June 9, 2016

The Honorable Denise W. Merrill
Secretary of State
30 Trinity Street
Hartford, CT 06106

Dear Madam Secretary:

I hereby return, without my signature, House Bill 5636, *An Act Concerning the Apprenticeship Tax Credit and the Tax Credit Report*. This bill would allow owners or shareholders of pass-through entities such as S corporations, partnerships, and limited liability companies to claim the manufacturing apprenticeship tax credit against the personal income tax and would revise the requirements for a report on existing tax credits.

Under current law, entities that are unable to use manufacturing apprenticeship tax credits themselves because they are not subject to the corporation business tax may sell them to other entities that have sufficient liability to use them. Current law also imposes reasonable limits on a corporation’s total reduction in its tax liability through the use of tax credits. HB 5636 would instead allow individual partners in, or shareholders of, pass-through entities to claim the tax credits on their personal income tax returns, without any limit on the amount of reduction in an individual’s tax liability. Allowing business tax credits to be claimed against the personal income tax would open the door for other similar proposals and increase the likelihood that the credits will result in a revenue loss to the state. The Office of Policy and Management estimates that the bill could result in an additional annual revenue loss of approximately $100,000 starting in FY 2018 from additional use of the credits. In addition, the Department of Revenue Services (DRS) will incur a significant unbudgeted expense to implement this change on tax forms and in the Taxpayer Service Center. I stand ready to work with the proponents of the bill to pass legislation that includes a reasonable limit on individual tax liability, but I cannot support this legislation as written.

Finally, House Bill 5636 makes changes to the overall scope and responsibility for analysis of tax incentives for economic development. Currently, the Department of Economic Development (DECD), in conjunction with DRS, produces a report every three years assessing the economic and fiscal impact of the state’s tax credit and abatement programs. This bill would transfer responsibility for and control of that report to the Legislative Program Review and Investigation
Committee. I consider this change unnecessary and unwarranted. The last report produced by DECD and DRS in 2014 was 169 pages long and used modified and updated methodology in recommending how to achieve maximum benefit from the incentives offered. Those agencies have the subject matter expertise to provide independent actionable analysis and recommendations based on measurable, verifiable standards, as seen in the most recent report. For the elements of the legislation that can be accomplished without statutory authority, I encourage the proponents of this section of House Bill 5636 to work with DECD as it prepares its 2017 report to the legislature.


Sincerely,

[Signature]

Dannel P. Malloy
Governor