

# OFFICE OF FISCAL ANALYSIS

## Connecticut General Assembly

Room 5200, Legislative Office Building

Hartford, CT 06106 - (860) 240-0200

E-Mail: [ofa@cga.ct.gov](mailto:ofa@cga.ct.gov)

[www.cga.ct.gov/ofa](http://www.cga.ct.gov/ofa)

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FROM: Michael Murphy  
Christopher Wetzel

SUBJECT: Update of Biennial Budget Tax Policies

You asked for an update of 2016-2017 Biennial Budget tax policies.

### **Discrete Policies**

Actual results of discrete policy changes to the Personal Income and Corporation taxes will not be available from the Department of Revenue Services until 2017 and 2018, respectively. Further, the impact of the policy change to repeal the Sales Tax exemption for clothing and footwear is not itemized on the tax return and therefore actual results for this policy change are unavailable.

Absent actual results, re-estimates for the most part would apply the percentage overall variance from budget in each revenue category to the estimate for each policy within that revenue category. For instance, negative variances of 6.7% (Personal Income Tax) and 11.2% (Corporate Tax) would apply to each policy change within these respective revenue categories.<sup>1</sup> We can provide more in-depth re-estimates of each policy but this will take more time.

### **Overall**

To a large degree, the total estimated revenue gain across funds from the tax increases in the 2016-2017 Biennial Budget has been offset by lackluster revenue performance, particularly within the General Fund's Personal Income Tax and Corporate Tax.

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<sup>1</sup>The Corporate Tax estimate factors out a positive, one-time impact of \$75 million unrelated to policy.

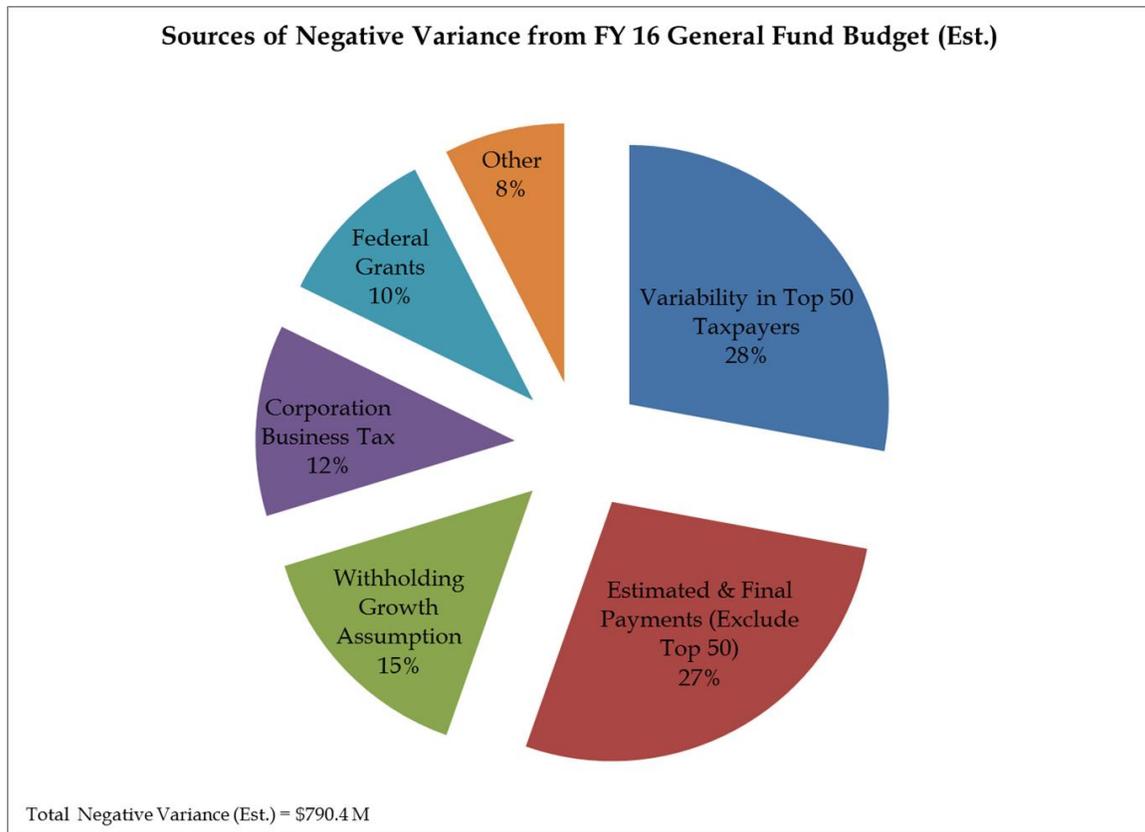
The 2016-2017 Biennial Budget increased estimated tax revenues by \$915.4 million and \$944.2 million, respectively, as illustrated in the table below. On a net basis, deficit mitigation actions impacted total tax revenue estimates by \$0.3 million in FY 16 and - \$1.5 million in FY 17 and the 2017 Revised Budget increased estimated total taxes by \$2.5 million.

**All Appropriated Funds Tax Changes by Source (in millions)**

| Description                              | FY 16 \$     | FY 17 \$     | FY 18 \$     | FY 19 \$     | FY 20 \$     |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>General Fund</b>                      |              |              |              |              |              |
| <b>Taxes</b>                             |              |              |              |              |              |
| Personal Income                          | 169.3        | 158.9        | 167.3        | 177.5        | 190.1        |
| Sales and Use                            | (94.3)       | (293.3)      | (537.6)      | (557.4)      | (578.3)      |
| Corporations                             | 258.1        | 222.8        | 200.3        | 162.8        | 147.8        |
| Health Provider                          | 224.8        | 229.8        | 229.9        | 230.0        | 230.1        |
| Insurance Companies                      | 22.7         | 22.7         | -            | -            | -            |
| Admissions and Dues                      | (0.4)        | (0.4)        | -            | -            | -            |
| Alcoholic Beverages                      | 0.5          | 0.5          | 0.5          | 0.5          | 0.5          |
| Cigarettes                               | 24.5         | 42.8         | 37.6         | 35.3         | 33.2         |
| Inheritance and Estate                   | (4.0)        | (8.0)        | (8.0)        | (8.0)        | (8.0)        |
| Miscellaneous Taxes                      | (0.1)        | (0.1)        | (0.1)        | (0.1)        | (0.1)        |
| Oil Companies                            | -            | -            | (7.1)        | (41.0)       | (58.1)       |
| Earned Income Tax Credit                 | 11.0         | 11.0         | -            | -            | -            |
| Less Refunds                             | 39.0         | 75.0         | 75.0         | 75.0         | 75.0         |
| <b>General Fund Total</b>                | <b>651.1</b> | <b>461.7</b> | <b>157.8</b> | <b>74.7</b>  | <b>32.2</b>  |
| <b>Special Transportation Fund</b>       |              |              |              |              |              |
| <b>Taxes</b>                             |              |              |              |              |              |
| Oil Companies                            | -            | -            | 7.1          | 41.0         | 58.1         |
| Sales and Use                            | 158.6        | 260.6        | 361.7        | 375.1        | 389.0        |
| <b>Special Transportation Fund Total</b> | <b>158.6</b> | <b>260.6</b> | <b>368.8</b> | <b>416.1</b> | <b>447.1</b> |
| <b>MRSA</b>                              |              |              |              |              |              |
| <b>Taxes</b>                             |              |              |              |              |              |
| Sales and Use                            | 105.7        | 221.9        | 361.7        | 375.1        | 389.0        |
| <b>MRSA Total</b>                        | <b>105.7</b> | <b>221.9</b> | <b>361.7</b> | <b>375.1</b> | <b>389.0</b> |
| <b>TOTAL TAXES</b>                       | <b>915.4</b> | <b>944.2</b> | <b>888.3</b> | <b>865.8</b> | <b>868.2</b> |

## Revised Estimates

The 2016-2017 Biennial Budget was based on revenue estimates as of April 30, 2015. Since that time, tax revenues deteriorated significantly. Major sources of variance include: 1) Estimated and Final payments under the Income Tax from the top 50 taxpayers; 2) Estimated and Final payments under the Income Tax from all other taxpayers; 3) weakness in the Withholding portion of the Income Tax relative to budget; and 4) weakness in the Corporation Business Tax relative to budget. The chart below illustrates negative variances as of April 30, 2016.



Of the total negative variance indicated above, \$652.2 million was attributable to taxes. Since that estimate in April 2016, OFA has revised its FY 16 total General Fund tax estimate downward by an additional \$150 million (approximately). These shortfalls, which are approximately \$800 million in total, reduce the tax base for FY 17. Except for the additional \$150 million, these shortfalls have already been accounted for in the budget.

We hope you find the information above useful. We are available to discuss these items in more detail at your convenience.