



STATE OF CONNECTICUT  
DEPARTMENT OF REVENUE SERVICES

SN 2010(7)

25 Sigourney Street Ste 2  
Hartford CT 06106-5032

SPECIAL NOTICE

2010 Legislative Changes Affecting Business Tax Credits

**Purpose:** This Special Notice describes new tax credits passed during the 2010 session of the Connecticut General Assembly, that are available to businesses. It also describes changes made to existing business tax credits during the legislative session.

**Effective Date:** As noted below.

**Statutory Authority:** 2010 Conn. Pub. Acts 75, §8; 2010 Conn. Pub. Acts 75, §9, as amended by 2010 Conn. Pub. Acts 1, §18 (June Spec. Sess.); Conn. Gen. Stat. §38a-88a, as amended by 2010 Conn. Pub. Acts 75, §14; 2010 Conn. Pub. Acts 75, §15; Conn. Gen. Stat. §10-228b, as amended by 2010 Conn. Pub. Acts 75, §25; Conn. Gen. Stat. §12-217u, as amended by 2010 Conn. Pub. Acts 75, §§26 through 27; Conn. Gen. Stat. §12-217cc, as amended by 2010 Conn. Pub. Acts 75, §28; Conn. Gen. Stat. §12-217e, as amended by 2010 Conn. Pub. Acts 98, §4; Conn. Gen. Stat. §12-217jj, as amended by 2010 Conn. Pub. Acts 107, §§1 and 2; Conn. Gen. Stat. §12-631, as amended by 2010 Conn. Pub. Acts 188, §8; Conn. Gen. Stat. §12-632, as amended by 2010 Conn. Pub. Acts 188, §9; Conn. Gen. Stat. §12-635a, as amended by 2010 Conn. Pub. Acts 188, §10; and Conn. Gen. Stat. §10-416b, as amended by 2010 Conn. Pub. Acts 188, §15.

**Qualified Small Business Job Creation Tax Credit Program:** 2010 Conn. Pub. Acts 75, §8, establishes a Qualified Small Business Job Creation tax credit program, which is available to a qualified small business that hires a new employee. The credit is administered by the Department of Economic and Community Development (DECD) and is applicable to taxable years beginning on or after January 1, 2010.

To be eligible to claim the credit, the qualified small business must apply to DECD. If approved, DECD will issue a certification letter to the qualified small business indicating that the credit will be available to be claimed.

A *qualified small business* is an employer who is subject to tax under Chapter 207, 208, or 229 of the Connecticut General Statutes and who employs less than 50 employees in Connecticut as of the date of its application to DECD.

The amount of the credit is \$200 per month for each new employee hired. The new employee must reside in Connecticut and be hired after May 6, 2010, to fill a new full time job in which he or she is required to work at least 35 or more hours per week for not less than 48 weeks in a calendar year during the income years beginning on or after January 1, 2010, and prior to January 1, 2013. However, the new employee cannot have been employed in Connecticut during the prior 12 months by any of the following:

- A corporation, limited liability company, partnership, association, or trust controlled by the qualified small business;
- An individual, corporation, limited liability company, partnership, association, or trust in control of the qualified small business;
- A corporation, limited liability company, partnership, association, or trust controlled by an individual, corporation, limited liability company, partnership, association, or trust in control of the qualified small business; **or**
- A member of the same controlled group as the qualified small business.

A credit **cannot** be claimed for:

- A new temporary employee;
- A new employee hired for a seasonal job;
- Any new employee who is an owner, member, or partner in the qualified small business;

- A new employee for whom credit will be claimed against any tax under another statutory provision; **or**
- A new employee who is not employed at the close of the income year of the qualified small business.

The qualified small business must claim and use the credit in the income year in which the new employee is hired and, if eligible, the two immediately succeeding income years provided the new employee is still employed at the close of the income year of the qualified small business. The credit is not refundable and any tax credit not used in the income year will expire.

For qualified small businesses subject to Connecticut income tax under Chapter 229 of the Connecticut General Statutes, **income year** means the taxable year of the qualified small business as determined for federal income tax purposes.

For qualified small businesses subject to the corporation business tax under Chapter 208 of the Connecticut General Statutes, **income year** means the calendar year upon the basis of which net income of the qualified small business is computed unless a fiscal year other than a calendar year has been established for federal income tax purposes.

For qualified small businesses subject to the insurance premiums tax and health care centers tax under Chapter 207 of the Connecticut General Statutes, **income year** means the calendar year of the qualified small business.

The tax credit may be claimed by the shareholders or partners if the qualified small business is an S corporation or an entity treated as a partnership for federal income tax purposes. If the qualified small business is a single member limited liability company that is disregarded as an entity separate from its owner, the tax credit may be claimed by the limited liability company owner.

The credit may be used against the tax liability under Chapter 207, 208, and 229 of the Connecticut General Statutes for the income year in which the new employee is hired and, if eligible, for the two immediately succeeding income years. If the qualified small business is subject to the income tax imposed under Chapter 229 of the General Statutes, the credit allowed under this section cannot exceed the amount of the tax imposed by that chapter. However, the credit cannot be used against the withholding tax liability imposed under Conn. Gen. Stat. §12-707.

There is a total cap for this new credit, the new vocational rehabilitation job creation tax credit under 2010 Conn. Pub. Acts 75, §9 (discussed below), and the new jobs credit under Conn. Gen. Stat. §12-217ii of \$11 million per fiscal year collectively.

*2010 Conn. Pub. Acts 75, §8*

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**Vocational Rehabilitation Job Creation Tax Credit Program:** 2010 Conn. Pub. Acts 75, §9, establishes a Vocational Rehabilitation Job Creation tax credit program. The credit is administered by DECD and is applicable to taxable years beginning on or after January 1, 2010.

To be eligible to claim the credit, the employer must apply to DECD. If approved, DECD will issue a certification letter to the employer indicating that the credit will be available to be claimed.

The credit is \$200 per month for each new qualifying employee hired by a Connecticut employer engaged in business in Connecticut who is subject to tax under Chapter 207, 208, or 229 of the Connecticut General Statutes, who hires a new qualifying employee who resides in Connecticut, and who is required to work at least 20 hours or more per week for not less than 48 weeks in a calendar year.

A **new qualifying employee** is a person (A) receiving vocational rehabilitation services from the Bureau of Rehabilitation Services within the Department of Social Services or from the Board of Education and Services for the Blind, and (B) hired by the employer to fill a new job after May 6, 2010, during the employer's income years beginning on or after January 1, 2010. However, it does not include a person receiving vocational rehabilitation services who was employed in Connecticut during the prior 12 months by:

- A corporation, limited liability company, partnership, association, or trust controlled by the employer;
- An individual, corporation, limited liability company, partnership, association, or trust in control of the employer;
- A corporation, limited liability company, partnership, association, or trust controlled by an individual, corporation, limited liability company, partnership, association, or trust in control of the employer; **or**
- A member of the same controlled group as the employer.

A credit **cannot** be claimed for:

- Any new qualifying employee who is an owner, member, or partner in the business of the employer;
- A new qualifying employee for whom credit will be claimed against any tax under another statutory provision; **or**
- A new qualifying employee who is not employed at the close of the income year of the employer.

The employer must claim and use the credit in the income year in which the new employee is hired and, if eligible, the two immediately succeeding income years provided the new qualifying employee is still employed at the close of the income year of the employer. The credit is not refundable and any tax credit not used in the income year will expire.

For employers subject to Connecticut income tax under Chapter 229 of the Connecticut General Statutes, **income year** means the taxable year of the employer as determined for federal income tax purposes.

For employers subject to the corporation business tax under Chapter 208 of the Connecticut General Statutes, **income year** means the calendar year upon the basis of which net income of the employer is computed unless a fiscal year other than a calendar year has been established for federal income tax purposes.

For employers subject to the insurance premiums tax and health care centers tax under Chapter 207 of the Connecticut General Statutes, **income year** means the calendar year of the employer.

The tax credit may be claimed by the shareholders or partners if the employer is an S corporation or an entity treated as a partnership for federal income tax purposes. If the employer is a single member limited liability company that is disregarded as an entity separate from its owner, the tax credit may be claimed by the limited liability company owner.

The credit may be used against the tax liability under Chapter 207, 208, 209, and 229 of the Connecticut General Statutes. If the employer is subject to the income tax imposed under Chapter 229, the credit allowed under this section cannot exceed the amount of the tax imposed by that chapter. In addition, the credit cannot be used against the withholding tax liability imposed under Conn. Gen. Stat. §12-707.

There is a total cap for this new credit, the new qualified small business job creation tax credit under 2010 Conn. Pub. Acts 75, §8 (discussed above), and the new jobs credit under Conn. Gen. Stat. §12-217ii of \$11 million per fiscal year collectively.

*2010 Conn. Pub. Acts 75, §9, as amended by 2010 Conn. Pub. Acts 1, §18 (June Spec. Sess.)*

## **New Insurance Reinvestment Fund Tax**

**Credit:** Conn. Gen. Stat. §38a-88a was amended to create a New Insurance Reinvestment Fund tax credit and to make changes to the existing Insurance Reinvestment Fund tax credit.

Unlike the existing Insurance Reinvestment Fund tax credit, this new Insurance Reinvestment Fund tax credit may only be claimed against the taxes imposed under chapter 207 and Conn. Gen. Stat. §38a-743.

The definition of “new employee,” as contained in the statute was amended by adding the requirement that the new employee be a resident of Connecticut.

For purposes of this new credit:

- **Eligible business** means a business that has its principal business operations in Connecticut, has fewer than 250 employees at the time of investment, and not more than \$10 million in net income in the previous year;
- **Eligible capital** means an investment of cash by a taxpayer in an insurance reinvestment fund that fully funds the purchase price of an equity interest in the insurance reinvestment fund or an eligible debt instrument issued by an insurance reinvestment fund, at par value or a premium, that 1) has an original maturity date of at least five years after the date of issuance; 2) has a repayment schedule that is not faster than a level principal amortization over five years, and 3) has no interest, distribution, or payment features tied to the insurance reinvestment fund’s profitability or the success of the investments;
- **Green technology business** means an eligible business with not less than 25% of its employment positions being positions in which green technology is employed or developed and may include the occupation codes identified as green jobs by DECD and the Labor Department for such purposes;
- **Insurance reinvestment fund** means a Connecticut partnership, corporation, trust or limited liability company, whether organized on a profit or not-for-profit basis, that (i) is managed by at least two principals or persons that have at least four years of experience each in managing venture capital or private equity funds, with at least \$50 million of such funds from people unaffiliated with the manager, (ii) has received an equity investment of capital other than eligible capital equal to no less than 5% of the total amount of the eligible capital to be invested in such insurance reinvestment fund, and (iii) is not, or will not be after the receipt of eligible capital,

controlled by or under common control with, one or more insurance companies; **and**

- **Principal business operations** means at least 80% of the business organization's employees reside in the state or eighty per cent of the business payroll is paid to individuals living in this state.

This new insurance reinvestment fund tax credit is available to taxpayers that make "eligible investments" in new "insurance reinvestment funds." The new credit permits DECD to begin to accept applications for certification of new insurance investment funds on or before July 1, 2010. An application for this tax credit requires a nonrefundable application fee of \$7,500 and must contain such information that is required by DECD under the credit statute, including a commitment to invest at least 25% of its "eligible capital" in "green technology businesses;" and a commitment to invest by the third anniversary of its allocation date, 3% of its "eligible capital" in preseed investments in consultation with Connecticut Innovations, Incorporated, according to the corporation's program for preseed financing.

If the application is approved, the commissioner of DECD issues an allocation of credits subject to confirmation by the fund that an investment of eligible capital was received within five business days.

DECD can decertify a fund for a material violation of the statute and, upon decertification, all future credits with respect to that fund are forfeited. In addition, if decertification occurs in the first four years and the fund has not invested 60% of its eligible capital in eligible businesses, then the credit against the tax imposed by Chapter 207 is subject to recapture.

This new Insurance Reinvestment Fund tax credit is available as follows: (A) Beginning with the tax return due for the first to third, inclusive, tax years, 0%; (B) Beginning with the tax return due for the fourth to seventh, inclusive, tax years, not more than 10%; and (C) Beginning with the tax return due for the eighth to tenth, inclusive, tax years, not more than 20%.

Any tax credit not used in the income year for which it was allowed may be carried forward for the five immediately succeeding income years until the full credit has been allowed. This new insurance reinvestment fund tax credit is not assignable.

No taxpayer shall be eligible for a tax credit under this section and either Conn. Gen. Stat. §§12-217e or 12-217m for the same investment. No two taxpayers

shall be eligible for any tax credit with respect to the same investment, employee or facility.

2010 Conn. Pub. Acts 75, §14

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**Angel Investor Tax Credit:** 2010 Conn. Pub. Acts 75, §15, provides for an Angel Investor tax credit against the tax imposed under Chapter 229 of the Connecticut General Statutes for a cash investment of not less than \$100,000 in the qualified securities of a Connecticut business by an angel investor. This new tax credit is applicable to taxable years beginning on or after January 1, 2010.

An *angel investor* is an accredited investor, as defined by the Securities and Exchange Commission, or network of accredited investors who review new or proposed businesses for potential investment who may seek active involvement, such as consulting and mentoring, in a Connecticut business.

The following are **not** angel investors:

- A person controlling 50% or more of the Connecticut business invested in by the angel investor;
- A venture capital company; **and**
- Any bank, bank and trust company, insurance company, trust company, national bank, savings association, or building and loan association for activities that are a part of the normal course of business.

The angel investor that intends to make a cash investment of not less than \$100,000 in a Connecticut business may apply to Connecticut Innovations Inc. at [www.ctangeltaxcredit.com](http://www.ctangeltaxcredit.com) to reserve a tax credit equal to 25% of the cash investment. The angel investor must choose from a list of Connecticut businesses that Connecticut Innovations Inc. has determined are qualified to receive cash investments eligible for the angel investor tax credit. Tax credits cannot be reserved for any investments made on or after July 1, 2014.

The total tax credit allowed to an angel investor cannot exceed \$250,000 and cannot exceed the amount of the income tax imposed under Chapter 229 of the Connecticut General Statutes for the taxable year. The credit cannot be used against the withholding tax liability imposed by Conn. Gen. Stat. §12-707.

The credit must be claimed in the taxable year in which the investment is made. Any tax credit claimed but not applied against the income tax liability may be carried forward for the five immediately

succeeding taxable years until the full credit has been applied. The credit is not transferable.

The tax credit may be claimed by the shareholders or partners if the angel investor is an S corporation or an entity treated as a partnership for federal income tax purposes. If the angel investor is a single member limited liability company that is disregarded as an entity separate from its owner, the tax credit may be claimed by the limited liability company owner, provided the owner is a person subject to Connecticut income tax.

*2010 Conn. Pub. Acts 75, §15*

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### **Changes to Existing Tax Credits**

**Tax Credit Cap:** There is a total cap of \$11 million per fiscal year collectively imposed on the new Qualified Small Business Job Creation tax credit under 2010 Conn. Pub. Acts 75, §8, the new Vocational Rehabilitation Job Creation tax credit under 2010 Conn. Pub. Acts 75, §9, and the New Jobs tax credit under Conn. Gen. Stat. §12-217ii.

*2010 Conn. Pub. Acts 75, §10*

**Existing Insurance Reinvestment Fund Tax Credit:** 2010 Conn. Pub. Acts 75, §14 made the following changes to the existing Insurance Reinvestment Fund tax credit described in Conn. Gen. Stat. §38a-88a:

- The definition of “new employee” was amended to add the requirement that the new employee be a resident of Connecticut.
- No eligibility certificates may be issued to insurance businesses on and after July 1, 2010.
- No credit is allowed for an investment unless \$1 million or more is invested by July 1, 2011, in an insurance business that has been issued an eligibility certificate prior to July 1, 2010. If an insurance business that has been issued an eligibility certificate prior to July 1, 2010, has not received a \$1 million investment by July 1, 2011, then DECD shall revoke its eligibility certificate.

*Conn. Gen. Stat. §38a-88a, as amended by 2010 Conn. Pub. Acts 75, §14*

**Computer Donation Tax Credit Sunset:** Effective for income years beginning on or after January 1, 2014, the Computer Donation tax credit described in Conn. Gen. Stat. §10-228b is eliminated.

*Conn. Gen. Stat. §10-228b, as amended by 2010 Conn. Pub. Acts 75, §25*

### **Financial Institutions Tax Credit Sunset:**

Effective for income years beginning on or after January 1, 2014, the Financial Institutions tax credit described in Conn. Gen. Stat. §12-217u, which is available to financial institutions that build and occupy a facility located in Connecticut of at least 900,000 square feet, and create and maintain an average of 1,200 to 2,000 qualified employees in Connecticut, is eliminated.

*Conn. Gen. Stat. §12-217u, as amended by 2010 Conn. Pub. Acts 75, §§ 26-27*

### **Small Business Guaranty Fee Tax Credit Sunset:**

Effective for income years beginning on or after January 1, 2014, the Small Business Guaranty Fee tax credit described in Conn. Gen. Stat. §12-217cc, which is available to qualifying small businesses, is eliminated.

*Conn. Gen. Stat. §12-217cc, as amended by 2010 Conn. Pub. Acts 75, § 28*

### **Service Facility Credit Extended to Bradley Development Zone:**

Effective October 1, 2011, for income years beginning on or after January 1, 2013, Conn. Gen. Stat. §12-217e is amended to allow the Service Facility tax credit to be claimed for the portion of a corporation’s tax under Chapter 208 that is attributable to an “eligible facility.” **Eligible facility** means a facility located in enumerated census blocks of Windsor Locks, Suffield, East Granby, and Windsor and that is used for the warehousing or distribution of goods transported to an airport or is otherwise directly related to such airport, but does not include a facility used by an organization with a NAICS code of 441110 through 454390 inclusive, 532111, 532112, or 812930.

*Conn. Gen. Stat. §12-217e, as amended by 2010 Conn. Pub. Acts 98, §4*

### **Changes to the Film Production Tax Credit:**

Effective July 1, 2010, and applicable to income years beginning on or after January 1, 2010, the Film Production tax credit is amended to: 1) define “compensation” as base salary without bonus pay or stock options; 2) reduce the principal photography days that an eligible production company must incur within Connecticut from 50% to 25%; 3) allow the credit if the eligible production company expends at least \$1 million in Connecticut; and 4) replace the term “leased or purchased” with “a capital lease or purchase” in the list of expenses that are considered eligible expenditures.

*Conn. Gen. Stat. §12-217jj, as amended by 2010 Conn. Pub. Acts 107, §§ 1 and 2*

**Changes to the Digital Animation Tax Credit:**

Effective upon passage and applicable to income years beginning on or after January 1, 2010, the tax credit available to digital animation production companies under Conn. Gen. Stat. §12-217*ll* is amended to: 1) place administration of the credit with DECD rather than the Connecticut Commission on Culture and Tourism (CCT); 2) place an aggregate cap of \$20 million per production for star talent; 3) remove from eligible costs expenses incurred in certifying eligible costs; 4) allow a 10% credit for costs from \$100,000 up to \$500,000, a 15% credit for costs more than \$500,000 up to \$1 million, and a 30% credit for costs over \$1 million; and 5) allow post-certification remedies against any entity that commits fraud or misrepresentation.

*2009 Conn. Pub. Acts 3, §99 (June Spec. Sess.), as amended by 2009 Conn. Pub. Acts 8, §§4 and 5 (Sept. Spec. Sess.)*

**Changes to the Neighborhood Assistance Act (NAA) Tax Credit:** The NAA tax credit is amended as follows:

- Effective for income years beginning on or after January 1, 2010, the definition of “business firm” contained in Conn. Gen. Stat. §12-632(c) is amended. As amended, *business firm* means any business entity authorized to do business in the state and subject to the tax due under the provisions of Chapter 207, 208, 209, 210, 211, or 212. As amended, the statute permits health care centers, satellite television companies, and certified competitive video service providers to claim the NAA tax credit. Prior to this amendment, these entities did not fall within the statutory definition of business firm;
- Effective July 1, 2010, the requirement that the Commissioner submit NAA tax credit applications to municipalities for approval before the Commissioner can act upon an application is eliminated; **and**
- Effective June 7, 2010, the credit percentage available is increased from 40% to 60% of the total amount invested during the taxable year by the business firm in community-based alcoholism prevention or treatment programs.

*Conn. Gen. Stat. §12-631, as amended by 2010 Conn. Pub. Acts 188, §8; Conn. Gen. Stat. §12-632, as amended by 2010 Conn. Pub. Acts 188, §9; and Conn. Gen. Stat. §12-635a, as amended by 2010 Conn. Pub. Acts 188, §10*

**Changes to the Historic Preservation Tax Credit:**

Conn. Gen. Stat. §10-416b (referred to as the Historic Preservation tax credit by CCT and formerly referred to as the Historic Investment tax credit by the Department of Revenue Services (DRS)) allows a credit for investments in historic properties that are used for both residential and non-residential purposes. Vouchers for such credits may be issued for projects that are completed in phases at such time as an identifiable portion of the project is placed in service. In order to receive the voucher, the owner must provide information to CCT regarding the portion placed in service. The portion placed in service does not have to include the residential portion of the project. Effective July 1, 2010, for income years beginning on or after January 1, 2010, if a voucher is issued for a non-residential portion of the project that is placed in service and the residential portion of the project is not completed on time, the owner shall recapture 100% of the credit issued for the portion previously placed in service.

*Conn. Gen. Stat. §10-416b, as amended by 2010 Conn. Pub. Acts 188, §15*

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**Effect on Other Documents:** None affected.

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**Effect of This Document:** A Special Notice announces a new policy or practice in response to changes in state or federal laws or regulations or to judicial decisions. A Special Notice indicates an informal interpretation of Connecticut tax law by DRS.

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**For More Information:** Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); **or**
- **860-297-5962** (from anywhere).

**TTY, TDD, and Text Telephone users only** may transmit inquiries anytime by calling 860-297-4911.

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**Forms and Publications:** Visit the DRS website at [www.ct.gov/DRS](http://www.ct.gov/DRS) to download and print Connecticut tax forms and publications.

**Paperless Filing/Payment Methods (fast, easy, free, and confidential):** Business and individual taxpayers can use the **Taxpayer Service Center (TSC)** at [www.ct.gov/TSC](http://www.ct.gov/TSC) to file a variety of tax returns, update account information, and make payments online.

**File Electronically:** You can choose first-time filer information and filing assistance or log directly into the *TSC* to file returns and pay taxes.

**Pay Electronically:** You can pay taxes for tax returns that cannot be filed through the *TSC*. Log in and select the *Make Payment Only* option. Designate

a payment date up to the due date of the tax and mail a paper return to complete the filing process.

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