



General Assembly

February Session, 2026

Raised Bill No. 5319

LCO No. 1994



Referred to Committee on COMMERCE

Introduced by:

(CE)

**AN ACT CONCERNING A RESEARCH AND DEVELOPMENT TAX
CREDIT FOR SMALL BUSINESSES.**

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective from passage and applicable to taxable years*
2 *commencing on or after January 1, 2026*) (a) For purposes of this section:

3 (1) "Research and development expenses" means research or
4 experimental expenditures deductible under Section 174 of the Internal
5 Revenue Code of 1986, as in effect on May 28, 1993, determined without
6 regard to Section 280C(c) of said code or to any elections made by a
7 taxpayer to amortize such expenditures that were otherwise deductible
8 on its federal income tax return; and basic research payments, as defined
9 in Section 41 of said code; that (A) are paid or incurred for such research
10 and experimentation and basic research conducted in the state, and (B)
11 are not funded by a grant, contract or governmental entity or a person
12 other than the taxpayer;

13 (2) "Commissioner" means the Commissioner of Economic and
14 Community Development;

15 (3) "Qualified small business" means a partnership or an S
16 corporation, as both terms are defined in section 12-699 of the general
17 statutes, that (A) has gross income for the previous taxable year that
18 does not exceed seventy million dollars, and (B) has not, in the
19 determination of the commissioner, exceeded such gross income
20 threshold through transactions with a related person, as defined in
21 section 12-217w of the general statutes; and

22 (4) "Biotechnology business" means a qualified small business
23 engaged in the business of applying technologies, such as recombinant
24 DNA techniques, biochemistry, molecular and cellular biology, genetics
25 and genetic engineering, biological cell fusion techniques, and new
26 bioprocesses, using living organisms, or parts of organisms, to produce
27 or modify products, to improve plants or animals, to develop
28 microorganisms for specific uses, to identify targets for small molecule
29 pharmaceutical development, or to transform biological systems into
30 useful processes and products.

31 (b) (1) The Department of Economic and Community Development
32 shall administer a system of tax credit vouchers, within available
33 appropriations, to allow qualified small businesses to earn and utilize
34 credits for research and development expenses.

35 (2) For taxable years commencing on or after January 1, 2026, there
36 shall be allowed a credit for qualified small businesses against the tax
37 imposed under chapter 229 of the general statutes, other than the
38 liability imposed by section 12-707 of the general statutes. Such credit
39 shall be equal to six per cent of the research and development expenses
40 paid or incurred by a qualified small business for a taxable year and
41 shall only be allowed to the extent a qualified small business has applied
42 for and received a tax credit voucher pursuant to this section.

43 (c) (1) Any qualified small business may apply to the commissioner,
44 in a form and manner and at a time prescribed by the commissioner, to
45 reserve an allocation for a credit based on the amount of research and

46 development expenses such business intends to pay or incur for a
47 taxable year. The application shall contain such information as the
48 commissioner deems necessary to administer the provisions of this
49 section.

50 (2) If the commissioner determines that such business is likely to pay
51 or incur research and development expenses for a taxable year, the
52 commissioner may issue a notice to such business, reserving a credit
53 under this section based on the amount the business intends to pay or
54 incur. In determining whether to issue such a notice, the commissioner
55 shall prioritize qualified small businesses that, in the commissioner's
56 opinion, exhibit a likelihood for growth in the state or will best
57 contribute to the economic ecosystem of the state.

58 (3) No qualified small business may reserve more than one million
59 five hundred thousand dollars of credits under this section for any
60 taxable year. The aggregate amount of credits that may be reserved
61 under this section shall not exceed twenty-five million dollars for any
62 taxable year.

63 (d) (1) Not later than ninety days after the end of a taxable year, any
64 qualified small business that received a notice under subsection (c) of
65 this section shall submit verification, in a form and manner prescribed
66 by the commissioner, of the research and development expenses
67 actually paid or incurred by such business for such taxable year. If the
68 commissioner determines, after reviewing such verification, that the
69 qualified small business paid or incurred such expenses for the taxable
70 year, the commissioner shall issue a tax credit voucher to such business
71 in an amount equal to six per cent of such expenses, provided such
72 amount shall not exceed the amount reserved for such business under
73 subsection (c) of this section.

74 (2) The commissioner shall notify the Commissioner of Revenue
75 Services and the Secretary of the Office of Policy and Management of
76 each tax credit voucher issued under subdivision (1) of this subsection.

77 (e) If the qualified small business is an S corporation or an entity
78 treated as a partnership for federal income tax purposes, the credit may
79 be claimed by the shareholders or partners of such business. If the
80 qualified small business is a single member liability company that is
81 disregarded as an entity separate from its owner, the credit may be
82 claimed by such business's owner, provided such owner is subject to the
83 tax imposed under chapter 229 of the general statutes.

84 (f) To the extent the credit exceeds a taxpayer's liability under chapter
85 229 of the general statutes, the taxpayer may apply to the Commissioner
86 of Revenue Services to exchange the credit, at the same time the
87 taxpayer files the return upon which such credit is claimed, for a credit
88 refund equal to ninety per cent of the excess if the credit was earned by
89 a biotechnology business and sixty-five per cent of the excess if the
90 credit was earned by a qualified small business other than a
91 biotechnology business.

92 (g) The credit allowed under this section shall be claimed before any
93 other credit allowable against the tax imposed under chapter 229 of the
94 general statutes.

95 (h) The commissioner may adopt regulations, in accordance with the
96 provisions of chapter 54 of the general statutes, to carry out the
97 provisions of this section.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage and applicable to taxable years commencing on or after January 1, 2026</i>	New section

Statement of Purpose:

To require the Department of Economic and Community Development to administer a system of tax credit vouchers to allow qualified small

businesses to earn and utilize credits for research and development expenses.

[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]