Connecticut General Assembly

Office of Fiscal Analysis
Office of Legislative Research

TO: Members of the Finance, Revenue, and Bonding Committee

FROM: OFA & OLR Staff

RE: Items for March 31, 2016 Agenda

BILLS FOR JF CONSIDERATION

1. S.B. No. 5 (COMM) AN ACT ESTABLISHING A SURCHARGE ON THE MANUFACTURE AND DISTRIBUTION OF OPIOIDS AND FUNDING FOR OPIOID ABUSE PREVENTION AND TREATMENT. (FIN) JF to Floor

SUMMARY: This bill creates a mechanism to fund opioid abuse and prevention programs in the state's five mental health regions. The mechanism (1) imposes a 6.35% surcharge on the gross receipts of the legal sale of schedule II through V controlled substances that are also opioids and (2) dedicates the revenue the surcharge generates toward funding these programs.

Under the bill, Department of Consumer Protection (DCP)-licensed manufacturers and wholesalers of schedule II through V opioids must:

1. register with the Department of Revenue Services (DRS) commissioner by January 1, 2017 and annually renew the registration;
2. collect the surcharge from pharmacists, physicians, and others authorized to distribute, administer, or dispense the covered substances; and
3. remit the revenue to DRS as the bill requires.

Manufacturers and wholesalers that fail to comply with these requirements face penalties and interest charges.

The revenue the new surcharge generates must go into a separate, nonlapsing fund the bill establishes to fund regional opioid abuse and prevention programs. The Department of Mental Health and Addiction Services (DMHAS) must administer the funds, awarding grants to programs that meet the bill's criteria. The DMHAS commissioner must report to the legislature by January 31, 2018 on the grants she awarded in 2017.

EFFECTIVE DATE: January 1, 2017

FISCAL IMPACT:

Agency Affected	Effect	FY 16 $	FY 17 $	FY 18 $
Department of Revenue Services	Revenue Gain	None	3.0 million	6.0 million
Department of Revenue Services	Cost	None	67,500	None

The bill results in a revenue gain of $3 million in FY 17 and $6 million in FY 18 and annually thereafter by imposing a surcharge of 6.35% on the gross receipts of the legal sale of schedule II through V controlled substances that are also opioids.

The bill also results in a one-time cost of $67,500 in FY 17 to establish the new tax, including updates to the online Taxpayer Service Center and changes to the DRS's internal Integrated Tax Administration System for data capture and scanning, and postage costs.

2. S.B. No. 13 AN ACT REDUCING CERTAIN PROBATE COURT FEES. (FIN) JF to Floor

SUMMARY: This bill caps at $40,000 the probate fees for settling estates valued at $8.877 million and greater, as shown in Table 1. The fee changes apply to estate proceedings for people who die on or after July 1, 2016.

Table 1: Probate Fees for Settling Estates (Ranges Changed by the Bill)

<table>
<tr><th colspan="2">Current Law</th><th colspan="2">Bill</th></tr>
<tr><th>Estate Value</th><th>Fee</th><th>Estate Value</th><th>Fee</th></tr>
<tr><td rowspan="2">At least $2 million</td><td rowspan="2">$5,615, plus 0.5% of the excess over $2 mil.</td><td>$2 million to $8.877 million</td><td>$5,615, plus 0.5% of the excess over $2 mil.</td></tr>
<tr><td>At least $8.877 million</td><td>$40,000</td></tr>
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EFFECTIVE DATE: Upon passage

FISCAL IMPACT:

Agency Affected	Effect	FY 16 $	FY 17 $	FY 18 $
Probate Court Administration Fund	Revenue Loss	None	6.5 million	6.5 million

The bill caps the maximum probate fee allowable for probate proceedings related to decedents' estates. Fees are capped at $40,000, effective for decedents who die on or after July 1, 2016. (The cap of $40,000 would be reached at an estate value of $8,877,000.)

The cap on the estate fee results in a revenue loss of approximately $6.5 million to the Probate Court Administration Fund.

3. S.B. No. 149 (RAISED) AN ACT CONCERNING AN EXEMPTION FROM THE ADMISSIONS TAX FOR EVENTS AT THE OAKDALE THEATRE. (FIN) JFS to Floor

SUMMARY: This bill eliminates the 10% state admissions tax on admission charges to events at any concert or sports venue and instead authorizes municipalities, by vote of their legislative bodies, to impose a local admissions tax of up to 10% on such charges.

EFFECTIVE DATE: January 1, 2017

FISCAL IMPACT:

Agency Affected	Effect	FY 16 $	FY 17 $	FY 18 $
Department of Revenue Services	Revenue Loss	None	1.1 million	2.2 million
Various Municipalities	Potential Revenue Gain	None	Up to 1.1 million	Up to 2.2 million

The bill results in an annualized state General Fund revenue loss estimated to be $2.2 million beginning in FY 18 and a corresponding, potential municipal revenue gain of $2.2 million.

4. S.B. No. 448 (RAISED) AN ACT CONCERNING STATE TAX POLICY. (FIN) JFS to Floor

SUMMARY: This bill:

- requires companies to use market-based sourcing instead of origination-based sourcing to determine how sales of services and intangible personal property are sourced to Connecticut for corporation and personal income tax purposes (§§ 2 and 6);
- establishes "economic nexus" as the basis for determining whether an out-of-state retailer is subject to the state's sales tax and thus required to collect and remit the tax from its customers (§ 4);
- requires multistate businesses to determine the percentage of their gains and losses attributable to Connecticut for personal income tax purposes based on their Connecticut sales, rather than the average of property, payroll, and sales in the state (§§ 6 & 7);
- extends, by one month, the due date for filing state corporation income tax returns for companies that do not have to file a federal return (§ 3); and
- clarifies the definition of a captive real estate investment trust for corporation tax purposes (§ 1).

EFFECTIVE DATE: Upon passage and applicable to income years beginning on or after January 1, 2016, except that the economic nexus provision is effective October 1, 2016 and income tax provisions are effective January 1, 2017 and applicable to income years beginning on or after that date.

FISCAL IMPACT:

Agency Affected	Effect	FY 16 $	FY 17 $	FY 18 $
Department of Revenue Services	Revenue Gain	None	Less than 1.0 million	Less than 1.0 million

The bill makes a number of technical and substantive changes to tax collections policies and procedures which are anticipated to result in a revenue gain of less than $1 million annually in aggregate. In particular, establishing market-based sourcing and single sales factor apportionment are anticipate to result in a net revenue gain to the state through an increase to the taxable base.

The bill also establishes "economic nexus" as the basis for determining whether an out-of-state retailer is subject to the state's sales tax. This may result in a revenue gain to the extent that out-of-state retailers would be categorized as "retailers" subject to the sales and use tax. The exact number of out-of-state retailers impacted is unknown, and therefore the actual revenue gain is unknown.

5. S.B. No. 449 (RAISED) AN ACT CONCERNING THE PILOT PROGRAM FOR THE ALTERNATIVE METHOD OF ASSESSMENT FOR COMMERCIAL PROPERTIES. (FIN) JF to Floor

SUMMARY: This bill eliminates the limit on the number of commercial properties to which municipalities may apply profit-based property tax assessments under a pilot program for such assessments.

Existing law allows municipalities to apply to the Office of Policy and Management (OPM) to participate in a pilot program for taxing commercial properties based on the net profits of the businesses occupying or anticipated to occupy the property instead of the property's fair market value, as the law otherwise requires. The OPM secretary may select up to five municipalities of varying sizes in difference regions to participate in the program.

EFFECTIVE DATE: October 1, 2016

FISCAL IMPACT:

Municipalities Affected	Effect	FY 16	FY 17	FY 18
Various	Revenue Gain	None	Potential	Potential

The bill expands a pilot property taxation program to more than three commercial properties. Presumably, a municipality would only do this if it anticipated that a revenue gain would result. The magnitude of such revenue gain would depend on the net profits of the properties to which a municipality expanded the program.

6. S.B. No. 451 (RAISED) AN ACT CONCERNING STATE TAX ADMINISTRATION. (FIN) JF to Floor

SUMMARY: This bill:

- bars the DRS commissioner from issuing or renewing certain permits or licenses for anyone who has failed to file any required returns (§ 1, effective January 1, 2017);
- specifies that the gross earnings tax on cable, satellite, and video companies applies to all of the receipts from their business operations, rather than just receipts from the infrastructure used to operate their respective systems (§§ 2-4, effective upon passage and applicable to all open tax periods);
- exempts from the 1% dry cleaning surcharge businesses that accept clothing or other fabrics to be dry cleaned by another establishment (i.e., "drop stores") (§ 5, effective October 1, 2016 and applicable to calendar quarters beginning on or after that date);
- tightens requirements for maintaining tobacco products tax records and establishes a civil penalty of $1,000 per day for any distributor or importer who fails to immediately produce the records upon the commissioner's or agent's request (§ 6, effective October 1, 2016);
- for sales tax permits issued on or after January 1, 2017, requires retailers to renew the permits every two years, rather than every five (§ 7, effective upon passage);
- pushes up, from the last day of February to January 31, the date by which certain employers and payers must file informational returns with DRS for personal income tax purposes (§ 8, effective upon passage and applicable to tax years beginning on or after January 1, 2016); and
- eliminates provisions requiring or allowing the DRS commissioner to adopt regulations concerning various tax provisions (§§ 8-13, effective upon passage).

FISCAL IMPACT:

Agency Affected	Effect	FY 16 $	FY 17 $	FY 18 $
Department of Revenue Services	Net Revenue Gain	None	Less than 1.0 million	Less than 1.0 million

The bill makes a number of changes to tax collection policies and procedures which are anticipated to result in a net revenue gain of less than $1 million in the aggregate.

Sections 1 and 7 allow the DRS Commissioner to not issue or renew certain permits or licenses if taxpayers have any outstanding unfiled tax returns, and establish a two-year (rather than five-year) renewal cycle for sales tax permits. To the extent these provisions increase compliance, this results in a revenue gain which may be significant.

Sections 2-4 clarify the definition of taxable receipts for the purposes of the gross earnings tax on cable and satellite companies, which results in an annualized revenue gain of up to $1 million.

Section 5 exempts certain stores that do not perform dry cleaning services from the Dry Cleaning Surcharge, which is anticipated to result in a revenue loss of less than $50,000 annually.

Section 6 establishes a waivable $1,000 penalty per day for failure to produce tobacco products tax records upon request. This results in a potential minimal revenue gain from penalty collections.

Sections 8 through 13 make clarifying and procedural changes that do not result in any fiscal impact.

7. S.B. No. 453 (RAISED) AN ACT CONCERNING REMISSION OF REVENUE FROM CERTAIN TRAFFIC FINES TO MUNICIPALITIES. (FIN) JFS to Floor

SUMMARY: This bill requires the state to remit 50% of the fines imposed for blocking a designated intersection (i.e., blocking the box) to select municipalities in which the violation occurred. It applies to the five most populous municipalities based on the most recent federal decennial census (i.e., Bridgeport, New Haven, Hartford, Stamford, and Waterbury).

EFFECTIVE DATE: October 1, 2016

FISCAL IMPACT:

Agency Affected	Effect	FY 16 $	FY 17 $	FY 18 $
Resources of the General Fund	Revenue Loss	None	Minimal	Minimal
Bridgeport, New Haven, Hartford, Stamford, Waterbury	Revenue Gain	None	Minimal	Minimal

The bill provides that five municipalities receive half of the state traffic fines for blocking an intersection; the remaining half stays in the General Fund. The bill results in a minimal municipal revenue gain and minimal state revenue loss. In FY 15 this fine totaled approximately $14,000.

8. S.B. No. 465 (RAISED) AN ACT CONCERNING FINANCE. (FIN) JF to Floor

SUMMARY: This bill requires the DRS commissioner to study the state's tax credits and, by January 1, 2017, report his findings to the Finance Committee.

EFFECTIVE DATE: October 1, 2016

FISCAL IMPACT: None

The bill requires the Commissioner of the Department of Revenue Services to conduct a study of state tax credits, which has no fiscal impact since it is not anticipated to require outside (contracted) expertise or overtime expenditures.

9. H.B. No. 5624 (RAISED) AN ACT CONCERNING LICENSURE OF E-CIGARETTE SELLERS AND MANUFACTURERS. (FIN) JFS to Floor

SUMMARY: This bill makes various changes to the laws requiring electronic nicotine delivery system or vapor product dealers and manufacturers to register with the Department of Consumer Protection (DCP) and annually renew their registration in order to sell or manufacture these products. Among other things, the bill:

- limits the registration requirement to business owners, rather than any person selling or manufacturing these products;
- requires business owners to obtain a registration for each place of business where the products are sold or manufactured;

- eliminates the requirement that the commissioner deny an application if he finds that the applicant was convicted of violating any state or federal cigarette or tobacco product tax law or is unsuitable because of his or her criminal record;
- eliminates the requirement that the application include the applicant's criminal convictions and a financial statement detailing any business transactions connected to the application;
- eliminates a provision allowing a registration to transfer through a registrant's estate when he or she dies; and
- allows DCP to send notices of fines and penalties for violations by email.

EFFECTIVE DATE: Upon passage

FISCAL IMPACT: None

The bill conforms statute to current practice and therefore has no fiscal impact.

10. H.B. No. 5625 (RAISED) AN ACT CONCERNING THE SALE, VIA INTERNET AUCTION, OF LICENSE PLATES ISSUED BY THE DEPARTMENT OF MOTOR VEHICLES. (FIN) JFS to Floor

SUMMARY: This bill requires the Department of Motor Vehicles (DMV) commissioner to establish and administer a program to sell license plate numbers through a web-based auction. It establishes fees for auction sellers and bidders and requires the DMV commissioner to transfer to the General Fund (1) 100% of the amount paid for new license plates and (2) 50% of the amount paid for plates already in circulation (sellers receive the remaining 50%).

The bill authorizes the DMV commissioner to contract with independent contractors to implement and administer the program and requires that such contracts make the implementation and administration fees contingent upon the revenue the auction generates.

It also authorizes the commissioner to conduct, in consultation with the Connecticut Lottery Corporation, a weekly contest providing cash prizes to participating license plate owners.

EFFECTIVE DATE: July 1, 2016

FISCAL IMPACT:

Agency Affected	Effect	FY 16 $	FY 17 $	FY 18 $
Department of Motor Vehicles	Special Transportation Fund Cost	None	247,293	197,293
Department of Motor Vehicles	General Fund Revenue	None	None	Potential Significant

The bill requires DMV to administer the plate auction program and it is estimated that program administration could result total cost of $247,293 to the Special Transportation Fund (STF). This represents: (1) a one-time cost of up to 50,000 for information technology expenses and (2) $197,293 ($140,984 for salaries and $56,309 for fringe costs) for 2 staff positions (one Information Technology Manager and one Fiscal Administrative Assistant).

There are currently 3.4 million active vehicles registrations, of which approximately 9% are specialty plates (306,000). Currently, specialty plates costs between $94.00 and $159.00. To the extent individuals participate in the auction, there will be a revenue gain to the General Fund. The revenue gain is unknown as it is dependent on the number of participants and plates sold in the auction. For example, in Delaware plate number 6 was auctioned for $675,000 in 2008, and Texas license plates personalized with the words "houston", "cowboys," and “12thman” sold for $25,000, $11,500 and $115,000 respectively.

It should be noted that current license plate revenue is collected by DMV and credited to the STF. The bill requires the revenue from the plate auction program to be collected by DMV and credited to the General Fund.

11. H.B. No. 5636 (RAISED) AN ACT CONCERNING MUNICIPAL TAXING DISTRICTS, THE SALES TAX, THE APPRENTICESHIP TAX CREDIT, CERTAIN FEES AND THE TAX CREDIT REPORT. (FIN) JFS to Floor

SUMMARY: This bill:

- reduces, over four years, the sales and use tax on luxury goods from 7.75% to 6.35% (effective July 1, 2017, and applicable to sales occurring on or after that date);

- reduces, over five years, the sales and use tax on boats, from 6.35% to 3% (effective July 1, 2017, and applicable to sales occurring on or after that date
- allows the owners of pass-through entities to apply apprenticeship tax credits against their personal income taxes (effective July 1, 2017 and applicable to income or tax years beginning on or after January 1, 2017); and
- (1) shifts, from the Department of Economic and Community Development to the Program Review and Investigation Committee, the responsibility for preparing the three year evaluation of the state's business recruitment and retention tax credits and abatements, (2) changes the report's scope, and (3) requires the Appropriations and Finance committees to hold one or more public hearings on the report (effective upon passage).

FISCAL IMPACT:

Agency Affected	Effect	FY 16 $	FY 17 $	FY 18 $
Department of Revenue Services	Revenue Loss	None	None	3.7 million
Department of Revenue Services	Cost	None	Less than 100,000	None

Section 2 results in a revenue loss of $3.3 million in FY 18 and $6.9 million in FY 19 by phasing down the "luxury" sales tax rate from 7.75% to 6.35% by FY 21. The annualized revenue loss once lowered to 6.35% is $14.7 million in FY 21 and thereafter, subject to inflation.

Section 2 also results in a revenue loss of $400,000 in FY 18 and $1 million in FY 19 by phasing down the sales tax on boats from 6.35% to 3.0% by FY 22. The annualized revenue loss once lowered to 3.0% is $2.6 million in FY 22 and thereafter, subject to inflation.

Section 5 allows pass-through entities to apply manufacturing apprenticeship tax credits against their personal income tax liability. This does not result in any revenue impact as it assumed these credits would be otherwise utilized against the Corporation Business Tax, Petroleum Products Gross Earnings Tax, or Public Service Companies Tax as allowed in PA 15-1 of the December Special Session (i.e., December deficit mitigation plan). It is anticipated that this provision would result in a one-time cost of less than $100,000 in FY 17 to the DRS associated with updates to the online Taxpayer Service Center to allow pass-through entities to claim the credit on their tax forms.

Section 8 of the bill requires the Legislative Program Review and Investigations Committee, with the assistance of the Department of Economic Development, to compile a report with regard to any tax credit or abatement program enacted for the purpose of recruitment or retention of jobs by January 1, 2017 and every three years thereafter. This is not expected to result in a fiscal impact as it is likely that the committee would rearrange its' project agenda to accommodate the report requirements.

12. H.B. No. 5637 (RAISED) AN ACT MAKING MINOR AND CONFORMING CHANGES TO CERTAIN TAX STATUTES. (FIN) JFS to Floor

SUMMARY: This bill makes minor, technical, and conforming changes to various tax-related statutes. Among other things it:

- corrects a statutory reference in the Mashantucket Pequot and Mohegan Fund distribution formula (§ 3);
- extends the motor vehicle mill rate cap for special taxing districts and boroughs to assessment years beginning in 2017 and thereafter, thus aligning it with the existing cap on municipalities (§ 4); and
- corrects a personal income tax bracket calculation for head of household filers (§ 10).

EFFECTIVE DATE: most provisions effective upon passage

FISCAL IMPACT:

Agency Affected	Effect	FY 16 $	FY 17 $	FY 18 $
Department of Revenue Services	Revenue Gain	None	Less than 50,000	Less than 50,000

The conforming provision correcting an income tax bracket calculation for head of household filers is anticipated to result in a revenue gain of less than $50,000 annually beginning in FY 17. The bill also makes a number of minor technical which do not result in any fiscal impact.