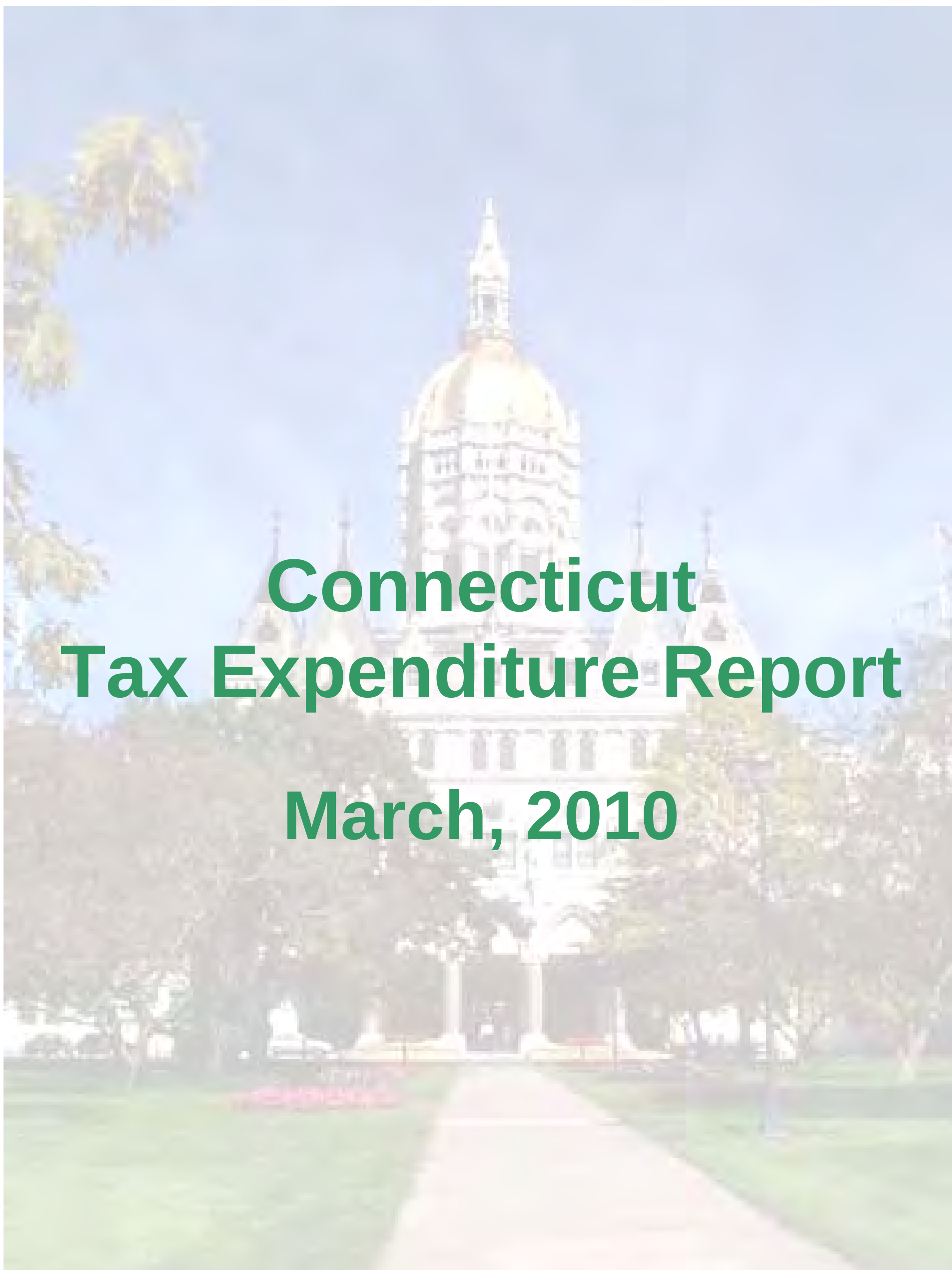
Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS



Connecticut Tax Expenditure Report

March, 2010

TABLE OF CONTENTS

Introduction 5

Summary Table of Major Identifiable Tax Expenditures 9

Personal Income Tax 15

Sales and Use Tax 27

Business Taxes 75

Insurance Premiums Tax 93

Real Estate Conveyance and Controlling Interest Transfer Taxes 101

Unified Estate and Gift Tax 106

Public Service Companies Gross Earnings Tax 108

Petroleum Companies Gross Earnings Tax 113

Cigarette and Tobacco Products Taxes 118

Alcoholic Beverage Tax 120

Admission and Dues Taxes 122

Motor Fuels and Motor Carrier Road Taxes 126

Miscellaneous Taxes 132

Property Taxes 135

INTRODUCTION

This report is prepared pursuant to Connecticut General Statutes Section 12-7b, subsection (e). The term "tax expenditure" may appear to be a contradiction. "Tax" denotes money coming into the government; "expenditure" denotes money going out. How can money be coming in and going out at the same time?

With tax expenditures, the money does not come in and go out again; rather, it does not come in at all. The reason it does not come in is that the law has provided for an exemption, deduction, credit, preferential or lesser rate, or other mechanism that lowers the amount of tax revenue that would otherwise be collected.

A tax expenditure is similar to a direct expenditure in that it can be used to accomplish public policy goals. It may be enacted either to encourage a certain activity or to limit the tax burden on taxpayers in a certain situation. For example, government can attempt to encourage economic development directly by providing financial assistance to businesses through grants or indirectly through tax expenditures such as Corporation Tax credits or Sales Tax exemptions.

A tax expenditure is different from a direct expenditure in that it does not need to be re-enacted. Unless a sunset date is placed on a tax expenditure provision, it continues indefinitely (or until amended or repealed), whereas direct expenditures must be appropriated for each budget period.

Not only does a tax expenditure not require re-enactment, its fiscal impact is usually not reviewed after it becomes law. When net revenues are forecast, most tax expenditures have already been excluded from the base. Typically, the fiscal impact of an existing provision is not estimated unless a proposal is made to change or repeal it.

The purpose of this report is to provide information. No conclusions are drawn nor are recommendations made regarding whether a provision should be continued, repealed, expanded, or restricted.

Tax Expenditure Criteria

Seven criteria have been used to evaluate tax expenditure provisions for this report. Some of the criteria are concepts used in the preparation of federal tax expenditure reports and others are based on a logical application of the tax expenditure concept. A provision must generally meet the following criteria in order to be considered a tax expenditure.

A provision is a tax expenditure if it:
- Has an impact on a tax that is applied statewide;
- Confers preferential treatment;
- Results in reduced tax revenue in the applicable fiscal years;
- Is not an appropriation;
- Is included in the definition of the tax base;
- Is not subject to an alternative tax; and
- Can be amended or repealed by a change in state law alone.

This report lists exemptions and exclusions from each state tax. **Exemptions** would otherwise be taxed but are exempted by specific legislative action. **Exclusions** are not taxed simply because they are not part of the base defined by the tax law.

The following seven categories are used to classify each exemption or exclusion according to the rationale that underlies it.

1. **Perceived Equity -** The tax expenditure was created to remedy a perceived inequity or unfairness in tax burden. It is often used as a rationale for reducing taxes on the consumption of basic necessities because the tax burden is viewed as excessive relative to the income of poor or disadvantaged (such as the handicapped or elderly) persons. The Sales Tax exemptions on food, clothing and medicine are examples of this rationale.

2. **Efficiency** - The cost of adequately collecting and administering the tax is high in comparison to the potential revenue that could be gained from taxation. For example, an exemption from the Real Estate Conveyance Tax was created for property conveyances of less than $2,000 because the amount of revenue that would be collected was considered too small to justify the administrative cost of collecting it.

3. **Incentive** - The expenditure is intended to encourage the performance of certain desirable activities such as economic growth and development, charitable or nonprofit work, or conservation of resources. The Corporation Business Tax credits for expenditures on research and development, hiring displaced workers, donation of open space land and rehabilitation of historic homes are examples of this rationale.

4. **Redundancy** - The entry is included in the base of one tax and excluded from the base of another to avoid over taxation. For example, redundancy is avoided on sales of gasoline because they are only subject to the Motor Fuels Excise Tax and exempt from the Sales and Use Tax

5. **Cascading** - Cascading (or pyramiding) occurs when a tax is imposed on a good or service at more than one stage of the production process so that the total tax incorporated into the final price of the good or service is greater than the legislated tax rate. For example, Sales Tax exemptions are provided for business inputs like raw materials, tools, machinery and equipment so that the taxes are not incorporated into the cost of making the final product and passed along to consumers in the form of higher prices.

6. **Clarification** - The entry clarifies the definition of what is taxable. For example, the Sales Tax exemption for property tax payments under motor vehicle leases clarifies that the tax is levied only on the portion of the lease payment that covers the use of the motor vehicle.

7. **Conformity** - The entry conforms the state statute to one of the following: (1) US constitutional or other federal requirements (for instance, the US Constitution prohibits the state from levying taxes on the federal government); (2) the federal taxation policy (for instance, the state has chosen to adopt the same tax exemptions or exclusions for certain types of businesses or business activities as the federal government); or (3) a general policy of taxation adopted by the state (for instance, the state has chosen not to tax itself or its political subdivisions).

8. **Expediency** - Legislatures react to outside stimuli, as does any organization or individual. Expenditures of this type violate one or more of the principles of a high-quality revenue system without any apparent counterbalancing or compensating precept. (Principles of a High-Quality State Revenue System, Second Edition, National Conference of State Legislatures, 1992). The Sales Tax exemption for puzzle magazines provided by PA 94-4 (May Special Session) is an example of this rationale.

Measuring the Fiscal Impact of Tax Expenditures

A summary table of major identifiable revenue reductions follows the Introduction. This report estimates each provision in isolation, with other provisions in that tax and in other taxes held constant. The secondary impact of one provision over another provision is not taken into account. Because estimates measure the impact of the provision as it exists and not what would happen if it were repealed, no change in taxpayer behavior is assumed.

The precision of the estimates varies with the source of the data and with the applicability of the data to the tax expenditure provision. Data from Connecticut tax returns were used whenever possible. Other sources included federal tax expenditure estimates, data from federal tax returns, and other data for Connecticut and the nation. In some cases, because data was not available and resources were limited, an estimate of the expenditure could not be determined.

Unless otherwise noted, all revenue estimates presented in this report are effective for FY 2011. Differences between figures provided in this document and in previous versions of this document and other documents are generally due to revised data becoming available.

Any comments or questions concerning the information contained in this document, or suggestions would be welcomed by: **The Office of Fiscal Analysis, LOB 5200, 300 Capitol Avenue, Hartford, CT 06106.**

The table below summarizes state tax expenditures over $100,000 and provides FY 09 estimates for the value of each. Please refer to the text for further information on each item.

Summary of Major Identifiable State Tax Expenditures: FY 11 Estimates[1]

Refer to Page(s)	(In Millions)	FY 11 Estimate
15	**Personal Income Tax**	
26	Credit for Property Taxes Paid	$365.0
24	Social Security Benefits	90.0
23	Refunds of State and Local Income Taxes	55.0
23	Interest on US Obligations	50.0
25	Other Deductions	15.0
23	Dividends from Mutual Funds Derived from US Govt Obligations	5.5
25	Contributions to CHET	5.0
25	Military Retirement Income	2.5
24	Tier I Railroad Retirement Benefits	0.8
24	Beneficiary's Share of Connecticut Fiduciary Adjustment	0.7
24	Gain on Sale of Connecticut Bonds	0.3
	Total Personal Income Tax	**$589.8**
25	**Sales and Use Tax**	
	Consumer Goods	
33	Motor Vehicle Fuel	$400.0
27	Sales of Food Products for Human Consumption	375.0
29	Prescription Medicines, Syringes and Needles	325.0
32	Fuel for Heating Purposes	175.0
31	Clothing Under $50.00	130.0
34	Newspapers and Magazines	65.0
32	Certain Utilities Sales	53.0
29	Non-prescription Drugs and Medicines	18.0
37	Household Energy Star rated appliances	7.0
36	Weatherization Products and Fluorescent Light Bulbs	5.5
28	Oxygen, Blood Plasma, Prostheses, Wigs, Hearing Aids, Crutches, Walkers, Wheel Chairs, Life Support Equipment, Apnea Monitors, Chairlifts and Related Repair Services, Reading Aids, Canes, and Support Hoses	5.0
32	Sales Tax "Free Week"	5.0
35	The First $2,500 of Burial or Cremation Services; Caskets	5.0
33	Water Companies Purchases	4.0
37	College Text Books	2.5
37	Solar Energy, Geothermal, and Ice Storage Systems	2.0
31	Cloth or Fabric Purchased for Non-Commercial Sewing	0.5
	Sub Total Consumer Goods	$1,577.5
	Business and Agricultural Exemptions	
37	Machinery Used in Manufacturing and Component Parts for Assembly of Manufacturing Machinery and Production Materials	$100.0

[1] Estimated identifiable revenue reductions of $100,000 or more.

Summary of Major Identifiable State Tax Expenditures: FY 11 Estimates

Refer to Page(s)	(In Millions)	FY 11 Estimate
41	Aircraft Repair, Replacement Parts; Aircraft Repair Services; Materials, Tools, Fuel, Machinery and Equipment Used in an Aircraft Manufacturing Facility	10.0
43	Commercial Trucks, Trailers and Combination, and Commercial Vehicles Used in Inter-State Business and Motor Buses Used in Inter-State Business	6.0
40	Agriculture Production	5.0
40	Commercial Fishing	5.0
45	Aviation Fuel	5.0
47	Printed Material Sent Out of State	2.0
48	Commercial Printing	5.0
48	Waste Treatment and Air Pollution Facilities	3.0
39	Partial Exemption for Materials, Tools, Fuels, Machinery and Equipment used in Manufacturing	3.0
49	Motion Picture, Video, TV and Radio Production & Broadcast Equipment	2.0
49	Lease or Rental of Motion Pictures by Theater Owners	2.0
40	Replacement Parts in Enterprise Zones	0.7
52	Solid Waste to Energy Facilities	0.2
	Sub Total Business and Agricultural Exemptions	$148.9
	Service Exemptions	
57	Patient Care Services	$180.0
55	Computer and Data Processing	90.0
58	Amusement and Recreation Services	65.0
61	World Wide Web	30.0
59	Advertising	30.0
57	Renovation & Repair for Residential Property	21.0
58	Motor Vehicle Parking	5.0
58	Car Washes	4.0
60	Tax Preparation	4.0
60	Hazardous Waste Removal Services	4.0
57	Sale of Repair or Maintenance on Vessels	3.8
62	Media Payroll Services	1.5
59	Massage Therapist and Electrology Services	1.5
57	Tangible Property Purchased by For-Profit Hospitals	0.5
60	Winter Boat Storage	0.3
	Sub Total Service Exemptions	$440.6
	Non-Profit Organization Exemptions	
64	Sales to Non-profit organizations (combined lease, labor, and goods)	$700.0
63	Children's Hospital and the John Dempsey Hospital	5.0
	Sub Total Government and Charitable Organizations	$705.0
	Miscellaneous Exemptions	
69	Motor Vehicles & Vessels Purchased by Non-Residents to Use Out of State	$45.0
69	Vessels Brought into the State for Storage, Maintenance or Repair	3.5
	Sub Total Miscellaneous Exemptions	$48.5

Summary of Major Identifiable State Tax Expenditures: FY 11 Estimates

Refer to Page(s)	(In Millions)	FY 11 Estimate
	Items Subject to a Lower Sales Tax Rate or Basis	
73	Coupons and Discounts and Battery Deposits and Trade-Ins of Like Kind And Trade-In of Core Parts	$45.0
72	Trade-In of Motor Vehicles, Snowmobiles, Vessels or Farm Tractors	40.0
	Sub Total of Items Subject to a Lower Sales Tax Rate or Basis	$85.0
	Total of Sales and Use Tax	**$3,005.5**
75	**Corporate Business Tax**	
	Exemptions and Deductions	
80	Net Operating Loss Carry-Forward	$150.0
81	Net Capital Loss Carry-Over	10.0
81	Capital Gains from Sales of Open Space or Watershed Land	1.3
	Sub Total Corporate Business Tax Exemptions and Deductions	$161.3
	Credits	
85	Fixed Capital	$45.0
87	Historic Structure Mixed Use	45.0
81	Sale of Certain Credits	30.0
89 & 98	Electronic Data Processing	14.0
89 & 98	Film and Digital Media Production	11.0
84	Film Production Infrastructure	10.0
83	Research & Experimentation	10.0
88 & 97	Insurance Reinvestment	5.0
83	Research & Development	5.0
81	Mfg Facilities/Service Facilities/Enterprise Zones	3.5
86 & 95	Housing Program Contribution	3.0
84	Machinery and Equipment	2.0
85	Human Capital	1.5
87 & 96	Neighborhood Assistance	1.0
87& 96	Historic Home Rehabilitation and Historic Structure Rehabilitation	0.5
88	Urban and Industrial Reinvestment Credit	0.5
85	Open Space Land Donation	0.1
82	Apprenticeship	0.1
	Sub Total Corporate Business Tax Credits	$187.1
	Total Corporate Income Tax	**$348.4**
93	**Insurance Premiums Tax**	
	Exemptions and Deductions	
94	Medicaid, HUSKY and General Assistance	$7.0
94	Municipal, Non-profit and Teachers Retirement System	5.0
94	Small/Self Employer Health Insurance Plans	2.0
94	State Employee Health Plans	2.0
94	Ocean Marine Insurance	0.5
	Sub Total Insurance Premiums Tax Exemptions and Deductions	$16.5

Summary of Major Identifiable State Tax Expenditures: FY 11 Estimates

Refer to Page(s)	(In Millions)	FY 11 Estimate
	Credits	
98	Electronic Data Processing	$16.0
99	Digital Animation Production	15.0
98	Film and Digital Media Production	5.0
97	Insurance Reinvestment	2.5
96	Historic Home Rehabilitation, Historic Structure and and Mixed Use Historic Structure Rehabilitation	1.2
95	Insurance Department Assessment Credit	1.0
96	Neighborhood Assistance	0.7
	Sub Total Insurance Premiums Tax Credits	$41.4
	Total Insurance Premiums Tax	**$57.9**
108	**Public Service Companies Gross Earnings Tax**	
	Deductions and Exemptions from Gross Earnings	
108	Sales for Resale	$75.0
109	Manufacturing SIC 2000-3999 on Gas and Electricity	15.0
108	Sales of Gas to Facilities with 775 MW of Capacity	5.0
108	Railroad Companies When Certified by DOT	2.0
107	Exempt Earnings to Pay Debt Service on Energy Securitization Bonds	1.0
	Sub Total Public Service Companies Tax Deductions and Exemptions	$98.0
	Rate Reductions	
109	Residential Utilities	$7.5
	Total Public Service Companies Gross Earnings Tax	**$105.5**
113	**Petroleum Companies Gross Earnings Tax**	
	Exemptions	
113	#2 Heating Oil Used for Heating Purposes	$150.0
114	Diesel Fuel First Sale	40.0
114	Propane Used for Residential Heating	8.0
114	Fuel Used by Industrial Customer	2.0
114	Commercial Heating Oil Blend	1.5
114	Kerosene Used for Residential Heating	0.4
113	#2 Heating Oil Used in Commercial Fishing Vessels	0.3
114	Petroleum Products Used in Fuel Cells	0.2
	Sub Total Petroleum Companies Tax Exemptions	$202.4
	Credits	
115	Sales to Out-of-State Resellers	$4.5
	Total Petroleum Companies Gross Earnings Tax	**$206.9**
118	**Cigarette and Tobacco Products Taxes**	
118	Tobacco Products (from Cigarette Tax)	$6.5

Summary of Major Identifiable State Tax Expenditures: FY 11 Estimates

Refer to Page(s)	(In Millions)	FY 11 Estimate
125	**Admissions Taxes**	
123	Admission to Events Held at:	$8.0
	Hartford Civic Center, New Haven Coliseum, New Britain Beehive Stadium, New Britain Veterans Memorial Stadium, Tennis Foundation, O'Neill Convocation Center, Stafford Motor Speedway, Thompson Speedway, Waterford Speedbowl, Lime Rock Park, Bridgeport Harbor Yard Stadium, New Haven Ravens Games, Waterbury Spirit Games, New Britain Rock Cats Games, CT Expo Center, and Convention Center	
122	Charges Less Than $1.00 and Movies Less Than $5.00	3.0
123	Establishments Subject to the Cabaret Tax before July 1, 1999	1.5
	Total Admissions Taxes	**$12.5**
126	**Motor Fuels and Motor Carrier Road Taxes**	
	Motor Vehicle Fuels Tax Exemptions	
127	Fuel distributors	$900.0
127	Fuel Exported by Distributor Licensed Out-of-State	80.0
128	Aviation fuel	25.0
129	Municipalities, Transit Districts, State of Connecticut	5.0
129	US Government	0.1
	Sub Total Motor Fuels Tax Exemptions	$1,010.1
	Motor Vehicle Fuels Tax Refunds	
129	Vehicles Not Operated on Public Highways	$2.5
129	CT Motor Bus Companies and Other Livery Services	1.5
129	Municipalities, Transit Districts, State, US Gov't, and Ambulances	1.0
130	Meals on Wheels for Seniors	1.0
129	Farming	0.5
	Sub Total Refunds of Motor Fuels Tax	$6.5
130	Motor Vehicle Fuels Tax Paid on Fuel Purchased In-State	$1.0
	Total Motor Fuels and Motor Carrier Road Taxes	**$1,017.6**
	Grand Total--Major Identifiable State Tax Expenditures	**$5,350.6**

PERSONAL INCOME TAX

During the legislature's 1991 June Special Session the General Assembly enacted Public Act 91-3, which imposed a tax on the income of resident individuals, trusts and estates, and on the income of nonresident individuals, trusts and estates derived from sources within the state, at a rate of 4.5% for the 1992 income year. (The tax rate for the 1991 income year was set at 1.5% because the tax was not levied for 12 months.) PA 95-160 created a two tier tax rate structure by lowering the tax rate from 4.5% to 3% for taxable income below certain levels. PA 03-2 increased the 4.5% rate to 5.0% for the 2003 income year and thereafter. Beginning with the 2009 income year PA 09-3 JSS increases the 5.0% tax rate to 6.5% for income above certain levels. The tax is levied on Connecticut taxable income, which is defined as adjusted gross income for federal income tax purposes with certain modifications and exemptions.

Computation of Tax

Tax Basis - The tax is levied on Connecticut adjusted gross income (AGI) above basic personal exemption levels that vary according to taxpayer status and phase out at higher income levels. Income below the personal exemption threshold is excluded from the tax base based on the rationale that income needed for bare sustenance should be free from tax. Thus, for the purpose of this document, personal exemptions are not listed as tax expenditures. Following the same logic, taxpayers whose income falls below a specified level are afforded a "no tax status" and are also not listed as tax expenditure.

Connecticut adjusted gross income (AGI) is defined as adjusted gross income for federal income tax purposes, subject to certain additions and deletions. Additions include such things as interest and dividends from obligations (such as bonds) from other states or subdivisions of other states unless federal law exempts them from state income taxes. The deletions include items such as: (1) income included in adjusted gross income that federal law exempts from state taxation; (2) refunds or credits for overpayments of income tax; (3) exempt dividends paid by a regulated investment company; and (4) Tier One railroad retirement benefits. PA 94-4 MSS eliminated the deletion of moving expenses, effective with the 1994 income year.

For income years 1994 through 1997 the percentage of social security benefits that is included in state AGI is limited to the percentage that was taxable under the 1993 federal income tax rules (PA 94-4 MSS). For the 1998 income year, the amount is reduced by one-half of the 50% (i.e., 25% of benefits) (PA 97-309; PA 97-322). For the 1999 income year and thereafter, the remaining 25% of benefits is exempted for Joint Filers with AGI under $60,000 and Single Filers with AGI under $50,000 (PA 99-173.)

Beginning with the 2000 income year, any restitution payments to survivors of various human rights abuses during World War II are exempted from the tax (PA 00-82).

Special rules are established for determining whether the income of the following taxpayer types is derived from sources within the state and how income gains, losses, and deductions are allocated: (1) a non-resident or a part-year resident; (2) a partner's distributive share of partnership income; (3) a shareholder's pro rata share of S corporation or limited liability company (PA 93-267, effective 10/1/93) income; and (3) a beneficiary's share of trust or estate income.

The tax imposed on income earned by resident and nonresident trusts and estates is similar to the one applied to individuals except that the trusts and estates do not receive the exemptions and credits that individuals receive. The tax must be paid by the fiduciary. Special rules are established for determining what income is derived from sources within the state for nonresident and part-year resident estates, trusts and beneficiaries and how income, gains, losses, and deductions are allocated.

Tax Rate – PA 91-3 JSS imposes the tax on the income of individuals, trusts and estates derived from sources within the state at 1.5% for the 1991 income year and 4.5% for the 1992 income year and thereafter. PA 95-160 reduces the rate for certain income levels from 4.5% to 3.0% (see below). PA 97-309 and PA 97-322 increases the income levels to which the 3% rate applies for the 1997, 1998 and 1999 income years and thereafter (see below). The rate for income above these levels is 4.5% for income years from 1992 to 2002. For the 2003 income year and thereafter, the rate on the additional income is increased to 5.0% (PA 03-2).

Amount of Taxable Income Taxed at 3% *				
Income Year	**Effective Date**	**Type of Filer**		
		Joint	**Head of Household**	**Single**
1996	7/1/96	$ 9,000	$ 7,000	$ 4,500
1997	1/1/97	12,500	10,000	6,250
1998	1/1/98	15,000	12,000	7,500
1999 and after	1/1/99	20,000	16,000	10,000

* Additional income above these levels is taxed at 4.5% for income years 1996 through 2002 and at 5.0% for the 2003 income year through the 2008 income year.

Beginning with the 2009 income year, the 5.0% tax rate is increased to 6.5% above certain income levels (PA 09-3 JSS) as follows:

Tax Rates and Taxable Income Beginning with the 2009 Income Year			
Tax Rate	**Type of Filer**		
	Joint	**Head of Household**	**Single**
3.0%	$0 - 20,000	$0 -16,000	$0 - 10,000
5.0%	$20,001 - $1 million	$16,001 - $800,000	$10,001 - $500,000
6.5%	Over $1 million	Over $800,000	Over $500,000

Minimum Tax **-** Taxpayers are required to pay the higher of their liability under the state Personal Income Tax or the Connecticut Minimum Tax, effective 1/1/93 (PA 94-4 MSS). The Connecticut Minimum Tax is the lesser of 19% of adjusted federal tentative minimum tax or 5% of adjusted federal alternative minimum taxable income.

Exemptions – Taxpayers are eligible for two exemptions, depending on their income level: (1) a personal exemption and (2) a low income credit.

For a married person filing separately or an unmarried person prior to 1/1/00, the personal exemption is $12,000[2]. This exemption is phased out beginning at AGI $24,000 so that the exemption decreases by $1,000 for each $1,000 increase in AGI (1 for 1 phase out). Accordingly, there is no exemption if the taxpayer earns more than $35,000.

[2] For the 2009 income year, the personal exemption for a married person filing separately is $12,000 and the personal exemption for an unmarried person is $13,000.

The table below presents the low income credit for a married person filing separately or an unmarried person prior to 1/1/00 as follows:

Low Income Credit for a Married Person Filing Separately or an Unmarried Person prior to 1/1/00[(2)]	
Connecticut AGI	**Tax Credit**
Below $12,000	100%
Over $12,000 but below $15,000	75%
Over $15,000 but below $15,500	70%
Over $15,500 but below $16,000	65%
Over $16,000 but below $16,500	60%
Over $16,500 but below $17,000	55%
Over $17,000 but below $17,500	50%
Over $17,500 but below $18,000	45%
Over $18,000 but below $18,500	40%
Over $18,500 but below $20,000	35%
Over $20,000 but below $20,500	30%
Over $20,500 but below $21,000	25%
Over $21,000 but below $21,500	20%
Over $21,500 but below $25,000	15%
Over $25,000 but below $25,500	14%
Over $25,500 but below $26,000	13%
Over $26,000 but below $26,500	12%
Over $26,500 but below $27,000	11%
Over $27,000 but below $48,000	10%
Over $48,000 but below $48,500	9%
Over $48,500 but below $49,000	8%
Over $49,000 but below $49,500	7%
Over $49,500 but below $50,000	6%
Over $50,000 but below $50,500	5%
Over $50,500 but below $51,000	4%
Over $51,000 but below $51,500	3%
Over $51,500 but below $52,000	2%
Over $52,000 but below $52,500	1%

For the 2008 income year, the personal exemption for an unmarried person was set at $13,000. For the 2009 income year this amount was scheduled to increase to $13,500 and reach $15,000 by the 2012 income year. PA 09-3 JSS delays the 2009 change until the 2012 income year and delayed each subsequent increase by three years. The phase-out of the personal exemption and low income tax credit, and the phase-down of the property tax credit (see below) for higher income levels, are correspondingly adjusted each year.

Personal Exemptions for Single Filers			
Tax Year(s)		Maximum Personal Exemption	Personal Exemption Reduction Threshold
Prior Law	**PA 09-3 JSS**	(AGI)	(AGI)
2008	Through 2011	$13,000	$26,000
2009	2012	13,500	27,000
2010	2013	14,000	28,000
2011	2014	14,500	29,000
2012 and after	2015 and after	15,000	30,000

The $13,000 personal exemption for unmarried persons decreases by $1,000 for each $1,000 increase in AGI (1 for 1 phase out) beginning at AGI $26,000. Accordingly, there is no exemption if the taxpayer earns more than $38,000.

The table below presents the low income credit for an unmarried person for the 2009 income year as follows:

2009 Income Year Low Income Credit for an Unmarried Person	
Connecticut AGI	**2009 Tax Credit**
Below $12,750	100%
Over $13,000 but below $16,300	75%
Over $16,300 but below $16,800	70%
Over $16,800 but below $17,300	65%
Over $17,300 but below $17,800	60%
Over $17,800 but below $18,300	55%
Over $18,300 but below $18,800	50%
Over $18,800 but below $19,300	45%
Over $19,300 but below $19,800	40%
Over $19,800 but below $21,700	35%
Over $21,700 but below $22,200	30%
Over $22,200 but below $22,700	25%
Over $22,700 but below $23,200	20%
Over $23,200 but below $27,100	15%
Over $27,100 but below $27,600	14%
Over $27,600 but below $28,100	13%
Over $28,100 but below $28,600	12%
Over $28,600 but below $29,100	11%
Over $29,100 but below $52,000	10%
Over $52,000 but below $52,500	9%
Over $52,500 but below $53,000	8%
Over $53,000 but below $53,500	7%
Over $53,500 but below $54,000	6%
Over $54,000 but below $54,500	5%
Over $54,500 but below $55,000	4%
Over $55,000 but below $55,500	3%
Over $55,500 but below $56,000	2%
Over $56,000 but below $56,500	1%

The personal exemption for a head of household is $19,000. Beginning at AGI $38,000, the exemption decreases by $1,000 for each $1,000 increase in AGI (1 for 1 phase out). Accordingly, there is no exemption if the taxpayer earns more than $56,000.

The table below presents the low income credit for the 1995 income year and thereafter as follows:

Low Income Credit for a Head of Household Filer	
Connecticut AGI	**Tax Credit**
Below $19,000	100%
Over $19,000 but below $24,000	75%
Over $24,000 but below $24,500	70%
Over $24,500 but below $25,000	65%
Over $25,000 but below $25,500	60%
Over $25,500 but below $26,000	55%
Over $26,000 but below $26,500	50%
Over $26,500 but below $27,000	45%
Over $27,000 but below $27,500	40%
Over $27,500 but below $34,000	35%
Over $34,000 but below $34,500	30%
Over $34,500 but below $35,000	25%
Over $35,000 but below $35,500	20%
Over $35,500 but below $44,000	15%
Over $44,000 but below $44,500	14%
Over $44,500 but below $45,000	13%
Over $45,000 but below $45,500	12%
Over $45,500 but below $46,000	11%
Over $46,000 but below $74,000	10%
Over $74,000 but below $74,500	9%
Over $74,500 but below $75,000	8%
Over $75,000 but below $75,500	7%
Over $75,500 but below $76,000	6%
Over $76,000 but below $76,500	5%
Over $76,500 but below $77,000	4%
Over $77,000 but below $77,500	3%
Over $77,500 but below $78,000	2%
Over $78,000 but below $78,500	1%

The exemption for a married couple filing jointly is $24,000. Beginning at AGI $48,000, the exemption decreases by $1,000 for each $1,000 increase in AGI (1 for 1 phase out). Accordingly, there is no exemption if the couple earns more than $71,000.

The table below presents the low income credit for the 1995 income year and thereafter as follows:

Low Income Credit for a Married Couple Filing Jointly	
Connecticut AGI	**Tax Credit**
Below $24,000	100%
Over $24,000 but below $30,000	75%
Over $30,000 but below $30,500	70%
Over $30,500 but below $31,000	65%
Over $31,000 but below $31,500	60%
Over $31,500 but below $32,000	55%
Over $32,000 but below $32,500	50%
Over $32,500 but below $33,000	45%
Over $33,000 but below $33,500	40%
Over $33,500 but below $40,000	35%
Over $40,000 but below $40,500	30%
Over $40,500 but below $41,000	25%
Over $41,000 but below $41,500	20%
Over $41,500 but below $50,000	15%
Over $50,000 but below $50,500	14%
Over $50,500 but below $51,000	13%
Over $51,000 but below $51,500	12%
Over $51,500 but below $52,000	11%
Over $52,000 but below $96,000	10%
Over $96,000 but below $96,500	9%
Over $96,500 but below $97,000	8%
Over $97,000 but below $97,500	7%
Over $97,500 but below $98,000	6%
Over $98,000 but below $98,500	5%
Over $98,500 but below $99,000	4%
Over $99,000 but below $99,500	3%
Over $99,500 but below $100,000	2%
Over $100,000 but below $100,500	1%

Taxpayers also receive a tax credit for income taxes paid in another state.

Property Tax Credit – A property tax credit is provided against income tax liability. The credit is limited to two motor vehicles for Joint Filers and one motor vehicle for Single, Head of Household, and Married Filing Separate Filers. The table below presents a history of the credit since enacted:

Maximum Property Tax Credit

Act	Income Year	Maximum Credit[1]
PA 95-160	1996	100
PA 97-309	1997	215[1]
PA 97-310 and PA 98-110	1998	350[2]
PA 99-173	1999	425
"	2000	500
"	2001	500
"	2002	500
PA 03-1 JSS	2003	350 [3]
"	2004	350
PA 04-216 and PA 05-251	2005	350 [4]
PA 06-186	2006	500 [5]
"	2007 and after	500

[1]The credit phases out above certain income levels. Beginning with the 1997 income year the portion above $100 phases out between $55,500 and $145,500 for Singles, $50,250 and $95,250 for Married Filing Separate, $100,500 and $190,500 for Joint, and $78,500 and $168,500 for Head of Household Filers.
[2]PA 97-310 increased the maximum credit from $215 to $285 beginning with the 1998 income year.
[3]PA 03-1 JSS applied the phase-out to the full amount of the credit and reduced the credit from $500 to $350 beginning with income year 2004.
[4]PA 05-251 delayed the increase enacted by PA 04-216.
[5]PA 06-186 increased the tax credit for income year 2006 and thereafter from $400 to $500.

The table below shows the credit available for the 2009 income year as follows:

Property Tax Credit Available for the 2009 Income Year					
Single CT AGI		**Married Filing Separate CT AGI**		**Maximum Credit Above**	**2009 Income Year Maximum**
From	**To**	**From**	**To**	**$100**	**Credit**
13,000	56,500	12,000	50,250	100%	$500
56,500	66,500	50,250	55,250	90%	$450
66,500	76,500	55,250	60,250	80%	$400
76,500	86,500	60,250	65,250	70%	$350
86,500	96,500	65,250	70,250	60%	$300
96,500	106,500	70,250	75,250	50%	$250
106,500	116,500	75,250	80,250	40%	$200
116,500	126,500	80,250	85,250	30%	$150
126,500	136,500	85,250	90,250	20%	$100
136,500	146,500	90,250	95,250	10%	$50
146,500	and Over	95,250	and Over	0%	$0
Couples Filing Jointly CT AGI		**Head of Household CT AGI**		**Maximum Credit Above**	**2009 Income Year Maximum**
From	**To**	**From**	**To**	**$100**	**Credit**
24,000	100,500	19,000	78,500	100%	$500
100,500	110,500	78,500	88,500	90%	$450
110,500	120,500	88,500	98,500	80%	$400
120,500	130,500	98,500	108,500	70%	$350
130,500	140,500	108,500	118,500	60%	$300
140,500	150,500	118,500	128,500	50%	$250
150,500	160,500	128,500	138,500	40%	$200
160,500	170,500	138,500	148,500	30%	$150
170,500	180,500	148,500	158,500	20%	$100
180,500	190,500	158,500	168,500	10%	$50
190,500	and Over	168,500	and Over	0%	$0

Insurance Reinvestment Fund Credit - PA 94-214 creates a credit for investors in the Insurance Reinvestment Fund against the insurance premium tax, the corporate income tax, and the personal income tax. The act, which establishes the Insurance Reinvestment Fund, was intended to create new jobs by providing an incentive for investing in CT insurance companies or in firms providing services to such companies. The credit is equal to a percentage of the investment in a qualified insurance business made through a fund manager as follows: (a) 10% for years 3 through 6 after the date of investment, and (b) 20% for years 7 though 10 after the date of investment. Managers of eligible funds must have registered with the Commissioner of Economic and Community Development by 7/1/00 in order for their investors to be able to claim this credit. Investments in funds created on or after this date are not eligible for the credit (PA 00-170). PA 01-6 JSS sunsets the credit for investments made after 12/31/15. It also modifies the credit to permit tax credit recapture when there is a reduction in state employment levels and not when there is a decrease in the percentage of total workforce in this state due to an increase in out-of-state workforce. CGS Sec 38a-88a(j)

Payment of Personal Income Tax - Employers are required to withhold taxes from wages based on the employee's estimated tax liability for the income year.

Taxpayers with taxable income from which no withholding has been made must make quarterly estimated payments if their liability on the non-withheld income is expected to exceed $500, beginning with the 1997 income year (PA 97-81). Prior to 1997 the limit was $200.

The taxpayer must pay as follows to avoid penalty:

Personal Income Tax Estimated Payments		
Payment	Due date	Pay the lesser of:
1st	4/15	22.5% of current year or 25% of last year's liability
2nd	6/15	45% of current year or 50% of last year's liability
3rd	9/15	67.5% of current year or 75% of last year's liability
4th	1/15	90% of current year or 100% of last year's liability

An income tax return must be filed by the 15th day of the fourth month following the close of the taxpayer's taxable year. The tax due must be paid by that date, whether or not a filing extension has been granted. S corporations and partnerships must file composite returns and make composite tax payments on behalf of some or all of their nonresident shareholders and partners.

In lieu of quarterly estimated payments, farmers and fishermen are permitted to make one estimated payment due on January 15th effective with the 1997 income year. Prior to 1997, farmers and fishermen were permitted to make two installment payments per income year on their estimated tax. Payments were due June 15th of the income year and January 15th of the following income year. Professional athletic teams are permitted to file composite returns for team members who are not state residents. The teams are also permitted to make estimated payments in lieu of withholding (PA 97-286; PA 95-263).

The interest rate for taxpayers not in compliance with the preceding requirements is 1.0% per month on the unpaid tax or 12% per year. (PA 95-263 reduced the interest rate from 1.25% to 1.0%, effective 1/1/96.) Penalties are assessed at 10% of the required payment. There are also penalties for failing to withhold the tax from employee wages, understating wages, and criminal penalties for failure to keep records or keeping fraudulent records.

Exclusions--Connecticut Modifications

The Connecticut adjusted gross income (AGI) of a resident, nonresident, and estate is defined as federal adjusted gross income with modifications as specified by CT General Statutes, including:

1. **Interest on U. S obligations:** Interest income derived from U.S. government obligations that federal law prohibits states from taxing. For example: U.S. government bonds such as Savings Bonds Series EE and Series HH, U.S. Treasury bills and notes. Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac) securities interest income is taxable for Connecticut income tax purposes.

   Estimates: $50.0 million.

   Rationale: Conformity.

2. **Dividends from mutual funds derived from U.S. government obligations:** Dividends from certain mutual funds consisting of US obligations are exempt. The mutual fund must have at least 50% of the value of its assets consisting of U.S. government obligations at the close of each quarter.

   Estimates: $5.5 million.

   Rationale: Conformity.

3. **Refunds of state and local income taxes:** Federally taxable refunds of state and local income taxes reported on the federal Form 1040.

   Estimates: $55.0 million.

   Rationale: Redundancy.

4. Tier I Railroad Retirement Benefits: Tier I Railroad Retirement Benefits included in federal adjusted gross income in amounts greater than $25,000 for single taxpayers and greater than $32,000 for married taxpayers are deducted from Connecticut taxable income. Title 45 Section 231(m) of the United States Code prohibits states from taxing railroad retirement benefits.

Estimates: $800,000.

Rationale: Conformity.

5. Beneficiary's share of Connecticut fiduciary adjustment: Any income from an estate or trust, or any Connecticut fiduciary adjustment that applies to such income

Estimates: $700,000.

Rationale: Conformity.

6. Gain on sale of Connecticut bonds: Gains from the sale or exchange of notes, bonds or other obligations of the state or its municipalities used in determining gain for federal income tax purposes.

Estimates: $300,000

Rationale: Conformity.

7. Social security benefits: In 1993 the federal government increased the amount of social security benefits that are taxable for federal income tax purposes. This deduction limits state taxation of social security benefits to the amount that was taxable for federal purposes prior to the 1993 change, effective with the 1994 income year.

For income years 1994 through 1997 the percentage of social security benefits that is included in state adjusted gross income is limited to the percentage that was taxable under the 1993 federal income tax rules (PA 94-4 MSS). For the 1998 income year, the amount is reduced by one-half of the 50% (i.e., 25% of benefits) (PA 97-309 and PA 97-322). For the 1999 income year and thereafter, the remaining 25% of benefits is exempted for Joint Filers with AGI under $60,000 and Single Filers with AGI under $50,000 (PA 99-173).

Estimates: $90.0 million.

Rationale: Expediency.

8. Holocaust payments: Beginning with the 2000 income year any restitution payments to survivors of various human rights abuses during World War II are exempted from the tax (PA 00-82).

Estimates: Less than $100,000.

Rationale: Expediency.

Taxpayers benefiting: Less than 100 per year.

9. Individual Development Accounts: Interest earned on funds deposited in the Individual Development Account is exempt from the tax. The Individual Development Account was created by PA 00-192 to allow certain low-income and qualified disable taxpayers to open savings accounts and receive matching funds as an incentive for saving for specific purposes.

Estimates: Minimal; less than $10,000.

Rationale: Incentive.

Taxpayers benefiting: Between 100 and 200.

10. **Military retirement income:** Starting with the 2008 tax year, 50% of federally taxable military retirement pay is exempt from the state income tax. The exemption applies to federal retirement pay to retired members of the U. S. Army, Navy, Air Force, Marines, Coast Guard, and Army and Air National Guard.

Estimates: $2.5 million.

Rationale: Expediency.

Taxpayers benefiting: Less than 10,000.

11. **Contributions to CHET:** PA 06-168 allows taxpayers to deduct contributions to the Connecticut Higher Education Trust (CHET), which is Connecticut's state-sponsored college savings plan, from their Connecticut AGI for state income tax purposes. It limits annual deductions to $5,000 for individual taxpayers and $10,000 for Joint Filers. It allows taxpayers to carry forward any unused deductions for contributions on or after January 1, 2006 for the five following years as long as each deduction does not exceed the annual maximum.

Estimates: $5 million annually.

Rationale: Incentive.

Taxpayers benefiting: Less than 100,000.

12. **Other deductions:** The following items are deductible in determining Connecticut adjusted gross income but not deductible in determining federal adjusted gross income:

(a) Interest paid on indebtedness incurred to acquire investments that provide income that is taxable in Connecticut but not taxable for federal purposes, that is not deductible in determining federal adjusted gross income, and is attributable to a trade or business of that individual;

(b) Expenses paid or incurred for the production (including management, conservation, and maintenance of property held for production) or collection of income taxable in Connecticut but exempt from federal income tax, which were not deductible in determining federal adjusted gross income;

(c) Amortizable bond premium on bonds that provide interest income taxable in Connecticut but are exempt from federal income tax, which premiums were not deductible in determining adjusted gross income; and

(d) Any subtractions from federal adjusted gross income not listed. For instance, a deduction from Connecticut taxable income for any interest income from notes, bonds or other obligations of the State of Connecticut, interest income from which is included in federal adjusted gross income.

Estimates: $15.0 million.

Rationale: Conformity.

Potential number of taxpayers affected: Estimated to be between 600,000 and 900,000 returns filed. Data for number of taxpayers applying subtraction from CT AGI is not available by category.

Credits

Credit for property taxes paid: The credit is for Personal and Real Property Taxes paid on the taxpayer's primary residence or a motor vehicle. A history of legislative changes is detailed previously in the tax description section. The income year 2008 maximum credit is $500.

Estimates: $365.0 million in FY 09.

Rationale: Expediency.

Taxpayers benefiting: About 1.0 million taxpayers for income year 2008/fiscal year 2009.

SALES AND USE TAXES

The trend toward states enacting general sales taxes began in the 1930s and Connecticut became a sales tax state in 1947. As in other states, the relatively simple policy goal of the tax was to restore solvency to the state's treasury with a minimum of administrative problems and expense. To accomplish this, the tax was imposed on retail sales of tangible goods, which could be collected with relative ease. Since then, the tax has evolved into a complex structure with a lengthy list of taxable goods and services, and an even lengthier list of items that are exempt.

Computation of Tax

Rate & Basis - Connecticut levies sales and use taxes on the gross receipts of retailers from the sale of tangible personal property and on the gross receipts from the rendering of certain business services. The treatment of services under the Sales and Use Tax differs fundamentally from the treatment of tangible personal property because sales of the latter are taxable unless specifically exempted, while sales of services are excluded unless enumerated under CGS Section 12-407(a)(37). The list of service exemptions under Item C are those that were explicitly subject to the tax and then repealed or were thought to be subject to the tax and it was clarified that they were not. On gross receipts from the sale, rental or leasing of tangible personal property, and rendering of certain business services the tax rate is 6.0%. On the rental of hotel rooms in a hotel or lodging house the tax rate is 12.0%.

The following six sections list exemptions and exclusions to the Sales and Use Tax, with the rationale and a brief legislative history for each. Estimates are for FY 11 unless otherwise indicated. Due to the nature of the Sales and Use Tax being a broad based tax as well as the fact that the seller collects and files the tax and not the ultimate consumer therefore the number of taxpayers benefiting is not included for this section.

A. Consumer Goods Exemptions

Food

1. Sales of food products for human consumption.

Description: "Food products" include cereals and cereal products, milk and milk products, oleomargarine, meat and meat products, fish and fish products, eggs and egg products, vegetables and vegetable products, fruit and fruit products, spices and salt, sugar and sugar products other than candy and confectionery; coffee and coffee substitutes, tea, cocoa and cocoa products other than candy and confectionery. "Food products" do not include spirituous, malt or vinous liquors, soft drinks, sodas or beverages such as are ordinarily dispensed at bars and soda fountains, or in connection therewith, medicines except by prescription, tonics and preparations in liquid powdered, granular, tablet, capsule, lozenge and pill form sold as dietary supplements or adjuncts. "Food products" also do not include meals sold by an eating establishment or caterer. "Meal" means food products that are furnished, prepared or served in such a form and in such portions that they are ready for immediate consumption. A meal as defined in this subsection includes food products that are sold on a “take out” or "to go" basis and which are actually packaged or wrapped. The sale of a meal, as defined in this subsection, is a taxable sale. "Eating establishment" means a place where meals are sold and includes a restaurant, cafeteria, grinder shop, pizzeria, drive-in, fast food outlet, ice cream truck, hot dog cart, vending machine, refreshment stand, sandwich shop, private or social club, cocktail lounge, tavern, diner, snack bar or hotel or boarding house which furnishes both lodging and meals to its guests. CGS Sec. 12-412(13).

Separate exemptions for food products and meals under $1 were provided when the tax was first imposed. In 1971, take-out meals were excluded from the food products exemption and included in the meals under $1 exemption. PA 83-18 repealed the exemption for meals under $1. PA 84-415 clarified that meals served at eating establishments are not exempt from the tax. PA 86-397 added an exemption for meals under $2. PA 87-177 amended the food products exemption to provide that a meal under $2 may include a nonalcoholic beverage that is not a food product. It also clarified the definition of a taxable meal. PA 89-251 repealed the exemption for meals under $2. PA 98-110 removed vending machines from the definition of "eating establishments".

Estimates: $375.0 million.

Rationale: Perceived Equity.

2. **Items purchased with federal food stamp coupons.**

   Description: Sales of any items purchased with federal food stamp coupons. CGS Sec. 12-412(57) and 12-412e.

   The exemption was created to comply with the provisions of the federal Food Stamp Act of 1985. It was created by PA 86-397.

   Rationale: Conformity.

3. **Meals delivered to homes of persons who are elderly, disabled or otherwise confined.**

   Description: Sales of home delivered meals to elderly, disabled and other homebound persons. CGS Sec. 12-412(46).

   The exemption was created by PA 84-415.

   Estimates: Less than $50,000.

   Rationale: Perceived Equity.

<u>Medical</u>

1. **Oxygen, blood plasma, prostheses, custom-made wigs or hairpieces, hearing aids, crutches, walkers and wheel chairs, vital life support equipment, apnea monitors, inclined stairway chairlifts and related repair services, reading aids for the visually impaired, canes, and support hoses.**

   Description: Sales of and the storage, use or other consumption of (A) oxygen, blood or blood plasma when sold for medical use in humans or animals; (B) artificial devices individually designed, constructed or altered solely for the use of a particular handicapped person so as to become a brace, support, supplement, correction or substitute for the bodily structure, including the extremities of the individual, and repair or replacement parts and repair services rendered to property described in this subparagraph; (C) artificial limbs, artificial eyes and other equipment worn as a correction or substitute for any functioning portion of the body, custom-made wigs or hairpieces for persons with medically diagnosed total and permanent hair loss as a result of disease or the treatment of disease, and artificial hearing aids when designed to be worn on the person of the owner or user, and repair or replacement parts and repair services rendered to property described in this subparagraph; (D) crutches, walkers, wheel chairs and inclined stairway chairlifts for the use of invalids and handicapped persons, and repair or replacement parts and repair services to property described in this subparagraph; and (E) any equipment used in support of or to supply vital life functions, including oxygen supply equipment used for humans or animals, kidney dialysis machines and any other such device used in necessary support of vital life functions, and apnea monitors, and repair or replacement parts and repair services rendered to property described in this subparagraph. Repair or replacement parts are exempt whether purchased separately or in conjunction with the item for which they are intended, and whether such parts continue the original function or enhance the functionality of such item. As used in this subdivision, "repair services" means services that are described in subparagraph (Q) or (CC) of subdivision 37(a) of section 12-407. CGS Sec. 12-412(19).

The exemption has been in effect since the imposition of the tax. PA 76-390 added vital life support equipment. PA 77-46 replaced the word "crippled" with "handicapped." PA 79-33 added walkers. PA 93-74 added custom-made wigs, repairs to hearing aids and apnea monitors. PA 95-160 added repair services. PA 95-359 extended the exemption for oxygen, blood and blood plasma to animals as well as humans. PA 97-316 exempted oxygen supply equipment used for animals from the tax. PA 99-173 added inclined stairway chairlifts and repair and replacement parts of equipment for persons with disabilities. PA 00-170 exempted equipment used as a reading aid by persons visually impaired, canes, and support hoses specially designed to aid circulation

Estimates: $5.0 million.

Rationale: Perceived Equity.

2. Prescription medicines, syringes and needles.

Description: Sales of and the storage, use or other consumption of medicine only by prescription as defined by federal or state law, including such medicine provided for no consideration and the sales of syringes and needles only by prescription. Sales of and the storage, use or other consumption of materials, including materials used in packaging, which become an ingredient or component part of medicine only by prescription, as defined by federal or state law. CGS Sec. 12-412(4).

Prescription medication has been exempt since the imposition of the tax. Syringes and needles were added in 1971.

Estimates: $325.0 million

Rationale: Perceived Equity.

3. Nonprescription drugs and medicines.

Description: Sales of the following drugs or medicines available for purchase without prescription for use in or on the human body: Vitamin or mineral concentrates; dietary supplements; natural or herbal drugs or medicines; products intended to be taken for coughs, colds, asthma or allergies; antihistamines; laxatives; anti-diarrhea medicines; analgesics; antibiotic, antibacterial, antiviral and anti-fungal medicines; antiseptics; astringents; anesthetics; steroidal medicines; anti-emetics; emetics and anti-emetics; antacids; and any medication prepared to be used in a person's eyes, ears or nose, excluding cosmetics, dentifrices, mouthwash, shaving and hair care products, soaps and deodorants. CGS Sec. 12-412(48).

The exemption was created by PA 85-159. PA 87-315 added nonprescription eye medication. PA 99-173 expanded the exemption to include all drugs and medicines used in humans. PA 00-170 clarified the exemption of nonprescription drugs and medicines used in animals (PA 99-173 unintentionally restricted the exemption to the use on human body).

Estimates: $18.0 million.

Rationale: Perceived Equity.

4. Disposable pads used for incontinence.

Description: Sales of certain disposable pads prepared for use in the manner of a diaper or as an under-pad, and commonly used by persons who are incontinent. CGS Sec. 12-412(53).

The exemption was created by PA 86-397.

Estimates: Less than $50,000.

Rationale: Perceived Equity.

5. **Test strips and tablets, lancets and glucose monitoring equipment used in care of diabetes.**

Description: Sales of test strips and tablets, lancets and glucose monitoring equipment for purposes of certain tests and monitoring required in the care of diabetes and repair or replacement parts for such equipment, whether such repair or replacements parts are purchased separately or in conjunction with the sale of such equipment, and whether such parts continue the original function or enhance the functionality of such equipment. CGS Sec. 12-412(54).

The exemption was created by PA 86-397 and amended by PA 88-364. PA 99-173 added repair and replacement parts of equipment.

Estimates: Less than $50,000.

Rationale: Perceived Equity.

6. **Telephone equipment designed exclusively for deaf or blind persons.**

Description: Sales of and the storage, use or other consumption of any equipment designed exclusively for use by persons who are deaf or blind for purposes of communication by telephone. CGS Sec. 12-412(38).

The exemption was created by PA 80-98.

Estimates: Less than $10,000.

Rationale: Perceived Equity.

7. **Equipment for persons with physical disabilities installed in motor vehicles.**

Description: Sales and the storage, use or other consumption of special equipment installed in a motor vehicle for the exclusive use of a person with physical disabilities and repair or replacement parts for such equipment, whether such repair or replacement parts are purchased separately or in conjunction with such equipment, and whether such parts continue the original function or enhance the functionality of such equipment. CGS Sec. 12-412(80).

The exemption was created by PA 92-17. PA 99-173 added replacement parts of equipment for persons with disabilities.

Estimates: Less than $50,000.

Rationale: Perceived Equity.

8. **Sales of eligible benefits under Title XVII or XIX of Social Security Act or CHAMPUS.**

Description: Sales of items that are eligible benefits and that are made to an eligible beneficiary pursuant to Title XVIII, 42 USC Section 1395 et seq., or Title XIX, 42 USC Section 1396 et seq., of the Social Security Act or pursuant to the federal Civilian Health and Medical Program of the Uniformed Services, 10 USC Section 1071 et seq. CGS Sec 12-412(87).

States are not permitted to levy taxes on the federal government under the US Constitution. The exemption was created by PA 94-175, which levied the Sales Tax on hospital services.

Rationale: Conformity.

9. Smoking Cessation Products.

Description: Exempt specially formulated gums, inhalants, or similar products designed to aid in cessation of smoking. CGS Sec. 12-412(111).

The exemption was created by PA 00-170.

Estimates: Less than $50,000.

Rationale: Incentive.

<u>Clothing</u>

1. Articles of clothing or footwear costing under fifty dollars.

Description: Sales of any article of clothing or footwear intended to be worn on or about the human body and the cost of which to the purchaser is less than fifty dollars. For purposes of this subdivision clothing or footwear shall not include (A) any special clothing or footwear primarily designed for athletic activity or protective use and which is not normally worn except when used for the athletic activity or protective use for which it was designed and (B) jewelry, handbags, luggage, umbrellas, wallets, watches and similar items carried on or about the human body but not worn on the body in the manner characteristic of clothing intended for exemption under this subdivision. CGS Sec. 12-412(47).

An exemption for children's clothing was in effect when the tax was first imposed. The exemption for other types of clothing and footwear under $50 was added by PA 85-3. PA 85-159 raised the limit to $75. PA 91-3 eliminated the separate exemption for children's clothing and reduced the limit for all clothing and footwear to $50. PA 00-170 increased the exemption from $50 to $75. PA 03-2 reduced the exemption from $75 to $50 effective April 1, 2003

Estimates: $130.0 million.

Rationale: Perceived Equity.

2. Cloth or fabric purchased for noncommercial sewing.

Description: Any sale of cloth or fabric for purposes of noncommercial sewing, made of natural or synthetic fibers and of such composition, weight and texture as to be used commonly in clothing, and including in addition to such cloth or fabric, any items necessary in such sewing which become a component part of the clothing so made. CGS Sec. 12-412(52).

The exemption was created by PA 86-397.

Estimates: $500,000.

Rationale: Perceived Equity.

3. Yarn.

Description: Any sale of yarn for noncommercial use made of natural or synthetic fibers. CGS Sec. 12-412(97).

The exemption was created by PA 97-316.

Estimates: Less than $50,000.

Rationale: Perceived Equity.

4. **Sales Tax "Free Week."**

Description: Establishes a sales tax 'free week' on items of clothing and footwear costing less than $300 beginning on the third Sunday in August until the next succeeding Saturday. CGS Sec. 12-407d.

The exemption was created by PA 00-170. PA 03-1 JSS repealed it but was reinstated by PA 04-216.

Estimates: $5.0 million.

Rationale: Perceived Equity and Incentive.

<u>Utilities</u>

1. **Fuel for heating purposes.**

Description: Sales of fuel used for heating purposes (i) in any residential dwelling or (ii) in any building, location or premise utilized directly in agricultural production, fabrication of a finished product to be sold or an industrial manufacturing plant, provided the exemption under this subdivision (ii) shall only be allowed with respect to a building, location or premise in which not less than seventy-five percent of the fuel used in such building, location or premise is used for the purpose of such production, fabrication or manufacturing. CGS Sec. 12-412(16) and 12-412h.

The residential utilities portion has been in effect since the imposition of the tax. The manufacturing and agriculture provision was added by PA 89-251.

Estimates: $175.0 million.

Rationale: Perceived Equity as it relates to residential utilities. Incentive as it relates to manufacturing and agriculture, since the exemption is intended to reduce cascading.

2. **Certain utilities sales.**

Description: The subdivision presented below are part of CGS Sec. 12-412(3) and 12-412h.

(A) Gas and electricity for residential use and certain manufacturing or agricultural production. The sale, furnishing or service of gas, including bottled gas, and electricity when delivered to consumers through mains, lines, pipes or bottles for use (i) in any residential dwelling or (ii) directly in agricultural production, fabrication of a finished product to be sold or an industrial manufacturing plant, provided the exemption under this subdivision (ii) shall only be allowed with respect to a metered building, location or premise at which not less than seventy-five per cent of the gas, including bottled gas, or electricity consumed at such metered building, location or premise is used for the purpose of such production, fabrication or manufacturing. Bottled gas as used in this subsection means liquid propane gas.

(C) Water, steam and telegraph. The sale, furnishing or service of water, steam and telegraph when delivered to consumers through mains, lines, pipes or bottles.

(D) Monthly charges of one hundred fifty dollars or less for electricity not otherwise exempt. The sale or furnishing of electricity, not subject to the exemption under subparagraph (A) of this subsection, with respect to that portion of the charges applicable to such electricity for any month of service which is not in excess of one hundred fifty dollars.

(E) Gas, water, steam or electricity used in furnishing same to consumers. The sale, furnishing or service of gas, water, steam or electricity for use directly in the furnishing of gas, water, steam or electricity delivered to consumers through mains, lines or pipes.

An exemption for consumer sales of gas, water, electricity, telephone and telegraph services has been in effect since the imposition of the tax. PA 74-4 added bottled gas and community antenna television and cable services. PA 75-495 clarified that bottled gas is propane gas. PA 77-395 added sales of steam. PA 89-251 created the exemption in its present form.

Estimates: $53.0 million ($3.0 million for the first $150 exemption and $50.0 million for all other).

Rationale: Redundancy as it relates to residential utilities and water, steam and telegraph. Utility company gross receipts are taxable under the Utility Companies Tax at the rate of 4% for residential utilities, 5% for water and steam service and 4.5% for telegraph service. Incentive as it relates to businesses. The manufacturing and agriculture exemption is intended to reduce cascading. The portion exempting charges under $150/month is intended to reduce the cost of doing business for small firms.

3. Water company purchases.

Description: Sales of and the storage, use or other consumption of any personal property or any services to a water company, as defined in section 16-1, for use in maintaining, operating, managing or controlling any pond, lake, reservoir, stream, well or distributing plant or system employed for the purpose of supplying water to fifty or more customers. CGS Sec. 12-412(90). (This exemption is effective 7/1/96.)

Municipal water companies are exempt from the Sales Tax. The exemption was created by PA 94-4 of the May Special Session. PA 95-160 changed the effective date.

Estimates: $4.0 million

Rationale: Perceived Equity.

<u>Other Consumer Good Exemptions</u>

1. Motor vehicle fuel.

Description: Gross receipts from the distribution of and the storage, use or other consumption in the state of motor vehicle fuel that is subject to the motor fuels tax. CGS Sec. 12-412(15).

Estimates: $400.0 million.

Rationale: Redundancy. Motor vehicle fuel sales are subject to the Motor Fuels Excise Tax. Firms that sell petroleum products are subject to the Petroleum Companies Gross Receipts Tax, which includes sales of motor vehicle fuel. The exemption has been in effect since the imposition of the tax.

2. Fuel for use in certain high-occupancy commuter vehicles.

Description: Sales of and the storage, use or other consumption of any fuel with respect to which the tax imposed under chapter 221 has been refunded under subdivision (11) of subsection (a) of section 12-459. CGS Sec. 12-412 (37).

Estimates: Less than $50,000.

Rationale: Incentive, the exemption is intended to encourage the use of multiple-occupancy commuter vehicles. Taxpayers who qualify for a Motor Fuels Excise Tax exemption and who apply for a refund, are subject to Sales Tax on the amount exempted from the excise tax. This exemption prevents taxpayers who qualify for the Motor Fuels Excise Tax exemption on high-occupancy commuter vehicle fuel from paying Sales Tax on their excise tax refund. It was created by PA 79-627 and amended by 82-25.

3. **Newspapers and magazines.**

Description: (A) Sales of magazines, including publications which only contain puzzles, by subscription; (B) sales of newspapers. CGS Sec. 12-412(6).

The exemption also clarifies that puzzle magazines are nontaxable. Magazine subscriptions have been exempt since the imposition of the tax. At that time all newspaper sales were exempt. PA 78-172 clarified the exemption with regard to newspapers and PA 91-3 imposed the tax on newspapers sold over the counter. PA 94-4 of the May Special Session added the language regarding puzzle magazines. PA 98-110 extended the exemption to all sales of newspapers not just by subscription only. PA 03-2 imposed the tax on newspapers effective 4/1/03 but was repealed by PA 03-1 JSS effective 7/1/04.

Estimates: $65.0 million ($15.0 million for newspapers, $50.0 million for magazines & other).

Rationale: Efficiency/Clarification. It would be costly and difficult to collect revenue and audit tax records for out-of-state companies selling magazines and newspapers by subscription.

4. **One cent vending machines. Vending machine sales of food products and certain items.**

Description: (A) Sales of any items from one-cent vending machines; or (B) sales of food products, as defined in subsection (13) of this section, sold through coin-operated vending machines and items costing 50 cents or less. CGS Sec. 12-412(27).

The exemption was created by PA 74-263. PA 95-160 added food sold through coin-operated vending machines. PA 00-170 extended the exemption to items sold through vending machines costing 50 cents or less.

Estimates: Indeterminate.

Rationale: Efficiency. The amount of revenue that could be collected is considered too small to justify the administrative costs.

5. **Property purchased from the United States.**

Description: The storage, use or other consumption in this state of property purchased from any incorporated agency or instrumentality of the United States, except (a) any property reported to the Surplus Property Board of the United States or any successor thereto, as surplus property by any owning agency; and (b) any property included in any contractor inventory, is exempted from the use tax. "Surplus property", "owning agency", and "contractor inventory" as used in this section have the meanings ascribed to them in that act of the Congress of the United States known as the "Surplus Property Act of 1944". CGS Sec. 12-413(2).

The exemption has been in effect since the imposition of the tax.

Estimates: Indeterminate.

Rationale: Conformity. States are not permitted to levy taxes on the federal government under the US Constitution.

6. **Purchase brought into state by resident.**

Description: The use tax shall not apply to the purchase of any articles of tangible personal property which have been brought into this state on the person of a resident of this state when the purchase price of the same does not exceed twenty-five dollars; provided such purchase shall be for personal use or consumption in this state and not for use or consumption in carrying on a trade, occupation, business or profession. CGS Sec. 12-413(3).

The exemption has been in effect since the imposition of the tax.

Estimates: Indeterminate.

Rationale: Efficiency. The amount of revenue that could be collected is considered too small to justify the administrative costs.

7. Personal property used in burial or cremation with value up to two thousand five hundred dollars for any single funeral and caskets.

Description: Sales of tangible personal property by any funeral establishment performing the primary services in preparation for and the conduct of burial or cremation, provided any such property must be used directly in the performance of such services and the total amount of such exempt sales with respect to any single funeral may not exceed two thousand five hundred dollars and caskets or caskets used for burial or cremation. CGS Sec. 12-412(55).

The exemption was created by PA 86-397. PA 00-170 exempted caskets. PA 01-6 JSS extended exemption to caskets used for cremation.

Estimates: $5.0 million.

Rationale: Perceived Equity.

8. Vegetable seeds.

Description: Sales of vegetable seeds suitable for planting to produce food for human consumption. CGS Sec. 12-412(96)

The exemption was created by PA 97-316.

Estimates: Less than $50,000.

Rationale: Perceived Equity.

9. Firearm Safety Devices

Description: Sales of and the storage, use or other consumption of firearm safety devices. For purposes of this subdivision, "firearm safety devices" shall include safes, lock boxes, trigger and barrel locks and other items designed to enhance home firearm safety. CGS Sec. 12-412(101)

The exemption was created by PA 99-173

Estimates: Less than $50,000.

Rationale: Incentive.

10. Bicycle Helmets

Description: Sales of and the storage, use or other consumption of bicycle helmets. For the purposes of this subdivision, "bicycle" means any vehicle propelled by the person riding the same by foot or hand power and "helmet" means protective headgear which conforms to the minimum specifications established by the American National Standards Institute or the Snell Memorial Foundation's Standard for Protective Headgear for Use in Bicycling. CGS Sec. 12-412(102)

The exemption was created by PA 99-173.

Estimates: Less than $50,000.

Rationale: Incentive.

11. Campground rentals

Description: Campground rentals (does not appear in statutory language)

Campground rentals were made taxable by PA 92-184, effective 7/1/93 and were excluded from the tax by PA 93-74 and PA 93-332, effective 7/1/93.

Estimates: Less than $50,000.

Rationale: Incentive. The exclusion is intended to reduce cascading.

12. Lodging

Description: (a) Privately owned and operated convalescent homes, residential care homes, homes for the infirm, indigent or chronically ill; (b) religious or charitable homes for the aged, infirm, indigent or chronically ill; (c) privately owned and operated summer camps for children; (d) summer camps for children operated by religious or charitable organizations; (e) lodging accommodations at educational institutions; or (f) lodging accommodations at any facility operated by and in the name of any nonprofit charitable organization, provided the income from such lodging accommodations at such facility is not subject to federal income tax. CGS Sec. 12-407(17).

PA 90-186 added lodging accommodations operated by nonprofit organizations.

Estimates: Less than $50,000.

Rationale: Expediency.

13. Residential weatherization products including fluorescent light bulbs

Description: Exempts compact fluorescent light bulbs and Weatherization Products which include programmable thermostats, window film, caulking, window and door weather strips, insulation, water heater blankets, water heaters that meet the federal Energy Star standard, natural gas furnaces that meet the federal Energy Star standard, windows that meet the federal Energy Star standard, and oil furnaces that are not less than eighty-four per cent efficient.

PA 05-2 added residential weatherization products. PA 07-242 makes the exemption permanent and adds compact fluorescent light bulbs.

Estimates: $5.5 million.

Rationale: Perceived Equity.

14. Cigarettes pack containing less than twenty cigarettes

Description: Prohibits the sale of single cigarettes or cigarettes in unopened packages containing less than twenty cigarettes. CGS Sec. 12-314(a)

The prohibition was created by PA 00-56.

Estimates: $2,000.

Rationale: Expediency.

15. Child Car Seats

Description: Child car seats. CGS Sec. 12-412(108).

The exemption was created by PA 00-170.

Estimates: Less than $50,000.

Rationale: Expediency.

16. College Textbooks

Description: College textbooks purchased by matriculated students. CGS Sec. 12-412(109)

The exemption was created by PA 00-170. PA 05-251 extends the exemption to occupational school textbooks purchased by students.

Estimates: $2.5 million.

Rationale: Expediency.

17. Household Appliances that meet federal Energy Star standards

Description: Exempts the sales of household appliances that meet federal Energy Star standards on or after June 4, 2007 and on or before September 30, 2007. CGS Sec. 12-412(115)

PA 07 -242, PA 07-1(JSS)

Estimates: $7.0 million.

Rationale: Equity.

18. Solar Energy, Geothermal, and Ice Storage Systems

Description: Exempts (1) solar electric and space and water heating systems and related equipment and installation services, (2) geothermal systems and related equipment and installation services, and (3) ice storage systems used for cooling and related equipment and installation services for utility customers billed on time-of-use rates. CGS Sec. 12-412(117,118)

The exemption was created by PA 07-242.

Estimates: $2.0 million.

Rationale: Equity.

B. Business and Agricultural Exemptions

Machinery and Materials

1. Machinery used in manufacturing.

Description: Sales of and the storage, use or other consumption of machinery used directly in a manufacturing production process. The word "machinery" as used in this subsection means the basic machine itself, and includes all of its component parts and contrivances, such as belts, pulleys, shafts, moving parts, operating structures and equipment or devices, which component parts and contrivances are used or required to control, regulate or operate the machinery or to enhance or alter its productivity or functionality, whether such component parts and contrivances are purchased separately or in conjunction with such machine and all replacement and repair parts for the basic machine or for its component parts and contrivances, whether such replacement or repair parts are purchased separately or in conjunction with such machine. For the purposes of this subsection, "machinery" includes machinery used exclusively to control or monitor an activity occurring during the manufacturing production process and machinery used exclusively during the manufacturing production process to test or measure materials and products being manufactured but shall not include office equipment or data processing equipment other than numerically controlled machinery used directly in the manufacturing process. CGS Sec. 12-412(34).

It was created by PA 78-71. PA 89-123 removed references to agricultural production which were included in a separate subsection, (63), created by that act. PA 94-4 of the May Special Session specified "machinery" is limited to equipment directly related to manufacturing processes. PA 98-110 added the exclusion of component parts and contrivances whether purchased separately or in conjunction with a machine. PA 09-200 amended the definition of manufacturing to include asphalt manufacturing.

Combined Estimates for Items 1, 2, and 3: $100.0 million.

Rationale: Cascading.

2. Component parts for assembly of manufacturing machinery.

Description: The sale of any part of a machine purchased exclusively for the purpose of assembling a machine for use directly in a manufacturing production process, provided the purchaser submits a certified statement at the time of such purchase, on a form prepared by the commissioner of revenue services, certifying that such part is purchased exclusively for use in a machine to be assembled by the purchaser, or someone acting on behalf of the purchaser, and that such machine shall be used directly in a manufacturing production process. The purchaser shall prepare a record of the use of such part which shall be maintained by the purchaser for a period of not less than three years following the date of purchase. CGS Sec. 12-412(73).

PA 91-3 created the exemption.

Estimates: See note at end of Item Number 1.

Rationale: Cascading.

3. Production materials.

Description: Sales of and the storage or use of materials, rope, fishing nets, tools and fuel or any substitute therefore, which become an ingredient or component part of tangible personal property to be sold or which are used directly in the fishing industry or in an industrial plant in the actual fabrication of the finished product to be sold. Sales of and the storage or use of materials, tools and fuel or any substitute therefore, when such products are used directly in the furnishing of power to an industrial manufacturing plant or in the furnishing of gas, water, steam or electricity when delivered to consumers through mains, lines or pipes. CGS Sec. 12-412(18).

It has been in effect since the imposition of the tax and was amended in 1959 to include a definition of "machinery." PA 73-288 deleted references to "consumption." PA 89-123 created a separate subsection (63) for agricultural production. PA 09-200 amended the exemption to include asphalt manufacturers.

Estimates: See note at end of Item Number 1.

Rationale: Cascading.

4. **Partial exemption for materials, tools, fuels, machinery and equipment used in manufacturing.**

Description: CGS Sec. 12-412i. (a) The taxes imposed by this chapter shall not apply to the percentage set forth in subsection (c) of this section of the gross receipts from the sale of and the storage, use and consumption in this state of the following items: (1) Materials, tools and fuels or any substitute therefore which become an ingredient or component part of tangible personal property to be sold or which are used or consumed in an industrial plant in the manufacturing, processing or fabricating of products to be sold, in any process preparatory or related thereto or in the measuring or testing of such products or (2) machinery and equipment which will be used primarily in the process of manufacturing, processing or fabricating tangible personal property if: (A) The machinery or equipment is used for research and development, measuring or testing with respect to or in furtherance of the manufacturing, processing or fabricating of tangible personal property; (B) the machinery or equipment is used at any stage of the manufacturing, processing or fabricating process from the time any raw materials are received to the time the product is ready for delivery or storage, including over packing and crating; (C) the machinery or equipment is used primarily to maintain or repair any machinery or equipment described in subparagraph (A) or (B) of this subdivision, or (D) the machinery or equipment is used primarily for metal finishing, provided this exemption shall not apply to any materials, tools, fuels, machinery or equipment which is used primarily in administration, general management, sales or any other activity which does not constitute manufacturing, processing or fabricating. The exemption under this subsection shall not apply to any materials, tools, fuels, machinery or equipment that is exempt under any other provision of this chapter.

(b) As used in this section: (1) "Manufacturing" means the activity of converting or conditioning tangible personal property by changing the form, composition, quality or character of the property for ultimate sale at retail or use in the manufacturing of a product to be ultimately sold at retail. Changing the quality of property shall include any substantial overhaul of the property that results in a significantly greater service life than such property would have had in the absence of such overhaul or with significantly greater functionality within the original service life of the property, beyond merely restoring the original functionality for the balance of the original service life; (2) "fabricating" means to make, build, create, produce or assemble components or tangible personal property so that they work in a new or different manner; (3) "processing" means the physical application of the materials and labor necessary to modify or change the characteristics of tangible personal property; (4) "machinery" means the basic machine itself, including all of its component parts and contrivances such as belts, pulleys, shafts, moving parts, operating structures and all equipment or devices used or required to control, regulate or operate the machinery, including, without limitation, computers and data processing equipment, together with all replacement and repair parts therefore, whether purchased separately or in conjunction with a complete machine, and regardless of whether the machine or component parts thereof are assembled by the taxpayer or another party; (5) "equipment" means any device separate from machinery but essential to a manufacturing, processing or fabricating process; and (6) "measuring or testing" includes both nondestructive and destructive measuring or testing, and the alignment and calibration of machinery, equipment and tools, in the furtherance of the manufacturing, processing or fabricating of tangible personal property.

(c) The gross receipts from the sale of and the storage, use and consumption in this state of the items set forth in subsection (a) of this section shall be exempt from the taxes imposed by this chapter, to the following extent: (1) For sales made on or after January 1, 1993, and prior to July 1, 1993, ten per cent of the gross receipts from such items; (2) for sales made on or after July 1, 1993, and prior to July 1, 1994, twenty per cent of the gross receipts from such items; (3) for sales made on or after July 1, 1994, and prior to July 1, 1995, thirty per cent of the gross receipts from such items; (4) for sales made on or after July 1, 1995, and prior to July 1, 1996, forty per cent of the gross receipts from such items; and (5) for sales made on or after July 1, 1996, fifty per cent of the gross receipts from such items. (d) The burden of proving that an item is subject to the exemption set forth in this section is upon the person who makes the sale unless he takes from the purchaser a certificate to the effect that the property is subject to such exemption. The certificate relieves the seller from the burden of proof only if taken in good faith by the seller. The certificate shall be signed by and bear the name and address of the purchaser. The certificate shall be substantially in such form as the commissioner prescribes. (e) If a purchaser who gives a certificate makes any use of the property other than the purposes set forth in this section, the use shall be deemed a use by the purchaser in accordance with this chapter, as of the time the property is first used by him, and the property shall be taxable to such purchaser in accordance with this chapter.

PA 92-193 (Manufacturing Recovery Act of 1992) created the exemption. Various other acts made technical changes and effective date changes. PA 09-200 amended the definition of manufacturing to include asphalt manufacturing.

Estimates: $3.0 million.

Rationale: Cascading.

5. Replacement parts in enterprise zones.

Description: Sales of any replacement parts for machinery to any business entity located in any enterprise zone designated pursuant to section 32-70 for use within such zone. CGS Sec. 12-412(43).

PA 81-445 created the exemption.

Estimates: $700,000.

Rationale: Incentive.

6. Items sold for use in agricultural production by a farmer engaged in such production as a business.

Description: Sales of and the storage, use or other consumption of tangible personal property exclusively for use in agricultural production, as defined in this subsection, by a farmer engaged in agricultural production as a trade or business and to whom the department of revenue services has issued an agricultural sales tax exemption permit, provided in the immediately preceding calendar year such farmer's gross income from such agricultural production shall have been not less than two thousand five hundred dollars, as reported for federal income tax purposes on Schedule C or Schedule F attached to Internal Revenue Service Form 1040, 1041 or 1065 where the business is conducted by an individual, estate, trust or partnership or would be reportable on Schedule C or Schedule F but for the fact that the business is conducted by a corporation. The commissioner of revenue services shall adopt regulations in accordance with chapter 54 requiring periodic registration for purposes of the issuance of agricultural sales tax exemption permits, including (1) a procedure related to the application for such permit, (2) a form of notice concerning the penalty for misuse of such permit and (3) required notarization of the application of such permit. As used in this subsection, "agricultural production" means engaging, as a trade or business, in (A) the raising and harvesting of any agricultural or horticultural commodity, (B) dairy farming, (C) forestry, (D) the raising, feeding, caring for, shearing, training or management of livestock, including horses, bees, poultry, fur-bearing animals or wildlife, (E) the raising and harvesting of fish, oysters, clams, mussels or other molluscan shellfish or (F) the operation or management of a farm and its buildings, tools and equipment; "farmer" means any person engaged in agricultural production as a trade or business. CGS Sec. 12-412(63).

Portions of it were formerly contained in subsections (18) and (34). Subsection (63) was created by PA 89-123. PA 93-122 clarified that fish raising and harvesting were included in the exemption. PA 00-174 made technical changes.

Estimates: $5.0 million.

Rationale: Cascading.

7. Commercial fishing vessels and machinery or equipment for use thereon.

Description: Sales of and the storage, use or other consumption of any vessel, as defined in section 15-127, used exclusively in commercial fishing and any machinery or equipment for use on a commercial fishing vessel, provided in the calendar year ending immediately preceding the date of any such sale, storage, use or other consumption, not less than fifty per cent of the gross income of the purchaser shall have been derived from commercial fishing, subject to proof satisfactory to the commissioner of revenue services. For purposes of this subsection, commercial fishing vessels shall include any vessel with a certificate of documentation issued by the United States Coast Guard for coastwise fishery. CGS Sec. 12-412(40).

PA 81-323 created the exemption. PA 82-192 applied the exemption to vessels, machinery or equipment used exclusively in commercial fishing rather than designed exclusively for use in commercial fishing. PA 92-123 and 92-17 expanded the exemption to include vessels with coastwise fishery certificates. PA 00-174 made technical changes and conformed the exemption to the Farmer's Sales Tax Exemption.

Estimates: $5.0 million.

Rationale: Cascading.

8. Fuel Cell Manufacturing Facility

Description: PA 01-6 JSS exempts material, equipment, tools, fuel and machinery used by a fuel cell manufacturing facility.

Estimates: Less than $50,000.

Rationale: Incentive.

Aircraft

1. Flyable aircraft.

Description: Sales of and the storage, use or other consumption, by a manufacturer of aircraft located in this state, of flyable aircraft complete with necessary equipment and modifications, but not separate engines and parts thereof sold to persons taking delivery and using such aircraft as certificated or licensed carriers of persons or property in interstate or foreign commerce under authority of the laws of the United States or any foreign government, or sold to any foreign government for use by such government outside of this state. or sold to persons who are not residents of this state and who will not use such aircraft in this state otherwise than in the removal of such aircraft from this state. CGS Sec. 12-412(20).

It has been in effect since the imposition of the tax.

Estimates: Less than $50,000.

Rationale: Clarification/Conformity. The exemption clarifies that such transactions are not taxable because they are out-of-state sales. It also conforms the statutes to the US Constitution, which prohibits states from violating the interstate commerce clause.

2. Aircraft repair or replacement parts.

Description: Sales of and the storage, use or other consumption of repair or replacement parts exclusively for use (A) in aircraft, or (B) in the significant overhauling or rebuilding of aircraft or aircraft parts or components on a factory basis. CGS Sec. 12-412(76).

PA 92-17 created the exemption. PA 97-316 extended the exemption to all aircraft with a certified weight of 6,000 pounds or more. PA 06-186 extends the existing sales tax exemptions for aircraft repair or replacement parts to all types of aircraft.
Combined Estimates for Items Number 2, 3 and 4: $10.0 million.

3. Aircraft repair services.

Description: Sales of aircraft repair services when such services are rendered in connection with (A) aircraft, or (B) the significant overhauling or rebuilding of aircraft or aircraft parts or components on a factory basis. CGS Sec. 12-412(77).

PA 92-17 created the exemption. PA 97-316 extended the exemption to all aircraft with a certified weight of 6,000 pounds or more. PA 06-186 extends the existing sales tax exemptions for aircraft repair services to all types of aircraft.

Estimates: See note at end of Item Number 2.

4. Materials, tools, fuel, machinery and equipment in an aircraft manufacturing facility.

Description: On or after July 1, 1993, sales of and the storage, use or other consumption by an aircraft manufacturer operating an aircraft manufacturing facility in this state of materials, tools, fuel, machinery and equipment used in such facility. For purposes of this subsection, (A) "machinery and equipment" means tangible personal property (i) which is installed in an aircraft manufacturing facility operated by an aircraft manufacturer and (ii) the predominant use of which is for the manufacturing of aircraft or aircraft parts or components or for the significant overhauling or rebuilding of aircraft or aircraft parts or components on a factory basis and (B) "aircraft manufacturing facility" means that portion of a plant, building or other real property improvement used for the manufacturing of aircraft or aircraft parts or components or for the significant overhauling or rebuilding of aircraft or aircraft parts or components on a factory basis. CGS Sec. 12-412 (78).

PA 92-17 created the exemption.

Estimates: See note at end of Item Number 2.

Rationale: Incentive. The exemption is intended to reduce cascading.

5. Certain aircraft.

Description: Sales of and the storage, use or other consumption of, aircraft having a maximum certificated takeoff weight of six thousand pounds or more. "Certificated takeoff weight" means the maximum such weight contained in the type certificate or airworthiness certificate. CGS Sec 12-412(99).

PA 97-316 created the exemption.

Estimates: Less than $50,000.

Rationale: Incentive. The exemption is intended to reduce cascading.

6. Aviation Consulting.

Description: Business analysis, management, consultation and public relations services furnished in connection with an aircraft that (1) is leased of owned by a commercial air carrier; or (2) has a maximum take-off weight of at least 6,000 pounds. Applicable to sales occurring on or after 1/1/94. CGS Sec 12-407(2)(J)(iii).

PA 02-1 MSS created the exemption.

Estimates: Less than $50,000.

Rationale: Incentive. The exemption is intended to reduce cascading.

Motor Vehicles

1. Commercial trucks, truck tractors, tractors and semi-trailers and vehicles used in combination therewith.

Description: Commercial trucks, truck tractors, tractors and semi-trailers and vehicles used in combination therewith. (A) Sales of and the storage, use or other consumption of commercial trucks, truck tractors, tractors and semi-trailers, and vehicles used in combination therewith, which (i) have a gross vehicle weight rating in excess of twenty-six thousand pounds or (ii) are operated actively and exclusively during the period commencing upon its purchase and ending one year after the date of purchase for the carriage of interstate freight pursuant to a certificate or permit issued by the Interstate Commerce Commission or its successor agency. As used in this subsection, "gross vehicle weight rating" means the value specified by the manufacturer as the loaded weight of the single or combination vehicle and, if the manufacturer has not specified a value for a towed vehicle, means the value specified for the towing vehicle plus the loaded weight of the towed unit. (B) Each purchaser of a commercial truck, truck tractor, tractor or semi-trailer or vehicle used in combination therewith exempt from tax pursuant to the provisions of subparagraph (A)(ii) of this subsection shall, in order to qualify for said exemption, present to the retailer (i) a copy of the certificate or permit that was issued by the Interstate Commerce Commission or its successor agency to the purchaser and (ii) a certificate, in such form as the commissioner may prescribe, certifying that such commercial truck, truck tractor, tractor or semi-trailer or vehicle used in combination therewith will be operated actively and exclusively for the carriage of interstate freight. The purchaser shall be liable for the tax otherwise imposed if, during the period commencing upon its purchase and ending one year after the date of purchase, such commercial truck, truck tractor, tractor or semi-trailer or vehicle used in combination therewith is not operated actively and exclusively for the carriage of interstate freight. CGS Sec. 12-412(70).

It was created by PA 91-3. PA 95-359 requires vehicles purchased under the exemption be operated actively and exclusively for the carriage of interstate freight during the one year period following the purchase.

Combined Estimates for Item Number 1, 2 and 3: $6.0 million.

Rationale: Incentive.

2. Sales of commercial motor vehicles where seventy-five per cent of day-in-service revenue derives from trips involving other states.

Description: Sales of commercial motor vehicles where seventy-five per cent of day-in-service revenue derives from trips involving other states. (A) The sale of and the storage, use or other consumption of any commercial motor vehicle as defined in subparagraphs (A) and (B) of subdivision (11) of section 14-1, that is operating pursuant to the provisions of section 13b-88 or 13b-89, during the period commencing upon its purchase and ending one year after the date of purchase provided seventy-five per cent of its revenue from its days in service is derived from out-of-state trips or trips crossing state lines. (B) Each purchaser of a commercial motor vehicle exempt from tax pursuant to the provisions of this subsection shall, in order to qualify for said exemption, present to the retailer a certificate, in such form as the commissioner may prescribe, certifying that seventy-five per cent of such vehicle's revenue from its days in service will be derived from out-of-state trips or trips crossing state lines. The purchaser of the motor vehicle shall be liable for the tax otherwise imposed if, during the period commencing upon its purchase and ending one year after the date of purchase, seventy-five per cent of the vehicle's revenue from its days in service is not derived from out-of-state trips or trips crossing state lines.
CGS Sec. 12-412(82).

It was created by PA 93-74. PA 95-359 requires that the vehicles purchased under the exemption derived 75% of their revenue from out-of-state trips or trips crossing state lines.

Estimates: See note at end of Item Number 1.

Rationale: Incentive.

3. Sales of motorbuses where seventy-five per cent of day-in-service revenues derives from trips involving other states.

Description: Sales of motorbuses where seventy-five per cent of day-in-service revenues derives from trips involving other states. (A) The sale of and the storage, use or other consumption of any motor bus, as defined in subdivision (44) of section 14-1, that is operating pursuant to the provisions of section 13b-88 or 13b-89, during the period commencing upon its purchase and ending one year after the date of purchase provided seventy-five per cent of its revenue from its days in service is derived from out-of-state trips or trips crossing state lines. (B) Each purchaser of a motor bus exempt from tax pursuant to the provisions of this subsection shall, in order to qualify for said exemption, present to the retailer a certificate, in such form as the commissioner may prescribe, certifying that seventy-five per cent of such bus's revenue from its days in service will be derived from out-of-state trips or trips crossing state lines. The purchaser of the motor bus shall be liable for the tax otherwise imposed if, during the period commencing upon its purchase and ending one year after the date of purchase, seventy-five per cent of the bus's revenue from its days in service is not derived from out-of-state trips or trips crossing state lines. CGS Sec. 12-412(83).

PA 93-74 created the exemption. PA 95-359 requires that the vehicles purchased under the exemption derived 75% of their revenue from out-of-state trips or trips crossing state lines.

Estimates: See note at end of Item Number 1.

Rationale: Incentive.

4. New motor vehicles exclusively powered by clean alternative fuel, hydrogen, or electricity.

Description: Sales of and the storage, use or other consumption, prior to January 1, 2002, of a new motor vehicle which is exclusively powered by a clean alternative fuel. As used in this subsection and subsections (68) and (69), "clean alternative fuel" shall mean natural gas, hydrogen, or electricity when used as a motor fuel or propane when used as a motor vehicle fuel if such a vehicle meets the federal fleet emissions standards under the federal Clean Air Act or any emissions standards adopted by the Commissioner of Environmental Protection as part of the state's implementation plan under said act. CGS Sec. 12-412(67).

PA 91-179 created the exemption. PA 92-188 added vehicles powered by electricity. PA 99-173 extended the sunset to January 1, 2002. PA 01-6 JSS extended the sunset to July 1, 2002. PA 02-4 MSS extended the sunset to 7/1/04 and added hydrogen powered motor vehicles. PA 04-231 extended the sunset from 7/1/04 to 7/1/08.

Estimates: Expired.

Rationale: Incentive.

5. Hybrid Motor Vehicles

Description: Exempts the sales of hybrid passenger cars occurring on or after October 1, 2004 and prior to October 1, 2008 that have an estimated highway gasoline mileage of at least 40 MPG. CGS Sec. 12-412(115)

PA 00-170 exempted passenger cars that get 50 MPG on the highway or greater purchased between July 1, 2000, and prior to July 1, 2002 from the Sale Tax, CGS Sec. 12-412(110). PA 04-231 exempted such cars which get 40 MPG on the highway October 1, 2004, and prior to October 1, 2008. PA 07-242 extends the exemption to July 1, 2010.

Estimates: $1.0 to 2.0 million for FY 09; expired for FY 11.

Rationale: Expediency.

6. High Miles-per-Gallon Vehicles

Description: Exempts the sales of passenger cars occurring on or after January 1, 2008 and prior to July 1, 2010 that have an estimated city or highway gasoline mileage of at least 40 MPG. CGS Sec. 12-412(110)

PA 00-170 exempted passenger cars that get 50 MPG on the highway or greater purchased between July 1, 2000, and prior to July 1, 2002 from the Sale Tax, CGS Sec. 12-412(110). PA 04-231 exempted such cars which get 40 MPG on the highway October 1, 2004, and prior to October 1, 2008. PA 07-242 extends the exemption to July 1, 2010.

Estimates: $1.0 to 2.0 million for FY 09; expired for FY 11.

Rationale: Expediency.

Fuel

1. Aviation fuel used exclusively and directly in the experimental testing of any product.

Description: Sales of and storage, use or other consumption of any aviation fuel used exclusively and directly in the experimental testing of any product. CGS Sec. 12-412(59).

PA 87-119 created the exemption.

Estimates: Less than $50,000.

Rationale: Incentive/Redundancy. The exemption is intended to reduce cascading. Also, the first instate sale of petroleum products, including aviation fuel, is subject to the 5% Petroleum Companies Gross Receipts Tax. This fuel is not subject to the Motor Fuels Excise Tax.

2. Aviation fuel.

Description: Sales of and storage, use or other consumption of aviation fuel used exclusively for aviation purposes. CGS Sec. 12-412(75).

Formerly, aviation fuel was taxed at 2.5% but was exempted by PA 92-17.

Estimates: $5.0 million.

Rationale: Incentive/Redundancy. The exemption is intended to make in-state businesses more competitive with those out of state. Also, the first instate sale of petroleum products, including aviation fuel, is subject to the 5% Petroleum Companies Gross Receipts Tax. This fuel is not subject to the Motor Fuels Excise Tax.

3. Marine fuel.

Description: Sales and the storage, use or other consumption of bunker fuel oil, intermediate fuel, marine diesel oil and marine gas oil for use in any vessel having a displacement exceeding four thousand dead weight tons or for use in any vessel primarily engaged in interstate commerce. CGS Sec. 12-412(79).

PA 92-17 created the exemption. PA 97-243 clarified the exemption of fuels for use in vessels primarily engaged in interstate commerce.

Estimates: Indeterminate.

Rationale: Incentive/Redundancy. The exemption is intended to make instate businesses more competitive with those out of state. Also, the first instate sale of petroleum products, including marine fuel, is subject to the 5% Petroleum Companies Gross Receipts Tax. This fuel is not subject to the Motor Fuels Excise Tax.

4. Conversion equipment associated with converting vehicles to exclusive use of clean alternative fuel or dual use of such fuel and any other fuel.

Description: Sales of and the storage, use or other consumption, prior to January 1, 2008, of conversion equipment incorporated into or used in converting vehicles powered by any other fuel to either exclusive use of a clean alternative fuel or dual use of any other fuel and a clean alternative fuel, including, but not limited to, storage cylinders, cylinder brackets, regulated mixers, fill valves, pressure regulators, solenoid valves, fuel gauges, electronic ignitions and alternative fuel delivery lines. CGS Sec. 12-412(68).

PA 91-179 created the exemption. PA 92-188 added vehicles powered by electricity. PA 99-173 extended the sunset date to January 1, 2002. PA 01-6 JSS extended the sunset to July 1, 2002. PA 02-4 MSS extended the sunset to 7/1/04. PA 04-231 extended the sunset from 7/1/04 to 7/1/08.

Estimates: Less than $50,000.

Rationale: Incentive.

5. Equipment associated with compressed natural gas or hydrogen filling stations.

Description: Sales of and the storage, use or other consumption, prior to January 1, 2008, of equipment incorporated into or used in a compressed natural gas or hydrogen filling or electrical recharging station for vehicles powered by a clean alternative fuel, including but not limited to, compressors, storage cylinders, associated framing, tubing and fittings, valves, fuel poles and fuel delivery lines used for cleaning alternative fuel storage and filling facilities. CGS Sec. 12-412(69).

The exemption was created by PA 91-179. PA 92-188 added vehicles powered by electricity. PA 99-173 extended the sunset date to January 1, 2002. PA 01-6 JSS extended the sunset to July 1, 2002. PA 02-4 MSS extended the sunset to 7/1/04 and added hydrogen powered motor vehicles. PA 04-231 extended the sunset from 7/1/04 to 7/1/08.

Estimates: Less than $50,000.

Rationale: Incentive.

6. Fuel Used in Portable Power Systems.

Description: Sales of, and the storage, use or other consumption of, diesel fuel to be used exclusively in portable power system generators that are larger than one hundred fifty kilowatts. CGS Sec. 12-412(107)

The exemption was enacted by PA 99-173.

Estimates: Less than $50,000.

Rationale: Expediency and conformity.

Other Business Purchases

1. Commodities in the form traded on boards of trade and not converted to use by purchaser.

Description: Sales and storage of any commodity in the form traded on any contract market or other board of trade as defined in the Commodity Exchange Act, as amended, provided this exemption shall not apply to any commodity subsequently converted to use by a purchaser and in such event such purchaser shall be liable for the tax under section 12-411 unless otherwise exempt under any of the provisions of this section. CGS Sec. 12-412(30).

The exemption was created by PA 77-266.

Estimates: Indeterminate.

Rationale: Incentive. The exemption is intended to reduce cascading. It applies to items such as agricultural commodities, which are sold in the line of business and not used directly by the purchaser. This is analogous to sale for resale, which is not taxable.

2. Containers.

Description: (A) Non-returnable containers and returnable dairy product containers when sold without the contents to persons who place the contents in the container and sell the contents together with the container; (B) containers when sold with the contents if the sales price of the contents is not required to be included in the measure of the taxes imposed by this chapter; (C) returnable containers when sold with the contents in connection with a retail sale of the contents or when resold for refilling. As used herein, "returnable containers" means containers of a kind customarily returned by the buyer of the contents for reuse, but does not mean non-refillable beverage containers, as defined in subsection (10) of section 22a-243. All other containers are "non-returnable containers". Nothing in this subsection shall be construed so as to tax the gross receipts from the sale of or the storage, use or other consumption in this state of bags in which feed for livestock and poultry, as defined in subsection (12) is customarily contained. CGS Sec. 12-412(14).

The exemption has been in effect since the imposition of the tax. PA 87-50 clarified that returnable containers do not include non-refillable beverage containers. The language concerning returnable dairy product containers was added by PA 92-17. Please note that the reference to subsection (12) is outdated because that exemption was repealed by PA 91-3.

Estimates: Less than $50,000.

Rationale: Incentive. The exemption is intended to reduce cascading. It applies to containers used as packaging for contents which will be sold at retail.

3. Printed material manufactured for purchaser in Connecticut to be delivered for use outside the state.

Description: Sales of any printed material which has been manufactured in Connecticut to the special order of a purchaser and which, within thirty days following delivery to such purchaser, is to be delivered for use outside Connecticut, provided such purchaser presents written certification to the seller when such material is received by such purchaser that such material shall be delivered for use outside Connecticut within thirty days. CGS Sec. 12-412(31).

It was created by PA 77-370.

Estimates: $2.0 million.

Rationale: Incentive. The exemption is intended to make in-state businesses more competitive with those out of state.

4. **Machinery, equipment, tools, materials and supplies used in commercial printing.**

Description: Sales of and the storage, use or other consumption of machinery, equipment, tools, materials and supplies used exclusively in the production of printed material by a commercial printer or publisher. For purposes of this subsection, "the production of printed material" is defined to include all processes necessary to convert manuscript copy into printed material, including but not limited to, layout, color separation and typesetting. CGS Sec. 12-412(71).

It was created by PA 91-3 of the June Special Session and amended by PA 92-5 of the May Special Session.

Estimates: $5.0 million.

Rationale: Incentive. The exemption is intended to reduce cascading.

5. **Machinery, equipment, tools, materials and supplies for typesetting, color separation, finished copy, or similar products.**

Description: Sales of and the storage, use or other consumption of machinery, equipment, tools, materials and supplies used exclusively in the production of typesetting, color separation, finished copy with type proofs and artwork or similar content mounted for photomechanical reproduction, or other similar products to be sold for use in the production of printed materials. CGS Sec. 12-412(72).

It was created by PA 91-3 of the June Special Session.

Estimates: Less than $50,000.

Rationale: Incentive. The exemption is intended to reduce cascading.

6. **Personal property for incorporation into or used in waste treatment facilities.**

Description: 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 facilities for the treatment of industrial waste before the discharge thereof into any waters of the state or into any sewerage system emptying into such waters, the primary purpose of which is the reduction, control or elimination of pollution of such waters, certified as approved for such purpose by the commissioner of environmental protection. For the purposes of this subdivision "industrial waste" means any harmful thermal effect or any liquid, gaseous or solid substance or combination thereof resulting from any process of industry, manufacture, trade or business or from the development or recovery of any natural resource. CGS Sec. 12-412(21).

Combined estimates for Items Number 6 and 7: $3.0 million.

Rationale: Incentive. The exemption was created in 1967 and amended in 1969.

7. **Personal property incorporated into or consumed in air pollution control facilities.**

Description: Sales of and the storage, use or other consumption of tangible personal property or supplies acquired for incorporation into or used and consumed in the operation of facilities, the primary purpose of which is the reduction, control or elimination of air pollution, certified as approved for such purpose by the commissioner of environmental protection. Said commissioner may certify to a portion of such tangible personal property or supplies acquired for incorporation into such facilities to the extent that such portion shall have as its primary purpose the reduction, control or elimination of air pollution. CGS Sec. 12-412(22).

Estimates: See Item #6 combined total.

Rationale: Incentive. The exemption was created in 1967 and amended in 1969 and 1971.

8. Certain motion picture, video, television and radio production and broadcast equipment.

Description: Certain motion picture, video, television and radio production and broadcast equipment. (A) Sales of and the storage, use or other consumption of any filmed and taped television and radio programs and any materials which become an ingredient or component part of films or tapes which are used directly in the production and transmission of finished programs (i) broadcast to the general public by a television or radio station or (ii) used on or after October 1, 1986, for purposes of accredited medical or surgical training, including any equipment used for such purpose; (B) sales of and the storage, use, rental, lease or other consumption of any motion picture or video production equipment or sound recording equipment purchased or leased for use in this state for production activities which become an ingredient or component part of any master tapes, records, video tapes or film produced for commercial entertainment, commercial advertising or commercial educational purposes; or (C) sales of and the storage, use, rental or lease of equipment, including, but not limited to, antennas used directly in the production or broadcast of programs to the general public by a television or radio station. CGS Sec. 12-412(44).

It was created by 82-444 and was amended by PA 90-295 to include (A)(ii). PA 91-3 of the June Special Session narrowed the exemption by excluding equipment for both (A)(i)and (A)(ii). PA 93-44 expanded (ii) to include equipment used for medical or surgical training. PA 95-160 added subparagraph (B) and PA 97-316 added subparagraph (C).

Estimates: $2.0 million.

Rationale: Incentive. The exemption is intended to reduce cascading.

9. Lease or rental of any motion picture film for display by theater owner or operator.

Description: The leasing or rental of any motion picture film by the owner or operator of a motion picture theater for purposes of display at such theater. CGS Sec. 12-412(50).

The exemption was created by 85-513.

Estimates: $2.0 million.

Rationale: Expediency.

10. Motion Picture Leasing or Rental.

Description: The leasing or rental of any motion picture film by the owner or operator of a motion picture theater for purposes of display at such theater shall not constitute a sale within the meaning of this subsection. CGS Sec. 12-407(2)(j).

PA 85-13 created the exemption.

Estimates: Less than $50,000

Rationale: Expediency.

11. Computer-related cleaning equipment.

Description: Sales of and the storage, use or other consumption of equipment used directly in the production and cleaning of computer discs for purposes of creating and maintaining the atmospheric environment necessary in the area immediately surrounding such production and cleaning process, including with respect to such area, climate control, air quality and a positive pressure mode adapted to the particular climate and air quality requirements of such production and cleaning process. CGS Sec. 12-412(64).

It was created by PA 90-262 and PA 90-336.

Estimates: Less than $50,000.

Rationale: Incentive. The exemption is intended to reduce cascading.

12. Molds, dies, patterns and sand handling equipment for metal casting foundries.

Description: The purchase and sale by metal casting foundries of molds, dies, patterns and sand handling equipment. CGS Sec. 12-412(65).

It was created by PA 90-336.

Estimates: Less than $50,000.

Rationale: Incentive. The exemption is intended to reduce cascading.

13. Molds, dies, patterns for pattern shops and metal casting foundries.

Description: The sale by pattern shops of molds, dies and patterns to metal casting foundries or their customers for use in such foundries, and the purchase and use of such items by pattern shops in connection with any such sales. CGS Sec. 12-412(66).

It was created by PA 90-336.

Estimates: Less than $50,000.

Rationale: Incentive. The exemption is intended to reduce cascading.

14. Optical lens manufacturing equipment.

Description: Sales of and the storage, use or other consumption of machinery, equipment, tools and materials used exclusively in the fabrication of optical lenses. CGS Sec. 12-412(81).

It was created by PA 93-360.

Estimates: Less than $10,000.

Rationale: Incentive. The exemption is intended to reduce cascading.

15. Safety apparel.

Description: Sales of and the storage, use or other consumption of safety apparel. For the purposes of this subsection "safety apparel" means any item of clothing or protective equipment worn by an employee for protection during the course of the employee's employment. CGS Sec. 12-412(91).

The exemption was created by PA 94-4 of the May Special Session. PA 95-160 changed the effective date.

Estimates: Indeterminate.

Rationale: Incentive.

16. Commercial photographic film and paper processing materials.

Description: Sales of and the storage, use or other consumption of machinery, equipment, tools and materials used exclusively in the commercial processing of photographic film and paper. CGS Sec. 12-412(88).

The exemption was created by PA 96-172.

Estimates: Less than $50,000.

Rationale: Incentive.

17. Machinery, equipment, tools, materials, supplies and fuel used in the biotechnology industry.

Description: Sales of and the storage, use or other consumption of machinery, equipment, tools, materials, supplies and fuel used directly in the biotechnology industry. For the purposes of this subsection, "biotechnology" means the application of technologies, such as recombinant DNA techniques, biochemistry, molecular and cellular biology, genetics and genetic engineering, biological cell fusion techniques, and new bioprocesses, using living organisms, or parts of organisms, to produce or modify products, to improve plants or animals, to develop microorganisms for specific uses, to identify targets for small molecule pharmaceutical development, to transform biological systems into useful processes and products or to develop microorganisms for specific uses. CGS Sec. 12-412(89).

The exemption was created by PA 96-252.

Estimates: $1.5 million.

Rationale: Incentive.

18. Services or tangible personal property for the operation of projects of the Connecticut Resource Recovery Authority.

Description: The sales and use of any services or tangible personal property to be incorporated into or used or otherwise consumed in the operation of any project of the Connecticut Resource Recovery Authority established pursuant to section 22a-261 whether such purchases are made directly by the authority or are reimbursed by the authority to the lessee or operator of such project. CGS Sec 12-412(92).

The exemption was created by PA 97-316.

Estimates: $3.0 million.

Rationale: Incentive.

19. Tangible personal property or services to tourism districts.

Description: Sales of tangible personal property or services to any tourism district, as defined in section 10-397. CGS Sec. 12-412(93).

The exemption was created by PA 97-316.

Estimates: Indeterminate.

Rationale: Conformity. Quasi-public entities are equated to state agencies.

20. Services or tangible personal property used or consumed in operating solid waste-to-energy facilities.

Description: The sales or use of any services or tangible personal property to be incorporated into or used or otherwise consumed in the operation of a solid waste-to-energy facility, certified as approved for such purpose by the Commissioner of Environmental Protection, whether such purchases are made directly by an authority or an operating committee, or are reimbursed by an authority or operating committee to the lessee or operator of such facility. CGS 12-412(95).

The exemption was created by PA 97-316.

Estimates: $200,000.

Rationale: Incentive.

21. Machinery and Equipment Used in Maintaining Railroad Right of Ways.

Description: Sales of and the storage, use or other consumption of railroad locomotives, track ballasts, ties, rails, machinery and equipment used to maintain the railroad right-of-way which is used or operated exclusively for the carriage of freight. CGS Sec 12-412(103).

The exemption was created by PA 99-173.

Estimates: Less than $50,000.

Rationale: Expediency and Incentive.

22. Fulfillment Sales Companies.

Description: Fulfillment companies are exempt from any requirement to collect and sales tax on items it stores for an unaffiliated out-of-state retailer. CGS Sec 12-407(15)(C) and 12-407c.

The exemption was created by PA 00-227.

Estimates: Indeterminate.

Rationale: Expediency and Incentive.

23. Data Transmission Equipment Sold to Telecom or CATV Companies.

Description: Exempt the sales of equipment to a telecom company or CATV company that is used to provide high speed data transmission or broadband internet service. CGS Sec. 12-412(112).

The exemption was created by PA 00-170.

Estimates: Indeterminate.

Rationale: Expediency and Incentive.

C. Service Exemptions

1. Services to determine effect on human health of consumption or use of a product or substance.

Description: Sales of services used to determine the probable consequences in relation to human health of the consumption or other use of any product, substance or element. CGS Sec. 12-412(41).

It was created by PA 81-327.

Estimates: Indeterminate.

Rationale: Clarification. These services were considered to be related to medical services, which were not taxable when the exemption was passed.

2. Motor vehicle driving service performed out of state.

Description: The sale of any motor vehicle driving service to the extent of that proportionate part of gross receipts from such service rendered which is directly related to actual driving performance outside the state. CGS Sec. 12-412(36).

It was created by PA 79-419.

Estimates: Indeterminate.

Rationale: Clarification.

3. Services related to personnel, management or research when company rendering service and recipient are participating in a joint for venture purposes of research and new product development.

Description: Sales of any services rendered for purposes of (A) personnel services, (B) commercial or industrial marketing, development, testing or research services, or (C) business analysis and management services, whenever, pursuant to a joint venture agreement, the recipient of any such services is either a corporation. a partnership, or a limited liability company, and such services are rendered by one or more corporate shareholders, or a corporate partner, or corporate member in such joint venture, and in accordance with which the company rendering such service must have an ownership interest equivalent to not less than twenty-five per cent of total ownership in such joint venture, provided (i) the purpose of such joint venture is directly related to production or development of new or experimental products or systems and the marketing and support thereof, (ii) at least one of the corporations participating in such joint venture shall have been actively engaged in business in this state for not less than ten years, and (iii) exemption for such sales in accordance with this subsection, with respect to any single joint venture, shall not be allowed for a period in excess of twenty consecutive years from the date of such venture's incorporation, formation or organization, or in the case of a joint venture in existence prior to January 1, 1986, within the aircraft industry, for a period in excess of thirty consecutive years, and such exemption shall be applicable to sales of such services rendered on or after January 1, 1986. CGS Sec. 12-412(58).

It was created by PA 86-120. PA 99-173 extended the exemption from 10 years to 30 years for services provided between companies engaged in a joint venture. PA 06-187 extends the exemption to limited liability corporations and extends the exemption's duration from 10 to 20 consecutive years and specifies that it starts from the date the joint venture is formed, incorporated, or organized.

Estimates: Indeterminate.

Rationale: Incentive.

4. Services rendered between parent companies and wholly-owned subsidiaries.

Description: Subject to the provisions of section 12-412f, sales of any enumerated services which are rendered for a corporation affiliated with the corporation rendering such service in such manner that (1) either corporation in such transaction owns or controls either directly or indirectly not less than 100% of the capital stock of the other corporation or (2) either corporation in such transaction is owned or controlled either directly or indirectly by interests which own or control either directly or indirectly not less than 100% of the capital stock of the other corporation, provided any such transaction is rendered for purposes of expense allocation and not for purposes of profit for the company rendering such service.

(A) Sales of any of the services enumerated in subdivisions (2) (i), (2) (k) or (2) (l) of section 12-407 that are rendered for a business entity affiliated with the business entity rendering such service in such manner that (i) either business entity in such transaction owns a controlling interest in the other business entity, or (ii) a controlling interest in each business entity in such transaction is owned by the same person or persons or business entity or business entities. (B) For purposes of this subdivision, (i) "business entity" means a corporation, trust, estate, partnership, limited partnership, limited liability partnership, limited liability company, single member limited liability company, sole proprietorship, non-stock corporation or a federally recognized Indian tribe; (ii) "controlling interest" means, in the case of a business entity that is a corporation, ownership of stock possessing one hundred per cent of the total combined voting power of all classes of stock entitled to vote or one hundred per cent of the total value of shares of all classes of stock of such corporation; in the case of a business entity that is a trust or estate, ownership of a beneficial interest of one hundred per cent in such trust or estate; in the case of a business entity that is a partnership, limited partnership or limited liability partnership, ownership of one hundred per cent of the profits interest or capital interest in such partnership, limited partnership or limited liability partnership; in the case of a limited liability company with more than one member, ownership of one hundred per cent of the profits interest, capital interest or membership interests in such limited liability company; in the case of a business entity that is a sole proprietorship or single member limited liability company, ownership of such sole proprietorship or single member limited liability company; in the case of a business entity that is a non-stock corporation with voting members, control of one hundred per cent of all voting membership interests in such corporation; and in the case of a business entity that is a non-stock corporation with no voting members, control of one hundred per cent of the board of directors of such corporation; (iii) whether a controlling interest in a business entity is owned shall be determined in accordance with Section 267 of the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as from time to time amended, provided where a controlling interest is owned in a business entity other than a stock corporation, the term "stock" as used in said Section 267 of the Internal Revenue Code means, in the case of a partnership, limited partnership, limited liability partnership or limited liability company treated as a partnership for federal income tax purposes, the profits interest or capital interest in such partnership, in the case of a business entity that is a trust or estate, the beneficial interests in such trust or estate, and in the case of a business entity that is a non-stock corporation, the voting membership interests in such corporation, or if it has no voting members, the control of the board of directors; (iv) a business entity has "control of" the board of directors of a non-stock corporation if one hundred per cent of the voting members of the board of directors are either representatives of, including ex-officio directors, or persons appointed by such business entity, or "control of" one hundred per cent of the voting membership interests in a non-stock corporation if one hundred per cent of the voting membership interests are held by the business entity or by representatives of, including ex-officio members, or persons appointed by such business entity. CGS Sec. 12-412(62) and 12-412f.

Estimates: Indeterminate.

Rationale: Incentive/Clarification. Incentive because the exemption is intended to reduce cascading. Enumerated services, as defined in CGS 12-407(2), are taxable when provided by one unaffiliated business entity to another, but nontaxable when divisions of a single entity provides these services for internal use. The exemption provides horizontal equity for firms that are organized into a parent company with wholly-owned subsidiaries, rather than divisions. Clarification because it was created in response to efforts by the Department of Revenue Services (DRS) to tax the services. Prior to 1986 DRS did not view them as taxable even though they were not specifically exempted in statute. DRS's policy changed in 1986, which resulted in passage of PA 87-1. The act exempted the services but this exemption was to be sunsetted 6/30/88. PA 88-307 deleted the sunset date. PA 99-173 expands the exemption to include sales between businesses, other than corporations, where the same interest owns 100% of each business. It also exempts telecom services and CATV services rendered between patent companies and wholly owned subsidiaries. PA 01-6 JSS extends this exemption to include federally recognized Indian tribes.

5. Computer and data processing services.

Description: CGS Section 12-408(1)(C) and 12-411(1)(E) phases down the tax rate on such services from the Sales and Use Taxes as follows:

Effective Date	Tax Rate
7/1/97	5%
7/1/98	4%
7/1/99	3%
7/1/00	2%
7/1/01	1%, except Internet Service Access Charges.
7/1/04	Permanently 1%

The exemption was created by PA 94-4 of the May Special Session. PA 95-160 delayed the effective date of the phase-out of the tax. PA 97-243 added the exemption to the use tax. PA 00-170 accelerated the phase-out on Internet service access charges effective 7/1/01 from 1% to 0%. PA 02-1 MSS postponed by two years the elimination of the phase-out from 7/1/02 to 7/1/04. PA 03-1 JSS makes the 1% rate permanent effective 7/1/04.

Estimates: $90.0 million.

Rationale: Incentive. The phase-out was intended to reduce cascading.

6. Certain sales of computer and data processing services.

Description: Certain sales of computer and data processing services. (A) Sales of computer and data processing services rendered to a customer (i) by a retailer which, on or after July 1, 1991, acquired the operations of a data processing facility from the customer, provided such customer operated the facility for its own use or (ii) by a retailer which, on or after July 1, 1993, acquired the operations of the data processing facility from the retailer described in subparagraph (A)(i) of this subsection, provided such customer formerly operated the facility for its own use. (B) Sales of computer and data processing services rendered to a customer by a retailer that, on or after July 1, 1995, acquired the data processing operations from the customer, provided such customer formerly conducted such data processing operations for its own use. Sales of and the storage, use or other consumption of computers or data processing equipment, when sold to the retailer described in this subparagraph and used by such retailer to provide the services described in this subparagraph. The provisions in this subparagraph shall not apply if the retailer is a related person, as defined in section 12-217w, with respect to the customer or the customer is a related person, as defined therein, with respect to the retailer. CGS Sec. 12-412(74).

The exemption was created by PA 92-193. PA 93-332 added subparagraph (B), PA 95-160 made changes to it. PA 97-295 made technical changes. PA 00-170 and PA 00-174 clarified the exemption.

Estimates: Indeterminate.

Rationale: Incentive.

7. Landscaping, horticulture, window cleaning or maintenance services rendered to certain disabled persons.

Description: Sales of any landscaping and horticultural services, window cleaning services or maintenance services, as described in subdivision (i) of subsection (2) of section 12-407, on or after July 1, 1994, which are rendered to a person determined to be eligible for, and currently receiving, total disability benefits under the Social Security Act, provided such services are rendered at the residence of such person. CGS Sec. 12-412 (85).

The exemption was created by PA 93-74.

Estimates: Less than $10,000.

Rationale: Perceived Equity.

8. Shoe Repair Services.

Description: Sales of shoe repair services. CGS Sec. 12-412(105)

The exemption was created by PA 99-173.

Estimates: Indeterminate.

Rationale: Expediency.

9. Calibration Services and ISO Services.

Description: Sales, use or other consumption of (A) calibration services for machinery, equipment or instrumentation used in a manufacturing production process; or (B) other sales, use or other consumption of services or compliance practices associated with registration and compliance of quality management and quality assurance standards as part of standards created by the International Organization of Standards. For purposes of this subdivision, "calibration services" means independent inspection services performed to verify accuracy in the provision, calibration or recalibration of equipment used to test, measure, monitor or gage any quality, process or environmental equipment used in conjunction with maintaining quality standards or meeting regulatory requirements. CGS Sec. 12-412(104).

The exemption was created by PA 99-173.

Estimates: Indeterminate.

Rationale: Expediency and Incentive.

10. "Call Before You Dig" Services.

Description: Sales of services enumerated in subparagraph (J) of subdivision (2)(i) of section 12-407 ("Call Before You Dig"), on or after July 1, 1999, which services are rendered to the central clearinghouse organized and operated under the direction of the Department of Public Utility Control, by the public utilities of this state for receiving and giving the notices required by section 16-349. CGS Sec. 12-412(106).

The exemption was created by PA 99-173.

Estimates: Less than $10,000.

Rationale: Expediency.

11. Sale of repair or maintenance on vessels.

Description: Sales of repair or maintenance or labor services on vessels as defined in CGS Sec. 15-127 is exempted as of 7/1/99 from the Sales and Use Taxes as follows: CGS Sec. 12-408(1)(D) and 12-411(1)(D).

The exemption was created by PA 96-232 of the May Special Session. PA 99-173 added labor services to the Sales Tax Exemption.

Estimates: $3.8 million.

Rationale: Incentive. The exemption is intended to make in-state businesses more competitive with those out of state.

12. Renovation and Repair for Residential Real Property.

Description: Sales of renovation and repair services of paving of any sort, painting or staining, wallpapering, roofing, siding and exterior sheet metal work other than industrial, commercial or income producing real property. CGS Sec. 12-408(F) and 12-411(G).

The exemption was created by PA 99-173.

Estimates: $21.0 million.

Rationale: Expediency.

13. Patient Care Services.

Description: The tax rate on patient care services is 5 3/4% effective with retail sales occurring on or after 7/1/99. CGS Sec. 12-407(2)(FF),12-408(1)(F) and 12-411(1)(F).

The exemption was created by PA 99-173. PA 00-170 and PA 00-174 clarified the exemption. PA 01-6 JSS suspends the tax from 7/1/01 to 6/30/03. PA 01-6 JSS suspended the tax from 7/1/01 to 6/30/03. PA 03-1 JSS makes the exemption permanent.

Estimates: $180.0 million.

Rationale: Expediency.

14. Tangible Property Purchased by For-Profit Hospitals

Description: Tangible property purchased by for profit hospitals is exempted for sales occurring on or after July 1, 2005

The exemption was created by PA 03-1 JSS. PA 04-2 MSS made the exemption retroactive to a facility if it filed for a certificate of need prior to July 1, 2004.

Estimates: $500,000.

Rationale: Expediency.

15. Payments for the services of leased or contract employees

Description: Payments for the services of leased or contract employees are excluded from the definition of "sales price" and "gross receipts" for retailers who have contracted to manage a service recipient's property or business premises. CGS Secs. 12-407(8) and 12-407(9).

PA 91-3 of the June Special Session clarified that the taxable basis for management services is only the amount charged for the service itself and not the salaries or fringe benefits of workers who render the service. PA 92-17 of the May Special Session further clarified the taxable basis of management services. PA 93-332 specified that employee compensation for long-term leasing services, but not temporary employment services, are exempt. PA 00-170 extended the exemption to employees paid under professional employee contracts.

Estimates: Indeterminate.

Rationale: Clarification and Conformity.

16. Motor vehicle parking.

Description: Motor vehicle parking in metered space in a lot having thirty or more spaces, and (i) space in a seasonal parking lot provided by a person who is exempt from taxation under this chapter pursuant to subsection (1), (5) or (8) of section 12-412, (ii) space in a parking lot owned or leased under the terms of a lease of not less than ten years' duration and operated by an employer for the exclusive use of its employees, (iii) valet parking provided at any airport, and (iv) space in municipally or state owned or operated railroad parking facilities in municipalities located within an area of the state designated as a severe non-attainment area for ozone under the federal Clean Air Act. CGS Sec. 12-407(2)(i)(N).

Motor vehicle parking services were made taxable by PA 89-251. PA 91-3 of the June Special Session clarified the scope of motor vehicle parking. PA 92-17 of the May Special Session added the exclusion for employers to charge their employees for parking spaces without the administrative burden of remitting tax. It was intended to encourage employees to use public transportation or carpool. PA 93-74 excluded valet parking services at airports. PA 95-16 exempted parking facilities in municipalities located within an area of the state designated as a severe non-attainment area for ozone under the federal Clean Air Act. PA 01-6 JSS exempted state owned or operated parking at railroad parking faculties.

Estimates: $5.0 million.

Rationale: Perceived Equity/Incentive/Expediency.

17. Car-washes.

Description: Car-washes (does not appear in statutory language)

Car-washes were made taxable by PA 89-251. Coin-operated car-washes were excluded by PA 91-3 of the June Special session and all other car-washes were excluded by PA 93-74.

Estimates: $4.0 million.

Rationale: Expediency.

18. Amusement and recreation services.

Description: Amusement and recreation services (does not appear in statutory language)

These services were first made taxable by PA 91-3 of the June Special Session. Several changes were made in subsequent years. PA 93-74 excluded these services entirely.

Estimates: $65.0 million.

Rationale: Expediency.

19. Health and athletic club services provided by a non-profit organization or municipality.

These services were first made taxable by PA 91-3 of the June Special Session. Other amusement and recreation services were excluded by PA 93-74. This exclusion was created by PA 94-4 of the May Special Session. PA 03-2 made it taxable unless services are provided by a non-profit organization or municipality. PA 06-187 extends the exemption to yoga studios.

Estimates: Less than $10,000.

Rationale: Expediency.

20. Licensed massage therapist and electrologist services.

Description: Services rendered by massage therapists licensed pursuant to chapter 384a, and services rendered by a electrologist licensed pursuant to chapter 388,. CGS Sec. 12-407(2)(i)(BB).

These services were excluded from the tax by PA 92-17 (May Special Session), effective 7/1/92. Effective 7/1/93, a licensing program was instituted for massage therapists by PA 92-202, with an initial application fee of $300. PA 95-160 of the May Special Session added hypertrichologist. PA 01-109 changed the term used from hypertrichologists to electrologists.

Estimates: $1.5 million.

Rationale: Perceived Equity.

21. Sales agent services.

Description: Services of the agent of any person in relation to the sale of any item of tangible personal property for such person, exclusive of the services of a consignee selling works of art, as defined in subsection (b) of section 12-376c, or articles of clothing or footwear intended to be worn on or about the human body other than (i) any special clothing or footwear primarily designed for athletic activity or protective use and which is not normally worn except when used for the athletic activity or protective use for which it was designed and (ii) jewelry, handbags, luggage, umbrellas, wallets, watches and similar items carried on or about the human body but not worn on the body in the manner characteristic of clothing intended for exemption under subdivision (47) of section 12-412, under consignment, exclusive of services provided by an auctioneer. CGS Sec. 12-407(2)(i)(S).

These services were made taxable by PA 89-251. PA 90-148 excluded art work consignments under the incentive rationale and clarified that articles of clothing and footwear are exempt. PA 93-74 excluded wholesale motor vehicle auctioning services under the incentive rationale, to reduce cascading for a wholesale business. The legislature found it expedient to exclude all other auctioning services in PA 94-4 of the May Special Session. PA 95-160 added all services of an auctioneer.

Estimates: Indeterminate.

Rationale: Incentive/Clarification/Expediency.

22. Advertising agency services, advertising time and space in all media, and cooperative direct mail advertising.

Description: Advertising agency services, advertising time and space in all media, and cooperative direct mail advertising CGS Sec. 12-407(2)(i)(U).

Cooperative direct mail advertising was excluded from taxable advertising services by PA 91-3 of the June Special Session. PA 03-2 repealed the exemption on (a) advertising services for developing media,

(b) cooperative direct mail advertising and (c) newspapers and magazines. PA 03-1 JSS restored said exemptions except for newspaper and magazines sales, which was delayed until July 1, 2004.

Estimates: $30.0 million.

Rationale: Incentive. The exemption is intended to reduce cascading.

23. Tax preparation services.

Description: Tax preparation services (does not appear in statutory language).

Tax preparation services were made taxable by PA 91-3 of the June Special Session. An exclusion for businesses was provided by PA 93-74, effective 1/1/95. PA 94-4 of the May Special Session, excluded all other such services, effective 7/1/96.

Estimates: $4.0 million.

Rationale: Expediency.

24. Winter boat storage.

Description: Dry or wet storage or mooring of noncommercial vessels during the period commencing on the first day of November in any year to and including the thirtieth day of April of the next succeeding year. CGS Sec. 12-407(2)(m).

The exemption was created by PA 93-74.

Estimates: $300,000.

Rationale: Incentive. The exemption is intended to make instate businesses more competitive with those out of state.

25. Hazardous waste removal services.

Description: Services rendered in the voluntary evaluation, prevention, treatment, containment or removal of hazardous waste, as defined in section 22a-115, or other contaminants of air, water or soil, provided income-producing property shall not include property used exclusively for residential purposes in which the owner resides and which contains no more than three dwelling units, or a housing facility for low and moderate income families and persons owned or operated by a nonprofit housing organization, as defined in subsection (29) of section 12-412. CGS Sec. 12-407(2)(i)(I).

The exemption was created by PA 94-4 of the May Special Session.

Estimates: $4.0 million.

Rationale: Incentive.

26. Environmental consulting services.

Description: These services were excluded from taxable business analysis, management, management consulting, and public relations services, effective 7/1/89. CGS Sec. 12-407(2)(i)(J)

The exemption was created by PA 94-4 of the May Special Session.

Estimates: Indeterminate.

Rationale: Incentive.

27. Police and Firefighters.

Description: Services provided by off-duty police officers and fire fighters. CGS Sec. 12-407(2)(i)(D).

The exemption was created by PA 95-160 and expanded to include all services provided by off-duty police officers and firefighters by PA 97-316..

Estimates: Indeterminate.

Rationale: Incentive.

28. World Wide Web.

Description: services rendered in connection with the creation, development hosting or maintenance of all or part of a web site which is part of the graphical, hypertext portion of the Internet, commonly referred to as the World-Wide Web. CGS Sec. 12-407(2)(i)(A).

The exemption was created by PA 97-316.

Estimates: $30.0 million.

Rationale: Incentive.

29. Training Services.

Description: Any training services provided by an institution of higher education licensed or accredited by the Board of Governors of Higher Education pursuant to section 10a-34. CGS Sec. 12-407(2)(i)(J)(ii).

The exemption was created by PA 99-173.

Estimates: Indeterminate.

Rationale: Expediency.

30. Non-Cable Communications Services.

Description: Any non-cable communications services purchased by a cable network from the sales tax on CATV services. Applicable to sales on or after 7/1/02. CGS Sec. 12-407(a)(27).

The exemption was created by PA 02-4 MSS.

Estimates: Indeterminate.

Rationale: Expediency and Conformity.

31. Marine Vessel Brokerage Services.

Description: Sales of marine vessel brokerage services provided by marine vessel brokers selling such vessels for their owners. CGS Sec 12-412 (116).

The exemption was created by PA 05-251.

Estimates: Indeterminate.

Rationale: Expediency.

32. Media Payroll Services.

Description: The act exempts separately stated charges for compensation, fringe benefits, workers' compensation, and payroll taxes or assessments paid to a media payroll services company from the 6% sales tax. Under the act, a "media payroll services company" is one whose principal business is managing and paying compensation, benefits, and payroll taxes and assessments to a film or digital media production company eligible for a film production tax credit. CGS Sec 12-412 (116).

The exemption was created by PA 07-236.

Estimates: $1.5 million

D. Non-Profit Organization Exemptions

Government

1. The United States.

Description: (A) Sales of tangible personal property or services to the United States. CGS Sec. 12-412(1).

The exemption has been in effect since the imposition of the tax.

Estimates: Indeterminate.

Rationale: See Item Number 2.

2. Federal exemptions.

Description: Sales of tangible personal property or services which this state is prohibited from taxing under the constitution or laws of the United States. CGS Sec. 12-412(2).

The exemption has been in effect since the imposition of the tax. PA 75-213 added services.

Estimates: Indeterminate.

Rationale: Conformity. States are not permitted to levy taxes on the federal government under the US Constitution.

3. The United States, the state or subdivisions.

Description: (A) Sales of tangible personal property or services to the United States, the state of Connecticut or any of the political subdivisions thereof, or its or their respective agencies; (B) sales of tangible personal property or services used to develop property which the state of Connecticut is under contract to purchase through a long-term financing contract; (C) sales and use of any services or tangible personal property to be incorporated into or used or otherwise consumed in (i) the demolition, remediation or preparation of the Adriaen's Landing site and the stadium facility site for purposes of the overall project, each as defined in section 32-651, (ii) the construction of the convention center, the Connecticut Center for Science and Exploration,_the stadium facility and the related parking facilities and site preparation and infrastructure improvements, each as defined in section 32-651, or (iii) the construction of any future capital improvement to the convention center, the stadium facility or the related parking facilities. CGS Sec. 12-412(1).

The exemption has been in effect since the imposition of the tax. PA 75-213 added services, PA 93-361 added subdivision (B), and PA 93-1 of the September Special Session added subdivision (C). PA 98-1 of the December 1998 Special Session replaced language in subdivision(C) which was originally added by PA 93-1 of the September Special Session for purposes of relocating an NFL team to Hartford. P.A. 00-140 deleted references to former convention center site, sportsplex site and parking facilities site and add references to the Adriaen's Landing and the stadium facility site. PA 06-187 extends the exemption to the Connecticut Center for Science and Exploration.

Rationale: Clarification and Incentive. State government does not tax itself. Subdivision(C) is intended to incentivize businesses to relocate to Hartford.

4. Municipal publications, sales by public libraries or by municipal auction and book sales by library support groups.

Description: Sales of municipal publications such as information booklets and zoning regulations, tangible personal property sold by public libraries, the sale of any property at auction by a municipality, and book sales by library support groups. CGS Sec. 12-412(24).

The exemption was created by PA 73-299. PA 95-160 includes book sales by library support groups.

Estimates: Less than $10,000.

Rationale: Efficiency. The amount of revenue which could be collected is considered too small to justify the administrative cost.

5. Connecticut Technology Park.

Description: Sales of tangible personal property and services to The University of Connecticut Educational Properties, Incorporated, with regard to Connecticut Technology Park. CGS Sec. 12-412(84).

The exemption was created by PA 93-74.

Estimates: Less than $50,000.

Rationale: Incentive.

6. Children's Hospital and the John Dempsey Hospital.

Description: Any hospital which, on January 30, 1997, is within the class of hospitals licensed by the department as children's general hospitals. Also any short-term acute hospital operated exclusively by the state other than a short-term acute hospital operated by the state as a receiver pursuant to chapter 920 (John Dempsey Hospital of the University of Connecticut. CGS Sec. 12-407(28).

The exemption was created by PA 97-2 created. PA 99-173 exempted John Dempsey Hospital from the Sales and Use Tax.

Estimates: $5.0 million.

Rationale: Expediency.

7. Property Removed from Inventory and Donated to Charity or Government.

Description: Exempt from the Sales and Use Tax any property removed by retailers from their inventory and donated to charity or a government agency. CGS Sec. 12-413(4).

The exemption was created by PA 00-174.

Estimates: Less than $50,000.

Rationale: Expediency.

Sales to Nonprofit Organizations

For items Number 1 through 5 below, the combined revenue foregone is estimated to be $700.0 million.

1. **Personal property and services used or consumed in development, construction, rehabilitation, renovation, repair or operation of housing facilities for low and moderate income families and persons.**

   Description: (A) 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. At the time of any sale or purchase that is exempt under this subsection, 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. For the purposes of this subsection, (i) "nonprofit housing organization" means any organization which 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 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) "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) "related facilities" means those facilities defined in subsection (d) of section 8-243; and (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. CGS Sec. 12-412(29).

   The exemption was created by PA 75-613. PA 97-243 added sales of services used and consumed in development, construction, rehabilitation, renovation, repair and operation of housing for low and moderate income families. PA 97-315 added provisions regarding services described in CGS Section 12-407(2). PA 99-173 expands the exemption of certain goods and services used in the development, construction, and rehabilitation of housing for low and moderate income housing organizations to include for profit organizations.

Estimates: See above for combined estimate for all sales to nonprofit organizations.

Rationale: Incentive.

2. Charitable and religious organization.

Description: Organizations exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as determined by the U.S. Treasury Department. Exemption qualification requirements. Sales of tangible personal property or services to any organization that is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as from time to time amended, and that the United States Treasury Department has expressly determined, by letter, to be an organization that is described in Section 501(c)(3) or (13) of said internal revenue code. At the time of the sale that is exempt under this subsection, the organization shall, in order to qualify for said exemption, do one of the following: (A) Present to the retailer (i) a copy of the United States Treasury Department determination letter that was issued to such organization and (ii) a certificate, in such form as the commissioner may prescribe, certifying that a United States Treasury Department determination letter has been issued to such organization and has not been revoked and that the tangible personal property or services that are being purchased from the retailer by such organization are to be used or consumed exclusively for the purposes for which such organization was established or (B) present to the retailer (i) a copy of the exemption permit that was issued pursuant to this subsection by the commissioner to such organization before July 1, 1995, after a determination of eligibility by the commissioner and (ii) a certificate, in such form as the commissioner may prescribe, certifying that an exemption permit was issued pursuant to this subsection by the commissioner to such organization before July 1, 1995, and was not revoked and that the tangible personal property or services that are being purchased from the retailer by such organization are to be used or consumed exclusively for the purposes for which the organization was established. The organization shall be liable for the tax otherwise imposed if such tangible personal property or services are not used or consumed exclusively for the purposes for which the organization was established. CGS Sec. 12-412(8).

The exemption for tangible personal property has been in effect since the imposition of the tax. PA 75-567 added services. PA 93-44 added provisions to include sales to nonprofit organizations which receive at least 75% of their funding from the state or municipalities. PA 93-332 added the provision that state and municipal funds are considered as private donations to 501(c)(3) organizations for the purpose of this exemption. PA 95-359 placed the requirement that a letter of determination from the US Treasury on the regarding federal tax status is needed to qualify for the exemption.

Estimates: See above for combined estimate for all sales to nonprofit organizations.

Rationale: Incentive.

3. Profit and nonprofit charitable hospitals, nursing homes, rest homes and homes for the aged.

Description: Sales of tangible personal property or services to and by profit and nonprofit charitable hospitals in this state, nonprofit nursing homes, nonprofit rest homes and nonprofit homes for the aged licensed by the state pursuant to chapter 368v for the exclusive purposes of such institutions except any such service transaction as described in subparagraph (GG) of subdivision (i) of subsection (2) of section 12-407. CGS Sec. 12-412(5).

The exemption for sales of tangible personal property to and by nonprofit charitable hospitals has been in effect since the imposition of the tax. Services were added by PA 75-567. PA 93-44 and 93-332 added nonprofit nursing homes, nonprofit rest homes and nonprofit homes for the aged. PA 94-9 and 94-175 added the reference to section 12-407 to permit the taxation of patient care services provided by hospitals. PA 04-201 exempts items sold on premise of a for-profit hospital by a federally tax-exempt non-profit organization.

Estimates: See above for combined estimate for all sales to nonprofit organizations.

Rationale: Incentive/Expediency. Incentive with regard to sales to such institutions. Expediency with regard to sales by gift shops at such institutions.

4. Centers of service for elderly persons.

Description: Sales of tangible personal property or services to any center of service for elderly persons as described in subdivision (d) of section 17b-425. CGS Sec. 12-412(35).

The exemption was created by PA 79-400. PA 89-190 deleted a requirement that elderly service centers must be approved by the municipal tax assessor to qualify for the exemption.

Estimates: See above for combined estimate for all sales to nonprofit organizations.

Rationale: Incentive.

5. Services used or consumed in the development, construction, rehabilitation, renovation or repair of housing facilities for low and moderate-income families in Qualified Census Tracts or Difficult Development Areas.

Description: Sales of and the acceptance, use or other consumption of any service described in subsection (2) of section 12-407 that is accepted, used or consumed in the development, construction, rehabilitation, renovation or repair of housing facilities for low and moderate income families and persons, provided such facilities are situated in Qualified Census Tracts or Difficult Development Areas as designated by the Secretary of the United States Department of Housing and Urban Development and provided, further, that the development of such facilities is assisted by an allocation of Low Income Housing Tax Credits pursuant to Section 42 of the Internal Revenue Code. For purposes of this subsection, (A) "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 for low and moderate income families; (B) "related facilities" means those facilities defined in subsection (d) of section 8-243; and (C) "low and moderate income families" means those families as defined in subsection (h) of said section 8-243. CGS Sec. 12-412(100).

The exemption was created by PA 97-4 of the June 18, 1997 Special Session.

Estimates: See above for combined estimate for all sales to nonprofit organizations.

Rationale: Incentive.

Sales by Nonprofit Organizations

1. Nonprofit charitable hospitals, nursing homes, rest homes and homes for the aged.

Description: Sales of tangible personal property or services to and by nonprofit charitable hospitals in this state, nonprofit nursing homes, nonprofit rest homes and nonprofit homes for the aged licensed by the state pursuant to chapter 368v for the exclusive purposes of such institutions except any such service transaction as described in subparagraph (GG) of subdivision (i) of subsection (2) of section 12-407. CGS Sec. 12-412(5).

The exemption for sales of tangible personal property to and by nonprofit charitable hospitals has been in effect since the imposition of the tax. Services were added by PA 75-567. PA 93-44 and 93-332 added nonprofit nursing homes, nonprofit rest homes and nonprofit homes for the aged. PA 94-9 and 94-175 added the reference to section 12-407 to permit the taxation of patient care services provided by hospitals.

Estimates: Less than $50,000.

Rationale: Incentive/Expediency. Incentive with regard to sales to such institutions. Expediency with regard to sales by gift shops at such institutions.

2. Items not costing more than twenty dollars each by certain nonprofit organizations and schools.

Description: Sales of items for not more than twenty dollars each by any Connecticut eleemosynary organization, for purposes of youth activities which such organization is formed to sponsor and support, and by any accredited elementary or secondary school for purposes of such school or of organized activities of the students enrolled therein. CGS Sec. 12-412(26).

PA 73-452 provided a $2 exemption. The threshold was increased by PA 85-462 to $5 and PA 90-255 increased it to $20.

Estimates: Less than $50,000.

Rationale: Incentive.

3. Sales of items for not more than one hundred dollars each by nursing or convalescent homes or adult day care centers.

Description: Sales of items for not more than one hundred dollars each by any nursing home, rest home, home for the aged, convalescent home or any adult day care center approved for such purpose by the commissioner on aging, provided (1) such sales are made through a gift shop located in such home or center and (2) any profit from such sales are retained by such home or center for the benefit of the patients, in the case of any such home, or persons using any such adult day care center. CGS Sec. 12-412(56).

The exemption for nursing homes, rest homes, homes for the aged and convalescent homes was created by PA 86-397. PA 87-311 increased the limit to $100 and added adult day care centers. PA 89-123 made a technical change.

Estimates: Less than $50,000.

Rationale: Expediency.

4. Sales by an affiliate participating in certain community economic development programs.

Description: Sales of services by an affiliate participating in implementation of the community economic development program established pursuant to section 8-240k to another affiliate participating in said program. CGS Sec. 12-412(86).

The exemption was created by PA 94-82.

Estimates: Less than $50,000.

Rationale: Incentive.

5. Tangible personal property at bazaars, fairs, picnics, tag sales by nonprofit organizations.

Description: Sales of tangible personal property by nonprofit organizations at bazaars, fairs, picnics, tag sales or similar events to the extent of five such events of a day's duration held during any calendar year. (CGS Sec. 12-412(94))

The exemption was created by PA 97-316.

Estimates: Less than $50,000.

Rationale: Incentive.

6. Tangible personal property by historical societies.

Description: Sales of tangible personal property by historical societies. CGS Sec. 12-412(98).

The exemption was created by PA 97-316.

Estimates: Less than $50,000.

Rationale: Incentive.

7. Educational institution and certain health and care facility meals.

Description: Sales of food products and meals in a student cafeteria, dining hall, dormitory, fraternity or sorority maintained in a private, public or parochial school, college or university, to members of such institutions or organizations and sales of food products and meals to patients in hospitals, homes for the aged, convalescent homes, nursing homes and rest homes. CGS Sec. 12-412(9).

Educational institution meals have been exempt since the imposition of the tax. The exemptions for meals provided to patients in hospitals, homes for the aged, etc. were added in 1972. PA 00-174 clarified the exemption of candy and non-alcoholic beverage sold in educational institutions.

Estimates: Indeterminate.

Rationale: Incentive.

8. Pilot Property Tax Credit for Computer Equipment.

Description: PA 00-170 established a pilot program of a credit against the Sales and Use Tax for the purchase of computer equipment to be used in electronic commerce for a business making a qualified investment in higher education for electronic commerce. The credit is capped at $4 million per year. PA 01-6 JSS increased the credit to $4 million from $2 million. (CGS 12-413b)

Estimates: Up to $4.0 million

Rationale: Incentive.

E. Miscellaneous Exemptions

1. United States and Connecticut state flags.

Description: Sales of United States and Connecticut state flags. CGS Sec. 12-412(23).

The exemption was created by PA 73-196.

Estimates: Less than $50,000.

Rational: Expediency.

2. Gold or silver bullion, legal tender of any nation, rare and antique coins.

Description: Sales of and the storage or use of rare or antique coins, gold or silver bullion and gold or silver legal tender of any nation, traded according to its value as precious metal, provided such exemption shall not be applicable with respect to any such sale, storage or use in which the total value of such bullion or legal tender sold by the retailer is less than one thousand dollars.
CGS Sec. 12-412(45).

The exemption was created by PA 83-509. PA 95-160 added rare and antique coins.

Estimates: Less than $50,000.

Rationale: Incentive. The exemption is intended to make in-state businesses more competitive with those out of state.

3. A motor vehicle or vessel purchased but not registered in this state by a person who is not a resident of this state.

Description: The sale of any motor vehicle or vessel, as defined in section 15-127, in this state when the purchaser of such motor vehicle or vessel is not a resident of this state and does not maintain a permanent place of abode in this state, provided such motor vehicle or vessel is not presented for registration with the Department of Motor Vehicles in this state and such purchaser submits any affidavit or other evidence as may be requested by the Commissioner of Revenue Services concerning such purchaser's residency or place of abode. CGS Sec. 12-412(60).

The exemption was created by PA 87-238. PA 99-173 added vessels to the exemption.

Estimates: $45.0 million.

Rationale: Incentive. The exemption is intended to make instate businesses more competitive with those out of state.

4. Property tax payments under motor vehicle leases.

Description: Any payment made by a lessee of a motor vehicle to a lessor for the purpose of paying the property taxes on any such vehicle under a lease which is otherwise subject to the taxes imposed by this chapter if such lease requires the lessee to pay such property taxes and if a separate statement of the amount of any such property tax payment is contained in such lease or in any bill rendered pursuant to such lease. CGS Sec. 12-412(49).

Rationale: Clarification. The tax applies only to the portion of the payment that covers the lease of the motor vehicle. PA 85-435 created the exemption.

5. Exemption from use tax for vessels brought into the state exclusively for storage, maintenance or repair.

Description: Notwithstanding the provisions of section 12-411, the tax imposed there under shall not be applicable, in the period commencing on the first day of October in any year to and including the thirtieth day of April next succeeding, with respect to the use of any vessel within this state exclusively for purposes of (1) delivery of such vessel to a facility in this state for storage, including dry storage and storage in water by means of apparatus preventing ice damage to the hull, maintenance or repair or (2) the actual process of storage, maintenance or repair of such vessel. The provisions of this section shall have no effect upon liability for tax under this chapter related to the sale or use of such vessel other than such liability which may be established in relation to the specific use of such vessel as described in this section. CGS Sec. 12-413a.

The exemption was created by PA 83-455.

Estimates: $3.5 million.

Rationale: Incentive. The exemption is intended to make in-state businesses more competitive with those out of state.

6. Payment of sales or use tax to another state.

Description: If any service or article of tangible personal property has already been subjected to a sales or use tax by any other state or political subdivision thereof and payment made thereon in respect to its sale or use in an amount less than the tax imposed by this chapter, the provisions of this chapter shall apply, but at a rate measured by the difference, only, between the rate herein fixed and the rate by which the previous tax upon the sale or use was computed. If such tax imposed in such other state or political subdivision thereof is equivalent to or in excess of the rate imposed under this chapter at the time of such sale or use, then no tax shall be due on such article. CGS Sec. 12-430(5).

Rationale: Conformity. Double taxation may violate the Interstate Commerce Clause of the US Constitution. The provision was added to the statutes prior to 1961.

7. Casual or isolated sales.

Description: (a) Since the tax is predicated upon a sale made by a person engaged in the business of making sales at retail, certain sales which are not sufficient in number, scope and character to constitute an activity requiring a seller's permit are described as casual or isolated sales. Such sales are exempt from the tax exempt, however, as they involve vessels, airplanes, snowmobiles and motor vehicles as hereinafter illustrated. (b)Casual sales are: (1)Infrequent sales of a nonrecurring nature made by a person not engaged in the business of selling tangible personal property; (2)Sales of articles of tangible personal property acquired for use or consumption by a seller and not sold in the regular course of business engaged in by such seller. DRS regulation 12-426 (17).

The exemption is a regulation adopted by the Department of Revenue Services as authorized by CGS Section 12-426(1).

Estimates: Indeterminate.

Rationale: Efficiency. The amount of revenue which could be collected is considered too small to justify the administrative cost.

8. Tax on casual sales of motor vehicles, vessels, snowmobiles and aircraft.

Description: (a) In case of the purchase of any motor vehicle, snowmobile, vessel or aircraft other than from a licensed motor vehicle dealer or licensed motor vehicle lessor, a snowmobile dealer, a licensed marine dealer or a retailer of aircraft, respectively, the receipts there from shall not be included in the measure of the sales tax, but the purchaser thereof shall pay a use tax on the total purchase price thereof to the Commissioner of Revenue Services, as provided in section 12-411, in the case of tangible personal property purchased from a retailer, and, in the case of motor vehicles, vessels and snowmobiles, before obtaining an original or transferable registration, in accordance with regulations prescribed by the Commissioner of Revenue Services and on forms approved by the Commissioner of Revenue Services and the Commissioner of Motor Vehicles, and, in the case of aircraft, before obtaining an original or transferable registration, in accordance with regulations prescribed by the Commissioner of Revenue Services and on forms approved by the Commissioner of Revenue Services and the Commissioner of Transportation; provided no use tax shall be payable in cases of purchase (1) when the purchaser is the spouse, mother, father, brother, sister or child of the seller, (2) when a motor vehicle or vessel is sold in connection with the organization, reorganization or liquidation of an incorporated business, provided (A) the last taxable sale or use of the motor vehicle or vessel was subjected to a tax imposed by this chapter, (B) the purchaser is the incorporated business or a stockholder thereof, and (C) any gain or loss to the seller is not recognized for federal income tax purposes under the provisions of the Internal Revenue Code and Treasury regulations and rulings issued there under, (3) when a motor vehicle is sold in connection with the organization or termination of a partnership or limited liability company, provided (A) the last taxable sale or use of the motor vehicle was subjected to a tax imposed by this chapter, (B) the purchaser is the partnership or limited liability company, as the case may be, or a partner or member, thereof, as the case may be, and (C) any gain or loss to the seller is not recognized for federal income tax purposes under the provisions of the Internal Revenue Code and Treasury regulations and rulings issued there under, or (4) when a motor vehicle which has been declared a total loss pursuant to the provisions of section 14-16c is rebuilt for sale or use, provided the purchaser was subjected to the tax imposed by this chapter for the last taxable sale of said vehicle. CGS Sec. 12-431(a).

The section was created prior to 1957 and was subsequently amended several times.

Estimates: Indeterminate.

Rationale: Expediency/Clarification. Expediency with regard to transfers to family members. The Clarification is with regard to business-related transfers.

9. Mobile manufactured home, modular or prefabricated home subject to sales tax when sold by manufacturer and subject to tax as a conveyance of realty when sold at its location in a mobile manufactured home park.

Description: (a) On or after July 1, 1986, the sale of a new mobile manufactured home, and on or after July 1, 1993, the sale of a new modular or prefabricated home, from a manufacturer shall be subject to sales and use taxes under this chapter, except that for purposes of said taxes the sales price of such new mobile manufactured home or new modular or prefabricated home shall be deemed to be seventy per cent of the manufacturer's sales price applicable with respect to such sale. For the purpose of this subsection, "mobile manufactured home" means a home at least twelve feet in width, which cannot proceed under its own power, which is towed or placed on flatbed trucks to be taken to its destination and which requires a limited duration oversize load permit in order to be transported on the highways of this state, and a "new modular or prefabricated home" means a modular or prefabricated home, as defined in section 21-85, which has not been previously sold or occupied as a dwelling unit.

(b) On or after July 1, 1986, the resale of any mobile manufactured home located in a mobile manufactured home park licensed pursuant to chapter 412 or located on a single-family lot as a permitted nonconforming use or as otherwise permitted by the zoning regulations of the municipality in which the home is located, and on or after July 1, 1993, the resale of any modular home, shall be exempt from the sales and use taxes imposed by this chapter and shall be taxed as a conveyance of realty in accordance with the provisions of chapter 223.

CGS Sec. 12-412c.

The resale exemption was created by PA 85-512 and the 30% exemption was created by PA 86-310. PA 93-332 added new modular or prefabricated homes.

Estimates: Less than $50,000.

Rationale: Clarification/Redundancy. Clarification as it relates to 30% of a new unit's price. Sales Tax is due on the tangible personal property used in new home construction but not on the cost of labor. The 30% exemption represents the approximate labor cost for this type of dwelling. Redundancy as it relates to resale of mobile homes. The exemption prevents the double taxation of such transactions since they are subject to the Real Estate Conveyance Tax.

F. Items subject to a lower Sales Tax Rate or Basis

1. Motor vehicles sold to members of the armed forces.

Description: Motor vehicles sold to members of the armed forces on full-time active duty in the state but whose permanent residence is elsewhere (4.5%). CGS Sec. 12-408(1)(B) and 12-411(1)(B).

The exemption was created by PA 84-545.

Estimates: Less than $50,000.

Rationale: Incentive. The lower rate is intended to encourage military personnel to buy and register their motor vehicles in-state.

2. Sale of vessels to nonresidents at the lower of CT or resident's home state.

Description: With respect to the sales of vessels to any resident of another state, the rate shall be the lesser of: (i) Six per cent of the gross receipts of any retailer from such sales or (ii) the percentage of such gross receipts that is payable as a sales tax by retailers engaged in business in the purchaser's state of residence provided such retailer requires and maintains an affidavit or other evidence, satisfactory to the commissioner of revenue services, concerning the purchaser's state of residence. CGS Sec. 12-411(1).

The exemption was created by PA 91-3 of the June Special Session. PA 92-17 changed proof of the purchaser's state of residency to a signed affidavit rather than registration of the boat in the purchaser's home state.

Estimates: Less than $50,000.

Rationale: Incentive. The exemption is intended to make in-state businesses more competitive with those out of state.

3. Determination of sales tax on certain construction equipment or machinery when such equipment or machinery is traded in on purchase.

Description: In any sale at retail of construction equipment or machinery, the source of power for which is an integral part of any individual unit of such equipment or machinery, which sale is made by a retailer of such equipment or machinery who accepts a trade-in of such equipment or machinery in such sale, the sales tax with respect to such sale shall not be applicable to the entire purchase price of such equipment or machinery but shall be imposed on the difference between such purchase price and the amount allowed by the retailer on such equipment or machinery traded in as a credit against the entire purchase price of such equipment or machinery purchased. When any such equipment or machinery traded in is subsequently sold to a consumer or user, the tax imposed under this chapter shall be applicable to such sale. CGS Sec. 12-430a.

It was created by PA 85-457.

Combined estimates for Items Number 3 and 4: $40.0 million.

Rationale: Incentive. The exemption is intended to make instate businesses more competitive with those out of state.

4. Trade-in of motor vehicles, snowmobiles, vessels or farm tractors.

Description Where a trade-in of a motor vehicle is received by a motor vehicle dealer, upon the sale of another motor vehicle to a consumer, or where a trade-in of an aircraft, as defined in subdivision (5) of section 15-34, is received by an aircraft dealer, upon the sale of another aircraft to a consumer, or where a trade-in of a farm tractor, snowmobile or any vessel, as defined in section 15-127, is received by a retailer of farm tractors, snowmobiles or such vessels upon the sale of another farm tractor, snowmobile or such vessel to a consumer, the tax is only on the difference between the sale price of the motor vehicle, aircraft, snowmobile, farm tractor or such vessel purchased and the amount allowed on the motor vehicle, aircraft, snowmobile, farm tractor or such vessel traded in on such purchase. When any such motor vehicle, aircraft, snowmobile, farm tractor or such vessel traded in is subsequently sold to a consumer or user, the tax provided for in this chapter applies. CGS Sec. 12-430(4).

It was added to the statutes prior to 1961. In 1961 it was limited to Connecticut motor vehicle dealers. In 1969 snowmobiles were added and references to instate dealers were deleted. PA 73-518 added vessels. PA 74-338 made a technical change. PA 94-4 of the May Special Session added the exemption for aircraft trade-ins.

Estimates: See Item Number 3 above.

Rationale: Incentive. The exemption is intended to make instate businesses more competitive with those out of state.

5. Coupons and Discounts and Battery Deposits and Trade Ins of like kind.

Description: Coupons and Discounts and Battery Deposits and Trade Ins of like kind are excluded from the definition of "sales price" and "gross receipts". CGS Secs. 12-407(8) and 12-407(9).

PA 98-110 added coupons and discounts, battery deposits and trade-ins of like kind, effective 7/1/98.

Combined estimates for Items Number 5 and 6: $45.0 million.

Rationale: Expediency.

6. Trade in of Core Parts.

Description: In any sale at retail of any new or remanufactured part of an item of tangible personal property to a purchaser, which sale is made by a retailer of such parts who will accept in return from such purchaser a core component or core part of such tangible personal property, the sales or use tax with respect to such sale shall be imposed on the difference between the purchase price and the amount allowed by the retailer on the returned core component or core part, provided the retailer shall collect the tax, at the time of sale, on the purchase price and, when the core component or core part is returned, shall refund such tax on the amount allowed by the retailer on the returned core component or core part. When any such core component or core part traded in is subsequently sold to a consumer or user, the taxes imposed under this chapter shall be applicable to such sale. CGS Sec. 12-412j.

PA 95-327 created the exemption. PA 96-172 expanded exemption to motor bus parts. PA 98-110 clarified when the tax must be collected by the retailer.

Estimates: Included in Item # 5 above.

Rationale: Expediency.

7. Licensed motor vehicle dealers.

Description: When a licensed motor vehicle dealer replaces a motor vehicle which has been registered to such dealer and the replaced motor vehicle is no longer in the possession of or used by such dealer, the tax imposed by this chapter shall be applicable only with respect to the difference between such dealer's cost for the new motor vehicle being registered, which motor vehicle is the replacement for said replaced motor vehicle, and the wholesale value of said replaced motor vehicle at the time of its replacement, determined in accordance with a standard reference book for such values acceptable to the commissioner of revenue services. CGS Sec. 12-430(6).

The exemption was created by PA 73-520.

Estimates: Less than $50,000.

Rationale: Incentive. The exemption is intended to reduce the cost of doing business for instate firms. It parallels the exemption for consumers (above), which permits trade-in allowances to be deducted from the purchase price of motor vehicles.

BUSINESS TAXES

Business entities are taxed for the privilege of: (1) doing business within the state, (2) owning or leasing in-state property, or (3) maintaining an office within the state. Connecticut has three business taxes that apply to different organizational structures.

<u>Business Entity Tax</u> (applicable to LLCs, LLPs, LPs and S-corporations[3])

The tax is imposed on S-corporations, limited liability companies (LLCs), limited liability partnerships (LLPs), and limited partnerships (LPs) if: (1) the S-corp or LLP is required to obtain a certificate of authority from the Secretary of the State, or (2) the LLC or LP is required to register with the Secretary of the State. The tax is applicable to income years beginning on or after 1/1/02. CGS Sec. 284b(a) as amended by PA 06-159

Tax Rate: The tax is $250. A temporary 20% surcharge was imposed for the 2003 income year. CGS Sec. 284b(b) as amended by PA 06-159

Exemptions: The two exemptions are: (1) LLCs that have elected to be taxed as a corporation for federal tax purposes (CGS Sec. 12-284b(a)(2)), and (2) any domestic LP that is not formed under Chapter 610 of the state statutes (CGS Sec. 12-284b(a)(4)). The rationale for both of these exemptions is conformity.

<u>Unrelated Business Income Tax</u> (applicable to nonprofit corporations)

The tax is imposed on nonprofit corporations with income from businesses unrelated to their nonprofit status. It uses the same rate (CGS Sec. 12-242bb(a)) and 3-factor apportionment formula (CGS Sec. 12-242bb(b)) as the Corporation Business Tax's net income base (see below).

<u>Corporation Business Tax</u> (applicable to corporations)

Tax Rate and Basis: Corporations are subject to tax on income derived from in-state sources. The tax has three bases (see below). A taxpayer's liability is the greatest amount computed under any of the three.

1. **Net Income Base**: Liability under this base is calculated by multiplying the portion of a corporation's total net income that is taxable in this state (determined by apportionment) by the tax rate and surcharge that are applicable in that income year. This amount may be further reduced by subtracting any tax credits that a corporation is eligible to claim.

[3] Subchapter S is a section of the federal income tax code.

a. Tax rates: The table below shows tax rates and surcharges for the net income base by income year:

Net Income Base Tax Rates and Surcharges

Income Year	Tax Rate CGS Sec. 12-214(a)	Surcharge CGS Sec. 12-214(b)	Legislation
1994	11.50%	none	
1995	11.25%	none	PA 93-74[1]
1996	10.75%	none	PA 95-160[2]
1997	10.50%	none	
1998	9.50%	none	
1999	8.50%	none	
2000	7.50%	none	
2001	7.50%	none	
2002	7.50%	none	
2003	7.50%	20%	PA 03-2[3]
2004	7.50%	25%	PA 03-1 (J30SS)[4]
2005	7.50%	none	
2006	7.50%	20%	PA 05-251[5]
2007	7.50%	none	PA 06-186[6]
2008	7.50%	none	
2009	7.50%	10%	PA 09-3 (JSS)[7]
2010	7.50%	10%	PA 09-3 (JSS)[7]
2011	7.50%	10%	PA 09-3 (JSS)[7]

[1] PA 93-74 reduced the tax rate to 11.25% for the 1995 income year, 11.0% for the 1996 income year, 10.5% for the 1997 income year and 10.0% for the 1998 income year

[2] PA 95-160 reduced the tax rate to 10.75% for the 1996 income year, 9.5% for the 1998 income year, 8.5% for the 1999 income year and 7.5% for the 2000 income year and thereafter. (The rate for the 1997 income year did not change.)

[3] PA 03-2 imposed a 20.0% surcharge for the 2003 income year.

[4] PA 03-1 (J30SS) imposed a 25.0% surcharge for the 2004 income year.

[5] PA 05-251 imposed a 20.0% surcharge for the 2006 income year and a 15.0% surcharge for the 2007 income year.

[6] PA 06-186 eliminated the 15.0% surcharge for the 2007 income year.

[7] PA 09-3 (JSS) imposed a 10.0% surcharge for the 2009, 2010 and 2011 income years for companies that have: (1) $100.0 million or more in annual gross income for those years and (2) a tax liability that exceeds the $250.0 minimum tax.

b. Apportionment of Net Income**:** Net income equals gross income, as defined in the Internal Revenue Code, minus any deductions for which a corporation qualifies. The amount of a corporation's total net income that is taxable in Connecticut is calculated by a process called apportionment. This process compares the amount of income that is derived from the corporation's business activities carried on in-state versus the amount derived from business carried on everywhere. The resulting fraction is multiplied by the corporation's total net income to determine the portion that is subject to tax in this state. The statutes provide specific rules indicating how corporations in different economic sectors are required to apportion their income.

1. Three factor apportionment: Corporations that derive their income from the sale or use of tangible personal or real property use a 3-factor formula for determining taxable net income in Connecticut. The 3 factors are: (1) sales (which is double weighted), (2) payroll and (3) property (CGS Sec. 12-218(c)).

2. One factor apportionment: A one-factor formula is used for the following business sectors:

a. Sales of services – apportionment is based on gross receipts assignable to the state. CGS Sec. 12-218(b)

b. Bus companies that transport passengers and motor carriers that transport property for hire – apportionment is based on the relative number of miles driven in state. CGS Secs. 12-218(d) & 12-218(e)

c. Management, distribution or administrative services provided to or on behalf of a regulated investment company (mutual fund) – apportionment is based on the proportion of shares in the fund owned by shareholders domiciled in Connecticut. CGS Sec. 12-218(f)

d. Securities brokerage service companies – apportionment is based on the proportion of commissions and margin interest paid to accounts owned by clients domiciled in Connecticut. CGS Sec. 12-218(g)

e. Banks that issue credit cards and regularly engage in credit card activities – apportionment is based on the proportion of receipts derived from credit card holders located within Connecticut. CGS Sec. 12-218(j)

f. Manufacturers and broadcasters – apportionment is based on gross receipts assignable to the state. CGS Secs. 12-218(k) & (l)

g. Financial service companies – apportionment is based on total receipts assignable to the state (CGS Sec. 12-218b(b)(1)). PA 98-110 excludes financial services companies from using the capital base to calculate their tax liability or paying the minimum tax.

2. **Capital Base**: Liability under this base tax is calculated by multiplying: (1) the average value of issued and outstanding capital stock and surplus reserves, and (2) the tax rate of .0031% (3.1 mills) plus any surcharge applicable in that income year (CGS Sec. 12-219(a)(1)). This amount may be further reduced by subtracting any tax credits that a corporation is eligible to claim. The maximum tax liability under the capital base is $1.0 million (CGS Sec. 12-219(a)(1)(C)).

Capital Base Surcharges

Income Year	Tax rate CGS Sec. 12-219(a)(1)	Surcharge CGS Sec. 12-219(b)	Legislation
2002	0.0031%	none	
2003	0.0031%	20%	PA 03-2[1]
2004	0.0031%	25%	PA 03-1 (J30SS)[2]
2005	0.0031%	none	
2006	0.0031%	20%	PA 05-251[3]
2007	0.0031%	none	PA 06-186[4]
2008	0.0031%	none	
2009	0.0031%	10%	PA 09-3 (JSS)[5]
2010	0.0031%	10%	PA 09-3 (JSS)[5]
2011	0.0031%	10%	PA 09-3 (JSS)[5]

[1] PA 03-2 imposed a 20.0% surcharge for the 2003 income year.
[2] PA 03-1 (J30SS) imposed a 25.0% surcharge for the 2004 income year.
[3] PA 05-251 imposed a 20.0% surcharge for the 2006 income year and a 15.0% surcharge for the 2007 income year.
[4] PA 06-186 eliminated the 15.0% surcharge for the 2007 income year.
[5] PA 09-3 (JSS) imposed a 10.0% surcharge for the 2009, 2010 and 2011 income years for companies that have: (1) $100.0 million or more in annual gross income for those years and (2) a tax liability that exceeds the $250 minimum tax.

3. **Minimum Tax**: Corporations owing less than $250 under either the net income or the capital base are required to pay the minimum tax of $250. No surcharge is imposed on minimum tax payers. Companies paying the minimum tax are not permitted to use tax credits to reduce their liability below the $250 minimum tax (CGS Secs. 12-219(a)(1)(C) &12-223c).

Combined Returns: Corporations filing combined returns are not entitled to the first $500,000 of tax savings over what they would have paid if they filed separately (CGS Sec. 12-223f as amended by PA 09-3 (JSS)).

Payment:

Estimated Payments – Taxpayers are required to make four estimated payments per income year (CGS Sec. 12-242d(a)). The payments are calculated based on the following percentages of the current year estimated tax liability: (1) 30.0% in the third month of the income year, (2) 40.0% in the sixth month, (3) 10.0% in the ninth month, and (4) 20.0% by the twelfth month (CGS Sec. 12-242d(b)).

Safe Harbor provision for estimated payments – CGS Sec. 12-242d(e) provides a method of calculating estimated tax payments that protects corporations from incurring underpayment penalties. This method allows corporations to base their estimated payments on either: (1) 90.0% of the tax liability shown on the tax return for the current income year or (2) 100.0% of the tax liability shown on the tax return for the prior income year. The interest rate on overdue payments or underpayments of estimated tax is 1.0% per month or 12.0% per year (CGS Sec. 12-242d(c)).

Final Payments – The final payment of the tax is due on or before the first day of the month following the due date of the company's federal income tax return for the same income year (CGS Sec. 12-222(b)).

Corporations that are exempt from the tax:

1. **Insurance companies.** The exemption is for domestic and foreign[4] insurance companies. CGS Sec. 12-214(a)(2)(A)

   Rationale and history:
   Domestic insurance companies – Redundancy: These companies are subject to taxation under the Insurance Premiums Tax. PA 98-110 exempted domestic companies from the tax effective with the 1999 income year.

   Foreign insurance companies – Expediency: Connecticut does not tax companies headquartered in other states to avoid having retaliatory taxes imposed by those states on insurance companies headquartered in Connecticut. PA 73-350 modified the exemption.

2. **Domestic international sales corporations[5] (DISCs).** The exemption is for DISCs that are exempt from the federal income tax. CGS Sec. 12-214(a)(2)(B)

   Rationale: Conformity.

3. **Railroad companies.** The exemption is for railroad companies that are subject to the utility gross earnings tax. CGS Sec. 12-214(a)(2)(C) and (D)

   Rationale: Redundancy.

4. **Cooperative housing corporations.** The exemption is for cooperative housing corporations, as defined in Section 21b of the IRS Code, whether or not they have any federal taxable income. CGS Sec 12-214(a)(2)(E)

[4] Foreign or nonresident insurance companies are incorporated under the laws of another state or foreign government but must be licensed by the insurance department in order to issue policies in this state.
[5] DISCs are US companies whose income is primarily from foreign sales.

Rationale and history: Conformity (1965 & 1969 exemptions) and Expediency (1994 exemption). A cooperative housing corporation exemption with certain residence and corporate membership restrictions was enacted in 1965. A general exemption was provided for any corporation with no federal taxable income in 1969. PA 94-4 broadened the exemption to include cooperative housing corporations that had federal taxable income, retroactive to 1990 income year.

5. **Political associations.** The exemption is for organizations established and operated for political purposes that are exempt from federal taxation. CGS Sec 12-214(a)(2)(F)

   Rationale and history: Conformity. PA 75-101 enacted the exemption.

6. **Alternate energy systems companies.** The exemption is for companies that: (1) are not owned or controlled by another company; (2) have a gross annual revenue of less than $100 million; and (3) are engaged in the research, design manufacture, sale or installation of alternative energy systems. The company's net income must be directly attributable to alternative energy systems. CGS Sec. 12-214(a)(2)(G)

   Rationale and history: Incentive. PA 80-406 enacted the exemption.

7. **Aero-derived gas turbine systems.** The exemption is for companies that engage in the research, design, manufacture or sale of aero-derived gas turbine systems used in advanced industrial applications in this state. CGS Sec. 12-214(a)(2)(H)

   Rationale and history: Incentive. PA 92-152 enacted the exemption.

8. **Non-US corporations whose sole activity in state is the trading of stock, commodities and securities.** CGS Sec. 12-214(a)(2)(I)

   Rationale and history: Incentive. PA 98-244 enacted the exemption.

9. **Subchapter S-corporations**[6]. CGS 12-214(a)(2)(J)

   Rationale and history: Expediency. PA 96-175 phased out the tax on the net income of Subchapter S corporations by reducing the percentage that was taxable. The Corporation Tax on S corporations was completely phased out at the end of the 2001 income year and they became taxable under the Business Entity Tax for the 2002 income year (see above).

10. **Regulated investment companies[7] (RICs) and real estate investment trusts (REITs).** CGS Sec. 12-217(a)(1)(B) and 217(a)(3) exempt these entities from the net income base of the tax and CGS Sec. 219(c) exempts them from the capital base and the minimum tax. Regulated Investment Company (RIC) means a regulated investment company as defined in I.R.C. §851. DRS Ruling 93-24 states that distributions paid by the Regulated Investment Company (RICs) to the Company that are "exempt-interest dividends," as defined in 26 U.S.C. § 852(b)(5), and "capital gain dividends," as defined in 26 U.S.C. § 852(b)(3)(C), are not "dividends as defined in the federal income tax law" because federal law transforms their character from dividend income to exempt-interest income and capital gain income, respectively. Therefore, "exempt-interest dividends" and "capital gain dividends" may not be deducted under Conn. Gen. Stat. § 12-217(a)(D). Distributions paid by the Regulated Investment Company to the Company that are not "exempt-interest dividends" or "capital gain dividends" may be deducted under Conn. Gen. Stat. § 12-217(a)(D), provided that such distributions are "dividends" as defined in 26 U.S.C. § 316 and no provision of federal income tax law expressly transforms their dividend character, and provided that the Regulated Investment Company is a domestic corporation

[6] Subchapter S is a section of the federal income tax code.
[7] Regulated investment companies are mutual funds.

Rationale and history: Incentive and Expediency. PA 93-74 enacted the exemption effective with the 1993 income year.

11. **Passive investment companies[8] (PICs).** CGS Sec. 12-213(a)(9)(C)

    Rationale and history: Incentive. PA 98-110 enacted the exemption effective with the 1999 income year.

12. **Municipal risk management agencies[9].** CGS Sec. 12-219(c)

    Rationale and history: Conformity. PA 94-4 MSS clarified that municipal risk management agencies are exempt from the capital base and the minimum tax, effective with the 1980 income year. This type of organization does not have a tax liability under the net income base.

13. **Electric cooperatives.** CGS Sec. 33-240 imposes a $25 fee on these companies and exempts them from all other excise and income taxes.

    Rationale: Clarification.

14. **Companies located in an insurance and financial services export zone.** The exemption is for companies that: (1) have their corporate headquarters located in the insurance and financial export zone in the City of Hartford and (2) conduct all of their business outside of the United States. CGS Sec. 32-538(a)

    Rationale and history: Incentive and Expediency. PA 96-253 enacted the exemption.

Deductions available under the net income base: These deductions are used in the calculation of a corporation's net income. They are not available under the capital base because they do not relate to capital stock or surplus reserves.

1. **Earnings from international banking facilities[10] (IBFs)**. CGS Sec. 12-217(a)(1)(C)

   Rationale and history: Conformity. PA 81-245 enacted the deduction.

2. **Dividends from domestic international sales corporations[11] (DISCs) or foreign sales corporations[12] (FSCs).** DISCs: CGS Sec. 12-217(a)(1)(D). FSCs: CGS Sec. 12-213(a)(9)(B)

   Rationale: Conformity

3. **Net operating loss (NOL) carryforward[13].** The deduction can be carried forward for 20 years. CGS Sec. 12-217(a)(4)(A)

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[8] The income of passive investment companies (PICs) is derived from investments that earn interest, dividends, and/or capital gains.

[9] Municipal risk management agencies are associations formed by two or more municipalities or other local government units to insure against public liability, automobile and property risk.

[10] International banking facilities (IBFs) are defined in federal regulations, which dictate state tax treatment of these entities. IBFs enable US banks to use their domestic US offices to offer foreign customers deposit and loan services which formerly could be provided competitively only from foreign offices.

[11] Domestic international sales corporations (DISCs) are US companies whose income is primarily from foreign sales.

[12] Foreign sales corporations (FSCs) no longer exist. FSC rules were repealed as of 9/30/00 after a determination by the World Trade Organization (WTO) that FSCs were an illegal export subsidy. Federal tax law formerly allowed US companies to receive a tax reduction for profits derived from exports received through an offshore FSC subsidiary.

Rationale and history: Conformity. PA 73-350 created the deduction. PA 99-173 extended the carryforward period from 5 years to 20 years.

4. **Net capital loss carryforward.** The deduction is for net capital losses, as defined by federal corporate income tax law. The deduction can be carried forward for 5 years. CGS Sec. 12-217(a)(4)(B)

   Rationale and history: Conformity. PA 73-350 enacted the deduction.

5. **Unpaid loss reserve[14] adjustment for non-life insurance companies.** The deduction is for the unpaid loss reserve adjustment for non-life insurance companies that is required by the federal code. CGS Sec. 12-217(a)(5)

   Rationale and history: Clarification and Conformity. PA 93-74 enacted the deduction.

6. **Capital Gains from the sale to be preserved as open space or watershed land**. The deduction is for capital gains realized from the sale of open space or land to: (1) the state, (2) a municipality, (3) a non-profit land conservation organization, or (4) a water company. The land must be permanently preserved space or as Class I or Class II water company land to qualify for the deduction. CGS Sec. 12-217(a)(1)(E)

   Rationale and history: Incentive and Expediency. PA 99-173 enacted the deduction.

Tax Credits available under the Net Income and Capital Bases of the Corporation Tax

Corporations may use the following are credits to reduce their tax liability. Companies are prohibited from using the credits to reduce their tax liability below the $250 minimum tax, beginning with the 2002 income year (CGS Sec. 12-219(a)(3) and 223(c)). The total value of credits allowed in any income year is limited to 70% of pre-credit tax liability under either the net income or the capital base (CGS Sec. 12-217zz).

1. **25% Manufacturing facility credit**: The credit is available for 25% of the amount of tax that is allocable to a facility located in an Enterprise Zone or a municipality with an Entertainment District[15]. It is administered by the Department of Economic and Community Development (DECD). To qualify for the credit, the corporation must obtain certification from DECD that it is occupying a new or renovated facility located within an Enterprise Zone or Entertainment District. Unused credits may be carried forward 10 years. CGS Sec. 12-217e(a)

   Rationale: Incentive. PA 78-357 enacted the credit. PA 83-381 amended the eligibility criteria for facilities in Enterprise Zones. PA 93-311 extended the credit to Entertainment Districts. P.A. 00-174 changed a provision regarding positions at an eligible facility.

2. **50% Manufacturing facility credit**: The credit is based on certain employment criteria[16]. It is available for 50% of tax that is allocable to a facility located in an Enterprise Zone or a municipality

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[13] Loss carryforwards smooth out fluctuations in corporate profits, which may change dramatically with economic conditions. Like federal law, prior year losses must be applied against income to the maximum extent possible and in a consecutive fashion during the carryover period, so that losses from earliest years are used first. Federal law allows losses to be carried forward 15 years or carried back 3 years.
[14] An unpaid loss reserve is an estimate of the unpaid amounts required to settle a defined group of claims as of a particular accounting date.
[15] Enterprise Zones are defined under CGS Sec. 32-70 and Entertainment Districts are defined under CGS Sec. 32-76 and Section 2 of PA 93-311.
[16] The 50% credit is available if, during the last quarter of a firm's income year, not less than 150 or 30% of the facility's full-time positions are held by: (1) residents of the zone, or (2) residents of the municipality and qualify under the Federal Comprehensive Employment Training Act (CETA).

with an Entertainment District. The credit is administered by the Department of Economic and Community Development (DECD). To qualify for it, the corporation must obtain certification from DECD that it is occupying a new or renovated facility located within an Enterprise Zone or Entertainment District. Unused credits may be carried forward 10 years. CGS Sec. 12-217e(a)

Rationale: Incentive. PA 78-357 enacted a 25% Enterprise Zone credit. P.A. 81-445 added the 50% credit. PA 82-435 provided that: (1) the 30% determination will be made for the last quarter rather than the last day of the year and (2) CETA eligible residents the municipality count toward the 30%. PA 83-381 amended the eligibility criteria for facilities in Enterprise Zones. PA 90-270 extended the credit to businesses employing more than 150 full-time employees. PA 93-311 extended the credit to Entertainment Districts. P.A. 00-174 changed a provision regarding positions at an eligible facility.

3. **Service facility credit:** The credit is based on certain employment criteria[17]. It is available for between 15% and 50% of the amount of tax that is allocable to a service facility located in an Enterprise Zone or a municipality with an Entertainment District. The credit is administered by the Department of Economic and Community Development (DECD). To qualify for it, the corporation must obtain certification from DECD that it is occupying a new or renovated facility located within an Enterprise Zone or Entertainment District. Unused credits may be carried forward 10 years. CGS Sec. 12-217e(b)

Rationale: Incentive. PA 78-357 enacted an Enterprise Zone credit. P.A. 96-239 added the service facilities credit.

4. **Enterprise Zone credit for qualifying corporations**: The credit is available to qualified corporations[18] for 100% of the corporation's tax liability for the first 3 taxable years and 50% of its liability for the next 7 years. It is administered by the Department of Economic and Community Development. There are no carryback or carryforward provisions. CGS Sec. 12-217v

Rationale and history: Incentive. PA 96-239 enacted the credit.

5. **Apprenticeship training credit in construction, manufacturing, and plastics trades**: The credit is available to corporations in the construction, manufacturing, plastics and plastics-related trades that employ apprentices. It is administered by the Department of Labor. For the manufacturing and plastics trades, the credit is the lesser of: (1) 50% of the actual wages paid to apprentices in the income year or (2) up to $4,800 per apprenticeship. For the construction trades, the credit is the lesser of: (1) 50% of the actual wages paid to the apprentice or (2) up to $4,000 per apprenticeship. The construction trades credit is awarded in the year the apprentice completes a 4-year program. There are no carryback or carryforward provisions. CGS Sec. 12-217g

Rationale and history: Incentive. PA 79-475 enacted the credit for the machine tool and metal trades. PA 94-4 MSS changed the hourly wage requirements. PA 95-284 extended the credit to plastics trades.

[17] Employment criteria and credit amounts for the service facilities credit:

Employment Criteria for the Service Facilities Credit

% Corp Tax Credit	Employment Criteria:
15%	300 to 599 new employees work at the facility
20%	600 to 899 new employees work at the facility
25%	900 to 1,199 new employees work at the facility
30%	1,200 to 1,499 new employees work at the facility
40%	1,500 to 1,999 new employees work at the facility
50%	2,000 or more new employees work at the facility

[18] Qualified corporations are those created on or after 1/1/97 in an Enterprise Zone (EZ) that either:
a. Have at least 375 employees, at least 40% of whom: (1) are residents of the EZ or the municipality in which the EZ is located, and (2) qualify under the Job Training Partnership Act, or
b. Have less than 375 employees, at least 150 employees of whom: (1) are residents of the EZ or the municipality in which the EZ is located, and (2) qualify under the Job Training Partnership Act.

PA 97-295 substituted “manufacturing trades” for machine tool and metal trades, and extended the credit to the construction trades. PA 06-174 changes the construction trades credit: (1) nonunion businesses qualify for the credit, (2) the credit is awarded in the year the apprentice completes a 4-year program, (3) the credit amount is based on the number of hours completed by the apprentice, and (4) the credit limit is raised from $1,000 to $4,000.

6. **Clean alternative fuel credit: 50% for equipment and filling or recharging stations:** The credit is available for 50% of expenses associated with: (1) construction of or improvements to a filling station for compressed natural gas, liquefied petroleum gas or liquefied natural gas; (2) equipment used in a compressed natural gas, liquefied petroleum gas or liquefied natural gas filling station or electric recharging station; and (3) equipment used to convert vehicles powered by conventional fuel to exclusive use or duel use of clean alternative fuel. Unused credits can be carried forward for 3 years. The credit is unavailable after January 1, 2008. CGS Sec 12-217i(b)

   Rationale and history: Incentive. PA 91-179 enacted the credit effective with the 1991 income year. PA 93-199 extended the credit to equipment for recharging electrically powered vehicles. The sunset date for the credit was extended by PA 93-199, PA 97-295, PA 99-173, PA 02-4 MSS and PA 04-231.

7. **Research and experimental (incremental) expenditures credit:** The credit is available for incremental increases in research and experimental expenditures incurred in this state. The credit is 20% of the amount by which expenditures in the current income year exceed expenditures in the preceding year. Unused credits may be carried forward for 15 years. CGS Sec. 12-217j

   Rationale and history: Incentive. PA 92-193 enacted the credit and phased it in at the rate of 10% for the 1993 income year and 20% for the 1994 income year. P.A. 93-403 limited the credit to research and experimental expenditures incurred in the state. P.A. 96-252 permitted biotechnology companies to carry unused credits forward for 15 years. PA 98-110 extended the carryforward to all corporations.

8. **Research and development (non-incremental) expenditures credit**: The credit is available for research and development expenditures incurred in this state. The credit increases from (1) 1% of expenditures up to $50 million to (2) 6% of expenditures over $200 million. Qualified small businesses with a gross income of less than $100 million are eligible for the 6% credit. The credit cannot be claimed if the credit under 12-217j (see above) is claimed. The credit for expenditures over $200 million is reduced if there are work force reductions and the credit for certain aerospace companies is subject to employment restrictions. Unused credits may be carried forward until fully taken. CGS Sec. 12-217n

   Rationale and history: Incentive. PA 93-433 enacted the credit effective July 1, 1993. PA 98-110 expanded credit to qualified small businesses. PA 99-173 increased the credit for companies who have over 2,500 employees in the state, over $3 billion in revenue and are located in an Enterprise Zone.

9. **Sale of research and development expenditures credits to state:** Companies with less than $70 million in gross sales that cannot take research and development credits under CGS Secs. 12-217j and 217n because they do not have a tax liability, are permitted to sell unused credits back to the state at 65% of their value. The maximum annual refund is $1.5 million per company. CGS Sec. 12-217ee

   Rationale and history: Expediency. PA 99-173 enacted this provision effective with the 2000 income year. PA 02-1 MSS limited the maximum annual refund to $1.5 million. P.A. 02-4 M9SS clarified that payment of the $250 minimum tax is not considered a tax liability for the purpose of this credit. PA 03-1 JSS eliminated the sale of credits for taxpayers under the capital base tax, effective 1/1/05 but PA 04-235 removed the sunset date and made permanent the eligibility of such taxpayers.

10. **Research and development credit for grants to institutions of higher education:** The credit is available for the incremental increase in the amount spent on grants for research and development given to institutions of higher education in this state. The grant must be related to advancements in technology. The credit is 25% of the amount by which grants in the current income year exceed grants in the preceding year. There are no carryback or carryforward provisions. CGS Sec 12-217l

Rationale and history: Incentive. PA 92-193 enacted the credit.

11. **Donation of land for educational use credit.** The credit is for land donated without any financial consideration or sold at a discounted price to a municipality or political subdivision of the state for educational use. The credit is 50% of the difference between fair market value and the amount received for the donated land. Unused credits may be carried forward 15 years. CGS Sec. 12-217ff.

    Rationale and history: Incentive. PA 04-200 enacted the credit effective June 3, 2003.

12. **Machinery and equipment expenditure credit:** The credit is available to small and medium-sized companies for the incremental increase in capital goods expenditures over the previous year. The credit is 10% for companies with 250 or fewer full-time, permanent employees and 5% for companies with 251 to 800 employees. There are no carryback or carryforward provisions. CGS Sec. 12-217o

    Rationale and history: Incentive and Perceived Equity. PA 93-382 enacted the credit effective with the 1995 income year. PA 94-3 required the machinery and equipment to be used in a facility in this state. PA 94-4 MSS increased the maximum number of full time employees from 500 to 800. P.A. 99-121 limits the employment criteria to workers based in this state.

13. **Traffic reduction programs credit:** The credit is available to companies that participate in traffic reduction programs intended to achieve federal Clean Air Act standards. It is administered by the Department of Transportation. The credit is 50% of qualifying expenses with an annual maximum of $250 per participating employee. The annual limit for all firms is $1.5 million. There are no carryback or carryforward provisions. CGS Sec. 12-217s

    Rationale: Incentive and Conformity. PA 94-4 MSS enacted a credit.

14. **Financial institutions credit:** This credit is available to financial institutions that: (1) build and occupy a facility of at least 900,000 sq ft in this state and (2) create and maintain a minimum of 1,200 to 2,000 new jobs at the facility. It is administered by the Department of Economic and Community Development. The credit, which depends on the number of new jobs created, ranges between 30% and 50% over a 10-year period and 25% for an additional 5 years. The total credit for all firms is limited to between $72 million and $120 million over the 10-year period and $145 million over the 15-year period. There are no carryback or carryforward provisions. CGS Sec. 12-217u

    Rationale: Incentive and Expediency. PA 94-1 OSS enacted the credit effective with the 1995 income year. PA 95-160 made changes to the credit amounts and employment levels. PA 00-170 prohibited the taxpayer from applying for the credit if it has received other financial assistance from the state.

15. **Displaced electric worker credit:** The credit is available to electric suppliers who hire workers displaced by the restructuring of the electric industry for at least 6 months. The credit amount is $1,500 per worker and it must be taken in the income year in which the displaced worker first completes six full months of full-time employ. Only one credit is allowed per qualifying worker and the employer may not claim this credit and the credit for hiring a displaced worker under CGS Sec. 12-217hh for the same employee. There are no carryback or carryforward provisions. CGS Sec. 12-217bb

    Rationale and history: Incentive and Expediency. PA 98-28 enacted the credit effective 4/29/98.

16. **Hiring incentive credit:** The credit is available to companies that hire workers who: (1) at the time of employment, have received benefits from the Temporary Family Assistance (TFA) for at least 9 months and (2) are employed at least 30 hours per week (including participation in a job training program approved by the Department of Labor). The credit is administered by the Department of Labor. The credit amount is $125 for each full month that the worker was employed. The annual limit for all firms is $1 million. The employer can only claim the credit once for each qualifying employee. Unused credit may be carried forward 5 years. CGS Sec. 12-217y

Rationale and history: Incentive and Expediency. PA 97-295 enacted the credit effective 7/8/97. PA 99-203: (1) increased the minimum number of hours per week an employee must work from 15 to 25 for the 1999 fiscal year, and from 25 to 30 for the 2000 fiscal year and after; (2) included participation in an approved job training program in calculating the number of hours an employee is employed; and (3) transferred administration of the credit from the Department of Social Services to the Department of Labor, effective with the 1999 income year.

17. **Employment expansion project credit:** The credit is available to pass-through businesses such as partnerships, limited partnerships, and limited liability companies in which one or more corporations are general or limited partners. A pass-through business that sponsors a qualifying employment expansion project may pass through to its constituent corporations any corporation tax credits for which it would qualify if it were a corporation. An employment expansion project is one that: (1) creates at least 400 new permanent, full-time in-state jobs; (2) needs the credit pass-through to attract it to the state; (3) will be economically viable and provide economic benefits to the state; and (4) meets certain strategic economic development priorities. The credit is administered by the Department Economic and Community Development. The constituent corporations are entitled to share the tax credits on a pro rata basis. They may assign their share of pass-through credits to another corporate constituent of the same pass-through business. CGS Sec. 12-217gg

    Rationale: Incentive and Expediency. PA 06-187 enacted the credit effective 9/1/05. PA 06-189 amended the several provisions of the original act.

18. **Fixed capital**[19] **investment credit:** The credit is available for fixed capital which: (1) has an IRS class life of more than 4 years; (2) was not purchased from a related entity; (3) is not leased to another entity within 12 months of purchase; and (4) will be located and used in state for at least 5 full years following acquisition. The credit is 5% of qualified expenditures. There is a recapture provision if the fixed capital for which the credit is claimed is not located and used in state for 3 full years following its acquisition (100% credit recapture) or 5 full years following its acquisition (50% credit recapture). Unused credits may be carried forward 5 years. CGS Sec. 12-217w

    Rationale: Clarification and Expediency. PA 97-295 enacted the credit and phased it in at the rate of 3% for the 1998 income year, 4% for 1999, and 5% thereafter. PA 98-262 clarified the recapture provision.

19. **Human capital investment credit:** The credit is available for expenses related to: (1) job training; (2) work education; (3) donations or contributions to higher education institutions for the advancement of technology, including physical plant improvements; (4) day care facilities for children of employees; (5) childcare subsidies to employees; or (6) donations and contributions to the Individual Development Account Reserve Fund[20]. The credit is 5% of qualified expenditures. Unused credits may be carried forward 5 years. CGS Sec. 12-217x

    Rationale: Incentive and Expediency. PA 97-295 enacted the credit and phased it in at the rate of 3% for the 1998 income year, 4% for 1999, and 5% thereafter. PA 00-192 created the Individual Development Account Reserve Fund and made contributions to the Fund eligible for the human capital investment tax credit effective with the 2001 income year.

20. **Donation of open space land credit:** The credit is available for the value of land donated to: (1) the state, (2) a municipality, (3) a non-profit land conservation organization, or (4) a water company. The land must be permanently preserved space or as Class I or Class II water company land to qualify for the credit. The credit is 50% of the use value of the donated open space land and the amount received for such land. Unused credits may be carried forward 20 years. CGS Sec 12-217dd

[19] Fixed capital does not include inventory, land, buildings or structures, or mobile transportation property (such as trucks, buses, forklifts, snowplows or construction equipment).
[20] CGS Sec. 31-51ww allows low-income and disabled taxpayers to open savings accounts and receive matching funds from the Individual Development Account Reserve Fund as an incentive to save for specific purposes.

Rationale: Incentive and Expediency. PA 99-173 enacted the credit effective with the 1999 income year. PA 00-203 defined "use value" of the donated land and provided a 10-year carryforward. PA 04-200 changed the carryforward period to 15 years and added water companies to the list of recipients of donated land. PA 09-3 (JSS) extended the carry forward period for unused credits from 15 to 20 years effective with the 2000 income year.

21. **Small business guarantee fee credit:** The credit is available for guarantee fees paid when obtaining financing from the Small Business Administration (SBA). Unused credits may be carried forward 4 years. CGS Sec. 12-217cc

Rationale: Expediency and Perceived Equity. PA 99-173 enacted the credit.

22. **Film Production Infrastructure credit:** The credit is available for investments in state-certified infrastructure projects for the film and digital media industry. It is administered by the Commission on Culture and Tourism (CCCT). The credit is as follows:

Motion Picture Infrastructure Credit		
Income Year	Project Cost	% Credit
2007 to 2009	$15,001 to $149,999	10%
	$150,000 to $1 million	15%
	$1 million & above	20%
2010 & after	$3 million & above	20%

Credits may be: (1) sold or transferred to other eligible companies and (2) resold for a maximum of three transfers. Credit buyers and sellers must jointly notify CCCT of a sale or transfer. Credits can only be claimed for the income year in which the expenditures are made. Credits are not refundable. Unused credits may be carried forward 3 years. CGS Sec. 12-217kk

Rationale: Incentive and Expediency. PA 07-236 enacted the credit. PA 09-3 (JSS) changed the minimum project cost and percentage of the credit beginning with the 2010 income year.

Tax credits available under the Corporation Business Tax as well as other taxes

The following credits are available to companies that are taxable under a number of taxes, including the Corporation Business Tax.

1. **Housing program contribution credit:** The credit is available to firms making cash contributions to nonprofit organizations that develop, sponsor, or manage housing programs for families with low or moderate incomes. It is administered by the Connecticut Housing Finance Authority (CHFA). The credit is equal to the amount contributed. The minimum amount for which a credit is granted is $250 per firm. The annual limit for all firms is $10 million (of this total, $2 million is set aside for the Supportive Housing Pilots Initiative or the Next Steps Initiative and $1 million is set aside for workforce housing). The maximum amount a nonprofit organization may receive in the aggregate is $500,000. Unused credits may be carried backward or forward for 5 years. CGS Sec. 8-395

Rationale and history: Incentive and Perceived Equity. PA 87-377 enacted the credit effective with the 1988 income year. PA 99-173 increased: (1) the credit limit per business from $50,000 to $75,000; (2) the limit for the total annual amount allowed for all businesses from $1 million to $5 million; and (3) the amount an entity can receive in the aggregate from $300,000 to $400,000. PA 00-170 required eligible contributions to be in cash and removed the per-business limit on credits. PA 01-8 JSS set aside $1 million for the Supportive Housing Pilots Initiative. PA 06-186: (1) raised the annual limit for all firms from $5 million to $10 million; (2) set aside $2 million for the Supportive Housing Pilots Initiative or the Next Steps Initiative; (3) set aside $1 million for workforce housing; and (4) raised the maximum amount a nonprofit organization may receive in the aggregate from $400,000 to $500,000.

2. **Neighborhood Assistance Program credit:** A 60% credit of the amount contributed is available for expenditures on activities approved by municipalities such as: (1) neighborhood assistance; (2) job training or education; (3) community services; (4) crime prevention; (5) cash donations used for purchase of open space; or (6) community-based alcoholism prevention or treatment programs. A 100% credit is available for energy conservation or construction or rehabilitation of dwelling units for families of low and moderate income. The program is administered by the Department of Revenue Services. The minimum amount for which a credit is granted is $250, the annual credit limit per business firm is $75,000 and the annual limit for all firms is $5 million. Unused credits may be carried back for 2 years. CGS Sec. 12-632 through 12-635(a)

   Rationale and history: Incentive and Perceived Equity. PA 82-469 enacted the credit. PA 95-268 lowered the amount of the credit from 50% to 40% of the amount contributed. PA 03-225 increased the amount of the credit from 40% to 60% of the amount contributed. PA 07-242 increased the amount for energy conservation projects from 60% to 100%. PA 97-251 increased the total limit from $3 million to $4 million. PA 99-173 increased the total limit to $5 million.

3. **Historic homes rehabilitation credit:** The credit is available for expenses associated with rehabilitating owner-occupied historic homes. It is administered by the Connecticut Commission on Culture and Tourism (CCCT). The property must: (1) have 1 to 4 dwelling units, one of which is the principal residence of the owner, (2) be located in a federally qualified census tract, an economically distressed area or an urban or regional center, and (3) be listed individually on the National Register of Historic Places or located in a district listed in the National or State Register of Historic Places. In addition, CCCT must certify that the property contributes to the district's historic character. The minimum amount for which a credit is available is $25,000, the credit limit per dwelling unit is $30,000 (the home may have up to 4 dwelling units), and the annual limit for all taxpayers is $3 million. The owner must occupy the home for at least 5 years following the completion of the rehabilitation work. Unused credits may be carried forward for 4 years. CGS Sec. 10-416

   Rationale: Incentive and Expediency. PA 99-173 enacted the credit.

4. **Historic structures credit:** The credit is available to individuals, limited liability companies, and nonprofit and for-profit corporations for expenses associated with rehabilitating historic commercial and industrial properties for residential use. It is administered by the Connecticut Commission on Culture and Tourism (CCCT). The property must either be: (1) listed individually on the National Register of Historic Places or (2) located in a district listed in the National or State Register of Historic Places. In addition, CCCT must certify that the property contributes to the district's historic character. The credit is up to 25% of the qualified rehabilitation costs, the limit per structure is $2.7 million and the annual limit for all taxpayers is $15 million. Owners can claim the credit themselves or transfer it to others. Credit holders may claim a credit in the tax year when the property receives its certificate of occupancy. For multiphase projects, credit holders may claim a part of the credit in proportion to that part of the project that received a certificate of occupancy. Unused credits may be carried forward for 5 years. CGS Sec. 12-416a

   Rationale: Incentive and Expediency. PA 06-186 enacted the credit effective with the 2006 income year.

5. **Historic Investment - Mixed use historic structures credit:** The credit is available to individuals, limited liability companies, and nonprofit and for-profit corporations for expenses associated with rehabilitating historic property used for both residential and commercial purposes[21]. It is administered by the Connecticut Commission on Culture and Tourism (CCCT). The property must be an historic commercial or industrial property: (1) individually listed on the national or state Register of Historic Places or (2) located in an historic district listed on the national or state Register of Historic Places. In addition, the Connecticut Commission on Culture and Tourism (CCCT) must certify that the property contributes to the district's historic character. The credit is up to 25% of the qualified rehabilitation costs

[21] The residential portion must comprise at least 33% of the total floor area in the rehabilitated property.

or 30%, if a portion of the units are affordable[22] to low- and moderate-income people. The total credit amount is up to $50 million per three-year cycle, beginning with FY 09 through FY 11. Tax credits for any single project are limited to 10% of the aggregate limit for all such tax credits for each three-year period. CGS Sec. 10-416b

Rationale: Incentive and Expediency. PA 07-250 enacted the credit and specified that the first three-year period for which the credit is available is FY 09 through FY 11.

6. **Computer donation credit:** The credit is available for the donation of new or used computers to a local or regional board of education or a public school. It is administered by the Department of Revenue Services. The amount may not exceed 50% of the fair market values of the computers at the time of donation and the used computers may not be more than 2 years old. The annual limit per business is $75,000 and the annual limit for all firms is $1 million. There are no carryback or carryforward provisions. CGS Sec. 10-228b

   Rationale: Incentive and Expediency. PA 00-170 enacted the credit.

7. **Urban and industrial site reinvestment credit:** The credit is available for investments associated with urban site remediation. It is administered by the Department of Economic and Community Development (DECD) and is allowable over 10 years[23]. The credit amount may not exceed the amount of state revenue that DECD determines will be generated by the site. There is a recapture provision if the actual amount of revenue generated is less than the total sum of tax credits claimed. The credit is limited to $100 million per project and $500 million for all projects. Unused credits may be carried forward for 5 years. CGS Sec. 32-9t

   Rationale: Incentive and Expediency. PA 00-170 enacted the credit. PA 01-9 (JSS) extended the credit to taxpayers investing in eligible environmental remediation and urban sites reinvestment projects through Community Economic Entities (CDEs). PA 06-187 expands the credit's qualification criteria to include projects that: (1) are connected to an operation relocating from another state or (2) involve the expansion of an existing facility requiring a minimum $50 million investment.

8. **Clean alternative fuel credit: 10% for vehicles:** The credit is available for the incremental cost of purchasing a vehicle exclusively powered by a clean alternative fuel. The credit is 10% of the difference between the purchase price of a clean alternative fuel vehicle and a comparably equipped vehicle powered by conventional fuels. Unused credits may be carried forward for 3-years. The credit is unavailable after the January 1, 2008. CGS Sec 12-217i(b)

   Rationale and history: Incentive. PA 91-179 enacted the credit effective with the 1991 income year. PA 92-188 extended the credit to electrically powered vehicles. The sunset date for the credit was extended by PA 93-199, PA 97-295, PA 99-173, PA 02-4 MSS and PA 04-231.

9. **Insurance Reinvestment Fund[24] credit:** The credit is available to investors in Insurance Reinvestment Funds. It is administered by the Department of Economic and Community Development (DECD). The credit is equal to the amount invested, which is taken over a 10 year period. Managers of eligible funds must have registered with DECD by 7/1/00 in order for their investors to claim this credit. The credit has recapture provisions under certain circumstances. Unused credits may be carried forward for 5 years. The credit is unavailable after 12/31/15. CGS Sec. 38a-88a

[22] A project is considered affordable if: (1) at least 20% of the units are affordable rental units or (2) 10% are affordable homeownership units. A unit is affordable if it costs a moderate-income household no more than 30% of its income. A household falls into this category if it earns no more than the median income of the town where the unit is located.

[23] Over the 10-year period, the credit is taken as follows: 0% in Years 1-3, 10% in Years 4-7 and 20% in Years 8-10

[24] Insurance Reinvestment Funds invest in Connecticut companies engaged in an insurance business or providing services to insurance companies.

Rationale: Expediency and Incentive. PA 94-214 enacted the credit and permitted the establishment of Insurance Reinvestment Funds. PA 00-170 stipulated that: (1) managers of eligible funds must have registered with DECD by 7/1/00 in order for their investors to claim this credit, and (2) investments in funds created on or after this date are not eligible for the credit. PA 01-6 (JSS): (1) sunsets the credit after 12/31/15 and (2) permits recapture under certain circumstances.

10. **Electronic data processing equipment property tax credit**: The credit is available for 100% of the local property tax paid on electronic data processing equipment, including computers, printers, peripheral computer equipment, bundled software and any other related equipment reported as Code 20 on the Personal Property Declaration. The credit is only for property tax liability and excludes any interest or penalties that the taxpayer may also be required to pay. It may only be taken when filing a final return and may not be used to calculate estimated payments. Unused credits may be carried forward for 5 years. CGS Sec. 12-217t

    Rationale and history: Perceived Equity. PA 94-4 MSS enacted the credit. PA 95-160 delayed the effective date of the credit from the 10/1/94 grand list to 10/1/96 grand list. PA 96-144 reinstated the original effective date of 10/1/94 grand list.

11. **Job creation credit**: The credit is available to companies that: (1) relocate out-of-state operations to Connecticut; (2) create at least 10 new, full-time jobs here; and (3) hire new employees for those jobs and keep them employed for at least 12 months. It is administered by the Department of Economic and Community Development (DECD). DECD may approve full or partial credits only if the proposed company relocation: (1) is not economically viable without the credits and (2) provides a net benefit to economic development and employment in the state. The credit is up to 60% of the state income tax withheld from the new employees' wages. For each new employee, the credit may be claimed for up to five consecutive years. There is a recapture provision if the number of new employees falls below that for which the taxpayer claimed the credit and they are not replace by other new employees. The annual limit for all companies is $10 million. Credits must be taken in the same income year they are earned. There are no carryback or carryforward provisions. CGS Sec. 12-217ii

    Rationale and history: Incentive. PA 06-186 enacted the credit effective for the 2006 income year. PA 07-250: (1) made the credit available to companies currently operating in the state, (2) reduced the job creation requirement from 50 to 10 new full-time jobs and (3) increased the maximum amount of the credit from 25% to 60%.

12. **Displaced worker credit**: The credit is available to companies that hire workers who: (1) were employed in Connecticut and (2) were let go by a previous employer as a direct result of a business restructuring in which at least 10 Connecticut workers were terminated by the same employer. The credit amount is $1,500 per worker and it must be taken during the income year in which the displaced worker completes his first 12 months of employment with the taxpayer. To receive the credit, the new employer must: (1) pay the workers at least 75% of their previous annual wages or salary for the first 12 months of employment and (2) not be related to the old employer. Only one displaced worker credit is allowed per qualifying worker and the employer may not claim this credit and the credit under CGS 12-217bb (displaced electric worker) for the same employee. The credit amount cannot exceed the total tax due from the taxpayer. There are no carryback or carryforward provisions. CGS Sec. 12-217hh

    Rationale and history: Incentive. PA 06-186 enacted the credit effective for the 2006 income year.

13. **Film and digital media production credit:** The credit is available to companies that produce qualified entertainment content wholly or in part in this state. Qualified activities include production of: (1) motion pictures, (2) television programming, (3) sound recordings, (4) music videos, (5) video games, (6) commercials (infomercials are ineligible) and (7) certain interactive websites. The credit is administered by the Connecticut Commission on Culture and Tourism (CCCT). The credit is as follows:

Film and Digital Media Production Credit		
Income Year	Minimum Production Expenditure	% Credit
2007 to 2009	$50,000	30%
2010 & after	$100,000 to $500,000	10%
	$500,000 to $1 million	15%
	Over $1 million	30%

Beginning with the 2010 income year, credits may be: (1) sold or transferred to other eligible companies and (2) resold for a maximum of three transfers. Credit buyers and sellers must jointly notify CCCT of a sale or transfer. Credits can only be claimed for the income year in which the expenditures are made. Credits are not refundable. Unused credits may be carried forward for 3 years. CGS Sec. 12-217jj

Rationale: Incentive and Expediency. PA 06-83 enacted the credit effective with the 2006 income year. PA 06-186 amended the language. PA 07-236: (1) allowed the credit to be applied against the insurance premium tax as well as the corporation tax and (2) changed the types of productions and expenses that are eligible. PA 07-4 (JSS) eliminated a partial credit for out of state expenditures that was added by PA 07-236. PA 08-142: (1) makes the insurance premiums tax credit retroactive to income years beginning between January 1, 2006 and January 1, 2007 and (2) permits insurance premiums tax and corporation tax credits for income years between January 1, 2006 and January 1, 2007 to be resold or transferred up to three times. PA 09-3 (JSS): (1) changed the minimum project expenditure and percentage of the credit beginning with the 2010 income year, (2) changed the requirements for eligible production expenditures beginning with the 2010 income year and (3) made infomercials ineligible for the credit.

14. Digital animation production credit: The credit is available for developing and producing computer-generated animation content for public exhibition and distribution. To qualify for the credit, a company must: (1) be exclusively engaged in the production activity; (2) maintain a studio in this state; (3) employ at least 200 full-time employees; and (4) be certified by the Connecticut Commission on Culture and Tourism (CCCT). The credit is as follows:

Digital Animation Production Credit		
Income Year	Minimum Production Expenditure	% Credit
2007 to 2009	$50,000	30%
2010 & after	$100,000 to $500,000	10%
	$500,000 to $1 million	15%
	Over $1 million	30%

Credits may be: (1) sold or transferred to other eligible companies and (2) resold for a maximum of three transfers. Credit buyers and sellers must jointly notify CCCT of a sale or transfer. Credits can only be claimed for the income year in which the expenditures are made. The annual limit for all companies is $15 million. Companies receiving the digital animation credit are not eligible for the film production credit. Credits are not refundable. Unused credits may be carried forward for 3 years. CGS Sec. 12-217ll

Rationale: Incentive and Expediency. PA 07-236 enacted the credit. PA 09-3 (JSS) changed the minimum project expenditure and percentage of the credit beginning with the 2010 income year.

Business Taxes Expenditures

	FY 11 ($ millions)
Exemptions and Deductions	
Income from Foreign Sales Corporations (FSC)	Indeterminate
Domestic International Sales Corporations (DISC)	Indeterminate
Foreign Insurance Companies	Indeterminate
Domestic Insurance Companies	Indeterminate
Railroad Companies	Indeterminate
Political Associations	Indeterminate
Electric Cooperatives	Indeterminate
Alternative Energy System Companies	Indeterminate
Aero-Derived Gas Turbine Systems	Indeterminate
Regulated Investment Co and REITs	Indeterminate
Unpaid Loss Reserve Adjustment for Non-Life Insurance Cos	Indeterminate
Subchapter S Corporations	Indeterminate
Passive Investment Companies	Indeterminate
Dividends from DISC or FSCs	Indeterminate
Earnings from International Banking Facilities (IBF)	Indeterminate
Non-US Companies limited to trading securities	Indeterminate
Financial Companies in located in Export Zone	Indeterminate
Municipal Risk Management Agencies	Indeterminate
Unpaid Loss Reserve	Indeterminate
Net Operating Loss Carry-Forward	150.0
Net Capital Loss Carry-Over	10.0
Capital Gains from Sales of Open Space or Watershed Land	1.3

Business Taxes Expenditures--continued

	FY 11 ($ millions)
Credits	
Apprenticeship	$ 0.1
Computer Donation	Indeterminate
Digital Animation Production	Indeterminate
Displaced Worker	less than 0.1
Donation of Land for Educational Use	less than 0.1
Electronic Data Processing	14.0
Film and Digital Media Production	11.0
Film Production Infrastructure	10.0
Financial Institutions	Indeterminate
Fixed Capital	45.0
Hiring Incentive	Indeterminate
Historic Home Rehabilitation and Historic Structure Rehabilitation	0.5
Historic Structure Mixed Use	45.0
Housing Program Contribution	3.0
Human Capital	1.5
Insurance Reinvestment	5.0
Job Creation	Indeterminate
Machinery and Equipment	2.0
Mfg Facilities/Service Facilities/Enterprise Zones	3.5
Neighborhood Assistance	1.0
Open Space Land Donation	0.1
Research & Development	5.0
Research & Development Grants to Higher Education	Indeterminate
Research & Experimentation	10.0
Sale of Certain Credits	30.0
SBA Guarantee	Indeterminate
Traffic Reduction	Indeterminate
Urban and Industrial Reinvestment Credit	0.5

INSURANCE PREMIUMS TAX

On Insurance Companies, Health Centers and Hospital & Medical Services Corporations

A tax is levied on insurance premiums and medical subscriber charges under the Insurance Premiums Tax and the Unauthorized (Unlicensed) Insurance Company Tax. The tax rate and base depends on the nature of the company issuing the insurance:

Rate & Basis

1. Domestic insurance companies[25]: 1.75% on all net direct insurance premiums derived from policies written in this state. CGS Sec. 12-202
2. Health care centers: 1.75 % on the total net direct subscriber charges received by such corporations during the preceding year. CGS Sec. 12-202a
3. Foreign insurance companies[26]: 1.75% on all taxable net direct premiums derived from policies written in this state. CGS Sec. 12-210(b)
4. Hospital and medical service companies[27]: 2% on the total net direct subscriber charges received by such corporations during the preceding year. CGS Sec. 12-212a
5. Unauthorized insurance[28] companies: 4% on gross premiums derived from policies written in the state (CGS Sec. 38a-743(a)). These companies are taxed under a separate statutory section and are not eligible for any deductions or tax credits that are available under the Insurance Premiums Tax.

Unauthorized (Unlicensed) Insurance Company Tax

Payment - The tax is due on the first of May, August, November, and February for the premiums paid in the preceding quarter (CGS Sec. 38a-743(a)). There are no exemptions or credits available under this tax.

Insurance Premiums Tax (includes domestic and foreign insurance companies, health care centers and hospital and medical service companies)

Payment:

Estimated Payments – Companies are required to pay 30% of their estimated tax by 3/15, 30% by 6/15, 20% by 9/15 and 20% by 12/15 (CGS 12-204c(d)(1)).

Safe Harbor provision for estimated payments – CGS Sec. 12-204c(d)(2)) provides a method of calculating estimated tax payments that protects corporations from incurring underpayment penalties. This method allows corporations to base their estimated payments on either (1) 90% of the tax liability shown on the tax return for the income year or (2) 100% of the tax liability shown on the tax return for the prior income year.

[25] Domestic insurance companies are incorporated under Connecticut state law and licensed by the insurance department to issue policies.
[26] Foreign or nonresident insurance companies are incorporated under the laws of another state or foreign government but must be licensed by the insurance department in order to issue policies in this state.
[27] There are currently no taxpayers remitting this tax in the state of Connecticut.
[28] Unauthorized insurance companies are not licensed by the insurance department but must register with it to be able to offer lines generally unavailable from licensed insurers (i.e., surplus lines).

Underpayment penalty – The interest rate is 1% per month or 12% annually (CGS Sec. 12-204c(a)(1)). Prior to 7/1/95, companies had to pay $1^2/_3$% interest per month or 20% per year on late payments and underpayment of estimated taxes and audit assessments. Prior to the 1996 income year, interest was due if the first payment is less than 27%, the second payment less than 63%, the third payment less than 72% or the fourth payment less than 90% of the actual tax due for the income year.

Final Payment – Final payment of the tax is due on or before 3/1 (CGS Sec. 12-205).

Exemptions available under the Insurance Premiums Tax

1. **Ocean marine insurance.** The exemption is for premiums from the sale of ocean and inland marine insurance of nonresident and foreign companies. CGS Sec. 12-210(b)

   Rationale: Expediency

2. **Fraternal benefit societies.** Fraternal benefit societies or associations are exempt from all state taxes but are subject to municipal taxes on real estate and office equipment. These societies are nonprofit, charitable organizations that provide life, sickness and/or accident benefits for their members. CGS Sec. 38a-604

   Rationale and history: Incentive. The exemption was enacted in 1935 and last modified by PA 57-448.

3. **Municipal risk management agencies[29].** CGS Sec. 7-479e(d)

   Rationale and history: Conformity. PA 93-297 created the exemption, effective 7/1/94.

4. **Special taxing districts[30].** CGS Sec. 38a-743(a)

   Rationale and history: Conformity. PA 96-75 created the exemption.

5. **State employee health plans.** CGS Secs. 12-202a(b)(1) and 12-202a(b)(9)

   Rationale and history: Conformity. PA 97-11 (JSS) created the exemption.

6. **Medicaid, HUSKY and General Assistance.** The exemption is for Medicaid contracts, contracts to serve children enrolled in the HUSKY program, and contracts to serve clients on General Assistance (welfare). CGS Secs. 12-202a(b)(2) through 12-202a(b)(5)

   Rationale and history: Redundancy. PA 98-110 created the exemption, effective 1/1/98.

7. **Health care coverage for municipal employees, non-profit organizations and the State Teachers' Retirement System.** The exemption is for new or renewed insurance health policies written under plans for municipal employees, non-profit organizations and the State Teachers' Retirement System. CGS Secs. 12-202a(b)(6) through 12-202a(b)(8)

   Rationale and history: Incentive. PA 01-30 created the exemption.

8. **Small employer/Self-employed health insurance plans.** The exemption is for individual health insurance plans issued to self-employed people and small employer health care plans. CGS Sec. 38a-566(b)

[29] An association formed by two or more municipalities or other local government units to insure against public liability, automobile and property risk.
[30] A special taxing district is created by an act of the legislative that permits the assessment of taxes to fund services to homeowners and businesses like water, sewer and fire protection.

Rationale and history: Incentive. PA 98-122 created the exemption.

9. **Companies located in an insurance and financial services export zone.** The exemption is for companies that: (1) have their corporate headquarters located in the insurance and financial export zone in the City of Hartford and (2) conduct all of their business outside of the United States. CGS Sec. 32-538(b)

   Rationale and history: Incentive. PA 96-253 created the exemption.

Tax credits

Insurance companies or health maintenance organizations (HMOs) may use the credits listed below to reduce state tax liability. Effective with the 2003 income year, the total value of tax credits that an entity may claim in any income year is limited to 70% of its pre-credit tax liability (CGS Sec. 12-211a).

Tax credits available only under the Insurance Premiums Tax

1. **Insurance Guaranty Fund payments.** The credit is 100% of payments made to the CT Insurance Guaranty and the CT Life and Health Insurance Guaranty Associations. CGS Sec. 38a-866(h)

   Rationale and history: Incentive. PA 93-239 enacted the credit. PA 00-174 increased the amount from 50% to 100% effective 1/1/01.

2. **Insurance Department Assessment Credit.** The credit is for 80% of the Connecticut Insurance Department assessment paid by local domestic insurance companies whose assets do not exceed $95 million during the calendar year. CGS Sec. 12-202

   Rationale: Expediency and Incentive. P.A. 73-350 enacted the credit. P.A. 80-482 increased the asset threshold from $50 million to $75 million. P.A. 90-333 increased the threshold to $95 million.

Tax credits available under the Insurance Premiums Tax as well as other taxes

The following credits are available to companies that are taxable under a number of taxes, including the Insurance Premiums Tax.

1. **Housing program contribution credit:** The credit is available to firms making cash contributions to nonprofit organizations that develop, sponsor, or manage housing programs for families with low or moderate incomes. It is administered by the Connecticut Housing Finance Authority (CHFA). The credit is equal to the amount contributed. The minimum amount for which a credit is granted is $250 per firm. The annual limit for all firms is $10 million (of this total, $2 million is set aside for the Supportive Housing Pilots Initiative or the Next Steps Initiative and $1 million is set aside for workforce housing). The maximum amount a nonprofit organization may receive in the aggregate is $500,000. Unused credits may be carried backward or forward for 5 years. CGS Sec. 8-395

   Rationale and history: Incentive and Perceived Equity. PA 87-377 enacted the credit effective with the 1988 income year. PA 99-173 increased: (1) the credit limit per business from $50,000 to $75,000; (2) the limit for the total annual amount allowed for all businesses from $1 million to $5 million; and (3) the amount an entity can receive in the aggregate from $300,000 to $400,000. PA 00-170 required eligible contributions to be in cash and removed the per-business limit on credits. PA 01-8 JSS set aside $1 million for the Supportive Housing Pilots Initiative. PA 06-186: (1) raised the annual limit for all firms from $5 million to $10 million; (2) set aside $2 million for the Supportive Housing Pilots Initiative or the Next Steps Initiative; (3) set aside $1 million for workforce housing; and (4) raised the maximum amount a nonprofit organization may receive in the aggregate from $400,000 to $500,000.

2. **Neighborhood Assistance Program credit:** A 60% credit of the amount contributed is available for expenditures on activities approved by municipalities such as: (1) neighborhood assistance; (2) job training or education; (3) community services; (4) crime prevention; (5) cash donations used for purchase of open space; or (6) community-based alcoholism prevention or treatment programs. A 100% credit is available for energy conservation or construction or rehabilitation of dwelling units for families of low and moderate income. The program is administered by the Department of Revenue Services. The minimum amount for which a credit is granted is $250, the annual credit limit per business firm is $75,000 and the annual limit for all firms is $5 million. Unused credits may be carried back for 2 years. CGS Sec. 12-632 through 12-635(a)

   Rationale and history: Incentive and Perceived Equity. PA 82-469 enacted the credit. PA 95-268 lowered the amount of the credit from 50% to 40% of the amount contributed. PA 03-225 increased the amount of the credit from 40% to 60% of the amount contributed. PA 07-242 increased the amount for energy conservation projects from 60% to 100%. PA 97-251 increased the total limit from $3 million to $4 million. PA 99-173 increased the total limit to $5 million.

3. **Historic homes rehabilitation credit:** The credit is available for expenses associated with rehabilitating owner-occupied historic homes. It is administered by the Connecticut Commission on Culture and Tourism (CCCT). The property must: (1) have 1 to 4 dwelling units, one of which is the principal residence of the owner, (2) be located in a federally qualified census tract, an economically distressed area or an urban or regional center, and (3) be listed individually on the National Register of Historic Places or located in a district listed in the National or State Register of Historic Places. In addition, CCCT must certify that the property contributes to the district's historic character. The minimum amount for which a credit is available is $25,000, the credit limit per dwelling unit is $30,000 (the home may have up to 4 dwelling units), and the annual limit for all taxpayers is $3 million. The owner must occupy the home for at least 5 years following the completion of the rehabilitation work. Unused credits may be carried forward for 4 years. CGS Sec. 10-416

   Rationale: Incentive and Expediency. PA 99-173 enacted the credit.

4. **Historic structures credit:** The credit is available to individuals, limited liability companies, and nonprofit and for-profit corporations for expenses associated with rehabilitating historic commercial and industrial properties for residential use. It is administered by the Connecticut Commission on Culture and Tourism (CCCT). The property must either be: (1) listed individually on the National Register of Historic Places or (2) located in a district listed in the National or State Register of Historic Places. In addition, CCCT must certify that the property contributes to the district's historic character. The credit is up to 25% of the qualified rehabilitation costs, the limit per structure is $2.7 million and the annual limit for all taxpayers is $15 million. Owners can claim the credit themselves or transfer it to others. Credit holders may claim a credit in the tax year when the property receives its certificate of occupancy. For multiphase projects, credit holders may claim a part of the credit in proportion to that part of the project that received a certificate of occupancy. Unused credits may be carried forward for 5 years. CGS Sec. 12-416a

   Rationale: Incentive and Expediency. PA 06-186 enacted the credit effective with the 2006 income year.

5. **Mixed use historic structures credit:** The credit is available to individuals, limited liability companies, and nonprofit and for-profit corporations for expenses associated with rehabilitating historic property used for both residential and commercial purposes[31]. It is administered by the Connecticut Commission on Culture and Tourism (CCCT). The property must be an historic commercial or industrial property: (1) individually listed on the national or state Register of Historic Places or (2) located in an historic district listed on the national or state Register of Historic Places. In addition, the Connecticut Commission on Culture and Tourism (CCCT) must certify that the property contributes to the district's historic character. The credit is up to 25% of the qualified rehabilitation costs or 30%, if a portion of the units are

[31] The residential portion must comprise at least 33% of the total floor area in the rehabilitated property.

affordable[32] to low- and moderate-income people. The total credit amount is up to $50 million per three-year cycle, beginning with FY 09 through FY 11. Tax credits for any single project are limited to 10% of the aggregate limit for all such tax credits for each three-year period.

Rationale: Incentive and Expediency. PA 07-250 enacted the credit and specified that the first three-year period for which the credit is available is FY 09 through FY 11.

6. **Computer donation credit:** The credit is available for the donation of new or used computers to a local or regional board of education or a public school. It is administered by the Department of Revenue Services. The amount may not exceed 50% of the fair market values of the computers at the time of donation and the used computers may not be more than 2 years old. The annual limit per business is $75,000 and the annual limit for all firms is $1 million. There are no carryback or carryforward provisions. CGS Sec. 10-228b

   Rationale: Incentive and Expediency. PA 00-170 enacted the credit.

7. **Urban and industrial site reinvestment credit:** The credit is available for investments associated with urban site remediation. It is administered by the Department of Economic and Community Development (DECD) and is allowable over 10 years[33]. The credit amount may not exceed the amount of state revenue that DECD determines will be generated by the site. There is a recapture provision if the actual amount of revenue generated is less than the total sum of tax credits claimed. The credit is limited to $100 million per project and $500 million for all projects. Unused credits may be carried forward for 5 years. CGS Sec. 32-9t

   Rationale: Incentive and Expediency. PA 00-170 enacted the credit. PA 01-9 (JSS) extended the credit to taxpayers investing in eligible environmental remediation and urban sites reinvestment projects through Community Economic Entities (CDEs). PA 06-187 expands the credit's qualification criteria to include projects that: (1) are connected to an operation relocating from another state or (2) involve the expansion of an existing facility requiring a minimum $50 million investment.

8. **Clean alternative fuel credit: 10% for vehicles:** The credit is available for the incremental cost of purchasing a vehicle exclusively powered by a clean alternative fuel. The credit is 10% of the difference between the purchase price of a clean alternative fuel vehicle and a comparably equipped vehicle powered by conventional fuels. Unused credits may be carried forward for 3-years. The credit is unavailable after the January 1, 2008. CGS Sec 12-217i(b)

   Rationale and history: Incentive. PA 91-179 enacted the credit effective with the 1991 income year. PA 92-188 extended the credit to electrically powered vehicles. The sunset date for the credit was extended by PA 93-199, PA 97-295, PA 99-173, PA 02-4 MSS and PA 04-231.

9. **Insurance Reinvestment Fund[34] credit:** The credit is available to investors in Insurance Reinvestment Funds. It is administered by the Department of Economic and Community Development (DECD). The credit is equal to the amount invested, which is taken over a 10 year period[16]. Managers of eligible funds must have registered with DECD by 7/1/00 in order for their investors to claim this credit. The credit has recapture provisions under certain circumstances. Unused credits may be carried forward for 5 years. The credit is unavailable after 12/31/15. CGS Sec. 38a-88a

[32] A project is considered affordable if: (1) at least 20% of the units are affordable rental units or (2) 10% are affordable homeownership units. A unit is affordable if it costs a moderate-income household no more than 30% of its income. A household falls into this category if it earns no more than the median income of the town where the unit is located.

[33] Over the 10-year period, the credit is taken as follows: 0% in Years 1-3, 10% in Years 4-7 and 20% in Years 8-10

[34] Insurance Reinvestment Funds invest in Connecticut companies engaged in an insurance business or providing services to insurance companies.

Rationale: Expediency and Incentive. PA 94-214 enacted the credit and permitted the establishment of Insurance Reinvestment Funds. PA 00-170 stipulated that: (1) managers of eligible funds must have registered with DECD by 7/1/00 in order for their investors to claim this credit, and (2) investments in funds created on or after this date are not eligible for the credit. PA 01-6 (JSS): (1) sunsets the credit after 12/31/15 and (2) permits recapture under certain circumstances.

10. **Electronic data processing equipment property tax credit**: The credit is available for 100% of the local property tax paid on electronic data processing equipment, including computers, printers, peripheral computer equipment, bundled software and any other related equipment reported as Code 20 on the Personal Property Declaration. The credit is only for property tax liability and excludes any interest or penalties that the taxpayer may also be required to pay. It may only be taken when filing a final return and may not be used to calculate estimated payments. Unused credits may be carried forward for 5 years. CGS Sec. 12-217t

Rationale and history: Perceived Equity. PA 94-4 MSS enacted the credit. PA 95-160 delayed the effective date of the credit from the 10/1/94 grand list to 10/1/96 grand list. PA 96-144 reinstated the original effective date of 10/1/94 grand list.

11. **Job creation credit**: The credit is available to companies that: (1) did not previously conduct business in the state and relocate to Connecticut; (2) create at least 10 new, full-time jobs here; and (3) hire new employees for those jobs and keep them employed for at least 12 months. It is administered by the Department of Economic and Community Development (DECD). DECD may approve full or partial credits only if the proposed company relocation: (1) is not economically viable without the credits and (2) provides a net benefit to economic development and employment in the state. The credit is up to 60% of the state income tax withheld from the new employees' wages. For each new employee, the credit may be claimed for up to five consecutive years. There is a recapture provision if the number of new employees falls below that for which the taxpayer claimed the credit and they are not replace by other new employees. The annual limit for all companies is $10 million. Credits must be taken in the same income year they are earned. There are no carryback or carryforward provisions. CGS Sec. 12-217ii

Rationale and history: Incentive. PA 06-186 enacted the credit effective for the 2006 income year. PA 07-250: (1) reduced the job creation requirement from 50 to 10 new full-time jobs and (2) increased the maximum amount of the credit from 25% to 60%.

12. **Displaced worker credit**: The credit is available to companies that hire workers who: (1) were employed in Connecticut and (2) were let go by a previous employer as a direct result of a business restructuring in which at least 10 Connecticut workers were terminated by the same employer. The credit amount is $1,500 per worker and it must be taken during the income year in which the displaced worker completes his first 12 months of employment with the taxpayer. To receive the credit, the new employer must: (1) pay the workers at least 75% of their previous annual wages or salary for the first 12 months of employment and (2) not be related to the old employer. Only one displaced worker credit is allowed per qualifying worker and the employer may not claim this credit and the credit under CGS 12-217bb (displaced electric worker) for the same employee. The credit amount cannot exceed the total tax due from the taxpayer. There are no carryback or carryforward provisions. CGS Sec. 12-217hh

Rationale and history: Incentive. PA 06-186 enacted the credit effective for the 2006 income year.

13. **Film and digital media production credit:** The credit is available to companies that produce qualified entertainment content wholly or in part in this state. Qualified activities include production of: (1) motion pictures, (2) television programming, (3) sound recordings, (4) music videos, (5) video games, (6) commercials (infomercials are ineligible) and (7) certain interactive websites. The credit is administered by the Connecticut Commission on Culture and Tourism (CCCT). The credit is as follows:

Film and Digital Media Production Credit		
Income Year	Minimum Production Expenditure	% Credit
2007 to 2009	$50,000	30%
2010 & after	$100,000 to $500,000	10%
	$500,000 to $1 million	15%
	Over $1 million	30%

Beginning with the 2010 income year, credits may be: (1) sold or transferred to other eligible companies and (2) resold for a maximum of three transfers. Credit buyers and sellers must jointly notify CCCT of a sale or transfer. Credits can only be claimed for the income year in which the expenditures are made. Credits are not refundable. Unused credits may be carried forward for 3 years. CGS Sec. 12-217jj

Rationale: Incentive and Expediency. PA 06-83 enacted the credit effective with the 2006 income year. PA 06-186 amended the language. PA 07-236: (1) allowed the credit to be applied against the insurance premium tax as well as the corporation tax and (2) changed the types of productions and expenses that are eligible. PA 07-4 (JSS) eliminated a partial credit for out of state expenditures that was added by PA 07-236. PA 08-142: (1) makes the insurance premiums tax credit retroactive to income years beginning between January 1, 2006 and January 1, 2007 and (2) permits insurance premiums tax and corporation tax credits for income years between January 1, 2006 and January 1, 2007 to be resold or transferred up to three times. PA 09-3 (JSS): (1) changed the minimum project expenditure and percentage of the credit beginning with the 2010 income year, (2) changed the requirements for eligible production expenditures beginning with the 2010 income year and (3) made infomercials ineligible for the credit.

14. Digital animation production credit: The credit is available for developing and producing computer-generated animation content for public exhibition and distribution. To qualify for the credit, a company must: (1) be exclusively engaged in the production activity; (2) maintain a studio in this state; (3) employ at least 200 full-time employees; and (4) be certified by the Connecticut Commission on Culture and Tourism (CCCT). The credit is as follows:

Digital Animation Production Credit		
Income Year	Minimum Production Expenditure	% Credit
2007 to 2009	$50,000	30%
2010 & after	$100,000 to $500,000	10%
	$500,000 to $1 million	15%
	Over $1 million	30%

Credits may be: (1) sold or transferred to other eligible companies and (2) resold for a maximum of three transfers. Credit buyers and sellers must jointly notify CCCT of a sale or transfer. Credits can only be claimed for the income year in which the expenditures are made. The annual limit for all companies is $15 million. Companies receiving the digital animation credit are not eligible for the film production credit. Credits are not refundable. Unused credits may be carried forward for 3 years. CGS Sec. 12-217ll

Rationale: Incentive and Expediency. PA 07-236 enacted the credit. PA 09-3 (JSS) changed the minimum project expenditure and percentage of the credit beginning with the 2010 income year.

Insurance Premiums Tax Expenditures

	FY 11 ($ millions)
Exemptions and Deductions	
Ocean Marine Insurance	$ 0.5
Fraternal Societies	Indeterminate
Municipal Risk Management Agencies	Indeterminate
Special Taxing Districts	Indeterminate
State Employee Health Plans	2.0
Municipal, Non-profit and Teachers Retirement System	5.0
Medicaid, HUSKY and General Assistance	7.0
Small/Self Employer Health Insurance Plans	2.0
Financial Companies in located in Export Zone	Indeterminate
Credits	
Credit for Insurance Guaranty Fund Payments	Indeterminate
Insurance Department Assessment Credit	1.0
Housing Program Contribution	Indeterminate
Neighborhood Assistance	0.7
Historic Home Rehabilitation, Historic Structure and and Mixed Use Historic Structure Rehabilitation	1.2
Computer Donation	Indeterminate
Insurance Reinvestment	2.5
Urban and Industrial Site Reinvestment	Indeterminate
Electronic Data Processing	16.0
Job Creation	Indeterminate
Displaced Electric Worker	Indeterminate
Film and Digital Media Production	5.0
Digital Animation Production	15.0

REAL ESTATE CONVEYANCE AND CONTROLLING INTEREST TRANSFER TAXES

Real Estate Conveyance Tax

The Real Estate Conveyance Tax was enacted on the municipal level in 1967 and became a General Fund tax in 1983. It is levied on the seller of real property for the full purchase price of the property.[35]

Rate & Basis - The tax is imposed on the conveyance of each deed, instrument or writing whereby any lands, tenements or other realty is granted, assigned, transferred or otherwise conveyed to a purchaser (CGS Sec. 12-494). The rate depends on the property's classification and purchase price, as noted below:

Real Estate Conveyance Tax Rates

Type of Property	Tax Rate	CGS Section
Unimproved land	0.5%	12-494(a)
Residential Dwelling:		
First $800,000 of purchase price	0.5%	12-494(b)(2)(A)
Portion of purchase price that exceeds $800,000	1.0%	12-494(b)(2)(B)
Residential Property other than a dwelling	0.5%	12-494(a)
Nonresidential Property other than unimproved land	1.0%	12-494(b)(1)
Delinquent Mortgages	0.5%	12-494(b)(3)

Payment -The tax is paid to the town clerk when the conveyance is recorded (CGS Sec. 12-495) and remitted to the state within 10 days (CGS Sec. 12-494).

Real Estate Conveyance Tax Exclusions and Exemptions

Data is not available for Real Estate Conveyance Tax exemptions.

1. **Conveyances of less than $2,000.** CGS Sec. 12-494(a) and Sec. 12-498(a)(10)

   Rationale and history: Efficiency. CGS Sec. 12-494(a): PA 67-693 enacted the municipal tax and created an exemption for conveyances of $100 or less. PA 83-1 JSS enacted the state tax but did not exempt conveyances below any dollar amount. PA 89-205 enacted the current exemption. PA 03-1 ensures that property transfers are taxable whether they occur in one transaction or a series, and whether they involve one seller/transferor or a group acting in concert.

   PA 85-244 enacted the exemption under CGS Sec. 12-498(a)(10).

2. **Transfer of burial rights for a cemetery lot.** CGS Sec. 12-497a

   Rationale and history: Perceived Equity. PA 95-62 enacted the exemption.

3. **Deeds that the state is prohibited from taxing under the US constitution or federal law.** CGS Sec. 12-498(a)(1)

[35] Municipalities also receive revenue from real estate conveyances transactions under CGS Sec. 12-494(a)(2). From March 15, 2003 to July 1, 2008, the municipal tax is levied at the rate of 0.25% and after July 1, 2008, the rate will drop to 0.11%. CGS Sec. 12-494(c) gives the 17 "targeted investment communities" and the one town that has a manufacturing plant that qualifies for enterprise zone benefits the option of increasing their municipal real estate conveyance tax by an additional quarter point (to 0. 5%). The 18 affected towns are: Bloomfield, Bridgeport, Bristol, East Hartford, Groton, Hamden, Hartford, Meriden, Middletown, New Britain, New Haven, New London, Norwalk, Norwich, Southington, Stamford, Waterbury, and Windham.

Rationale and history: Conformity. PA 67-693 enacted the municipal tax and created the exemption.

4. **Deeds that secure a debt or other obligation.** The exemption is for recording a debt-related encumbrance on a deed, such as a mortgage or lien, which does not convey title to a new owner. CGS Sec. 12-498(a)(2)

   Rationale and history: Clarification. PA 67-693 enacted the municipal tax and created the exemption.

5. **Governmental entities.** The exemption is for transfers to which the state or its political subdivisions are a party. CGS Sec. 12-498(a)(3)

   Rationale and history: Conformity. PA 67-693 enacted the municipal tax and created the exemption.

6. **Tax deeds.** The exemption is for deeds issued when a property is purchased at a public sale for nonpayment of taxes. CGS Sec. 12-498(a)(4)

   Rationale and history: Clarification. 67-693 enacted the municipal tax and created the exemption.

7. **Deed releases.** The exemption is for deeds of release for property that is security for a debt or other obligation. CGS Sec. 12-498(a)(5)

   Rationale and history: Clarification. PA 67-693 enacted the municipal tax and created the exemption.

8. **Deeds of partition.** The exemption is for transfers that separate of the respective interests in land of joint owners. CGS Sec. 12-498(a)(6)

   Rationale and history: Clarification. PA 67-693 enacted the municipal tax and created the exemption.

9. **Deeds made pursuant to mergers of corporations.** The exemption is for transfers from the original property owner (the merged company) to itself as part of the new corporate entity. CGS Sec. 12-498(a)(7)

   Rationale and history: Clarification. PA 67-693 enacted the municipal tax and created the exemption.

10. **Corporate subsidiaries.** The exemption is for transfers by a subsidiary corporation to its parent corporation for no consideration other than cancellation or surrender of the subsidiary's stock. CGS Sec. 12-498(a)(8)

    Rationale and history: Incentive: The exemption provides horizontal equity between firms that are organized as a parent company with wholly-owned subsidiaries and firms that are organized as a single entity with different divisions. (See Sales Tax section for discussion of horizontal equity.) PA 67-693 enacted the municipal tax and created the exemption.

11. **Court decrees.** The exemption is for court ordered title transfers due to divorce, annulment of marriage and division of property by heirs. CGS Sec. 12-498(a)(9)

    Rationale and history: Expediency. PA 85-469 enacted the exemption. PA 09-3 (JSS) removed the exemption for property that is foreclosed for sale through a court order.

12. **Affiliated nonprofit corporations.** The exemption is for transfers made by a nonprofit corporation affiliated with the nonprofit corporation to which the transfer is made, provided one of the corporations owns or controls 100% of the other corporation. CGS Sec. 12-498(a)(11)

    Rationale and history: Incentive. PA 90-315 enacted the exemption.

13. **Nonprofit corporations.** The exemption is for transfers made by a corporation that is exempt under Section 501(c) of the federal tax code to another corporation that is exempt under Section 501(c). CGS Sec. 12-498(a)(12)

    Rationale and history: Incentive. PA 91-403 enacted the exemption.

14. **Conservation or recreation purposes.** The exemption if for transfers to any nonprofit organization that is organized for the purpose of holding undeveloped land in trust for conservation or recreation purposes. CGS Sec. 12-498(a)(13)

    Rationale and history: Incentive. PA 91-403 enacted the exemption effective 7/1/92.

15. **Transfers between spouses.** The exemption is for all transfers between spouses. CGS Sec. 12-498(a)(14)

    Rationale and history: Expediency. PA 93-389 enacted the exemption. It was formerly part of CGS Sec. 12-498(a)(11), which specified that the exempt transfer had to be for no consideration. The current exemption applies to all transfers between spouses, whether or not payment is involved.

16. **Adriaen's Landing Site and Stadium.** The exemption is for property transferred for the purpose of the projects at the Adriaen's Landing site or the stadium facility. The exemption is assumed to only apply once, when parcels are transferred for the Adriaen's Landing site or stadium facility site and not to any future transfer of the parcel. CGS Sec. 494(a)(15)

    Rationale and history: Conformity. PA 93-1 enacted an exemption for a former convention center and sportsplex project. PA 00-140 changed the references to apply to the Adriaen's Landing and stadium facility site.

17. **Class I or II land transferred to a water company on or after July 1, 1998.** CGS Sec. 12-498(a)(16)

    Rationale and history: Incentive. PA 98-157 enacted the exemption.

18. **Transfers to effectuate a mere change of identity or form of ownership.** The exemption is for transfers that effectuate a change of identity or form of ownership but do not change beneficial ownership. CGS Sec. 12-494(a)(17)

    Rationale and history: Clarification. PA 99-231 enacted the exemption.

19. **Employee Relocation Plan.** The exemption is for real estate transactions executed under employee relocation plans as a single transaction for real estate tax purposes even though the transaction involves two deeds. CGS Sec. 12-498(a)(18)

    Rationale and history: Perceived equity: Transactions involving employee relocations are often executed using two deeds because of a federal tax court ruling. The exemption prevents double taxation of a transaction that was previously taxed only once. PA 04-154 enacted the exemption.

20. **Principal residence for persons on certain types of assistance.** The exemption is for the transfer of a person's principal residence if the person has been approved for certain types of local property tax relief. CGS Sec. 12-498(b)(1)

    Rationale and history: Perceived equity. PA 85-159 enacted the exemption.

21. **Enterprise Zones.** The exemption is for transfer of Interest in property located in an area designated as an Enterprise Zone. CGS Sec. 12-498(b)(2)

Rationale and history: Incentive: Economic development. PA 89-205 enacted the exemption.

22. **Entertainment Districts.** The exemption is for transfer of Interest in property located in an area designated as an Entertainment District. CGS Sec. 12-494(b)(3)

    Rationale and history: Incentive. PA 93-311 enacted the exemption.

23. **Mutual saving institution that has reorganized.** The exemption is for property transferred by a mutual savings institution to: (1) a reorganized capital stock savings bank or (2) a reorganized capital stock savings and loan association. CGS Sec. 36a-199

    Rationale and history: Clarification. PA 92-92 enacted the exemption effective 5/20/92.

Additional Real Estate Conveyance Tax on the Farm, Forest and Open Space Land

In 1963, the legislature established the Farm, Forest and Open Space Program to encourage preservation through preferential taxation. The program permits landowners to pay a reduced amount of property tax on land that has been classified as farm, forest or open space by assessing the land's value based on its current use rather than its market value. The reduction is available for a period of 10 years.

In an attempt to prevent abuse of the program and to help recover abated taxes, an additional Real Estate Conveyance Tax is levied on the sale of such land while it is in the program. For open space land, additional tax is due if the land is sold within 10 years of when it is classified for the program (CGS Sec. 12-504a(a)). For farm or forestland, additional tax is due if the period of ownership of the land is 10 year or less (CGS Sec. 12-504a(b)). The rate of additional tax begins with 10% in the first year and declines at the rate of 1% per year (the rate in the tenth year is 1%). If the property is sold after the tenth year, the Real Estate Conveyance Tax is imposed at the normal rate.

The exemptions to the additional tax on farm, forest and open space parallel those for the Real Estate Conveyance Tax, with the following exceptions:

1. **Transfers of land resulting from eminent domain proceedings.** CGS Sec. 12-504c(1)

   Rationale: Conformity. PA 72-152 enacted the exemption.

2. **Strawman deeds and deeds that correct, modify, supplement or confirm a previously recorded deed.** The exemption is for transfers that do not convey title to a new owner. CGS Sec. 12-504c(4)

   Rationale: Clarification: PA 72-152 enacted the exemption.

3. **Deed of foreclosure.** The exemption is for transfers associated with foreclosure proceedings. CGS Sec. 12-504c(7)

   Rationale: Clarification: PA 72-152 enacted an exemption for deeds of release for property that is security for a debt or other obligation. PA 05-190 deleted that language and provided an exemption for deeds of foreclosure.

4. **Land held by a nonprofit for educational, scientific, aesthetic ore equivalent passive uses**. The exemption is for transfers of land to nonprofit corporations, trusts or other entities that will hold it in perpetuity for educational, scientific, aesthetic ore equivalent passive uses. CGS Sec. 12-504c(12)

   Rationale: Incentive. PA 73-585 enacted the exemption.

5. **Deeds with special covenants.** The exemption is for transfers of land that is subject to a covenant specifically set forth in the deed that transfers title, to refrain from selling or developing the land in a

manner inconsistent with its classification as farm, forest or open space land for not less than 8 years after the date of transfer. CGS Sec. 12-504c(13)

Rationale: Incentive. PA 73-585 enacted the exemption.

6. **Farmland development right sold to the state.** The exemption is for the transfer development rights for agricultural land to the state under the farmland preservation program. CGS 12-504c(14)

   Rationale and history: Incentive. PA 99-173 enacted the exemption.

Controlling Interest Transfer Tax

The tax was enacted in 1989. It is levied on the transfer of a controlling interest[36] in a corporation, partnership, association, trust or other entity, where an entity owns an interest in Connecticut real property with a value of at least $2,000. CGS Sec 12-638b(a)

Rate & Basis - A tax of 1.11% is imposed upon the value of any real property held by any corporation, partnership, association, trust or other entity when the interest in the real property is transferred. CGS Sec. 12-638b(a)(1)

CGS Secs. 12-638l(a) and 638l(b) impose an additional tax of 1.0% to 10.0% on property classified as farmland, open space or forest if the controlling interest is transferred within 10 years of when the land is classified for the program. The provisions are the same as those listed above under “Additional Real Estate Conveyance Tax on the Farm, Forest and Open Space Land.” The exemptions are the same except that there are no exemptions for: (1) transfers made pursuant to mergers of corporations and (2) transfers made by corporate subsidiaries. CGS Sec. 12-638n

Payment - The payment is due on or before the last day of the month following the month in which transfer of controlling interest occurs. CGS Sec. 12-638c

Exemptions

Data is not available for Controlling Interest Transfer Tax exemptions.

1. **Transfers of less than $2,000.** CGS Sec. 12-638b(a)

   Rationale and history: Efficiency. PA 89-251 enacted the tax and created the exemption.

2. **Enterprise zones.** The exemption is for the sale or transfer of controlling interest in any entity that possesses an interest in real property located in an Enterprise Zone. CGS Sec. 12-638b(b)(1).

   Rationale and history: Incentive. PA 89-251 enacted the tax and created the exemption. PA 03–1 clarified that the exemption does not apply to property transfers located outside an Enterprise Zone.

3. **Transfers to effectuate a mere change of identity or form of ownership.** The exemption is for transfers that effectuate a change of identity or form of ownership but do not change beneficial ownership. CGS Sec. 12-638b(b)

   Rationale and history: Clarification. PA 00-174 enacted the exemption.

[36] In a corporation, "controlling interest" means more than 50% of the combined voting power of all classes of stock in the corporation. For all other entities, "controlling interest" is an amount greater than 50% of the capital, profits or beneficial interest in that entity.

UNIFIED ESTATE AND GIFT TAX

Inheritance taxes (often called death taxes) are excise taxes levied on the transfer of wealth at the time of death. There are two principal types of death taxes: a succession tax, which is levied on the separate shares of an estate passed to beneficiaries, and an estate tax, which is levied on value of the estate. A gift tax applies to the transfer of personal and real property situated within the state by residents or nonresidents of this state.

During the 2005 session, the Legislature passed PA 05-251 and PA 05-3 JSS which: (1) repeal the Succession Tax, the Estate Tax and the Gift Tax, and (2) establish new taxes on estates or gifts for deaths occurring and gifts made on or after January 1, 2005 with a value exceeding $2 million. PA 09-3 JSS increases the exemption to $3.5 million beginning with deaths occurring and gifts made on or after January 1, 2010. The new Estate Tax (CGS Chapter 217) and Gift Tax (CGS Chapter 228c) are applicable to estates or gifts with a value exceeding $3.5 million.

Computation of Tax

Tax Basis - A Connecticut taxable estate is: (1) a person's gross estate minus all federally allowable deductions except the one for state death taxes paid, plus (2) the aggregate value of all Connecticut taxable gifts the decedent made during his life starting on January 1, 2005. For state tax purposes, a person may take advantage of the optional deduction for the value of a qualifying life income interest in property passing to a surviving spouse, even if he does not do so for the federal estate tax. However, the gross estate must include any such qualifying life income interest that the decedent held. (CGS Sec. 12-391(c))

A Connecticut taxable gift is: (1) any federally taxable gift made by a Connecticut resident, excluding real estate or tangible personal property located outside the state, and (2) any federally taxable gift made by a nonresident of real estate or tangible personal property located in Connecticut. (CGS Sec. 12-643)

Tax Rate –Table 1 shows the tax rates on taxable gifts made, and taxable estates of those who die, after January 1, 2010. To find the tax on any taxable gift or estate value in a bracket above $3.5 million, subtract the amount in Column A from the total value, multiply the result by the tax rate in Column D, and add the dollar amount in Column C.

Tax Rates on Taxable Gifts and Estates[1] on or after January 1, 2010

Value of Gift or Estate		Tax	
Column A	Column B	Column C	Column D
Over	But not over	Tax on Col. A	Tax Rate on excess over Col. A
0	$3,500,000	No Tax	
$3,500,000	3,600,000	7.2% of the excess over 0	
3,600,000	4,100,000	7,200	7.8%
4,100,000	5,100,000	46,200	8.4%
5,100,000	6,100,000	130,200	9.0%
6,100,000	7,100,000	220,200	9.6%
7,100,000	8,100,000	316,200	10.2%
8,100,000	9,100,000	418,200	10.8%
9,100,000	10,100,000	526,200	11.4%
Over $10,100,000		$640,200 plus 12% of the excess over $10,100,000	

[1]Estate Tax rates: CGS Sec. 12-391; Gift Tax rates: CGS Sec. 12-642

Payment – The tax is due at the death of the decedent and payable within 6 months thereafter (CGS Sec. 12-375). If the value of an interest in a closely held business exceeds 35% of the value of the gross estate, the tax may be paid in 10 equal annual installments.

Credits

1. CGS Sec. 12-648 provides a credit for any Gift Tax paid on or after January 1, 2005 against the total Estate and Gift Tax liability.

2. CGS Sec. 12- 391 provides an Estate Tax credit for similar inheritance taxes paid to any other state or the District of Columbia on property under the other states' jurisdiction. The credit is the lesser of (1) the actual taxes paid in the other states or (2) the full Connecticut transfer tax, excluding any gift tax credits that would otherwise be due multiplied by the percentage of the gross estate that is under the jurisdiction of other states.

Taxes Eliminated

During the 2005 session, the Legislature passed PA 95-298, which phased out the Succession and Gift Taxes between January 1, 1997 and January 1, 2010. The act phased out the Succession Tax[37] on Class A heirs (immediate family such as parents and children) as of January 1, 2001; Class B heirs (collateral relatives of the deceased, such as siblings, nieces, and nephews) as of January 1, 2006 and Class C heirs (more remote relatives and unrelated people) as of January 1, 2008. The act also phased out the Gift Tax between January 1, 2001 and January 1, 2010.

During the 2005 session the Legislature passed PA 05-251, which repealed the remaining phase outs[38] for the Succession Tax and old Gift Tax, effective as of January 1, 2005, and replaced them with the new Estate and Gift Taxes.

Connecticut's former Estate Tax was effectively eliminated on January 1, 2005 by a 2001 federal law, which phased out the federal estate tax credit over four years (the change was enacted in "The Economic Growth and Tax Relief Recovery Act (EGTRRA) of 2001"). Connecticut's tax was referred to as a "sponge tax" because it was intended to preserve revenue for the state that would otherwise have gone to the federal government. The tax was equal to 100% of the maximum federal credit for the amount of state inheritance taxes that were paid.

[37] It should be noted that the Succession Tax did not apply to Class AA (surviving spouse).
[38] PA 05-251 eliminated the Estate Tax on Class B and C heirs and the Gift Tax on gifts between $75,000 and $1 million.

PUBLIC SERVICE COMPANIES TAX

The tax is imposed on the gross earnings of public service companies.

Computation of Tax

Rate & Basis - The basis for the tax is gross earnings from which the following deductions are made: (1) all sales for resale of steam, gas and electricity to public service corporations and municipal utilities, and (2) any federal BTU energy tax. The following companies are taxed at the rates listed (CGS Sec. 12-249, 251, 255, 264, 265, 268a):

Tax Rates for the Public Service Companies Gross Earnings Tax

Type of Public Service Company	Tax Rate	CGS Section
Community Antenna and Cable & Satellite TV Systems	5.0% [1]	12-258
Gas	5.0% [2]	12-265(b)
Gas -- sales to residential customers	4.0% [2]	12-265(b)
Transmission & Distribution of Electric Power	8.5% [2]	12-265(c)
Residential Transmission & Distribution of Electric Power	6.8% [2]	12-265(c)
Railroad Companies	2-3.5% [3]	12-251(b)

[1] Effective October 1, 2007 through September 30, 2009 Certified Competitive Video Service Providers, Community Antenna TV, and Satellite TV service providers are subject to an additional 0.5% tax for a total tax rate equal to 5.5%. Effective October 1, 2009 the additional tax will be 0.25%. The 0.5% tax will be used to fund the Public, Educational and Governmental Programming and Education Technology Investment Account newly established under Public Act 07-253.

[2] Effective January 1, 2000, the gross receipts tax on generation services was eliminated. However, the rate on transmission and distribution was increased to 6.8% for residential customers and to 8.5% for non-residential customers other than manufacturers.

[3] The tax rate varies with the amount by which net operating income exceeds gross earnings. When income does not exceed 8% of gross earnings, the tax rate is 2%. The tax rate increases by 0.25% for each additional 2% that income exceeds gross earnings. When income exceeds 18% of gross earnings, the rate is 3.5%.

Payment - Railroad express companies must pay the annual tax by 7/1. Community Antenna Television companies are required to pay their entire tax on or before 4/1 (CGS Sec. 12-256.) Gas, electric steam and power companies are required to pay their taxes in quarterly payments, due on the last days of January, April, July and October (CGS Sec. 12-264). Railroad companies are required to pay one-half of the preceding calendar year tax liability on 6/15, and the remaining half on 11/15 (CGS Sec. 12-253.)

Deductions from gross earnings

1. **Sales for resale.** All sales for resale of water, steam, gas and electricity to public service corporations and municipal utilities, whether or not the purchasers are Connecticut public service corporations or Connecticut municipal utilities, and whether or not they are subject to the Public Service Companies Tax. CGS Sec. 12-265(b)(1)

   Rationale and history: Incentive: The exemption is intended to reduce cascading. It was created prior to 1949. PA 04-180 extended the exemption for natural gas sold for use as fuel in the operation of a cogeneration facility providing electricity or steam to a company engaged in manufacturing process but operated by a third party.

2. **Appliance sales.** The net invoice price plus transportation costs of appliances using water, steam, gas or electricity, sold by utility companies. "Net invoice price" means invoice price less trade discounts. CGS Sec. 12-265(b)(1)

   Rationale and history: Redundancy: Appliances are taxable under the Sales and Use Tax. The exemption was created prior to 1949.

3. **Real property taxes paid by railroad companies.** The amount of taxes paid in any town in Connecticut on real estate not used exclusively in the business of the corporation, is deductible from the amount of tax on gross earnings. CGS Sec. 12-251(b)

   Rationale and history: Incentive.

Exemptions

1. **Motor vehicles:** Exempt from the tax when propane or natural gas is sold for use as a fuel in motor vehicles. CGS Sec. 12-264(a)

   Rational and history: Incentive. PA 95-172 created the exemption.

2. **Manufacturing:** The 5% tax on gas and electricity supplied to manufacturing customers in SICs 2000-3999 was phased out and is now exempt. CGS Sec. 12-265(c)

   Rationale and history: Incentive: The exemption is intended reduce cascading. PA 93-73 and PA 93-332 enacted it. The exemption was extended to include gas used to operate cogeneration facilities providing electricity or steam is used in manufacturing and the cogeneration facility is located entirely on the manufacturer's premise (PA 04-180.)

3. **Electricity production**: The exemption is for the gross earnings a gas company makes by selling gas to an existing combined cycle generating plant comprised of three gas turbines with a total capacity of 775 megawatts that is used to generate electricity. CGS Sec. 12-265

   Rationale & History: Expediency. In a combined cycle plant, the heat created by burning fuel to produce electricity is recycled to produce more electricity. PA 04-180 enacted the exemption.

4. **Debt service**: All earnings used to pay debt service on energy securitization bonds by Connecticut Light & Power (CL&P) and Northeast Utilities (NU) is exempt from the gross earnings tax. CGS Sec. 12-264(c)(2)

   Rationale and History: Perceived Equity. In 2003 the General Assembly approved the securitization of a total of $194 million from: (1) the Energy Conservation and Load Management Fund ($144 million), and (2) the Clean Energy Fund ($50 million.) Debt service for the bonds will be financed over a 7-year period from the surcharge currently paid by CL&P and NU customers. PA 04-180 enacted the exemption for the debt service on these bonds.

Rate Reductions

1. **Residential utilities:** Companies and municipal utilities are taxed at the rate of 4%, rather than 5% for gas and 6.8% rather than 8.5% on electricity, on gross earnings from manufacturing, selling or distributing gas or transmission and distribution of electricity for residential light, heat or power. CGS Sec. 265(b) and CGS Sec. 265(c)

   Rationale and history: Perceived Equity. PA 85-159 created the rate reduction. PA 98-28, effective January 1 2000, eliminated the gross receipts tax on generation services as part of the deregulation of the electric industry in CT. However, the rate on transmission and distribution was increased to 6.8% for residential customers and to 8.5% for non-residential customers other than manufacturers.

Tax Credits

The following credits are applicable against Public Service Companies Gross Earnings Tax are also available through Corporate Income Tax (Business Taxes). Data indicates that the credits applicable against their taxes on gross earnings have not been claimed in the past. It appears that these entities apply the credits against their Corporate Income Taxes (Business Taxes) in lieu of applying credit against their gross earnings tax liability.

1. **Personal property tax paid on data processing equipment.** A 100% credit is provided for Personal property taxes paid on computer equipment, including printers, peripheral equipment and bundled software. The credit is applicable to corporation tax and railroad, cable television and public utility gross earnings taxes. A business must apply the credit first to its Corporation Tax liability. Any remaining credit may then be applied to the Public Service Companies Tax. The credit begins for personal property taxes paid on October 1994 grand lists. CGS Sec. 12-217t.

   Rationale and history: Incentive: the phase out is intended reduce cascading. PA 94-4 MSS enacted the credit. PA 95-160 delayed it from the 10/1/94 Grand List to the 10/1/96 Grand List. PA 96-144 reinstated the original effective date of the 10/1/94 Grand List.

2. **Rehabilitating historic homes:** PA 99-173 establishes a credit for expenses over $15,000 associated with rehabilitating historic homes. It is capped at $30,000 per home and it may be carried forward up to 4 years. The total annual credit cap is $3 million and it is effective 1/1/00. CGS Sec. 10-320j

   Rational and history: Expediency and incentive. Enacted by PA 99-173.

3. **Remediation of Urban Sites:** PA 00-170 establishes a credit for expenses associated with urban site remediation. The credit amount cannot exceed the amount of state revenue the Department of Economic and Community Development determines will be generated by the investment in the site. PA 01-9 JSS allows taxpayers investing in eligible environmental remediation and urban sites reinvestment projects through Community Economic Entities (CDEs) to qualify for tax credits. CGS Sec. 32-9a & 32-9t

   Rationale: Expediency and Incentive. PA 00-170 enacted the credit. The $67 million in tax credits that have been granted under the Urban Sites Remediation Program are scheduled to be claimed between FY 07 and FY 14. It should be noted that the program's guidelines require that the state and local revenue generated by the project must be at least equal the value of the credits claimed. Three projects have been approved under the program.

4. **Housing program contribution:** The credit is for firms making contributions to nonprofit organizations that develop, sponsor, or manage housing programs for families with low or moderate incomes. The annual credit cap is $100,000 annually per business and $10 million ($2 million is set aside for supportive housing pilot initiative) for all firms. The minimum contribution for which a tax credit is granted is $250. The credit may be carried forward or backward 5 years. CGS Sec 8-395

   Rationale and history: Incentive and Perceived Equity. Enacted by PA 86-395 as an incentive for businesses to make contributions to nonprofit organizations for the development, construction and management of low to moderate-income housing. PA 99-173 increases the cap from $1 million to $5 million effective 7/1/99. PA 01-8 JSS sets aside $1 million of the $5 million for supportive housing pilot initiative effective 7/1/01. PA-06-186 raised the annual limit from $5 million to $10 million and set aside $2 million for the supportive housing pilot initiative.

5. **Vehicles powered by clean alternative fuels or electricity:** This credit enables businesses to claim a credit for up to 10% of its annual expenses for equipment associated with natural gas and electric powered vehicles. This includes: (1) equipment used in compressed natural gas filling and electric recharging station and (2) the purchase of conversion equipment needed to convert a vehicle powered by another fuel to one using natural gas, electricity or both. The credit is effective for income years between 1991 and 2007 and it has a 3-year carry forward. CGS Sec 12-217i(a) and 12-217i(b)

Rationale and history: Incentive. PA 91-179 enacted the credit to promote the Clean Air Act by providing an incentive for businesses to invest in and convert to clean alternative fuel powered vehicles. PA 92-188 provides the credit for electrically powered vehicles. PA 93-199 provides it to equipment for recharging electrically powered vehicles and extends the credit through the 1997 income year. PA 97-295 extends the credit through the 2000 income year; PA 99-173 extends it through the 2001 income year; PA 02-4 MSS extends it through the 2003 income year; and PA 04-231 extends it through the 2007 income year.

6. **Donation of new or used computers to local schools:** CGS Sec. 10-228b

   Rationale: Expediency and Incentive.

7. **Historic Structure Credit:** Authorizes $15 million per year in tax credits for funds spent rehabilitating historic commercial and industrial properties for residential use. This credit is effective with the 2006 income year. CGS Sec 10-416a.

   Rationale: Expediency and Incentive. Enacted by PA 06-186 sec. 82.

8. **Job creation credit:** A tax credit for a company that relocates to Connecticut; creates at least 40 new full time jobs; and hire new employees for those jobs and keep them employed for at least 12 months. The tax credit is equal to 25% of the income tax withheld of the new employees' wages. This credit is effective with the 2006 income year. CGS Sec 12-217ii.

   Rationale: Expediency and Incentive. Enacted by PA 06-186 sec. 80.

9. **Displaced worker credit:** A $1,500 per worker tax credit for companies that hire workers who were employed in Connecticut that were let go by a previous employer as a direct result of a business restructuring in which at least 10 Connecticut workers were terminated by the same employer. This credit is effective with the 2006 income year. CGS Sec 12-217hh.

   Rationale: Expediency and Incentive. Enacted by PA 06-186 sec. 81.

Public Service Companies Tax Expenditures	
	FY 11 ($ millions)
Deductions from Gross Earnings	
Sales for resale	75.0
Appliance sales	less than 0.1
Railroad property taxes	less than 0.1
Exempts earnings to pay debt service on energy securitization bonds	1.0
Other Exemptions	
Railroad companies when certified by DOT	2.0
Propane or natural gas when used as fuel in motor vehicles	less than 0.1
Propane or natural gas when used as fuel in fuel cells	less than 0.1
Manufacturing SIC 2000-3999 on gas and electricity	15.0
Sales of gas to facilities with 775 MW of capacity	5.0
Rate Reductions	
Residential utilities	7.5

PETROLEUM COMPANY GROSS EARNINGS TAX

PA 80-71 enacted the tax. It is levied at a 5% rate on the gross earnings of companies that distribute petroleum products in Connecticut (CGS Sec 12-587.) There are approximately 670 taxpayers remitting the tax on a quarterly basis.

Computation of Tax

Rate & Basis -The tax is imposed on companies distributing petroleum products to wholesale and retail dealers for marketing and distribution in the state. Petroleum products include gasoline, aviation fuel, kerosene, diesel fuel (after 7/1/07 excludes diesel fuel used exclusively for by motor carriers), benzyl, distillate fuels, residual fuels, crude oil and derivatives of petroleum such as paint, detergents, antiseptics, fertilizers, nylon, asphalt, plastics and other similar products. Prior to July 1, 2005 the rate is 5% (effective 10/1/91) on gross earnings from sales of petroleum products in this state and gross earnings from sales of petroleum products in this state by any corporation in which the taxpayer owns 25% or more of the stock of such corporation.

The table below presents scheduled rate changes enacted by PA 05-4 JSS and PA 08-2 JSS. PA 08-2 JSS eliminated the scheduled increase from 7.0% to 7.5% effective July 1, 2008. CGS Sec. 12-587.

Incremental rate Increase For
Petroleum Company Gross Earnings Tax

On or After	But Before	Tax Rate is
July 1, 2005	July 1, 2006	5.8%
July 1, 2006	July 1, 2007	6.3%
July 1, 2007	July 1, 2008	7.0%
July 1, 2008	July 1, 2013	7.0%[39]
July 1, 2013	and after	8.1%

A use tax of the equivalent rate is imposed on companies that import petroleum products into the state for their own consumption if the value of these products in any quarter is more than $100,000.

Payment - The tax is payable on or before the last day of the month following each quarterly period of the year based on the preceding quarter's gross earnings from the in-state sale of petroleum products.

Exemptions

1. **#2 Heating oil used for heating purposes.** CGS Sec 12-587(b)(2)(B)

   Rationale and history: Perceived Equity. PA 85-159 created the exemption.

2. **#2 Heating oil used in commercial fishing vessels.** CGS Sec 12-587(b)(2)(B)

   Rationale and history: Incentive. PA 96-183 created the exemption.

[39] The rate was scheduled to go to 7.5% effective July 1, 2008 but PA 09-2 JSS eliminated the scheduled increase enacted by 05-4 JSS. The next schedule increase will raise the rate to 8.1% effective July 1, 2013.

3. **Propane used for residential heating:** The exemption is for propane sold for use in residential heating when: (1) sold in containers, or (2) sold and delivered to a stationary storage tank with a capacity of not more than 1,000 gallons. CGS Sec 12-587(b)(2)(D)

Rationale and history: Perceived Equity. PA 87-312 created the exemption.

4. **Bunker fuel oil, intermediate fuel, marine diesel oil and marine gas oil:** The exemption is for fuel used in vessels displacing more than 4,000 dead weight tons. CGS Sec 12-587(b)(2)(E)

Rationale and history: Incentive and Expediency. PA 92-17 MSS created the exemption.

5. **Kerosene used for residential heating:** The exemption is for kerosene used exclusively for heating purposes, when the fuel is delivered via a truck with a metered delivery ticket. CGS Sec 12-587(b)(2)(E)

Rationale and history: Perceived Equity. PA 93-74 created the exemption, which became effective 5/19/93.

6. **Propane gas used as a motor vehicle fuel:** Effective 7/1/95. CGS Sec 12-587(b)(2)(F)

Rationale and history: Conformity. PA 95-172 created the exemption and subsequent acts extended the sunset.

7. **Fuel used in vessels engaged in interstate commerce:** The exemption was created by phasing out the tax at the rate of 1% per year, beginning 1/1/98. CGS Sec 12-587(b)(2)(H)

Rationale and history: Incentive. PA 97-281 created the exemption.

8. **Fuel used by industrial consumers:** The exemption is for # 6 fuel oil used by industrial consumers in SIC 2000-3999 and NAICS 31, 32, 33. It was created by phasing out the tax at the rate of 1% per year, beginning 1/1/98. CGS Sec 12-587(b)(2)(G)

Rationale and history: Incentive. PA 97-281 created the exemption.

9. **Paraffin and microcrystalline waxes.** CGS Sec. 12-587(b)(2)(I)

Rationale and history: Expediency. PA 00-174 created the exemption.

10. **Petroleum products used in fuel cells**: The exemption is for sales of petroleum products used as fuel in fuel cells occurring prior to 7/1/08. CGS Sec 12-587(b)(2)(J)

Rationale and history: Expediency. PA 00-4 MSS created the exemption and subsequent acts extended sunset to 7/1/08.

11. **Commercial Heating Oil Blend**: The exemption is for sales of commercial heating oil blend containing not less than 10% of alternative fuels derived from agricultural produce, food waste, waste vegetable oil or municipal solid waste, but not limited to, bio-diesel or low sulfur dyed diesel fuel effective July 1, 2006. CGS Sec 12-587(b)(2)(K)

Rationale and history: Expediency and Incentive. PA 06-143.

12. **Diesel Fuel**: The exemption is for the first sale of diesel fuel (other than diesel fuel used in an electric generation facility to generate electricity) is exempted from the tax effective July 1, 2007. CGS Sec 12-587(b)(2)

Rationale and history: Expediency. PA 07-199 and PA 07-1 JSS created the exemption.

Other Exclusions

1. **Fuel in Fuel Supply Tanks of Motor Vehicles When the Tanks are Connected to the Engine.** CGS Sec. 12-587(c)

   Estimates: None; tax is collected under the Motor Fuels Tax

   Rationale: Redundancy

2. **DOT Contracted Service Stations Along State Highways**: The exclusion applies to the definition used for calculating the gross earnings tax based on retail price is changed to calculating the tax on the wholesale price of fuel. The difference between retail price and the wholesale price basis is the dollar amount made tax exempt. It applies to the gross receipts of service stations that are located along state and interstate highways pursuant to a contract with the Department of Transportation (DOT), beginning with the 1988 income year. CGS Sec. 12-587(e)

   Estimates: Data not disclosed.

   Rationale and history: Incentive. PA 94-4 (MSS) created the exclusion.

Credits

1. **Credit for Sale of Petroleum Products to Reseller Located Outside the State**: The credit is for companies that sell petroleum products to resellers located outside the state. The company reimburses the purchaser for the tax paid on such products. CGS Sec. 12-587a

   Rationale and history: Conformity. PA 82-157 created the credit, which became effective 5/3/82.

Other Tax Credits

The following credits are applicable against Petroleum Company Gross Earnings Tax are also available through Corporate Income Tax (Business Taxes). Data indicates that the credits applicable against their taxes on gross earnings have not been claimed in the past. It appears that these entities apply the credits against their Corporate Income Taxes (Business Taxes) in lieu of applying credit against their gross earnings tax liability.

1. **Personal property tax paid on data processing equipment.** A 100% credit is provided for Personal property taxes paid on computer equipment, including printers, peripheral equipment and bundled software. The credit is applicable to corporation tax and railroad, cable television and public utility gross earnings taxes. A business must apply the credit first to its Corporation Tax liability. Any remaining credit may then be applied to the Public Service Companies Tax. The credit begins for personal property taxes paid on October 1994 grand lists. CGS Sec. 12-217t.

   Rationale and history: Incentive: the phase out is intended reduce cascading. PA 94-4 MSS enacted the credit. PA 95-160 delayed it from the 10/1/94 Grand List to the 10/1/96 Grand List. PA 96-144 reinstated the original effective date of the 10/1/94 Grand List.

2. **Rehabilitating historic homes:** PA 99-173 establishes a credit for expenses over $15,000 associated with rehabilitating historic homes. It is capped at $30,000 per home and it may be carried forward up to 4 years. The total annual credit cap is $3 million and it is effective 1/1/00. CGS Sec. 10-320j

Rational and history: Expediency and incentive. Enacted by PA 99-173.

3. **Remediation of Urban Sites:** PA 00-170 establishes a credit for expenses associated with urban site remediation. The credit amount cannot exceed the amount of state revenue the Department of Economic and Community Development determines will be generated by the investment in the site. PA 01-9 JSS allows taxpayers investing in eligible environmental remediation and urban sites reinvestment projects through Community Economic Entities (CDEs) to qualify for tax credits. CGS Sec. 32-9a & 32-9t

   Rationale: Expediency and Incentive. PA 00-170 enacted the credit. The $67 million in tax credits that have been granted under the Urban Sites Remediation Program are scheduled to be claimed between FY 07 and FY 14. It should be noted that the program's guidelines require that the state and local revenue generated by the project must be at least equal the value of the credits claimed. Three projects have been approved under the program.

4. **Housing program contribution:** The credit is for firms making contributions to nonprofit organizations that develop, sponsor, or manage housing programs for families with low or moderate incomes. The annual credit cap is $100,000 annually per business and $10 million ($2 million is set aside for supportive housing pilots initiative) for all firms. The minimum contribution for which a tax credit is granted is $250. The credit may be carried forward or backward 5 years. CGS Sec 8-395

   Rationale and history: Incentive and Perceived Equity. Enacted by PA 86-395 as an incentive for businesses to make contributions to nonprofit organizations for the development, construction and management of low to moderate-income housing. PA 99-173 increases the cap from $1 million to $5 million effective 7/1/99. PA 01-8 JSS sets aside $1 million of the $5 million for supportive housing pilot initiative effective 7/1/01. PA-06-186 raised the annual limit from $5 million to $10 million and set aside $2 million for the supportive housing pilots initiative.

5. **Vehicles powered by clean alternative fuels or electricity:** This credit enables businesses to claim a credit for up to 10% of its annual expenses for equipment associated with natural gas and electric powered vehicles. This includes: (1) equipment used in compressed natural gas filling and electric recharging station and (2) the purchase of conversion equipment needed to convert a vehicle powered by another fuel to one using natural gas, electricity or both. The credit is effective for income years between 1991 and 2007 and it has a 3-year carry forward. CGS Sec 12-217i(a) and 12-217i(b)

   Rationale and history: Incentive. PA 91-179 enacted the credit to promote the Clean Air Act by providing an incentive for businesses to invest in and convert to clean alternative fuel powered vehicles. PA 92-188 provides the credit for electrically powered vehicles. PA 93-199 provides it to equipment for recharging electrically powered vehicles and extends the credit through the 1997 income year. PA 97-295 extends the credit through the 2000 income year; PA 99-173 extends it through the 2001 income year; PA 02-4 MSS extends it through the 2003 income year; and PA 04-231 extends it through the 2007 income year.

6. **Donation of new or used computers to local schools:** CGS Sec. 10-228b

   Rationale: Expediency and Incentive.

7. **Historic Structure Credit:** Authorizes $15 million per year in tax credits for funds spent rehabilitating historic commercial and industrial properties for residential use. This credit is effective with the 2006 income year. CGS Sec 10-416a.

   Rationale: Expediency and Incentive. Enacted by PA 06-186 sec. 82.

8. **Job creation credit:** A tax credit for a company that relocates to Connecticut; creates at least 40 new full time jobs; and hire new employees for those jobs and keep them employed for at least 12

months. The tax credit is equal to 25% of the income tax withheld of the new employees' wages. This credit is effective with the 2006 income year. CGS Sec 12-217ii.

Rationale: Expediency and Incentive. Enacted by PA 06-186 sec. 80.

9. **Displaced worker credit:** A $1,500 per worker tax credit for companies that hire workers who were employed in Connecticut that were let go by a previous employer as a direct result of a business restructuring in which at least 10 Connecticut workers were terminated by the same employer. This credit is effective with the 2006 income year. CGS Sec 12-217hh.

Rationale: Expediency and Incentive. Enacted by PA 06-186 sec. 81.

Petroleum Companies Tax Expenditures

	FY 11 ($ millions)
Exemptions	
#2 Heating Oil used for Heating Purposes	150.0
#2 Heating Oil used in Commercial Fishing Vessels	0.3
Propane used for Residential Heating	8.0
Bunker Fuel	less than 0.05
Kerosene used for Residential Heating	0.4
Propane Gas used as a Motor Fuel	less than 0.05
Fuel used in Interstate Commerce	indeterminate
Fuel used by Industrial Customer	2.0
Paraffin and Microcrystalline Waxes	less than 0.05
Petroleum Products used in Fuel Cells	0.2
Commercial Heating Oil Blend	1.5
Diesel Fuel First Sale	40.0
Credits	
Sales to out of state resellers	4.5

CIGARETTE AND TOBACCO PRODUCTS TAX

Computation of the Tax

The Cigarette Tax is levied on cigarettes held by distributors in the state (CGS Sec. 12-296) and on the use or storage of unstamped cigarettes (CGS Sec. 12-316.) The Tobacco Products Tax is imposed on all tobacco products held in the state by distributors or unclassified importers. Distributors, dealers and vending machine operators must obtain a license from the Department of Revenue Services for both taxes.

Rate & Basis - The Cigarette Tax is levied at a rate of 100 mills per cigarette, or $2.00 per pack of 20, effective 7/01/07 (CGS Sec. 12-296.) Distributors must file monthly reports to the Commissioner of Revenue Services. Approximately 70 distributors pay the tax.

The Tobacco Products Tax is levied at a rate of 20% of the wholesale price of on such tobacco products as cigars, cheroots, stogies, periques, and chewing tobacco (CGS Sec. 12-330a.) Cigarettes and "roll your own" tobacco is excluded from the tax. The tax on snuff is 40 cents per ounce (CGS Sec. 12-330c.) Distributors must file monthly returns. The tax has been in effect since 7/1/89 (PA 89-251) and is paid by approximately 200 distributors. The tax increased from 75.5 mills per cigarette to 100 mills per cigarette or $1.51 per pack of 20 to $2.00 per pack of 20, effective July 1, 2007 (PA 07-248)..

Payment - Cigarette distributors must acquire stamps from the Department of Revenue Services, which are affixed to each package of cigarettes. The stamps may be paid for immediately or within 30 days from the date of purchase (CGS Sec. 12-298.) The Tobacco Products Tax is payable on or before the tenth day of each month, for sales in the preceding calendar month (CGS Sec. 12-330d.)

Exclusions

1. **Sales to the United States:** Sales or purchases for the use of an instrumentality of the United States (military bases, embassies, etc.) are exempt from the excise tax and the sales and use tax.

   In a 10/26/37 ruling, the Attorney General's Office indicated to the Tax Commission that sales to the US government where the US has exclusive jurisdiction over the property such as military base and coast guard stations are considered sales occurring outside the state.

   Rationale: Conformity

2. **Cigarettes sold in any institution:** Cigarettes sold in any state institution, other than a correctional institution, or cigarettes purchased with revolving funds under the jurisdiction of any state institution, other than correctional institution, for distribution to or consumption by patients or inmates confined at such institutions. Sales to inmates at correctional institutions are taxable. CGS Sec. 12-297

   Rationale: Perceived Equity

3. **Tobacco products:** Tobacco products that are exported from the state or are not subject to taxation under the laws of the United States. CGS Sec. 12-330c(c)

   Rationale: Conformity

4. **Cigarettes brought into this state:** Cigarettes brought into this state in an amount not exceeding two hundred or ten packs of 20. CGS Sec. 12-320

   Rationale: Administrative Efficiency

5. **Cigarettes pack containing less than twenty cigarettes:** The sale of single cigarettes or cigarettes in unopened packages containing less than twenty cigarettes is prohibited. CGS Sec.12-314(a); PA 00-56; PA 00-170

Rationale: Expediency

Cigarette and Tobacco Products Tax Expenditures	
	FY 11 ($ millions)
Exemptions	
Sales to US Government	Indeterminate
Cigarettes sold in any institution	less than 0.05
Tobacco Products (from Cigarette Tax)	6.5
Cigarettes brought into State	Indeterminate
Packs containing less than 20 units	less than 0.05

ALCOHOLIC BEVERAGE TAX

Computation of the Tax

Distributors of alcohol beverages are required to pay an excise tax on alcoholic beverages sold in the state (CGS Sec. 12-435.) The distributors must obtain a license from the Department of Revenue Services. Approximately 80 distributors file monthly with the agency.

Rate & Basis - The tax rates for distributors of beer, liquor, and wine are as follows (CGS Sec. 12-435):

Alcoholic Beverage Tax Rates

Type of Alcohol	Tax Rate
Beer	$6.00 per barrel
Beer	.20 per gallon
Still Wines [1]	.60 per gallon
Still Wines from Small Wineries [2]	.15 per gallon
Sparkling Wines	1.50 per gallon
Alcohol	4.50 per proof gallon
Distilled Liquor	4.50 per gallon
Liquor Coolers	2.05 per gallon

[1] Still wine consist of 21% absolute alcohol, or less, per gallon
[2] Small Wineries are those that produce up to 55,000 gallons annually (PA 93-74)

Exemptions: Alcoholic beverage sales to licensed distributors
Alcoholic beverage sales for transport out-of-state
Malt beverage sales for on-premises consumption when covered by a manufacturer's permit

Payment - The tax is payable on or before the last day of each month for sales made in the preceding month. CGS Sec. 12-437

State Exclusions

1. **United States Military:** Sales to federal military organizations located on federal bases in the state are exempt from the excise taxes as well as exempted from the sales and use tax. In a 10/26/37 ruling, the Attorney General's Office indicated to the Tax Commission that sales to the US government where the US has exclusive jurisdiction over the property such as military base and coast guard stations are considered sales occurring outside the state.

   Rationale: Conformity

2. **Alcoholic beverages transported out of state:** Sales of alcoholic beverages that are transported to another state. CGS Sec. 12-435

   Rationale: Conformity

3. **Malt beverages consumed on premises:** The sales of malt beverages, beer, which are consumed on the premises of an establishment covered by a manufacturer's permit. CGS Sec. 12-435

   Rationale: Expediency

4. **Alcoholic beverages and ethyl alcohol:** Sales of alcoholic beverages to licensed distributors (CGS Sec 12-435) and sales of ethyl alcohol intended for use or used in medical, scientific, chemical, mechanical or industrial uses and that are not sold as a beverage for human consumption (CGS Sec. 12-453.) Also included in Section 12-453 is wine and distilled liquors that are used in the manufacture or preparation of pharmaceutical products or for the production of fruit preserves.

Rationale: Redundancy

5. **Alcoholic beverages brought into this state:** Alcoholic beverages brought into the state in an amount not exceeding 4 gallons. CGS Sec. 12-436

Rationale: Administrative Efficiency

Alcoholic Beverage Tax Expenditures	
	FY 11 ($ millions)
Exemptions	
Sales to US Government Military	Indeterminate
Alcohol transported out of state	Indeterminate
Malt beverages consumed on premises	Indeterminate
Alcoholic beverage and Ethyl Alcohol	Indeterminate
Alcohol beverages brought into state	Indeterminate

ADMISSIONS AND DUES TAXES

The Admissions and Dues Taxes (formerly Admissions, Dues and Cabaret Taxes) are separate taxes that were enacted by PA 71-837. The Admissions Tax is levied on the admissions charge to a place of amusement, entertainment or recreation (CGS Sec. 12-541) and the Dues Tax is levied on the amount paid as membership dues or initiation fees to a social, athletic or sporting club (CGS Sec. 12-543.)

PA 99-173 repealed the Cabaret Tax, effective 7/1/99. Originally, the Cabaret Tax was levied on the amount charged for admission, refreshment service or merchandise at a cabaret or similar place furnishing music, dancing privileges, or other entertainment for profit, at the rate of 5% (CGS Sec. 12-542--REPEALED) and was due only during the time that the entertainment was offered. PA 00-170 exempts establishments from the Admission Tax that were subject to the Cabaret Tax before 7/1/99.

<u>Rate & Basis</u>:

1. Admissions Tax - The admission charge to any place of amusement, entertainment or recreation is taxed at 10% (CGS Sec. 12-541). PA 00-170 reduced the tax on movie theater tickets from 10% to 8% effective 7/1/00 and to 6% effective 7/1/01 and there after.
2. Dues Tax: The tax is levied on membership dues or initiation fees to any social, athletic or sporting club at a rate of 10% (CGS Sec. 12-543).

<u>Payment</u> - The tax is payable on or before the last day of each month for business conducted during the preceding month.

1. Admissions Tax Exemptions

a. Admission charges under $1 or, in the case of motion picture shows, under $5 CGS Sec. 12-541(a)(1)

Rationale and history: Efficiency/Expediency. Efficiency for admissions under $1 because the amount of revenue collected would be too small to justify the administrative cost to collect it. Expediency with regard to movie tickets under $5. The exemption for charges less than $1 was created by PA 71-837, which enacted the tax. PA 88-293 raised the exemption for movie tickets to $2; PA 97-315 raised it to $4.50; and PA 99-173 raised it to $5.00.

b. Daily admission charges that entitle patrons to participate in an athletic or sporting activity**.** CGS Sec. 12-541(a)(2).

Rationale and history: Expediency. PA 71-7 JSS created the exemption. PA 82-457 made a technical change by reorganizing the subsection.

c. Admissions to events sponsored by tax exempt entities provided the entity actively engages in and assumes the financial risk associated with presentation of the event. CGS Sec. 12-541(a)(3)

Rationale and history: Incentive: such organizations are nonprofit charities. The exemption was created by PA 71-837, which enacted the tax.

d. Admissions to benefit tax exempt entities: Admissions to events that, in the opinion of the commissioner of revenue services, are conducted primarily to raise funds for tax exempt entities, provided the commissioner is satisfied that the net profit that goes to the entity will exceed the amount of admissions tax which, but for this exemption, would be imposed upon the person gaining admittance to such event. CGS Sec. 12-541(a)(4)

Rationale and history: Incentive. An exemption for tax-exempt organizations was contained in PA 71-837, which enacted the tax. PA 82-457 created the exemption in its current form.

e. Admissions to events held at the Hartford Civic Center, the New Haven Coliseum, New Britain Beehive Stadium, New Britain Veterans Memorial Stadium, New Britain Stadium, facilities owned or managed by the Tennis Foundation of Connecticut or any successor organization or the William A. O'Neill Convocation Center, Stafford Motor Speedway, Lime Rock Park, Thompson Speedway, Waterford Speedbowl, Bridgeport Harbor Yard Stadium, New Haven Ravens Games, Waterbury Spirit Games, New Britain rock Cats, the Connecticut Expo Center and the Connecticut Convention Center. CGS Sec. 12-541(a)(5)

Rationale and history: Expediency. PA 81-404 created the exemptions for the Hartford Civic Center and the New Haven Coliseum. PA 82-457 made a technical change by reorganizing the subsection. PA 93-74 added the New Britain Beehive Stadium, the Tennis Foundation of Connecticut and the William A. O'Neill Convocation Center. PA 93-332 added the New Britain Veterans Memorial Stadium. PA 99-173 exempted the following: Stafford Motor Speedway, Lime Rock Park, Thompson Speedway, Waterford Speedbowl, Bridgeport Harbor Yard Stadium, New Haven Ravens Games, and Waterbury Spirit Games. PA 99-1 JSS exempts the New Britain Stadium and the New Britain Rock Cats retroactive to when the stadium was opened. PA 00-170 exempts the Connecticut Expo Center. PA 06-186 exempts admissions to (1) Nature's Art, (2), Arena at Harbor Yard, and (3) Dodd Stadium. PA 017-1 JSS exempts the Connecticut Convention Center.

f. Admissions paid by centers of service for elderly persons, as described in CGS Sec. 17b-425(d). CGS Sec. 12-541(a)(6)

Rationale and history: Expediency. PA 73-521 created an exemption for admissions paid for by groups of at least 10 members of senior citizens centers. PA 82-457 created the exemption in its current form.

g. Admissions to productions featuring live performances by actors or musicians presented at Gateway's Candlewood House, Ocean Beach Park or any nonprofit theater or playhouse in the state, provided it is exempt under Section 501 of the federal Internal Revenue Code. CGS Sec. 12-541(a)(7)

Rationale and history: Expediency. PA 88-140 created the exemption. PA 97-315 exempts live performances held at Gateway's Candlewood House and Ocean Beach Park.

h. Admissions to carnival or amusement rides. CGS Sec. 12-541(a)(8).

Rationale and history: Expediency. PA 94-4 MSS created the exemption.

i. Health club charges: Health clubs are excluded from the definition of taxable admissions charges (i.e., they not appear in statutory language.)

Rationale and history: Expediency. PA 75-473 deleted the reference to health clubs.

j. Charges for instruction: These are specifically excluded from the definition of taxable admissions charges. CGS Sec. 12-540(3).

Rationale and history: Expediency. The exclusion for instruction was made in PA 75-473.

k. Establishments subject to the Cabaret Tax, effective 7/1/99. CGS Sec. 12-541(a)(9)

Rationale and history: Clarification. PA 00-170 exempts establishments that were formerly subject to the Cabaret Tax and became taxable under the Admission Tax when the Cabaret Tax was repealed.

2. Dues Tax Exemptions

a. **Annual Dues Less than $100:** Clubs are exempt from the tax if the annual dues for full membership privileges and any initiation fee are each $100 or less. CGS Sec. 12-543(b)(1)

   Rationale and history: Perceived Equity. PA 71-837, which enacted the tax, created an exemption for dues and initiation fees of up to $50 each. PA 85-438 increased the amount to $100.

b. **Clubs sponsored and controlled by charitable or religious organizations, governmental agencies or nonprofit educational institutions.** CGS Sec. 543(b)(2)

   Rationale and history: Incentive. PA 71-837, which enacted the tax, created the exemption.

c. **Lodges and fraternal organizations:** Societies, orders or associations operating under the lodge system or any local fraternal organization among students of a college or university. CGS Sec. 12-543(b)(3)

   Rationale and history: Expediency. PA 71-837, which enacted the tax, created the exemption.

d. **Charges for athletic instruction**. These are specifically excluded from the definition taxable dues. CGS Sec. 12-540(4).

   Rationale and history: Expediency. PA 75-473 made the exclusion for instruction.

e. **Charges or special assessments** made for construction or reconstruction of any social, athletic or sporting facility, or furnishings and fixtures for such facility. These are specifically excluded from the definition taxable dues. CGS Sec. 12-540(4).

   Rationale and history: Clarification. PA 71-837, which enacted the tax, created the exemption.

f. **Dues of lawn bowling clubs**. CGS Sec. 12-543(b)(4)

   Rationale and history: Expediency. PA 99-173 made the exclusion.

g. **Open space acquisition:** The portion of dues paid by members of clubs (e. g. golf, social) to acquire farm, forest, and or open space land is exempt. CGS Sec 12-540(4)

   Rationale and history: Expediency and incentive. PA 99-173 created the exclusion and PA 99-235 modified it.

h. **Club locker rentals.** CGS Sec 12-540(4)

   Rationale and history: Expediency and incentive. PA 00-170 created the exclusion.

Admission, Dues and Cabaret Tax Expenditures	
	FY 11 ($ millions)
Admissions Tax	
Charges less than one dollar & movies less than five dollars	3.0
Daily charges for athletic participation	indeterminate
Nonprofit charities	less than 0.1
Hartford Civic Center, New Haven Coliseum, New Britain Beehive Stadium, New Britain Veterans Memorial Stadium, Tennis Foundation, O'Neill Convocation Center, Stafford Motor Speedway, Thompson Speedway, Waterford Speedbowl, Lime Rock Park, Bridgeport Harbor Yard Stadium, New Haven Ravens Games, Waterbury Spirit Games, New Britain Rock Cats Games, CT Expo Center, and CT Convention Center.	8.0
Centers for elderly persons	less than 0.1
Nonprofit theater or playhouse, Gateway's Candlewood House, and Ocean Beach Park	less than 0.1
Carnival or amusement ride	less than 0.1
Health club charges	indeterminate
Establishments subject to the Cabaret Tax before July 1, 1999	1.5
Dues Tax	
Annual dues less than one hundred dollars	indeterminate
Club sponsored by charitable or religious organizations, governmental agency or nonprofit educational institution	indeterminate
Lodges or fraternal organizations at colleges or universities	indeterminate
Charges for instruction	indeterminate
Special assessments for construction or furnishings	indeterminate
Lawn bowling clubs	indeterminate
Portion of dues used to acquire Open Space	less than 0.1
Club Locker Rentals	less than 0.1

MOTOR VEHICLE FUELS AND MOTOR CARRIER ROAD TAXES

The Motor Vehicle Fuels Tax is an excise tax imposed on motor vehicle fuel sold in the state. The Motor Carrier Road Tax is levied on motor vehicle fuel used in the state by licensed motor carriers, at the same tax rate as the Motor Vehicle Fuels Tax. (CGS Sec. 12-479)

Motor Vehicle Fuels Tax

Rate & Basis - The tax is levied on distributors of fuel sold or used within the state.

Motor Flues Taxes[(1)]

Gasoline	25 cents/gallon
Diesel Fuel[(2)]	45.1 cents/gallon
Natural Gas or Propane	26 cents/gallon

[(1)] Taxes are levied pursuant to 12-458 and 12-479.
[(2)] DRS set the tax on diesel to 45.1 effective 7/1/09.

Payment - The tax is payable on or before the 25th day of each month based upon the preceding month's sales. (CGS Sec. 12-458)

Motor Carrier Road Tax

Rate & Basis - The tax is imposed on motor carriers using state highways and is based on the amount of fuel used within the state as determined by proportionate mileage. This tax rate is equal to the current per gallon rate on diesel fuel. A credit is allowed for taxes paid on motor fuels purchased in state. CGS Sec. 12-478 to 493.

On 1/1/96, Connecticut entered into a cooperative agreement among most US states and Canadian provinces called the International Fuel Tax Agreement (IFTA) to simplify the collection and reporting of fuel use tax by interstate motor carriers (CGS 12-486.) Under IFTA, fuel tax returns are filed in the base jurisdiction[40] of the motor carrier. For the purpose of IFTA reporting, a qualified motor vehicle: (1) is designed to transport persons or property, (2) has two axles and a gross vehicle weight or registered gross vehicle weight over 26,000 pounds; or (3) has three or more axles regardless of weight; or (4) when used in combination, has a combined gross vehicle weight over 26,000 pounds. Motor carriers who qualify and travel solely within the state are not required to file a return, but instead are subject to state tax at the time of fuel purchase. CGS Sec. 12-478(4)

Refund - A refund is due when the credit for Motor Fuels Tax paid exceeds amount of Motor Carrier Road Tax that is due. CGS Sec. 12-480

Payment - The tax is payable quarterly and due 1/31, 4/30, 7/31 and 10/31. CGS Sec. 12-483

1. Motor Vehicle Fuels Tax Exemptions

a. **Fuel sold to the United States government.** CGS Sec. 12-458(a)(1) The refund provision is contained in CGS Sec. 12-459(a)(3)

[40] The base jurisdiction is where the vehicle is based for registration purposes and where operations are controlled.

History and Rationale: Conformity: States are not permitted to tax the federal government under the US Constitution. The exemption was included in PA 59-579, which replaced previous provisions.

b. Fuel used by a contractor performing services for a municipality: Fuel sales to a municipality for use by a contractor performing services for the municipality in accordance with a contract, when such fuel is used exclusively for the purposes of the contract. CGS Sec. 12-458(a)(2). The refund provision for tax paid on fuel purchased by municipalities for use by school bus contractors in transporting children to and from school is contained in CGS Sec. 12-459(a)(7).

History and Rationale: Clarification: The state does not tax itself and municipalities are a subdivision of the state. PA 73-636 created an exemption for school bus contractors and PA 78-322 applied it to all municipal contractors.

c. Fuel sold to municipalities, transit districts or the state: Fuel sales to municipalities, transit districts or the state, at other than a retail outlet, for governmental purposes and for use in vehicles owned and operated or leased and operated by the municipality, transit district or the state. CGS Sec. 12-458(a)(3). The refund provisions are contained in CGS Sec. 12-459(a)(6) for the state or a municipality and CGS Sec. 12-459(a)(10) for a transit district.

History and Rationale: Clarification: The state does not tax itself, and municipalities and transit districts are subdivisions of the state. PA 71-784 and PA 71-8 JSS created the municipal exemption. PA 72-205 exempted fuel sold to the state. PA 75-511 exempted fuel sold to transit districts. PA 84-427 created the refund provision for transit districts.

d. Fuel distributors. CGS Sec. 12-458(a)(4)

History and Rationale: Incentive: The exemption is intended to reduce cascading. The exemption was included in PA 59-579, which replaced previous provisions.

e. Fuel transferred from storage within the state to some point out of state. CGS Sec. 12-458(a)(5)

History and Rationale: Clarification: The tax is levied on fuel consumed in the state. The exemption was included in PA 59-579, which replaced previous provisions.

f. Fuel purchased for export by a distributor licensed in another state. CGS Sec. 12-458(a)(6)

History and Rationale: Clarification: The tax is levied on fuel consumed in the state. PA 65-58 and PA 65-325 created the exemption.

g. Fuel for farming: Fuel sold to any person engaged in the business of farming, provided: (1) the fuel is not used in motor vehicles licensed or required to be licensed to operate on public highways, unless the vehicle is registered exclusively for farming purposes; (2) the fuel is not delivered to a tank in which the purchaser keeps fuel for both personal and farm use; and (3) the purchaser submits to the distributor an affidavit, prescribed by the commissioner of revenue services, affirming that the fuel is used exclusively for farming purposes. CGS Sec. 12-458(a)(7). Agricultural tractors and farm implements are also excluded from the definition of "motor vehicle" in CGS Sec. 12-455a(c). The refund provision is contained in CGS Sec. 12-459(a)(2).

History and Rationale: Incentive: The exemption is intended to reduce cascading. A refund for farming was included in PA 59-579, which replaced previous provisions. PA 84-424 created the exemption.

h. Fuel for industrial fabrication, agricultural production or fishing industry: Fuel sold exclusively to furnish power for an industrial plant in the actual fabrication of finished products to be sold, or for an agricultural production process, or for the fishing industry. CGS Sec. 12-458(a)(8).

History and Rationale: Incentive: The exemption is intended to reduce cascading. PA 84-427 created the exemption.

i. Heating fuel: Fuel sold exclusively for heating purposes. CGS Sec. 12-458(a)(3)

History and Rationale: Perceived Equity. PA 84-427 created the exemption.

j. Alternative fuels sold to covered fleet: On and after 7/1/04 and until 7/1/08, compressed natural gas, liquefied petroleum gas and liquefied natural gas are exempt when sold for use in a covered fleet vehicle as defined in the federal Clean Air Act. CGS Sec. 12-458f

History and Rationale: Incentive. PA 94-170 created the exemption and various public acts extended the sunset date for the Alternative Fuels exemption.

k. Aviation fuel: Aviation fuel is specifically exempted by CGS Sec. 12-462 and 12-4589(a)(3)(L) and aircraft are excluded from the definition of motor vehicle in CGS Sec. 12-455a(c).

History and Rationale: Incentive: The exemption is intended to make state businesses more competitive with out of state firms. The exemption was included in PA 59-579, which replaced previous provisions. PA 97-243 provides tax-free sales of aviation fuel used for aviation purposes at airports for sales occurring on or after 1/1/98.

l. Diesel fuel sold exclusively for use in portable power systems: Diesel fuel when sold for use in portable power system generating more than 150 kW. CGS Sec. 12-458(a)(3)(M)

History and Rationale: Incentive. PA 97-281

2. Motor Vehicle Fuels Tax Exclusions

a. Motorboat fuel: Motorboats are excluded from the definition of "motor vehicle" in CGS Sec. 12-455a(c).

History and Rationale: Clarification: The language parallels the definition of "motor vehicle" in CGS Sec. 14-1(a)(47).

b. Baggage truck fuel: Baggage trucks used around railroad stations are excluded from the definition of "motor vehicle" in CGS Sec. 12-455a(c).

History and Rationale: Clarification: The language parallels the definition of "motor vehicle" in CGS Sec. 14-1(a)(47).

c. Fuel for railroad trains, streetcars, etc.: Vehicles that run only rails or tracks are excluded from the definition of "motor vehicle" in CGS Sec. 12-455a(c).

History and Rationale: Clarification: The language parallels the definition of "motor vehicle" in CGS Sec. 14-1(a)(47).

d. Connecticut Motor Bus Company.: Any CT Bus company engaged in the business of carrying passengers for hire to which the company has been issued a certificate under 13b-80 and 75% of its gross operating revenue is derived from operations within CT. CGS Sec. 12-455a(e).

History and Rationale: Incentive: Added by PA 82-25.

3. Motor Vehicle Fuels Tax Refunds

a. **Fuel used by vehicles not operated on public highways:** Fuel used by vehicles, other than those used in farming, which are not licensed or required to be licensed for use on public highways. CGS Sec. 12-459(a)(1).

   History and Rationale: Incentive: The refund is intended to reduce cascading. It was included in PA 59-579, which replaced previous provisions.

b. **Fuel used by Connecticut motorbus companies:** CGS Sec. 12-459(a)(4). Motorbus companies are defined under CGS Sec. 12-455a(c) as common carriers organized in the state that derive at least 75% of their gross operating revenue from in-state operations. They are also excluded from the definition of "motor carrier" for the Motor Carrier Road Tax under CGS Sec. 12-478(a).

   History and Rationale: Incentive: The exemption is intended to reduce cascading. PA 84-541 provided the refund for Connecticut motorbuses.

c. **Fuel used by livery services.** CGS Sec. 12-459(a)(12)

   History and Rationale: Expediency. PA 85-437 provided the refund for livery services.

d. **Fifty percent refund for fuel used by taxicabs and airport livery services and airport motorbuses:** A 50% refund is available for the tax paid on fuel used for in-state travel by taxicabs and airport livery services and motorbuses. CGS Sec. 12-459(a)(4)&(5)

   History and Rationale: Expediency. PA 77-542 created the 50% refund for taxicabs and PA 78-322 applied it to airport livery services and motorbuses. PA 77-542 created the refund provision for taxicabs and PA 78-322 applied it to airport livery services and airport motorbuses.

e. **Fuel used in ambulances owned by hospitals:** Fuel purchased by hospitals for use in ambulances that they own. CGS Sec. 12-459(a)(8).

   History and Rationale: Incentive. The refund was included in PA 59-579, which replaced previous provisions.

f. **Fuel used in ambulances owned by nonprofit civic groups:** Fuel purchased by nonprofit civic groups for use in ambulances that they own. CGS Sec. 12-459(a)(9).

   History and Rationale: Incentive. The refund was included in PA 59-579, which replaced previous provisions.

g. **Fuel used in high-occupancy commuter vehicles:** Fuel used in high-occupancy commuter vehicles which seat at least ten, but not more than fifteen, people and have a minimum average daily usage of nine passengers, to and from work. CGS Sec. 12-459(a)(11).

   History and Rationale: Incentive. PA 78-322 created the refund.

h. **Fuel used by the United States government:** See section on Motor Vehicle Fuels Tax exemptions.

i. **Fuel purchased by municipalities for use by school bus contractors in transporting children to and from school:** See section on Motor Vehicle Fuels Tax exemptions.

j. **Fuel used by the state, a municipality or a transit district:** See section on Motor Vehicle Fuels Tax exemptions.

k. **Fuel used in farming:** See section on Motor Vehicle Fuels Tax exemptions.

l. **Meals on wheels:** Fuel for vehicles used exclusively to deliver meals to seniors citizens in association with federally funded programs.

History and Rationale: Expediency. PA 99-232 provided the refund for meal on wheels delivery services.

4. Motor Carrier Road Tax Exclusions—Other than those included under Motor Fuels Taxes Exclusions CGS 12-455a

a. **Vehicles belonging to the United States government.** CGS Sec. 12-493

History and Rationale: Conformity: states are not permitted to levy taxes on the federal government under the US Constitution. PA 61-575 created the exemption.

b. **School buses.** CGS Sec. 12-493

History and Rationale: Clarification: Government does not tax itself. PA 61-575 created the exemption.

5. Motor Carrier Road Tax Credits

a. **Fuel purchased in state upon which the Motor Vehicle Fuels Tax has been paid.** CGS Sec. 12-480(a).

History and Rationale: Redundancy: The credit prevents taxation under both taxes. PA 61-575 created the exemption.

Motor Vehicle Fuels and Motor Carrier Road Tax Expenditures	
	FY 11 ($ millions)
Motor Vehicle Fuels Tax Exemptions	
US Government	0.1
Municipal contractors	Indeterminate
Municipalities, transit districts, state of Connecticut	5.0
Fuel distributors	900.0
Fuel transferred out of state	Indeterminate
Fuel exported by distributor licensed out of state	80.0
Farming	Indeterminate
Industrial fabrication, agricultural production, fishing	Indeterminate
Heating fuel	Indeterminate
Alternative fuels used by covered fleet	less than 0.1
Aviation fuel	25.0
Diesel Fuel used in Portable Power Systems	Indeterminate
Motor Vehicle Fuels Tax Exclusions	
Motorboat fuel	taken as refunds
Baggage truck fuel	indeterminate
Fuel for railroad trains and streetcars	indeterminate
CT Motor Bus Company	taken as refunds
Motor Vehicle Fuels Tax Refunds	
Vehicles not operated on public highways	2.5
Connecticut motor bus companies, livery services, & 50% refund for taxicabs, airport livery & airport bus services	1.5
High-occupancy commuter vehicles	less than 0.1
Municipalities, state of Connecticut, US government, transit districts, hospital ambulances & civic group ambulances	1.0
Farming	0.5
Meals on wheels for seniors	1.0
Motor Carrier Road Tax Exemptions	
US Government	Indeterminate
School buses	Indeterminate
Motor Carrier Road Tax Credits	
Motor Vehicle Fuels Tax paid on fuel purchased instate	1.0

MISCELLANEOUS TAXES

This section is describes taxes and surcharges that are not covered elsewhere in this report. In some cases the revenue collected from the sources explained below are earmarked for specific purposes such as funding environmental programs.

Boxing and Wrestling Matches Tax

Rate & Basis – A 5% tax is imposed on total receipts after the deduction of federal taxes from admissions paid to boxing and wrestling matches.

Enacted in 1949

Payment – The tax is payable within 24 hours after the end of a boxing exhibition or wrestling match and must be accompanied by a report stating ticket sales and gross receipts (CGS Sec. 21a-143m).

Dry Cleaning Surcharge

Rate & Basis – A 1% surcharge is levied on the gross receipts of dry cleaning establishments. Monies collected are deposited into the Dry Cleaning Re-mediation Account, which is used to provide grants to dry cleaning establishments for the containment and removal or mitigation of environmental pollution resulting from dry cleaning activity. It is also used to fund measures, which are approved by the Commissioner of Economic and Community Development, undertaken to prevent pollution. (CGS Sec. 12-263m)

Enacted by PA 94-4

Payment – Quarterly payments are made by approximately 500 taxpayers.

Marijuana and Controlled Substances Tax

Rate & Basis – An excise tax is imposed on marijuana and other controlled substances illegally purchased, acquired, transported or imported into the state. Tax rates are $3.50 per gram of marijuana, $200 per gram of controlled substance and $2,000 per 50-dosage unit of controlled substance not sold by weight. (CGS Sec. 12-651)

Payment – Payment of the tax is indicated by stamps, which are issued in multiples of $10. Prior to 7/1/95, interest on unpaid taxes is 1.25% per month from the due date of the tax until payment. After 7/1/95, the interest rate is 1% per month or 12% annually (CGS. Sec. 12-655). The nonpayment penalty is the greater of 10% of the unpaid tax or $50. If tax evasion was due to fraudulent intent, the penalty is 25% of the unpaid tax. Additional penalties include a fine of up to $10,000, imprisonment for up to 6 years and a penalty of 100% of the tax in addition to the tax.

Enacted by PA 91-397

Exclusion – The tax is not applicable to persons lawfully in possession of marijuana or a controlled substance. (CGS 12-658)

Motor Vehicle Rental Surcharge

Rate & Basis - A 3% per day surcharge is imposed on the rental of private passenger motor vehicles or trucks by a rental company in Connecticut for periods of less than 31 days, A 1.5% per day surcharge is imposed on the rental of heavy-duty equipment and machinery used in construction, mining or forestry by a rental company in Connecticut for periods of less than 31 days. Rental companies must pay the portion of the surcharge collected during the calendar year that exceeds the amount paid to Connecticut municipalities in personal property tax and the amount paid to the Department of Motor Vehicle in titling and registration fees. (CGS Sec. 12-692)

Enacted by PA 95-294

Exemptions: Motor vehicles delivered to a lessee outside Connecticut
Rentals by an agency of the US Government
Rentals of 31 days or more
Rentals from other than a rental company

Payment – Payments are made annually by approximately 200 taxpayers.

Non-Profit Prepaid Legal Services Corporation Tax

Rate & Basis – A tax is levied on all nonprofit legal service corporations at the rate of 2% of total net direct subscriber charges[41]. (CGS Sec. 38-242)

Enacted by PA 79-234

Payment – The tax is payable annually, on or before 3/1.

Nursing Home User Fee

Rate & Basis – A fee is imposed on each chronic and convalescent nursing home or rest home licensed by the Department of Public Health. The resident day user fee is determined by the Department of Social Service on or before July 1 of each calendar year. This amount is multiplied by the nursing home's total resident days during the calendar quarter. (CGS Sec. 17b-321)

Enacted by PA 05-251

Payment – Quarterly payments are made by approximately 225 taxpayers.

Occupational Tax

Rate & Basis – An annual tax of $565[42] is levied on any person who has been admitted as an attorney by the judges of the superior court and who is engaged in the practice of law, including the performance of judicial duties. (CGS Sec. 51-81b)

Enacted by PA 72-223 and modified by subsequent public acts with numerous technical changes regarding administration of the tax.

Exemptions: Judges and employees of the State

[41] Net direct subscriber charges are gross direct subscriber charges less returned subscriber charges, including cancellations.
[42] The tax increased from $450 to $565 effective 1/1/2009.

Any attorney who has retired from the practice of law
Any attorney serving on active duty with the US Armed Forces for more than 6 months of a given year
Attorneys employed by the Probate Court
Employed by a political subdivision

Payment - The tax is payable on or before 1/15 for the preceding year and is paid by 13,035 taxpayers. (CGS Sec. 51-81b)

Solid Waste Tax

Rate & Basis – A $1.50 per ton tax is levied on solid waste processed by the owners of commercial resource recovery facilities that process municipal solid waste to reclaim energy (CGS Sec. 22a-232.)

Enacted by PA 73-459

Payment – The tax is paid quarterly by 8 taxpayers.

Tourism Account Surcharge

Rate & Basis - A surcharge of $1.00 per rental/leasing day is levied on passenger motor vehicles rented or leased for fewer than 30 days. . (CGS Sec. 12-665 to 12-668)

Enacted by PA 92-194

Exemptions - The rental of leasing of a motor vehicle pursuant to a written agreement, which has a term of more than 30 days.

Payment – The tax is paid quarterly by 80 taxpayers and monthly by 23 taxpayers.

PROPERTY TAX

Taxation of property predates most other forms of taxation in t he United States because property taxes were levied before the US Constitution was written. Thus, exemptions to property taxes have had a lengthy and well-documented history. The nature and breadth of modern property tax exemptions vary widely from state to state, due at least in part to the fact that the United States Constitution is silent on what types of exemptions are specifically granted or prohibited.[43]

Property Tax exemption policy is primarily based on the nature of the owner of the property. The following discussion deals with the exemptions granted to different classes of property owners in the state of Connecticut.

Federally-owned Property

CGS Sec. 12-81(1) grants an exemption for federally owned property. This is based on the rationale that only Congress has the power to authorize tax payments on federal property to lower level governments. Since Congress has not authorized such payments, the only circumstances under which federally-owned property is taxable by state and municipal governments is when such property is leased to a private business.[44]

State and Municipal Property

The rationale behind the exemption of state and municipal property (CGS. Sec. 12-81(2) and (4)) is that it would only transfer public funds within the state. This reasoning is strained with respect to state property, which imposes un-reimbursed costs on the municipalities. In recognition of this, Connecticut reimburses municipalities in a payment in lieu of taxes (PILOT) formula for state-owned property.

The "public purpose" clause is absent in the state exemption (CGS Sec. 12-81(2)) but present in the municipal exemption (CGS Sec. 12-81(4)). This difference has not been clarified by court cases. Courts have disallowed exemptions for property owned by a city in another town which is devoted to a non-public use[45], and for municipal property available for use by only a limited number of persons.[46]

Property Devoted to Scientific Educational, Literary, Historical or Charitable Purposes

Under CGS Sec. 12-81(7), the exemption applies to organizations devoted to these uses provided "any officer, member, or employee does not receive financial reward in excess of 'reasonable compensation for services'." This language is similar to the wording used by other states for statutes with analogous clauses. What tends to differ among states are the types of organizations that qualify for this exemption.

The rationale for this type of exemption is that such organizations perform functions that government would have to undertake in their absence, or that such functions are socially desirable, but are not within the scope of government activities. Instead of taxing such institutions and providing subsidies, the state grants a tax exemption.

To qualify for the exemption, an educational organization must clearly demonstrate that there is no opportunity for private gain from the existence or dissolution of its operations. Restrictive admission practices or high tuition are not sufficient reasons to deny exemption. However, the curriculum should consist of

[43] Even the immunity of federally-owned property from taxation was not guaranteed; it was not until the Supreme Court ruled, in McCullock v. Maryland, 17 U.S. 579 (1819), that taxation of federal property by states was an interference with the former's sovereignty.
[44] City of Detroit v. Murray Corp., 355 U.S. 489 (1958); United States and Borg-Warner Corpo. V. City of Detroit, 355 U.S. 466 (1958); United States v. Township of Muskegon, 355 U.S. 484 (1958); and American Motors Corp. V. City of Kenosha, 356 U.S. 21 (1958).
[45] Town of West Hartford v. Board of Water Commissioners of Hartford, 44 Conn. 360 (1877)
[46] Laurel Beach Association v. Milford, 148 Conn. 233, 169 A.2d. 748 (1961)

"systematic instruction and training for the young in preparation for the work of life." [47] Other court rulings have maintained this limitation of instructional latitude to correspond with instruction in government-supported schools within the state.

Qualification for an exemption for charitable purposes has been interpreted more liberally by the courts. A charitable purpose "no longer is restricted to mere relief of the destitute or the giving of alms, but comprehends activities ... which are intended to improve the physical, mental and moral condition of the recipients and make it less likely that they will become burdens on society and more likely that they will become useful citizens .... Charity embraces anything that tends to promote the well doing and the well-being of social man."[48] Only political activity and the opportunity for private gain appear to circumscribe tax exemptions for organizations devoted to charitable purposes.

A comparable case history on the exemptions for scientific, literary and historical purposes does not exist. Because government does not ordinarily provide services in these areas, it cannot be said that these organizations are relieving any governmental burden. Most states are more restrictive than Connecticut in granting exemptions for scientific, literary and historical purposes.

College Property

Colleges and universities qualify for exemption under CGS Sec. 12-81(7). In addition, the "funds and estate" of seven private Connecticut colleges [49] "respectively invested and held for the use of such institutions, with the income thereof" are exempt from taxation under CGS Sec. 12-81(8) "Provided none of said corporations shall hold in this state real estate free from taxation affording an annual income of more than six thousand dollars."

The exempt status of these schools is also specified by the General Assembly in their charters. There is a strong argument that the exempt status of these colleges is constitutionally irrevocable. Since the state granted the exemptions in the charters of these institutions, it cannot revoke them without impairing its contract obligations. Exemptions of dormitories and dining halls[50] as well as temporary housing for married students[51] owned by Yale University have been upheld in two court challenges.

The $6,000 limitation on income from real estate has been interpreted to apply only to relevant income-yielding property; other college-owned property does not lose its exempt status if this income limitation provision is violated. [52]

Cemetery Property

For reasons similar to charitable and educational property, cemetery property has been exempted from taxation (CGS Sec. 12-81(11)). Since no serious objection to this exemption has been raised, there have been no landmark court cases in this area. Cemetery property is frequently owned by religious organizations. Also, in New England, many municipalities own cemeteries. In such cases, the religious or municipal exemption would probably take precedence, which may explain the absence of challenges to this exemption.

Religious Property

CGS Sec. 12-81(12) exempts personal property of religious organizations. In CGS Sec. 12-81(13), "houses of religious worship, the land on which they stand, their pews, furniture and equipment" are exempted. Also,

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[47] Masonic Building Associates v. Town of Stamford, 119 Conn. 53, 59, 174 A. 301, 303 (1934)
[48] Camp Isabella Freedman of Connecticut v. Town of Canaan, 147 Conn. 510, 514-15, 162 A. 2nd 700, 703 (1960).
[49] Berkeley Divinity School, Connecticut College for Women, Hartford Seminary Foundation, Sheffield School, Trinity College, Wesleyan University and Yale University (sic).
[50] Yale University v. Town of New Haven, 71 Conn. 316, 42 A. 87 (1899)
[51] Yale University v. Town of New Haven, 17 Conn. Supp. 166 (C/P/ 195-0)
[52] Yale v. New Haven (1899)

"real property and equipment" of "any religious organization and exclusively used as a school, a Connecticut non-profit camp or recreational facility for religious purposes, a parish house, an orphan asylum, a home for children, a reformatory or an infirmary" are exempted in CGS Sec. 12-81(14). Finally, "dwelling houses and the land on which they stand" used by "officiating clergymen" are exempted in CGS Sec. 12-81(15).

Exemption of property used for religious purposes has a longer history than other exemptions. In pre-Constitution America there was no doctrine of separation of church and state, but because churches were generally considered as related to government, they were exempted as public agencies. The exemption practice simply continued in post-constitution America. Statutes specifically exempting religious property were generally not enacted until the nineteenth century.[53]

The First Amendment of the Constitution -- which states that "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof" -- can be interpreted as either encouraging or prohibiting the taxation of churches. A Supreme Court decision upholding property tax exemption for churches[54] relied principally on arguments other than the establishment and free exercise clauses in the First Amendment. Yet, the wording and near-unanimity of that decision imply that any state, which repealed its exemption of church property, is likely to have its action reversed.

Presently, all 50 states exempt church property; 33 include the exemption in their state constitutions. In Connecticut, relatively few court-mandated restrictions have been placed on property used for religious purposes. A Masonic Temple was denied a religious exemption because, among other reasons, it "meets in secret", as a membership "dependent in part at least on social considerations", and its property was not "devoted to the practice of religious worship as it is customarily carried on ... in this state." [55][13] Recreational facilities of religious organizations were 'denied exemptions before they were specifically included in CGS Sec. 12-81(14) in 1955.

Hospital and Sanatoriums

The State exempts hospitals and sanatoriums (CGS Sec. 12-81(16)), provided that "no officer, member or employee thereof" receives "any pecuniary profit ... except reasonable compensation for services." Where an institution had become financially successful, the court ruled that under the statute, success alone (meaning that the institution was using sound financial management) did not transform the institution's purpose from one devoted exclusively charitable purposes. [56]

This exemption is analogous to that of educational, scientific and other such property. The rationale is the same: hospitals and sanatoriums provide services that would otherwise have to be provided by government. In many states, hospitals are operated by state or municipal government to a greater extent than in Connecticut. For example, New York City possesses an extensive municipal hospital system.

Other Governmental and Benevolent Exemptions

A number of exemptions similar to those outlined above are included in CGS Sec. 12-81. They are more specific in nature and in many cases, exempt an organization that would otherwise have qualified for the

[53] Connecticut's exemption originated in the Statute of Charitable Uses, adopted in 1684 and revised in 1702, which exempted property "for the maintenance of ministries of the Gospel." The wording has changed over time: in 1822 "churches" were exempted by the statute, but other religious, organizations were not mentioned; in 1851, properties of benevolent organizations were also included. In 1925, the wording was altered so that "houses of religious worship" were exempted.
[54] Walz V. Tax Commissioner of the City of New York, 397 U.S. 664 (1970)
[55] Masonic Building Association of Stamford, Connecticut, Inc. v. Town of Stamford, 119 Conn. 53, 60, 61, 174 A. 301, 304.
[56] Institute of Living V. Hartford Board of Tax Review, 13 Conn. Supp. 372 (1945)

governmental or educational/charitable exemptions. Because the rationales for these have already been discussed, the items are only listed in the footnote below. [57]

Other Exempt and Non-Taxed Properties

In classifying property that is not subject to taxation, a distinction can be made between exempt and non-taxed property. Exempt property is not taxed under the existing ownership, but would be taxed under other ownership. The use to which the property is put or the nature of the owner gives exempt status to the property. Non-taxed property is not taxed regardless of ownership. For example, most personal property not taxed in Connecticut retains this, status regardless of ownership. Much property that is not taxed, but does not appear on any exempt grand list can more accurately be called non-taxed.

Some business-owned properties possess exempt status. For example, provisions are made for special treatment of the property of common carrier motorbus companies and railroad companies. For the former, buses used for carrying passengers are exempt; if the carrier is a Connecticut bus company, fifty percent of property taxes on the assessed value of its real estate and relevant personal property used directly in the conduct of its motor bus business is waived. All property of railroads, if used exclusively for railroad purposes, is exempt from taxation.

The statutes allow towns to abate property taxes for certain types of property and require them to abate the taxes for other types. Some of these abatements are intended to stimulate business activity, such as redeveloping abandoned industrial sites; others have narrower aims, such as preserving historic properties, but may have economic development spin-offs.

Table 4 lists the optional town tax abatements. Some are for development activities, such as rehabilitating stores, factories, and apartment houses. Other abatements serve different public needs, such as those for solar energy systems, historic properties, and low-income housing.

Table 5 lists the abatements towns must provide to properties meeting specific statutory criteria. Some are available only in certain towns to manufacturers that build or expand plants or buy new machinery and equipment, while others address different public needs, such as the tax abatement for pollution control equipment.

Exemptions to Individuals

Partial exemptions for property occupied as dwelling places are granted to the blind, veterans, disabled veterans, elderly and specified relatives. Also exempted are a limited amount of property of United States army instructors (CGS Sec. 12-81(28)) and one motor vehicle of a serviceman "if ... garaged outside the state". (CGS Sec. 12-81(53))

Exemptions for the blind and veterans have a long history in Connecticut. Exemption provisions for the blind first appeared in the Connecticut General Statutes in 1867 and a veterans, exemption first appeared in 1887. Relief for elderly homeowners was initiated in 1965 with a tax freeze program. In 1973, circuit breaker legislation was added as an option for elderly taxpayers. The freeze program option for new participants was eliminated in 1980. The last significant revision of the circuit breaker program was in 1985.

These exemptions have different rationales behind them. When the veterans' and servicemen exemptions were originally enacted they represented payment in recognition of services rendered to one's country. The rationale for the various expansions of local options was expediency with some attempt at perceived equity by imposing certain income limits. The exemption for the blind attempts to recognize the handicap such people

[57] They consist of: CGS Sec. 12-81(5), property held by trustees for public purposes; (6), property of volunteer fire companies; (9), personal property loaned educational institutions; (10), property owned or horticultural societies; (18), property organizations; (27), grand army posts; (29), the Red Cross; (45), Connecticut National Guard; (48), airport improvements; and (49), nonprofit camps or recreational facilities charitable purposes.

possess in earning a living and owning a house. The elderly exemption attempts to ease the property tax burden on a class of people who generally must live on a reduced income when they retire, but do not find their property taxes reduced commensurately.

Most non-business tangible and intangible personal property is not taxed. Some categories are specifically exempted by law among CGS Sec. 12-81(30)-(35), (43) and (47) [58]; others are not mentioned. The major reason that non-business personal property is not taxed is that the difficulties in identifying and taxing such property are deemed to outweigh the possible revenue.

Much of this personal property was taxable in earlier times. In 1851, the general rule was adopted that all property not exempted by statute would be taxed. After this declaration, exemptions proliferated, particularly on personal property. The property tax on boats CGS Sec. 12-81(64)) was eliminated in 1981 and replaced with an annual registration fee. Towns receive a payment equal to the property taxes received from boat owners on the October 1, 1978 Grand List. The property tax on aircraft (CGS Sec. 12-71(f)) was eliminated in 1993, effective with the 1992 Grand List, and replaced with an annual fee. Towns receive payment based on the property tax the town would have received on the 1992 Grand List minus the revenue from the registration fee. The amount of the payments to the towns from the Special Transportation Fund is 100% on April 1, 1994 and 1995**,** 90%, 70%, 50%, 30% and 10% in 1996, 1997, 1998, 1999, 2000, respectively.

A final non-taxed category consists of streets and waterways. They represent the difference between what is called the total gross area and total net area of a municipality. Streets are truly public domain; thus, the "value" of streets is normally considered to be reflected in the value of facing property. Water areas represent (unless filled in) non-developable property. Neither, therefore, is subject to appraisal or assessment.

The following tables provide statewide aggregate information on various property tax exemptions. The tables indicate the effect on the grand list, whether the exemptions are mandatory or discretionary, whether the state reimburses the municipality and for exemptions affecting individuals, the number qualifying and participating in the tax relief.

[58] They are: CGS Sec. 12-81(30), Fuel and Provisions; (31), Household Furniture; (32), Private Libraries; (33), musical Instruments; (34), Watches and Jewelry; (35), Wearing Apparel; (43) Cash; (47), Carriages, Wagons, and Bicycles.

Table 1: Statewide Property Tax Grand List Reductions with FY 2009 Estimates

Select Governmental and Other Benevolent Organization Exemptions

Exemption Type	CGS Section	FY 09 Estimated Reduction ($ Millions)	State Reimbursed	% Gross Grand List
Property of the United States	12-81(1)	$1,139.9	No	0.29%
State Property	12-81(2), (45),(66)	9,183.1	Partial [1]	2.36%
Municipal Property	12-81(4)	7,623.4	No	1.96%
Public Purpose Property by Will or Trust	12-81(5)	4,881.0	No	1.26%
Beach Property	12-81(67)	768.1	No	0.20%
Municipal Airports	12-81(4), 12-74	2,036.2	No	0.52%
Municipal Water Supply Land	12-76	5,920.4	No	1.52%
Municipal Port Authority	7-3291	Not reported	No	
Vessels	12-81(64)	Not reported	No	
Volunteer Fire Company Property	12-81(6)	198.6	No	0.05%
Property Used for Scientific, Educational, Literary, Historical or Charitable Purposes	12-81(7)	4,891.2	No	1.26%
Property Leased to Charitable, Religious, or Non-Profit Organizations (Local Option)	12-81(58)	21.0	No	0.005%
Nursing, Rest and Residential Care owned by a Federally exempt organization	12-81(75)	85.8	No	0.02%
Private Colleges' Property	12-81(8), 12-20a	2,955.8	Partial [1]	0.76%
Connecticut Student Loan Foundation Property	10a-209	6.1	No	0.002%
Hospital and Sanitariums	12-81(16), 12-20a	3,816.5	Partial [2]	0.98%
Health Care Facility-HMO Property	38a-188	50.6	No	0.01%
Non-Profit Health Care Institutions	12-81(75)	Not reported	No	
American National Red Cross Property	12-81(29)	18.0	No	0.005%
Property Held for Cemetery Use	12-81(11)	558.6	No	0.14%
Property of Religious Organizations	12-81(12), (13),(14), (15),	4,502.1	No	1.16%
Nonprofit Camps/Recreational Facilities	12-81(49)	433.4	No	0.11%
Agricultural and Horticultural Society Property	12-81(10)	99.0	No	0.03%
CT Resource Recovery Authority property, if PILOT agreement between lessee and CRRA	22a-270a	417.5	Partial [1]	0.11%
CT Innovations Inc.	32-46	Not reported	No	
CT Housing Authority Property	8-265b	94.6	No	0.02%
Metropolitan Transportation Authority property	12-81(69)	Not reported	No	
CT Water Authority	8-58	Not reported	No	
Veterans Organizations Property	12-81(18), (27)	57.4	No	0.02%
Prepaid Legal Services Property	38a-240	Not reported	No	
Public Service Companies Property (Railroad)	12-255	92.4	No	0.02%
Total Percentage of Grand List Exempted				**12.82%**

[1] State Reimbursement is 20% except 100% for Correction Facilities

[2] State Reimbursement is 60%.

Table 2: Statewide Property Tax Grand List Reductions FY 09		
Category	Type	2007 Grand List FY 09 Estimate ($ Millions)
A	Non Reimbursed Veterans	$650.0
B	Reimbursed Ad Vets - Income	114.9
C	Reimbursed Ad Vets - Non Income	198.8
D	100% Disabled Non Reimbursed	15.3
E	100% Disabled Reimbursed	13.1
F	Blind	9.3
G	Economic & Developmental - Non Reimbursed	1,304.0
H	Environmental & Developmental - Reimbursed	254.0
I	Farm & Mechanics	56.5
J	Solar Energy & Pollution Control	118.6
K	Personal Property of Tax - Exempts	97.4
L	Individuals	60.6
M	Miscellaneous	75.7
N	Manufacturers and Trucks	2,019.2
O	Phase-In Residential Properties	5,809.1
P	Phase-In Non Residential Properties	2,001.4
Q	Residential Fixed Assessments	10.4
R	New Manufacturing Machinery & Equipment	601.6
	Total	**13,409.9**

As a result of changes in data reporting by municipalities beginning with the 1999 Grand List Year/FY 01, data is no longer available in the detail it was in previous years for Tables I and II. Items listed on Tables I and II are identified by category letter corresponding to the cumulative total for that grouping as shown in the table above.

Table 3: Exemptions for Individuals: Statewide Property Tax Grand List Reductions			
Category	Exemption Type	CGS Citation	State Reimbursed
A	Veteran serving in time of war, in the amount of $1,0000	12-81(19)	No
A	Servicemen and veterans having disability ratings of 10-25%=$1,500, 26-50%=$2,000, 51-75%=$2,500, or 76-100% or at least 65 yrs old with a disability =$3,000	12-81(20)	No
A	Disabled veterans with severe disability: up to $10,000, except the loss of one arm or leg, in the amount of $5,000	12-81(21)	No
A	Surviving spouse or minor child of servicemen and veterans in an amount of $1,000, except $3,000 if death on active duty	12-81(22)	No
A	Surviving spouse receiving federal benefits in an amount of $1,000	12-81(23)	No
A	Surviving spouse and minor child receiving Veteran's Administration compensation in an amount of $3,000	12-81(24)	No
A	Surviving parent of deceased serviceman or veteran in an amount of $1,000	12-81(25)	No
A	Parents of veterans in an amount of $1,000	12-81(26)	No
A	Motor vehicle of a servicemen if garaged out-of-state	12-81(53)	No
A	A specially adapted dwelling house of a veteran may at local option be exempted	12-81(21)(C)	No
A	Up to $10,000 of additional veteran's exemption at local option if the veteran meets certain income tests	12-81f	No
B	Veterans receiving exemptions pursuant to subdivisions 12-81(21) through (26) are eligible for an additional exemption equal to twice the exemption granted pursuant to any such subdivision provided they meet certain income qualifications	12-81g(a)	Yes
C	Veterans receiving exemptions pursuant to subdivisions 12-81(21) through (26) are eligible for an additional exemption equal to one and one half times the exemption granted pursuant to any such subdivision	12-81g(b)	Yes
D	Specially equipped motor vehicle for veterans having disability rating: May at local option be exempt	12-81h	No
D	Additional $1,000 exemption at local option to residents receiving permanent total disability social security benefits	12-81i	No
E	Property in the amount of $1,000 of a resident who receives permanent total disability social security benefits	12-81(55)	Yes
F	Property of blind persons in the amount of $3,000	12-81(17)	No
F	Additional $2,000 at local option for blind persons below certain income levels	12-81j	No
L	Property in the amount of $1,000 of US Army instructor and $2,000 if the property is necessary for the performance of his official duties	12-81(28)	No
L	Motor vehicles owned by American Indians and garaged on the reservation	12-81(71)	No
L	Personal property (primarily motor of vehicles) of military personnel	Federal Soldiers and Sailors Relief Act	No

Table 4: Discretionary Tax Incentives

Category	Type of Property	Eligibility Criteria	CGS Citation and Initial Enactment	State Reimbursed
G	Low- and moderate-income housing	Property used solely for this purpose; owner must contract with the town for abatement; abated taxes must be used to reduce rents, achieve mixed income occupancy, or provide related facilities or services; abatement terminates when housing is no longer used solely for low- & moderate-income families	8-125, 8-216 PA 67-522	Yes
Not Reported	Real or personal corporate property	Corporation's inability to pay taxes is a bar to receiving working capital loan from U.S. government agency; OPM & attorney general must approve abatement; abatement rescinded if loan application withdrawn or rejected	12-125 Enacted 1935	No
G	Dairy farm, fruit orchard, or wine grape vineyard	Up to 50% of taxes owed; may include recapture provision in case of sale (Local Option)	12-81m PA 90-270	No
G	Food Manufacturing Plant	Abate property taxes at local option to any food manufacturing plant under certain conditions	12-81o PA 94-145	No
G	Infrastructure of Water Cos	Abate property taxes at local option for infrastructure improvements at a water company under certain conditions	12-81q PA 97-275	No
G	Contaminated Property	Abate property taxes at local option for contaminated property undergoing remediation under certain conditions.	12-81r PA 97-109 PA 95-253	No
G	Information Technology	Abate property taxes at local option for information technology equipment.	12-81t PA 98-242	No
G	Telecommunications	Abate property taxes at local option for telecommunications real or personal property.	12-81u PA 98-242	No
G	Electric Cooperatives	Abate property taxes at local option for electric cooperatives' real or personal property.	12-81v PA 98-28	No
G	Urban and Industrial Reinvestment	Abate property taxes at local option for urban and industrial reinvestment approved projects that do not qualify for the property tax exemption provided by 32-9t..	12-81aa PA 00-170	No
G	Affordable Housing	Provide tax credits at local option for owners who place long-term, binding affordable housing deed restrictions on such property.	12-81bb PA 00-206 PA 02-87	No

Table 4: Discretionary Tax Incentives

Category	Type of Property	Eligibility Criteria	CGS Citation and Initial Enactment	State Reimbursed
Not Reported	Historic properties	Town determines eligible structures or can delegate to private body; owner must show that tax burden threatens structure's continued existence; if structure demolished or remodeled to destroy architectural or historic value after abatement, owner must pay total taxes abated	12-127a PA 69-711	No
Not Reported	Redevelopment property	Property acquired by town-designated redevelopment agency or housing site development agency	8-129a, 213a PA 65-571 PA 69-555	No
Not Reported	Urban homesteading	Abatement of all or part of taxes due on property conveyed to an urban homestead or deferral of property taxes for up to 10 years	8-169u PA 75-452	No
Not Reported	Urban rehabilitation property	Abatement of all or part of taxes due on commercial or industrial property conveyed to an urban rehabilitator or deferral for up to 10 years of property taxes or any increased assessment	8-296 PA 77-503	No
M	Private airports	Improvements on or to land areas; airport must be licensed by DOT; owner must allow free use to public; must be approved by town meeting	12-81 (48) PA 61-245	No
M	Commercial Fishing	Exempt amount above $500 at local option for commercial fishing apparatus. CGS 12-81(36) mandates the first $500 exemption.	12-81s PA 98-262	No
M	Local firefighters and certain emergency and civil preparedness personnel	Abate up to $1000 in property taxes at local option for nonsalaried civil preparedness and for those who volunteer their services as firefighters, EMT, paramedics, search and rescue and other similar functions.	12-81w PA 99-272 PA 01-187 PA 04-241	No
M	Surviving spouse of police officer or firefighter	Abate property taxes on the primary residence at local option of the surviving spouse of a police officer or firefighter.	12-81x PA 00-125	No
M	School buses	Abate property taxes on new school buses.	12-81y PA 00-192	No
M	Citizenship Classes	Abate property taxes on non-stock corporations providing citizenship classes.	12-81z PA 00-130	No

Table 4: Discretionary Tax Incentives

Category	Type of Property	Eligibility Criteria	CGS Citation and Initial Enactment	State Reimbursed
J	Energy Efficient Vehicles	Beginning 1/1/08 until 1/1/10 a tax exemption for hybrid motor vehicles and those with fuel efficiencies of at least 40 MPG.	PA 07-242	No
J	Solar energy heating and cooling systems	Equipment installed between 1976 and 2006; exemption is difference between value with solar and conventional equipment; exemption is for 15 years following installation.	12-81(56), (62) PA 76-409 PA 79-479	No
J	Class I Renewable energy sources and hydropower and solar electricity generating and cogenerating system	Equipment must meet OPM standards; applies to equipment installed after October 1977 and cogeneration and electricity generating systems installed between 1981 and 2006; exemptions are for maximum of 15 years following installation	12-81(57), (63) PA 77-490 PA 81-439	No
G	Day care services	Businesses, other than day care business, which offers day care services to town residents; exemption is up to 100% of value of property used in providing service or property used in providing service or 10% of the business's assessed value	12-81n PA 90-298	No
G	Housing	Assessment may be fixed on housing project of three or more units that is part of a redevelopment, urban renewal, or community development project; assessment for land and improvement for land before improvements; assessment may be fixed for 15 years	12-65 Enacted 1947	No
G	Housing	Deferred increase in assessment due to rehab or new multi-family construction in designated rehabilitation area; town must adopt deferral criteria after notice and hearing; can fix assessment for up to 7 years during construction and gradually increase assessment for up to 11 years following construction	12-65c,65d, 65e PA 73-588	No
G	Housing	Rehab or renovations to accommodate people with physical disabilities; fixed assessment for up to 5 years and deferred assessment increase attributable to improvement during same period; agreement must be approved by building official; work must be completed within 3 years of agreement	12-65g PA 75-244	No

Table 4: Discretionary Tax Incentives

Category	Type of Property	Eligibility Criteria	CGS Citation and Initial Enactment	State Reimbursed
G	Office, retail, homes and apartments, hotels and motels, manufacturing, warehouse, or multi-level parking connected to mass transit system	Fixed assessment for land and improvements based on total value of improvements; 7 years if value is more than $3 million, 2 years if value is $500,000 to $3 million, and 50% of increased assessment for 3 years if cost is $100,000 to $500,000; owner must sign contract with town. The act initially applied to towns with populations over 80,000 and if the cost was $10 million or more. Over the last 16 years it was expanded to include all towns and to various improvements with lower costs.	12-65b PA 71-471	No
G	Town/City Development Act - Any Development Property	Any development property in whole or in part up to 20 years may be exempted.	7-498 PA 75-2 (JSS)	No
G	Enterprise Zone Improvements	Improvements on real property in an Enterprise Zone must fix the assessment for 7 years and defer any increase as follows: Year — % Increase Deferred 1 — 100% 2 — 100% 3 — 50% 4 — 40% 5 — 30% 6 — 20% 7 — 10% PA 94-241 allows municipalities to fix assessments on portions of improvements that exceed $80 million in lieu of schedule above.	32-71 PA 81-445	No

Table 5: Mandatory Tax Incentives

Category	Type of Property	Eligibility Criteria	CGS Citation and Initial Enactment	State Reimbursed
M	Commercial fishing apparatus	Up to $500; must be used in main business	12-81(36) Prior to 1949	No
M	Commercial fishing vessels	At least 50% of owner's income must be from fishing to receive exemption	12-81(61) PA 79-82	No
I	Mechanic's and farming tools	Up to $500; mechanic's tools must be used in trade, farm tools exclusively used in farming	12-81(37), (38) Prior to 1949	No
I	Farm produce	Property owned and held by producer, including calves, colts, and lambs	12-81(39) Prior to 1949	No
I	Farm animals, livestock	Animals owned and kept in state; horses and ponies limited to $1,000 unless used in farming	12-81(40), (41), (42), (68) Prior to 1949	No
I	Farm machinery	Machinery (except motor vehicles) up to $100,000 and horses and ponies used exclusively in farming; claimant must have at least $15,000 in gross sales or farm-related expenses in most recently completed tax year	12-91 PA 57-18	No
I	Nursery products	Produce, trees, or products while growing in nursery	12-81(44) Prior to 1949	No
I	Temporary plant production devices	Devices or structures used in seasonal production, storage, or protection of plants, including hoop, poly, and shade houses; high tunnels; over-winter structures	12-81(73) PA 91-257	No
Not Reported	Manufacturers' wholesalers', and retailers' inventories	Monthly average quantity of goods; manufactures goods include raw materials & parts for use in mfg process and in finished goods.	12-81(50) and (54) 1965 acts	No
J	Water and air pollution control structures and equipment	Property must be certified by DEP and certification must be filed with assessor	12-81(51) and (52) 1967 acts	No
G	Manufacturing and service facilities	Facilities acquired, constructed, or renovated after 1978 in a distressed municipality, or targeted investment community or enterprise zone, if DECD approves; must be DECD-certified; in Enterprise Zones includes certain service firms; exemption is 80% for 5 years (in certain special circumstances up to 10 years); construction and renovation exemption is based on difference in value before and after.	12-81(59) & 32-9s PA 78-357	50%

Table 5: Mandatory Tax Incentives

Category	Type of Property	Eligibility Criteria	CGS Citation and Initial Enactment	State Reimbursed
G	Manufacturing Equipment	Machinery and equipment installed in facility described above, which represents an addition to grand list; exemption is 80% for five years (in special circumstances up to 10 years)	12-81(60) & 32-9s PA 78-357	Yes
G	New machinery and equipment	New machinery and equipment acquired as part of a technological upgrading of a manufacturing process in a town with an Enterprise Zone; up to 50% of value for 5 years; business must have operated in state for more than 5 years and had less than $20 million in gross receipts in previous year; machinery must cost more than $200,000 or 200% of firm's average equipment expenditures in plant during 3 previous years	12-81 (70) PA 88-287 PA 90-270	No
N	New machinery and equipment	New machinery and equipment acquired after October 1, 1990 and machinery and equipment newly acquired after July 1, 1992; 100% exemption for 5 years; and new machinery and equipment acquired after July 1, 1996 and used in connection with biotechnology	12-81(72) PA 90-270	Yes
R	New Manufacturing Machinery & Equipment	New machinery and equipment, including utilized in biotechnology, acquired after October 1, 2011.	12-81(86) & 12-94f PA 06-83	Yes
M	Vans and vanpool vehicles	Any van used to transport employees that is owned by an employer, a regional ride-share organization, or a dealer leasing vans to such entities	12-81(65) & 12-81e PA 79-542 PA 82-449	No
Not Reported	Merchandise in transit	Merchandise stored in a public commercial storage warehouse or wharf in the same name of the producer or manufacturer	12-95a &12-108 PA 65-603 1953	No
N	Vehicles used to transport freight	New commercial motor vehicles used exclusively to transport freight for hire	12-81(74) PA 96-265	Yes
M	CT motor bus company	Any CT motor bus company carrying passengers for hire in state	12-241 Prior to 1949	No
M	Water companies	Certain property of private water companies and property used for generating power (hydroelectric)	12-75, 12-77	No
M	Railroad	Property of railroad companies used exclusively for railroad purposes	12-255 Prior to 1949	No
M	Public service companies	Certain property owned by tele-communication companies and railroad	12-255, 12-268j	No