

**MEMO# 6954**

May 22, 1995

## **CONNECTICUT MODIFIES TAX EXEMPTION FOR SOME STATE BONDS**

May 22, 1995 TO: ACCOUNTING/TREASURERS MEMBERS No. 26-95 CLOSED-END FUND  
COMMITTEE No. 23-95 TAX MEMBERS No. 28-95 UNIT INVESTMENT TRUST COMMITTEE No.  
46-95 RE: CONNECTICUT MODIFIES TAX EXEMPTION FOR SOME STATE BONDS

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Connecticut has adopted legislation that eliminates the exemption from Connecticut corporate franchise tax for certain bonds issued by the state. The legislation effects all existing state bonds that benefited from such an exemption and eliminates the exemption for all future issuances. The law makes no changes to the bonds' exemption from Connecticut individual income tax or the federal treatment of interest on the bonds. All holders of bonds affected by the change, including mutual funds, are entitled to compensation from the state for the value of the lost exemption. Connecticut's action is a response to refund claims filed by corporate taxpayers claiming that, under federal law, it was illegal to collect Connecticut franchise tax on income from federal bonds if interest on state bonds was exempt from tax. Rather than pay the refund claims for taxes on the federal interest, Connecticut repealed the state tax exemption for state bonds, retroactive to January 1, 1992. The state revoked the exemption using its power of eminent domain and thus must pay compensation to the owners of the bonds for the value of the property right taken. Certain of the following bonds were exempt from the Connecticut corporate franchise tax and are affected by the change: 1. Municipal Housing Finance Assistance bonds; 2. Municipal Resource Recovery bonds; 3. Bradley Airport Revenue bonds; 4. Connecticut Higher Education Supplemental Loan Authority (CHESLA) revenue bonds; and 5. transportation special tax obligations. All owners of affected bonds must file a claim for compensation with the Connecticut Bond Claim Compensation Unit by December 4, 1995. The Unit can be contacted at 800-653-3301 to request a claim form or to obtain additional information. We will keep you informed of developments. Peter J. Cinquegrani Assistant Counsel - Tax