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Connecticut Governor's Budget proposes surcharge extension, "throwback" rule, income and sales tax increases, among other changes

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Proposed Connecticut budget legislation would extend corporate business tax surcharges for two years, impose a sales "throwback" rule, increase sales and use and personal income tax rates, and make other changes. [S.B. 1007, referred to Committee 2/17/11].

Corporate business tax

Connecticut enacted a 10 percent corporate business tax surcharge for income years beginning in 2009, 2010, and 2011. The surcharge applies to taxpayers that owe more than the $250 minimum tax. Taxpayers whose gross income for the income year is less than $100 million are exempt from the surcharge. However, this exemption does not apply to companies that file a combined or unitary return. The legislation would extend the surcharge to the 2012 and 2013 tax years. (Secs. 5 and 9)

The legislation would also adopt a sales factor "throwback" rule for sales of tangible personal property, applicable to income years commencing on or after January 1, 2011. Under the rule, sales of tangible personal property would be deemed Connecticut sales if the property is shipped from Connecticut and the purchaser is the United States government or the taxpayer is not taxable in the state of the purchaser. (Sec. 8)

Further, the legislation would lift the 70 percent business tax credit cap for companies that create new jobs in the state, with certain restrictions. (Sec.4 and7)

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Sales and use tax

The legislation would increase the state sales tax rate from 6 percent to 6.25 percent and proposes to eliminate a variety of sales tax exemptions, including clothing and footwear under $50, coupons, discounts and the trade-in exemption for vehicles. The legislation would tax additional services such as cosmetic surgery services, haircuts, manicure and pedicure services, car washes, and various boat and marine services. The legislation would also increase the hotel tax rate, impose a luxury goods surtax and rental car surtax, and eliminate the annual sales tax holiday week. (Secs. 19-27)

These changes would apply to sales occurring on or after July 1, 2011.

Personal income tax

Presently, the state has a three-bracket personal income tax system, with rates ranging from 3 percent to 6.5 percent. The legislation would replace this with an eight-bracket system, with rates ranging from 3 percent to 6.7 percent. Trusts and estates would be taxed at 6.7 percent (Sec. 40). In addition, a new earned income tax credit equal to 30 percent of the federal credit would be adopted (Sec. 43) and the current $500 personal income tax credit for property tax paid on a principal residence or motor vehicle would be eliminated. (Sec. 44)

These changes would apply to taxable years commencing on or after January 1, 2011

Other

In addition, the legislation would:

- increase the insurance premiums tax rate from 1.75 percent to 1.95 percent (Sec. 1-3);
- restrict the transferability of tax credits for film production (Sec. 6);
- increase taxes on alcohol, cigarettes (Sec. 30), and other tobacco products (Sec. 13);
- increase gasoline taxes by 3 cents per gallon (Sec. 34), and the base diesel tax would increase by 2 cents per gallon (Sec. 32);
- impose a tax of 0.2 cents per kilowatt-hour on electricity generation (Sec. 37); and
- lower the estate tax threshold from $3.5 million to $2 million (Sec. 14-16).

PwC observes

"Governor Malloy's budget proposal includes $1.5 billion in tax increases along with $2 billion in spending cuts, which includes $1 billion in concessions from state workers, to close the budget deficit," observes Stephen LaRosa, SALT Director in Hartford. "It is unclear if these savings can be achieved, which leaves the potential for proposing further tax increases. While Connecticut currently has both a Democratic controlled legislature and governor, there does not appear to be a consensus within the party. This situation leaves open the possibility for significant changes from Governor Malloy's initial budget proposal."

"Further, we will probably see additional tax proposals, including combined reporting," states LaRosa. "However, it is hard to predict whether any of these proposals will have momentum, especially due to the lack of consensus at the Capitol."

For more information on PricewaterhouseCoopers' state legislative tracking service, click here.

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