

---

## OLR Bill Analysis

### sHB 5571

#### ***AN ACT ESTABLISHING A TAX CREDIT FOR QUALIFIED OPERATORS AND A WORKING GROUP TO EXAMINE MARKET-BASED SOURCING FOR CERTAIN INVESTMENT ASSETS INCOME AND CONCERNING THE ANGEL INVESTOR TAX CREDIT AND THE DEFINITIONS FOR CERTAIN TAX CREDITS.***

#### **SUMMARY**

This bill makes various unrelated changes regarding state tax credits and establishes a working group on market-based sourcing. Generally, it does the following:

1. creates a refundable tax credit under which, generally, the PeoplesBank Arena's facility management company may qualify if it contracts with a state agency, such as UConn, to host at least 15 events each year at the arena for at least 15 years (§ 1);
2. sets up a working group to examine how Connecticut applies market-based sourcing to income from financial institutions' investment assets (§ 2);
3. modifies requirements for businesses to qualify for tax credits under the angel investor tax credit program, including reducing the minimum percentage of a business's employees that must live in Connecticut (§ 3);
4. changes the scope of the research and experimental (R&E) expenditures tax credit program by redefining which expenditures qualify (§ 4);
5. expands eligibility for a farm investment tax credit program to include Connecticut taxpayers whose annual income from farming is at least \$250,000 (§ 5); and
6. repeals a second, substantially similar farm investment tax credit

program that applies to a broader range of agricultural production (§ 6).

The bill also makes technical and conforming changes.

EFFECTIVE DATE: Various, see below.

### **§ 1 — PEOPLESBANK ARENA REFUNDABLE BUSINESS TAX CREDIT**

The bill establishes a refundable tax credit for a “qualified operator,” which it defines as a party to a facility management agreement with the Capital Region Development Authority to operate the civic center and coliseum complex in Hartford known as PeoplesBank Arena.

The credit is available starting with the 2026 income and tax year and requires the qualified operator to be a party to a qualified agreement on the last day of the income or tax year a credit is claimed. Under the bill, a “qualified agreement” is an agreement between a qualified operator and a state agency in which the (1) state agency commits to schedule and host at least 15 events annually at the PeoplesBank Arena for at least 15 years and (2) qualified operator agrees to operate and promote each of those events at the facility during the agreement’s term. By law, and under the bill, a “state agency” is each state board, authority, commission, department, office, institution, council, or other agency of the state, including each constituent unit and each public institution of higher education.

The credit equals up to \$5 million for the income or tax year, as applicable, and can be applied against the corporation business, pass-through entity, or personal income tax, but not the withholding tax. The bill caps the total credits allowed under the program at \$10 million.

Under the bill, the qualified operator may apply to the Department of Revenue Services (DRS) to reserve a credit allocation. The DRS commissioner must prescribe the application, which must contain the information he deems necessary to verify the qualified operator’s eligibility for the credit. Once verified, the commissioner must issue the qualified operator a voucher for its credit amount.

If the qualified operator is an S corporation or treated as a partnership for federal income tax purposes, the qualified operator's shareholders and partners may claim the credit. If the qualified operator is a single member limited liability company (LLC) that is disregarded as an entity separate from its owner, the LLC's owner may claim the credit, as long as the owner is subject to either the corporation business, pass-through entity, or personal income tax.

The bill requires the DRS commissioner to refund, without interest, any amount of the tax credit that exceeds a qualified operator's liability, unless he retains the refund, which, by law, he may do if the qualified operator (1) owes state or municipal taxes or other obligations or (2) is in default of a student loan made by the Connecticut Student Loan Foundation or the Connecticut Higher Education Supplemental Loan Authority.

EFFECTIVE DATE: Upon passage, and applicable to income and tax years beginning on or after January 1, 2026.

## **§ 2 — MARKET-BASED SOURCING AND FINANCIAL INSTITUTIONS WORKING GROUP**

The bill creates a working group to examine how Connecticut applies market-based sourcing to income from financial institutions' investment assets, as it relates to modern sourcing policy, economic competitiveness, supporting in-state jobs, and ensuring equitable treatment of the tax base and in-state services. (Generally, under market-based sourcing rules, businesses assign transactions involving services or intangible property based on where their customers are located or receive the service or property, instead of where the transaction was performed. The "assigned" location affects the taxes that apply to the transaction.)

The working group consists of the (1) chairs for the Banking and Finance, Revenue and Bonding committees, (2) DRS and banking commissioners, and (3) Office of Policy and Management secretary. It may consult with any individuals or entities relevant to or informative for the examination.

The bill requires the Finance, Revenue and Bonding Committee chairs and administrative staff to serve in the same capacities for the working group. It also requires the chairs to schedule the working group's first meeting, which must be held within 60 days after the bill's passage.

The working group must submit a report with its findings and recommendations to the Banking and Finance, Revenue and Bonding committees by January 1, 2027, and ends on that date or when it submits its report, whichever is later.

EFFECTIVE DATE: Upon passage

### **§ 3 — ANGEL INVESTOR TAX CREDIT PROGRAM CHANGES**

The bill makes changes to the angel investor tax credit program, which, generally, allows angel investors who make cash investments of at least \$25,000 in the qualified securities of certain Connecticut businesses to be eligible for a personal income tax credit equal to 25% of their investment. By law, an "angel investor" is generally an investor whom the Securities and Exchange Commission considers to be an accredited investor and a "Connecticut business" is any business, other than a cannabis business, whose principal place of business is in Connecticut.

To qualify for the tax credit, existing law requires the investments to be in Connecticut businesses that meet several criteria, including that the business:

1. applied for and received approval from Connecticut Innovations, Inc. (CI) to get credit-eligible investments;
2. had gross revenues of less than \$1 million in the most recent income year;
3. has less than 25 employees;
4. has been operating in Connecticut for fewer than seven consecutive years;

5. is primarily owned by the management of the business and their families; and
6. received less than \$2 million in investments from credit-eligible angel investors.

Current law additionally requires that 75% of the business's employees live in Connecticut. The bill reduces this percentage to 50% and, beginning July 1, 2026, requires applications to CI from a business and a related person to be treated as a single Connecticut business under the program.

Existing law and the bill define "related person" in relation to a corporation claiming a credit as:

1. a corporation, partnership, association, or trust controlled by that corporation;
2. an individual, corporation, partnership, association, or trust that is in control of that corporation;
3. a corporation, partnership, association, or trust controlled by an individual, corporation, partnership, association, or trust that is in control of that corporation; or
4. a member of the same controlled group as that corporation.

For the purposes of the "related person" definition and the angel investor tax credit program, the bill adds a definition for "control," which is (1) for corporations, direct or indirect ownership of stock possessing at least 50% of the total combined voting power of all classes of the stock of the corporation entitled to vote and (2) for trusts, direct or indirect ownership of at least 50% of the beneficial interest in the principal or income of the trust. For determining the ownership of a corporation's stock, partnership's or association's capital or profits, or trust's beneficial interest, the definition generally requires:

1. direct or indirect ownership of these assets by or for a corporation, partnership, estate, or trust is considered to be

owned proportionately by or for its shareholders, partners, or beneficiaries;

2. an individual is considered as owning the asset, directly or indirectly, by or for his or her family; and
3. the family of an individual includes only his or her brothers and sisters (full and half siblings), spouse, ancestors, and lineal descendants.

EFFECTIVE DATE: July 1, 2026

#### **§ 4 — RESEARCH AND EXPERIMENTAL EXPENDITURES TAX CREDIT CHANGES**

The bill changes what is an R&E expenditure for the purposes of the R&E tax credit program. By law, the program gives qualifying businesses a credit against the corporation business tax equal to 20% of the amount they spent on R&E conducted in Connecticut over and above the amount they spent during the prior year.

Under current law, “research and experimental expenditures” generally are (1) expenses a business incurs in connection with its trade or business that represent research and development (R&D) costs in the experimental or laboratory sense; (2) costs related to developing or improving a product, including any pilot model, process, formula, invention, technique, patent, or similar property; and (3) costs of getting a patent. They do not include expenditures for (1) quality control testing; (2) advertising or promotions; (3) consumer or efficiency surveys; (4) management studies; (5) research connected with literary, historical, or similar projects; or (6) acquiring another business’ patent, model, production, or process (26 C.F.R. § 1.174-2).

The bill replaces this definition with the one for research and development expenses under existing law for the R&D tax credit program. Generally, “research and development expenses” are (1) research or experimental expenditures federally-deductible under the applicable federal law as it was written on May 28, 1993, and determined without regard to the federal credit for increasing research

activities and (2) qualifying “basic research payments” (for example, payments a business makes to qualifying nonprofit educational institutions, scientific research organizations, or grant organizations). In both cases, the expenditures or payments must (1) be paid or incurred by the business for research and experimentation and basic research done in Connecticut and (2) not be funded by any grant or contract with a public or private entity, unless the entity is included in a combined return with the business paying or incurring the expenses. Expenditures under this definition generally include and exclude the same ones the “research and experimental expenditures” definition above does.

EFFECTIVE DATE: October 1, 2026

### **§§ 5 & 6 — CHANGES TO FARM INVESTMENT TAX CREDIT PROGRAMS**

PA 25-168 and PA 25-152 created substantially similar refundable corporate and income tax credit programs for farmers’ investments in eligible machinery, equipment, and buildings for use in specific types of agricultural production. By comparison, the program under PA 25-152 applies to a broader range of agricultural production by including the production of (1) wine under a farm winery license, (2) Christmas trees, and (3) apple juice and cider under both an apple juice and cider manufacturing permit and farmer tax exemption permit.

The bill eliminates PA 25-152’s program and modifies the program created under PA 25-168. Specifically, it expands who qualifies as an eligible farmer to include Connecticut taxpayers whose federal gross income from farming for the income or tax year is at least \$250,000. Under existing law, Connecticut taxpayers can qualify if their federal gross income from farming for the income or tax year is at least two-thirds of their federal gross income from all sources over \$30,000.

EFFECTIVE DATE: Upon passage, and, for the continuing program, applicable to income and tax years beginning on or after January 1, 2026.

**COMMITTEE ACTION**

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 47 Nay 7 (03/31/2026)