

# Finance, Revenue and Bonding Committee

## JOINT FAVORABLE REPORT

**Bill No.:** House Bill 5473

AN ACT CONCERNING THE DEPARTMENT OF REVENUE SERVICES'  
RECOMMENDATIONS FOR TAX ADMINISTRATION AND REVISIONS TO THE

**Title:** TAX AND RELATED STATUTES.

**Vote Date:** 4/6/2022

**Vote Action:** Joint Favorable

**PH Date:** 3/21/2022

**File No.:** 601

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### SPONSORS OF BILL:

Finance, Revenue and Bonding Committee

Co-Sponsors:

Rep. Anne M. Hughes, 135th District

Rep. Robyn A. Porter, 94th District

### REASONS FOR BILL:

This bill makes the following tax-related changes:

- modifies the responsible party penalty for income tax withholding (§ 1);
- establishes conditions under which taxpayers must file amended income tax returns, and may file claims for refunds, as a result of certain changes and corrections made by another qualifying jurisdiction (§§ 2 & 3);
- caps at \$5 million the amount of interest (1) added to any tax refund issued by the Department of Revenue Services (DRS) Commissioner for a tax period and (2) that a court may award in any tax appeal in connection with a tax refund claim for a tax period (§ 4);
- generally prohibits taxpayers from filing refund claims for closed audit periods (§ 5);
- establishes conditions under which the DRS Commissioner and DRS special police may disclose specified tax return information in connection with criminal investigations (§§ 6 & 7);
- designates DRS special police as “peace officers,” thus giving them certain powers and legal protections under state law (§§ 8-14);

- codifies an existing DRS policy by allowing pass-through entities to elect to remit composite income tax on behalf of their nonresident members (§§ 15 & 16);
- makes technical corrections to the estate and gift tax laws (§§ 17-19);
- modifies the conveyance tax credit that applies against the personal income tax (§ 20);
- authorizes the DRS Commissioner to impose more than one sales and use tax deficiency assessment (i.e., reassessments) for a tax period (§§ 21-30);
- generally prohibits the DRS Commissioner from collecting a tax after 10 years (1) from the date the tax was reported on a return filed with DRS or (2) in the case of an assessment, from the date the assessment became final (§ 31);
- establishes conditions under which the DRS Commissioner may sell certain outstanding tax debt to state-licensed consumer collection agencies (§ 32);
- explicitly authorizes the DRS Commissioner to enter into agreements with collection agencies and attorneys for collection services within or outside the state and bring an action in the name of the state in the appropriate court in any other state or the District of Columbia (§§ 33 & 34);
- expands the circumstances under which the DRS Commissioner is prohibited from issuing or renewing certain permits or licenses (§ 35); and
- requires the DRS Commissioner to study alternative approaches for imposing the personal income tax with respect to taxpayer residency (§ 36).

#### **RESPONSE FROM ADMINISTRATION/AGENCY:**

[Mark Boughton, Commissioner, Department of Revenue Services](#) supported the bill, which was raised on behalf of the Department. He stated that the majority of the provisions within the bill are technical and conforming changes, and drew the committee's attention to Section 32. "I am seeking legislative authorization to provide the Department with the ability to sell its outstanding tax debt. Quite frankly, when I took over as Commissioner, I was surprised to learn that such a provision was not already in statute as municipalities have been authorized to sell their tax debt for years. From my perspective, this is something that is long overdue, and that, if done correctly, will benefit the state."

#### **NATURE AND SOURCES OF SUPPORT:**

[Connecticut Realtors \(CTR\)](#) stated that the bill, "contains a proposal which would exempt new homes conveyed by certain conveyors from the portion of the real estate conveyance tax imposed on consideration in excess of two million five hundred thousand dollars. The intent of the 2019 conveyance tax adopted by [Public Act 19-117](#) was to deter wealthier residents from selling their homes and leaving the state. This bill would address the missteps made in enacting that legislation.

[Jim Perras, Chief Executive Officer, Home Builders and Remodelers Association of Connecticut \(HBRA-CT\)](#) stated, "The HBRA-CT respectfully requests that the Committee consider amending House Bill 5473 to fix Section 12-494 of the Connecticut General Statutes to reflect legislative intent more accurately, and relieve small businesses of its unintended consequences. Section 12-494 of CGS was most recently amended with the addition of the

2019 conveyance tax adopted under [Public Act 19-117](#). The expressed intent at the time of its passage was to deter wealthier residents from selling their homes and leaving the state in order to stem the growing tide of outward migration. Unfortunately, the bill was written too broadly and has negatively impacted small business builders that pose no such flight risk. On July 1, 2020, Connecticut increased the conveyance tax rate applied to sellers of real property from 1.25% to 2.25% on the portion of the sale that exceeds \$2.5 million in accordance with [Public Act 19-117](#). Under this law, a seller who stays in Connecticut for three years after the sale of a home can begin to recoup the difference via a tax credit equal to 1/3 of the conveyance tax paid over a span of three years. In order, to recoup the entire difference the seller would have to remain in Connecticut for a total of six years after the sale of the home. Unfortunately, as currently written, CGS 12-494 also taxes small business builders who sell newly constructed homes, but unlike a homeowner who sells their home, builders cannot avail themselves of the tax credit. The HBRA-CT believes it was not the intent of the legislature to burden the sale of new construction sold by small business builders who do not pose a clear and present flight risk and welcomes this opportunity to amend House Bill 5473 to address this discrepancy. Repealing the tax will free up more capital, giving small business builders greater ease to flow from one project to another and will help them to better keep up with demand. Repealing the tax would also make Connecticut more competitive with surrounding states that are also vying for wealthier transplants fleeing New York and elsewhere for suburbia. Recent data has shown that many of those leaving the city are highly mobile professionals and small to mid-sized business owners who are bringing significant economic activity with them. Connecticut should do everything it can to attract these individuals to help reverse the trend of outward migration and grow our economy."

#### **NATURE AND SOURCES OF OPPOSITION:**

[Jeff Gentes, Fair Lending and Foreclosure Prevention, Connecticut Fair Housing Center](#) opposed the provision allowing the state to sell tax debt, stating, "our opposition to the bill is based solely on Sections 32 and 33, which would allow the State to sell off tax debts and to hire attorneys to collect state tax debt. As the Commissioner said, municipalities have the ability to sell their tax debt to the private market. However, our experience – gained particularly while working with homeowners in Danbury, Bridgeport, and Hartford – taught us that granting municipalities this authority was a bad idea. It put constituents in harm's way, subjecting them to fee-inflating debt purchasers and aggressive attorneys. At the same time, because it was "tax debt" and not "consumer debt," constituents were left without meaningful ways to fight back through consumer protection law. Extending tax debt sales to state debt would compound the mistakes of municipal tax assignment. We could not support these proposals unless they were paired with robust regulations for the sales themselves – like last year's [Public Act 21-143](#) regarding municipal debt and an extension of state debt collector statutes to any attorneys hired by the State."

[David Godbout, Connecticut Resident](#) opposed the bill on the grounds that the current session of the Connecticut General Assembly is illegal, in breach of Article 3, Section 16 of the State Constitution.

**Reported by: Brendan Civitello**

**Date: 4/22/22**