Office of Legislative Research
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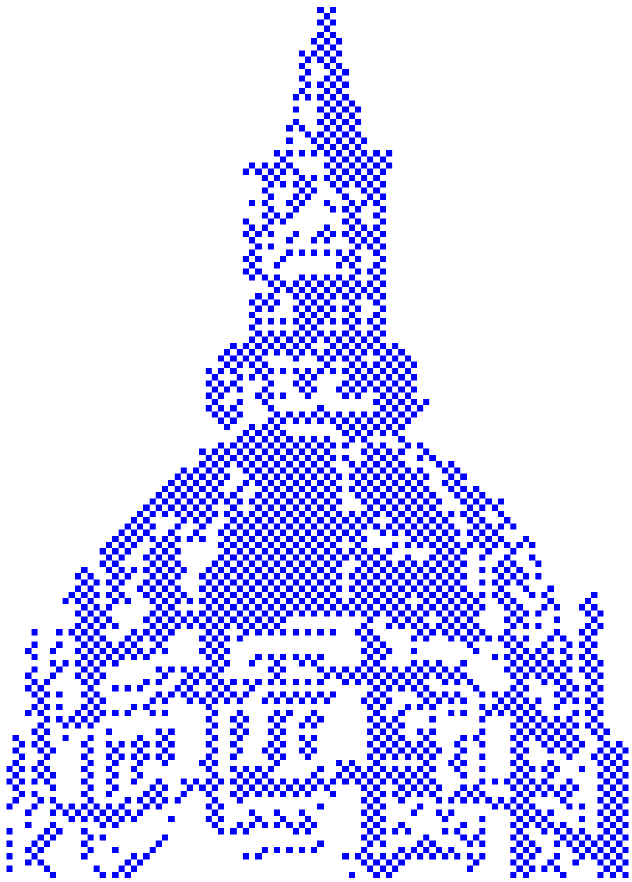
2016 ACTS AFFECTING TAXES



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NOTICE TO READERS

This report highlights the major provisions of new laws affecting taxes enacted during the 2016 regular session and May special session (MSS). The report does not include vetoed acts. Complete analyses of all 2016 public acts are or will soon be available on OLR's webpage: https://www.cga.ct.gov/olr/olrpasums.asp. We encourage readers to obtain the full text of acts that interest them from the Connecticut State Library, House Clerk's Office, or the General Assembly's website (https://www.cga.ct.gov/).

TABLE OF CONTENTS

ADMISSIONS TAX

State Admissions Tax and Local Admissions Surcharge

Events at the Dunkin' Donuts Park in Hartford are now exempt from the state's 10% admissions tax, while events at the New Britain Stadium presented by an Atlantic League of Professional Baseball member team will be exempt beginning July 1, 2017.

In addition, municipalities may now enact an ordinance to impose their own local surcharge on certain admission charges. The surcharge may be up to 5% of the admission charge, except for events held at Dunkin' Donuts Park, which may be up to 10% (**PA 16-3, MSS**, §§ 185 & 186, effective upon passage).

HOSPITAL TAX

Since July 1, 2011, the law imposes a quarterly tax on hospital net patient revenue at a rate of up to the maximum allowed by federal law and using a base year as the Department of Social Services (DSS) commissioner determines. A new law states the law's original intent and specifies that, effective and applicable to quarters beginning on July 1, 2011, (1) the hospital tax rate conforms to the state budget adopted by the legislature and (2) when determining the tax assessment base year, the commissioner ensures it conforms with the adopted budget (**PA 16-3, MSS**, §§ 119-121, effective on passage, and, as stated above, certain provisions are applicable to calendar quarters beginning on or after July 1, 2011).

INCOME TAX

Market-Based Sourcing for Corporation and Personal Income Tax

By law, businesses selling goods and services in Connecticut and other states must determine where their sales are made to calculate the portion of income they derived from Connecticut and is thus subject to Connecticut corporation business and personal income tax. Businesses perform this calculation based on the law's "sourcing rules." Under prior law, these rules required them to source service sales based on where a business performed the service (i.e., origination-based sourcing).

A new law changes these rules. It requires businesses to source service sales based on where their customers are located or receive the service's benefits (i.e., market-based sourcing) (**PA 16-3, MSS**, §§ 199 & 200, (1) effective upon passage and applicable to income years beginning on or after January 1, 2016 for changes affecting the corporation income tax and (2) effective January 1, 2017 and applicable to income years beginning on or after that date for the changes affecting the personal income tax).

Single Sales Apportionment for Personal Income Tax

Businesses organized as partnerships and limited liability companies do not pay taxes on their income, but their partners and investors pay personal income taxes on their share of the income a business passes through to them. This requirement applies to businesses that sell goods and services to customers in Connecticut and other states.

The legislature changed the formula these businesses' partners and investors must use to determine how much of a business's gains and losses are attributable to Connecticut for personal income tax purposes. Under prior law, they had to do this by multiplying the business's net income by the average of the percentage of property, payroll, and gross sales in Connecticut. Beginning with the 2017 income year, they must calculate it based on Connecticut sales alone (**PA 16-3, MSS**, §§ 200 & 201, effective January 1, 2017 and applicable to income years beginning on or after that date).

PROPERTY TAX

Assessing Commercial Property Based on Net Profits

Municipalities assess most real and personal property based on its fair market value, but a 2015 pilot program allows up to five municipalities to assess up to three business properties based on the net profits of their owners and tenants, if they agree to this assessment method. A new law allows the participating municipalities to assess all commercial property based on net profits if their owners and tenants agree (**PA 16-3, MSS**, § 31, effective October 1, 2016).

Filing Deadlines for Certain Property Tax Exemptions

Under a new law, taxpayers in Berlin, Middletown, Milford, Monroe, New Britain, North Branford, Waterbury, Watertown, and West Haven may claim various property tax exemptions on specified grand lists even if they missed the mandatory filing deadlines (**SA 16-15**, §§ 1-8 and **PA 16-88**, § 2, effective July 1, 2016, except the provisions for New Britain and Waterbury are effective upon passage).

Knowledge Center Enterprise Zones

Under a new law, the economic and community development commissioner may designate up to 10 "knowledge center enterprise zones" in the state's 25 distressed municipalities, based on proposals submitted by colleges and universities. Businesses that locate in these zones receive the same state and local tax benefits and are subject to the same conditions as those located in general enterprise zones (**PA 16-3, MSS**, § 24, effective October 1, 2016).

Land Value Taxation Pilot Program Deadline Extension

For municipalities that want to participate in the land value taxation pilot program, the legislature extended the deadline, from December 31, 2015 to December 31, 2020, for them to submit their implementation plans to the legislature. The program allows participating municipalities to tax land and buildings at different rates (**PA 16-80**, effective July 1, 2016).

Motor Vehicle Property Taxes

In 2015, the legislature capped the mill rates municipalities, districts, and boroughs may impose on motor vehicles. A new law increases the cap from (1) 32 to 37 mills for the 2015 assessment year and (2) 29.36 mills to 32 mills for the 2016 assessment year and thereafter. It also establishes the motor vehicle mill rate for certain municipalities, districts, and boroughs that previously set a mill rate for the 2015 assessment year (**PA 16-3, MSS**, § 187, effective upon passage and applicable to assessment years beginning on or after October 1, 2015).

Property Tax Exemption for Real Estate Signs

A new law exempts from the property tax signs placed on properties indicating that the properties are for sale or lease, which it does by excluding the signs from the list of tangible personal property taxpayers must include in their annual property declarations (**PA 16-3, MSS**, § 203, effective July 1, 2016).

Property Tax Exemption and Waiver

By law, wartime veterans and their surviving unmarried spouses are eligible for state-mandated property tax exemptions. A municipality's legislative body may authorize an additional property tax exemption to them if their income does not exceed a specified amount. A new law (1) increases, from $10,000 to $20,000, the amount municipalities can provide as an additional exemption to nondisabled veterans and (2) allows the municipalities to provide an additional exemption to disabled war veterans of at least $3,000.

The new law also requires municipalities to waive the interest on delinquent property taxes owed by certain active military members serving out-of-state, rather than only those serving in Iraq or Afghanistan (**PA 16-191**, effective October 1, 2016, and applicable to assessment years beginning on and after that date).

Reassessment for Residential Properties with Defective Foundations

Residential property owners with defective concrete foundations can now apply to their local assessors to have their properties reassessed for property taxes. Assessors must inspect the properties and reassess them to reflect their current value. The new assessment is valid for five assessment years or until the foundation is repaired or replaced (**PA 16-45**, effective upon passage and applicable to assessment years beginning on or after October 1, 2016).

SALES TAX

Diapers and Feminine Hygiene Products

Beginning July 1, 2018, sales of feminine hygiene products and disposable and reusable diapers will no longer be subject to state sales and use tax (**PA 16-3, MSS**, § 202, effective July 1, 2018 and applicable to sales occurring on or after that date).

Municipal Revenue Sharing Account (MRSA)

The budget act eliminates the sales tax revenue diversion to MRSA for FY 17 and instead appropriates $185 million to a newly established Municipal Revenue Sharing Fund (MRSF) to pay for specified municipal grant programs for FY 17 (**PA 16-2, MSS**, §§ 40-43 & 46, effective upon passage).

Sales Tax on Certain Parking Fees

A new law exempts from sales and use tax non-metered motor vehicle parking in (1) seasonal lots with 30 or more spaces operated by the state or political subdivisions and (2) municipally-owned lots with 30 or more spaces (**PA 16-72** and **PA 16-3, MSS**, § 180, effective upon passage).

Sales Tax Diversion to Special Transportation Fund (STF)

The Department of Revenue Services commissioner must deposit a specified percentage of sales tax revenue each month into the STF. For FY 17, a new law requires him to reduce each monthly STF deposit by $4,166,667 (i.e., $50 million in the aggregate) (**PA 16-2, MSS**, § 45, effective upon passage).

TAX ADMINISTRATION AND ENFORCEMENT

DRS License or Permit Issuance and Renewal

Under a new law, the DRS commissioner may no longer issue or renew a (1) cigarette dealer, distributor, or manufacturer license; (2) tobacco product distributor or unclassified importer license; or (3) sales tax seller's permit, for anyone who he determines has failed to file any required tax returns. Applicants for these licenses and permits must file or arrange to file all outstanding returns to the commissioner's satisfaction before the commissioner may issue or renew them (**PA 16-3, MSS**, § 198, effective January 1, 2017).

Federal Income Tax Debt Collection

A new law requires consumer collection agencies that collect federal income tax for the U.S. Treasury Department to obtain Connecticut Banking Department licenses and comply with specified bonding and recordkeeping requirements (**PA 16-65**, §§ 47-50, effective October 1, 2016).

Mortgage Servicer Escrow Accounts

A new law requires a mortgage servicer holding a mortgagor's funds in escrow for taxes and insurance premiums to keep certain records of each escrow account's handling for at least five years after last servicing the account. It also requires servicers to deposit or invest escrow funds in one or more segregated deposit or trust accounts and reconcile the accounts monthly (**PA 16-65**, § 8, effective July 1, 2016).

Payment Settlement Entities

Under a new law, the revenue services commissioner must make reasonable efforts to facilitate the issuance of tax warrants on "payment settlement entities" (i.e., banks or third-party settlement organizations, such as MasterCard, Paypal, and Visa) for payments they made to Connecticut retailers (**PA 16-3, MSS**, § 182, effective upon passage).

TAX CREDITS AND INCENTIVES

Angel Investor Tax Credits

Individuals had until June 30, 2016 to qualify for tax credits against their personal income taxes under the angel investor tax credit program. Now, they have three more years to make these credit-eligible investments. They can also sell, assign, or transfer their credits to other taxpayers instead of applying them against their personal income taxes (**PA 16-3, MSS**, § 183, effective July 1, 2016 and applicable to taxable years beginning on or after that date).

Estate Tax Reductions for Investments in CI Approved Venture Capital Funds

A new law reduces the estate tax for decedents making qualified investments in private venture capital funds through the state's quasi-public venture capital agency, Connecticut Innovations. The reduction equals 50% of the eligible investment, up to $5 million per decedent, but the total amount of reduction for all decedents cannot exceed $30 million (**PA 16-3, MSS**, § 35, effective October 1, 2016 and applicable to estates of decedents dying on or after January 1, 2021).

First Five Plus Program Extension

The First Five Plus program was set to expire on June 30, 2016, but a new law extends it for three years, until June 30, 2019, and increases the maximum number of business development projects it can fund from 15 to 20. First Five Plus combines tax credits and financial assistance under existing programs for projects that create jobs and make capital investments within the law's timeframes (**PA 16-3, MSS**, § 18, effective July 1, 2016).

Local Economic Development Property Tax Incentive

Prior law set parameters under which municipalities could stimulate new development and assess it for less than its fair market value. A new law eliminates those parameters, thus giving municipalities more latitude to set the terms and conditions for giving this property tax break (**PA 16-3, MSS**, § 32, effective October 1, 2016 and applicable to assessment years beginning on or after that date).

TAX STUDIES

Impact of Gross Receipts Tax on Ambulatory Surgical Centers

A new law requires a study of how the gross receipts tax affects ambulatory surgical centers' operating costs and hours of operation. The study must be done by the Office of Policy and Management secretary, in consultation with the revenue services and social services commissioners (**PA 16-3, MSS**, § 200, effective upon passage).

Tax Incidence Study

The legislature delayed by one year, from February 15, 2017 to February 15, 2018, the deadline by which DRS must submit its next tax incidence report, which provides the overall incidence of the income tax, sales and excise taxes, corporation business tax, and property tax (**PA 16-3, MSS**, § 192, effective upon passage).

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