



JULY 2011

## CT Majority Leaders' Job Growth Roundtable Recommendations Enacted

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Connecticut Governor Dannel P. Malloy recently signed into law Public Act 11-140, which contains a number of economic development measures proposed by the Majority Leaders' Job Growth Roundtable (Roundtable). Spearheaded by House Majority Leader Brendan Sharkey and Senate Majority Leader Martin Looney, the purpose of the Roundtable has been "to engage in a dialogue between all sectors and parts of the Connecticut economy about best practices, common experiences, and real world based solutions that work and are affordable in the current budget climate." The Roundtable has utilized this dialogue to craft various pieces of legislation over the last two years, which focus primarily on economic development and job creation issues. The highlights of this year's Roundtable legislation include the following tax-related measures.

### **TRANSFER OF INSURANCE REINVESTMENT TAX CREDITS BY BUSINESS TAXPAYERS TO AFFILIATES**

The Insurance Reinvestment Tax Credit is available to an insurance company or surplus lines broker purchasing an equity or debt interest in an insurance reinvestment fund which makes investments in qualifying businesses (those employing fewer than 250 people, netting no more than \$10 million in the previous year, and having at least 80 percent of workers or payroll dedicated to Connecticut). To be eligible for the credit, at least 25 percent of the fund's investment must be in businesses in which at least 25 percent of the jobs use or develop green technology.

Under the program as enacted in 2010, a taxpayer can apply its credits against its own tax liability or sell the credits to another taxpayer. Public Act 11-140 allows a taxpayer to transfer the credit to an affiliate. This is particularly important because the tax credit is back-loaded over a ten-year period, making it difficult for an investing insurance company to predict its Connecticut premium volume over that extended period.

### **DEFERRAL OF TAXES BY SMALL MANUFACTURERS ON MONEY PUT ASIDE FOR TRAINING WORKERS AND ACQUIRING FACILITIES AND EQUIPMENT**

As an incentive to promote workforce training, development, and expansion, as well as to purchase machinery, equipment, or facilities, Public Act 11-140 creates a program under which up to 50 small manufacturers (as determined by criteria and guidelines established by the

Department of Economic and Community Development) can defer corporation business taxes. To participate, a manufacturer must first establish an interest-bearing manufacturing reinvestment account at a Connecticut bank. The manufacturer may deposit the lesser of \$50,000 annually or 100 percent of its domestic gross receipts on a corporation tax-deferred basis for up to five years and may deduct such amounts deposited from its income subject to the corporation business tax.

A manufacturer may withdraw funds from the account to train its workers or purchase machinery, equipment, or manufacturing facilities. When it withdraws such amounts from the bank, the manufacturer is required to pay a 3.5 percent tax on the withdrawal, regardless of the business structure.

This proposal defers the time that tax is paid (from the tax period that such deposit is made to the date funds are withdrawn from the manufacturing reinvestment account) and reduces the amount of tax on such receipts (from 7.5 percent, plus a 10 percent surcharge, to 3.5 percent). If there is any balance in the manufacturing reinvestment account at the time the account closes in five years, such amount is taxed at the full rate.

### **EXPANSION OF THE NEIGHBORHOOD ASSISTANCE ACT CREDIT**

The Neighborhood Assistance Act (NAA) Tax Credit Program provides a tax credit to business firms that make cash investments in qualifying community programs conducted by municipal agencies or tax-exempt entities. The credit is equal to 60 percent of a taxpayer's approved contribution to certain programs (100 percent in the case of certain energy conservation programs). The commissioner of Revenue Services is the sole arbiter as to which community programs are eligible for investment.<sup>1</sup> Prior to the enactment of Public Act 11-140, a taxpayer was limited to \$75,000 in NAA credits each year, and a taxpayer's total charitable contributions for the year in which it would seek the NAA credit had to equal or exceed the total charitable contributions made in the previous year.

Public Act 11-140 expanded the list of entities eligible to take the NAA Credit by including pass-through entities subject to the state's Business Entity Tax. The legislation also increased the annual amount of credits that a taxpayer may claim from \$75,000 to \$150,000. Lastly, Public Act 11-140 eliminated the requirement that a taxpayer's charitable contributions equal or exceed the prior year's contribution.

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<sup>1</sup> Generally, programs that qualify for the NAA Credit include energy conservation projects, neighborhood assistance, job training, education, community services, crime prevention, construction/rehabilitation of dwelling units of low- and moderate-income families, open space acquisition, child day care facilities, child care services, employment and training programs for handicapped persons, employment and training programs for unemployed workers 50 years of age or older, education and employment training programs for recipients in the Temporary Family Assistance Program, community-based alcohol prevention or treatment programs, or any other program that serves a group of individuals where at least 75 percent of the individuals are at an income not exceeding 150 percent of the poverty level.

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### **CONTACT US**

In conclusion, while most of the attention this legislative session has focused on tax increases which may have a negative impact on economic development in the state, the enactment of the Roundtable's recommendations represents a dedicated effort to stimulate investment in certain targeted industries or community projects. Our experienced practitioners are available to assist you with any questions you might have about these new developments. For more information, please contact one of the following individuals.

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