personal income taxes.

The bill also makes various changes to the CHET program statutes, primarily to do the following:

1. align the program's statutes with federal law and current practice;

2. explicitly allow CHET account owners to make federally tax-exempt rollover distributions from their CHET accounts;

3. explicitly authorize the treasurer to retain investment advisors to make CHET trust fund investments on his behalf;

4. eliminate the statutory framework for the CHET Baby Scholars Fund program and its related account;

5. eliminate the ability for taxpayers to contribute any portion of their state income tax refund to the Baby Scholars Fund and instead allow them to contribute their refunds to the Connecticut Baby Bonds Trust; and

6. make other minor, technical, and conforming changes.

EFFECTIVE DATE: July 1, 2025; the tax credit provision is applicable to income and tax years starting on or after January 1, 2025.

CHET CONTRIBUTION TAX CREDIT

Under the bill, employers may receive a tax credit for contributions they make to CHET accounts for their employees, as long as the employees are not the employer's owners, members, partners, or family members. They may claim the tax credits against the insurance premiums, corporation business, or personal income taxes (but not the withholding tax).

If the taxpayer is an S corporation or treated as a partnership for federal income tax purposes, the taxpayer's shareholders and partners may claim the credit. If the taxpayer is a single member limited liability company (LLC) that is disregarded for federal tax purposes, the LLC's owner may claim the credit as long as the owner is subject to insurance premiums, corporation business, or personal income tax.

CHET PROGRAM CHANGES

Definitions

The bill makes a number of changes to CHET program definitions to generally align with current practice and federal law.

Specifically, it replaces references to "depositors" (anyone making a deposit or payment to the trust under a participation agreement) with references to "account owners" (owners or successor owners of an account in CHET that was established under a participation agreement and into which contributions are made for the account's designated beneficiary's qualified higher education expenses). It also replaces the current definitions of "designated beneficiary" and "eligible educational institution" with the substantively similar definitions in the federal 529 program law.

It also incorporates the federal definition of "qualified higher education expenses." Under current law, these expenses include tuition, fees, books, supplies, and equipment required for attending an eligible educational institution and any other higher education expenses that federal law may allow in the future. Under federal law, they also include specified (1) expenses for special needs services connected with enrolling in or attending the school; (2) computer, software, and internet access expenses; (3) tuition expenses for elementary and secondary public, private, or religious schools; (3) expenses associated with registered apprenticeship programs; and (4) qualifying student loan repayments.

Investment Advisors

The law requires the state treasurer to invest the trust in a reasonable way to achieve its objectives; exercise a prudent person's care and discretion; and consider such things as rate of return, risk, maturity, and portfolio diversification, among other things. The bill authorizes him to retain investment advisors to make these investments. Under the bill, he may delegate to these advisors the authority to act in his place to (1) invest or reinvest the trust's deposits and (2) hold, buy, sell, assign, transfer, or dispose of the securities and investments in which the deposits have been invested and their proceeds. These investment advisors must be registered with the Securities and Exchange Commission unless they are exempt from doing so under federal law.

The bill requires the investment advisors to make these investments (1) solely in the interest of account owners and designated beneficiaries and (2) only to provide benefits to designated beneficiaries for qualified higher education expenses and defray the trust's and CHET accounts' reasonable expenses.

Income Disregard

Current law requires CHET investments to be disregarded as assets in determining a person's eligibility for the (1) Temporary Family Assistance program, (2) Low Income Home Energy Assistance Program, and (3) federally funded weatherization assistance program. The bill instead requires that any CHET account contributions and federally tax-exempt distributions (including those for qualified higher education expenses) be disregarded when determining a person's eligibility for any means-tested public assistance program administered by the state or its political subdivisions.

As under existing law, CHET investments must also be disregarded in determining a person's eligibility for need-based institutional grants offered at the state's public colleges and universities.

Rollover Distribution

The bill explicitly allows account owners to transfer money from a CHET account via any federally tax-exempt rollover distribution allowed under the federal 529 program law. Under this law, amounts distributed from a 529 plan are generally tax-exempt if they are rolled over (or transferred) to (1) another 529 account (for the beneficiary or a family member); (2) an Achieving a Better Life Experience (ABLE) account (for the beneficiary or a family member); or (3) a Roth IRA, subject to certain conditions and limitations.

CHET BABY SCHOLARS FUND AND PROGRAM

Incentive Payments

The bill eliminates the statutory authorization for the CHET Baby Scholars program, which provides state incentive payments for people who establish CHET plans. Under current law, a plan qualifies for these payments if the child was born or legally adopted on or after January 1, 2014, and lives in Connecticut when the state makes the payments. The bill similarly eliminates the dedicated account (CHET Baby Scholars Fund) to fund these payments. The state treasurer's office currently offers these incentive payments through its contract with the CHET program administrator.

Under current law, the treasurer must make up to two incentive payments to the savings plan of a participating child: (1) an initial $100 payment for accounts opened by a child's first birthday or within one year after the child's legal adoption and (2) a subsequent $150 payment if the plan received at least $150 in deposits (excluding the treasurer's initial $100 contribution) before the child's fourth birthday or within four years after his or her legal adoption. In practice, the CHET program currently offers only the initial $100 contribution.

Income Tax Refunds

The bill eliminates provisions allowing taxpayers to contribute any portion of their state income tax refund to the CHET Baby Scholars Fund and instead allows them to contribute to the Connecticut Baby Bond Trust (see BACKGROUND).

The bill also eliminates provisions that require the revenue services commissioner to modify tax return forms to include specified information on the CHET program and CHET Baby Scholars Fund, including spaces for taxpayers to indicate (1) their intentions to contribute a portion of their returns to a designated plan beneficiary or the CHET Baby Scholars Fund and, (2) if applicable, the beneficiary's name and social security number.

BACKGROUND

Connecticut Baby Bond Trust Program

Under the state's baby bonds program, up to $3,200 is invested in a state trust on behalf of each baby born on or after July 1, 2023, whose birth was covered under HUSKY (designated beneficiaries). Once they reach age 18, designated beneficiaries may receive the funds, including any investment earnings, to be used for an eligible expenditure (e.g., for education, buying a home or investing in a business in Connecticut, or personal financial investments). To qualify for a disbursement, a designated beneficiary must (1) be between the age of 18 and 30, (2) complete the program's financial literacy requirement, and (3) reside in Connecticut at the time of the claim.

Related Bill

sSB 1246, § 49, favorably reported by the Finance, Revenue and Bonding Committee, contains an identical provision establishing a new business tax credit for contributions employers make to a qualifying employee's CHET account.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute				
Yea	52	Nay	0	(04/24/2025)