

Act Number	Session	Bill Number	Total Number of Committee Pages	Total Number of House Pages	Total Number of Senate Pages
PA 71-320		431	4	3	2
<u>Committee Pages:</u> <ul style="list-style-type: none"> • Finance 226-228 • Finance 218 				<u>House Pages:</u> <ul style="list-style-type: none"> • 1653-1655 	<u>Senate Pages:</u> <ul style="list-style-type: none"> • 2997-2998

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**CONNECTICUT
GENERAL ASSEMBLY
HOUSE**

**PROCEEDINGS
1971**

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Monday, May 17, 1971

154.

DEPUTY SPEAKER:

The gentleman from the 132nd.

MR. BRUNO: (132nd)

I move the acceptance of the Joint Committee's favorable report and paswage of this bill.

DEPUTY SPEAKER:

Question is on acceptance and passage. Will you remark.

MR. BRUNO: (132nd)

Yes, Mr. Speaker. This is another water bill. The Association owns this water company and they service their own members. The PUC has indicated that it is favorable to this bill.

DEPUTY SPEAKER:

Will you remark further on the bill. If not, all those in favor will indicate by saying AYE. Opposed. THE BILL IS PASSED.

THE CLERK:

Cal. 919, Senate Bill 431. AN ACT CONCERNING THE FRANCHISE TAX OF STOCK CORPORATIONS.

DEPUTY SPEAKER:

The gentleman from the 166th.

MR. SPAIN: (166th)

Mr. Speaker, I move acceptance of the committee's favorable report and passage of the bill in concurrence with the Senate.

roc

Monday, May 17, 1971

155.

DEPUTY SPEAKER:

Question is on acceptance and passage in concurrence.
Will you remark.

MR. SPAIN: (166th)

Mr. Speaker, this bill changes the franchise tax for corporations. The purpose is to encourage corporations to incorporate in Connecticut rather than moving to states where the tax climate may be more favorable. I move acceptance.

DEPUTY SPEAKER:

Will you remark further on the bill. If not, all those in favor will indicate by saying AYE. Opposed. THE BILL IS PASSED.

THE CLERK:

Cal. 923, Senate Bill 1408. AN ACT CONCERNING CORRECTIONS, CLARIFICATIONS AND CONFORMING CHANGES IN THE CONNECTICUT BANK HOLDING AND BANK ACQUISITION ACT.

DEPUTY SPEAKER:

The gentleman from the 87th.

MR. HEALEY: (87th)

Mr. Speaker, I move acceptance of the Joint Committee's favorable report and passage of the bill in concurrence with the Senate.

DEPUTY SPEAKER:

Question is on acceptance and passage in concurrence.
Will you remark.

roc

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GENERAL ASSEMBLY**

SENATE

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24.

or distributing any materials that are used to construct or repair a denture bridge or other structure that is worn in the mouth. To anyone except a licensed dentist or laboratory. The purpose of course is to get at the abuse of the do it yourself kits. Either dentistry is a profession or else this kind of sales is an illegal infringement on that type of profession. I think its a good bill.

THE CHAIR:

The question is on passage of the bill. Will you remark further? If not all those in favor of passage signify by saying aye. Opposed nay. The ayes have it. The bill is passed.

THE CLERK:

Cal. 531, File 690 Favorable report of the Committee on Judiciary on Substitute S.B. 1797 An Act Concerning Amendments to the Medicolegal Investigations Act.

THE CHAIR:

Senator Jackson.

SENATOR JACKSON:

Mr. President, may this be passed, holding its place until tomorrow please?

THE CHAIR:

It is so ordered if there is no objection.

THE CLERK:

Cal. 532, File 708 Favorable report of the joint standing committee on Finance on S.B. 431 An Act Concerning the Franchise Tax of Stock Corporations.

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25.

THE CHAIR:

Senator Rimer.

SENATOR RIMER:

Mr. President, I move acceptance of the joint committee's favorable report. And passage of the bill.

THE CHAIR:

Will you remark?

SENATOR RIMER:

Mr. President, the Sec. 33-305 of the Conn. General Statutes now provides a Franchise tax at the rate of 1¢ per share for all authorized shares of stock. For the smaller companies the tax is more than reasonable. However, when a company goes public and gets up into the millions of shares of stock outstanding, the tax structure can have such a depressing effect that few are willing to remain in the state.

We have heard testimony for the Finance Committee from members of the corporate bar. But a great many corporations have been incorporated outside of the state principally to avoid the impact of the franchise tax on a large number of shares. As an example if a company with one million shares outstanding were to split its stock two for one in Delaware. It could do so without incurring any additional tax at all. Assuming stock having a par value. In Connecticut that same action would cost the company \$10,000. For a successful public company stock splits are frequently a critical requirement in order to maintain an

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orderly and active public market. For a very large corporation the cost of the split can be truly astronomical. The bill before us has a graduated rate of the franchise tax which calls for a 1¢ per share for the first ten thousand authorized shares. One-half cent per share for each authorized share in excess of ten thousand shares up to one hundred thousand. One-quarter cent per share for each authorized share in excess of one hundred thousand shares up to and including one million shares. And one-fifth^{cent} per share for each authorized share in excess of a million shares.

I think that ultimately, Mr. President this legislation would result in benefit to the state of Connecticut. By encouraging corporate entities to either initially incorporate in the state of Connecticut. Or encourage them to maintain their incorporation within the state of Connecticut. And I think its a good bill and I recommend its passage.

THE CHAIR:

The question is on passage. Will you remark further? If not all those in favor of passage signify by saying aye. AYE. Opposed nay? The ayes have it. The bill is passed.

THE CLERK:

The last item on page 4, Cal. 534, File 713 Favorable substitute report of the Committee on Judiciary on Substitute S.B.856 An Act Concerning Parental Liability for Tort of Minors.

THE CHAIR:

Senator Jackson.

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to the towns but if it did, the revenue cost would amount to about \$11.6 million per year according to the report of the 1967 tax study. Bill 5818, this bill was put in by the Tax Department at the suggestion of the state auditors but we ask that it be withdrawn because of possible interstate commerce implication. Bill 5817, there is some revenue loss involved here---how much is not known. Bill 5824, subsection 50 of Section 12-31 of the 1969 Supplement to the general statutes provides that the phase out of the local property tax on manufacturers' inventories be suspended for the valuation of 1969 and picks up again for the valuation of 1970. But section 12-24a of the 1969 Supplement provides for reimbursement to the towns only through 1971. So Bill 5824 is needed to continue the reimbursement to the towns in 1972 and 1973 for taxes exempted in 1971 and 1972. Bill 5984, this bill contains a sleeper that does not appear in either the title or the statement of purpose. If you will look at page 2 of the bill, ten lines down, you will note that it reduces the tax rate from 8 percent to 7 percent as well as eliminating the minimum bast tax-- Revenue Cost \$20 million annually -- at a minimum. Bill 5986, This bill would also cost some state revenue but difficult to determine. Bill 5988, is a statement of purpose bill to provide carry over of losses in determining corporation taxes but we cannot pass upon it without a complete bill. Bill 5990, the Tax Department has another bill be you today (Bill 6484) which if enacted would cure the complaint which is the basis of this bill and also help us to avoid tax evasion. Bill 6853, the Tax Department asked for this bill to clarify for tax purposes what constitutes a multi-state corporation so as to permit the Connecticut corporation to allocate part of its business out of state. It is an attempt at uniformity with other states. Bill 7708, a close reading of Section 1 would impose the tax at 8 percent for "each income year" (line 42 on page 2) and the effective date is stated as July 1, 1971. Since the corporation tax rate according to the present law has already returned to the 5 1/4 percent rate, I think the effective date should be changed to read "This act shall take effect from its passage and shall apply to income years or periods beginning on or after January 1, 1971" -- otherwise, you will have a 5 1/4 percent rate between January 1, and July 1. Bill 742, this bill seeks to do the same as Bill 5354 but it fails to name a rate in the body of the bill, although the statement of purpose says 1 percent. If 1 percent is correct, then the revenue cost will be the same as for Bill 5354--\$5.3 million annually. Bill 1184, here I would merely like to invite your attention to an obvious typing error on page 2--in section 3 about 14 lines down where a phrase has apparently been repeated. Thank you for the opportunity to present the Department's views on this proposed legislation.

Sen. Rimer, 26th Dist: Mr. Tarrant I may have missed your comment on S.B. 431 having to do with the franchise tax of stock corporations.

Mr. Tarrant: We decided not to say anything on that for a change. It is administered by the Sec. of State, we have nothing to do with it.

Sen. Rimer: Thank you sir..

would help improve the relationship of the small business man to how he feels about people up here in Hartford, and maybe give him some more reason to stay here instead of looking for some other state for his business, and bring all the payrolls and all the good that goes with it there. I am only speaking as an individual a man that goes here and there, I hear these complaints, I hear what is good and what is bad. I have given figures to state these things all I am just giving you is their view points as a small little taxpayer he has a right to be heard, and this is the place to be heard. As I said before I am just one accountant. I am sure that a lot of other accountants in the state, probably share the same views. I didn't actually have the time to come up here this morning, but I thought it was my business to come up here and tell you how a lot of my small people feel. This is my only way of showing how they feel and bring it right to you here. On the unincorporated tax to make one observation, it wasn't written in the law as far as I know, but in the last unincorporated tax the gasoline dealer was allowed to take off the gross income the amount of excise tax, the gasoline excise tax paid to the state, and that amount was deducted I don't seem to see it in this bill here. It might have been an oversight, or maybe they probably will come to it later on. But, I thought at this time I should inject that thought. Because, I did not see it in here. That would make a lot of difference to the small little fellow on the corner. So, in essence, this is all I have to say...Thank you

Mr. Greenberg: Thank you members of the Finance Committee, I am here to testify in favor of S.B. 431 which would be a bill to restrict and effectively lower the franchise tax rates applicable on corporations who issue stock in the State of Connecticut. I speak as a very interested party in the bill, because, I am Executive Vice-President General Counsel of Coleco Industry. Coleco is a Connecticut corporation manufacturing plants are located in several other states. We are listed on the American Stock Exchange our roots are in Connecticut and we were founded in some 39 years ago in the city of Hartford. We have a desire of course to stay in Connecticut, because it has been a favorable climate for us, but, we have a very severe problem. It is a problem in part caused by the fact as a publicly owned company with a business that is growing and therefore fortunately a stock price that is appreciating, we have the continual pressure to increase our capitalization. We very frequently declare stocks, of substantial magnitude, three for two, two for one, we often acquire business' which require the issuance of capitalization. Right now we have a capitalization that involves 4 million shares of authorized stock. We have a desire to double our capitalization perhaps for a two for one stock split perhaps for acquisitions. But, yet to do that, to go from 4 million to 8 million shares, a number which is not at all large by modern corporate standards, means that under the present law we have to pay a penny a share for the additional stock. That is a total of forty thousand dollars, not in taxes, but in a one shot fee. A non-deductible fee from our income tax to be sure, a one shot fee just for the privilege of simply issuing this to rather stock. Now we find

that somewhat prohibited when we compare the legislation in effect in other states. And, see what it would cost us if we were domiciled in New York, or in Delaware to various reasonable possibilities. The problem though becomes complicated by this fact, I can't come here and tell you in good good faith that paying forty thousand dollars is going to mean my corporation will go bankrupt, but the problem we have is this, we are a public corporation. We have public stock holders, on I am General Counsel for the corporation. I have a severe difficulty advising my corporation to pay forty thousand dollars for the additional stock we need to double our capitalization, when we might do it in New York for 5 or 8 thousand dollars or in Delaware for considerably less. One of the problems here is that it is that it is only the public corporation that are inconvenienced by the present high tax on franchise. It is only the public corporations where that directed immediate responsible rather responsibility to a public constituency who must grasp their collective heads and say well as much as we want to be domiciled in Connecticut as much as we have 39 years of very happy history here, we have no choice, but to move our domicile, and go to Delaware if you will, or go to a New York State if you will, and thereby issuing the same amount of shares for truly a relative pittance compared to what the tax is in Connecticut. Now, don't misunderstand it is not a desire on our part nor is it a possibility on our part to move to New York, or Delaware and avoid the payment of business taxes in the State of Connecticut, because merely by changing our domicile we would not be eliminated from that possibility we would have to come back here and qualify if we are going to do business here. But, what I am saying is it is within the capability of companies such as ours to change this domicile for a few dollars, and thereby save enormous amount on the franchise tax. But, what I am saying is that I don't want to do it. We shouldn't have to do it. A company such as ours with 39 years of history in Connecticut should not be forced to do it. The state of Connecticut loses the tax anyway, and I suspect that the idea has begun to put into the minds of companies such as ours, who are forced by what is I think which rather with all due respect and unfortunately repressive tax measure. You put ideas in our heads that as to perhaps to changing more than the domicile, but perhaps eliminating the connection that we have with the State of Connecticut. We manufacture in other states, we very proudly maintain a corporate headquarters in Connecticut. We would like to indefinitely even as our horizons grow much bigger. But, if we decide we have to reincorporate elsewhere and change our domicile it may make sense to pick up all together and leave, and I am sure it will make sense to many other companies to do that, and change our corporate headquarters, and by so doing eliminate the many thousands of dollars which the state of Connecticut collects from us not under the franchise tax, but under the corporate business tax. Perhaps even more significant I think in Coleco's plight is the fact that many younger corporations that are incorporating are changing their capitalization today, either because

they are public corporations or have the present expectation to be public, are very much aware of this problem. I have known lawyers in fact lawyers in the city of Hartford who have counselled their clients to incorporate in other states. Even if they have to domesticate ultimately in Connecticut, for just this reason, because if you are public and if you are fortunate enough to be able to grow, and see your stock price go up, ultimately you get in a trap, it is not a trap you get in 1962 when we went public, but it is a trap we have now because of growth, namely the cost of increasing capitalization becomes totally prohibited. That is really the message I have today in connection with this bill. The proposed bill does part of the job, it would reduce the cost of a penny a share to one-fifth of a share, instead of forty thousand dollars to double our capitalization the cost would then be eight thousand dollars. That is still higher than it is in many states, but obviously it is reasonable enough so that we would not re-incorporate elsewhere. It is my sorry duty to involve to advise my board of directors and the stock-holders of our company that we have no choice but to remove our domicile from the state of Connecticut within the next fourteen months. Unless a bill like S.B. 431 or a bill as equitable as 431 is adopted. What we have done is delay increasing our capitalization now for 2 years, frankly in the hope that some action might be taken at this session of the legislature. But, we don't want to take the adverse action of having to move but, as a lawyer, I have no choice. If it were my own company and I owned all the stock, perhaps I could weigh the benefits of paying a little more but, the real concern and it is a very specialized concern that I address is, please think of the very difficult problem that you impose upon general counsel for a publicly owned company, that realizes that as convenient as it may be for him to stay in Connecticut where he knows the law quota he has the terrible burden of saying I am sorry gentlemen, we have to pack and go elsewhere, because I cannot justify through a public commissioner to stock holders pay an extra 35 thousand dollars on a franchise tax which I can't deduct and which I may have to pay again two or three years from now if our company is healthy and the stock builds up. For these reasons, we respectfully request your support for S.B. 431.

John Killeen, representing the Connecticut Association of Assessing Officers: I would like to speak in opposition to H.B. 5701. AN ACT CONCERNING THE REPEAL OF WHOLESALE AND RETAIL INVENTORY TAX AND H.B. 5815. AN ACT CONCERNING THE EXEMPTION OF MANUFACTURERS' INVENTORIES FROM LOCAL PROPERTY TAXATION. It is our belief that both these bills continue the erosion of the local property tax base at a time when it can least stand it. If exemptions, such as these on inventories, are to be granted, I would respectfully suggest that the municipalities should be reimbursed by the State for any lost revenues. I would like to illustrate what effect H.B. 5701, the repeal of the tax on wholesale and retail inventory and Section 12-81, subsection 54 on the General Statutes which was enacted in 1969 would have on the Town of Enfield. On our 1971 Grand List, we had inventories which would be covered under H.B. 5701 assessed at \$3,500,000. At our