

# OFFICE OF FISCAL ANALYSIS

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sHB-6443

AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE BIENNIAL BUDGET.

## OFA Fiscal Note

### State Impact:

Agency Affected	Fund-Effect	FY 22 \$	FY 23 \$
Various	Various - See Below	See Below	See Below

Note: Various=Various

### Municipal Impact:

Municipalities	Effect	FY 22 \$	FY 23 \$
All Municipalities	STATE MANDATE <sup>1</sup> - See Below	See Below	See Below

### Explanation

The bill makes changes to state tax and revenue policies and establishes the "Connecticut Equitable Investment Fund." Summary and detailed table of changes are provided below, along with additional information and estimates for certain aspects of the bill.

**Table 1. Summary Revenue Changes by Fund in millions**

	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26
General Fund	(244.8)	1,291.2	1,371.7	(50.6)	(60.9)	(85.1)
CT Equitable Investment Fund	-	(99.1)	593.2	622.6	655.2	676.3
Special Transportation Fund	-	-	47.5	92.5	96.6	100.8
Tourism Fund	9.8	3.1	-	-	-	-
<b>GRAND Total</b>	<b>(235.0)</b>	<b>1,195.2</b>	<b>2,012.4</b>	<b>664.5</b>	<b>690.9</b>	<b>692.0</b>

<sup>1</sup> State mandate is defined in Sec. 2-32b(2) of the Connecticut General Statutes, "state mandate" means any state initiated constitutional, statutory or executive action that requires a local government to establish, expand or modify its activities in such a way as to necessitate additional expenditures from local revenues.

Table 2. Summary Revenue Changes by Type and Fund in millions						
	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26
<b>Tax Changes</b>						
General Fund	-	161.7	175.6	(19.1)	(29.4)	(53.6)
CT Equitable Investment Fund	-	(134.6)	525.4	535.2	545.0	554.8
Special Transportation Fund	-	-	45.0	90.0	94.1	98.3
<b>Subtotal</b>	-	<b>27.1</b>	<b>746.0</b>	<b>606.1</b>	<b>609.7</b>	<b>599.5</b>
<b>Fees</b>						
General Fund	-	-	2.5	2.5	2.5	2.5
Special Transportation Fund	-	-	2.5	2.5	2.5	2.5
<b>Subtotal</b>	-	-	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>
<b>Tax Amnesty</b>						
General Fund	-	40.0	(4.0)	-	-	-
<b>Gaming authorized in the bill - online lottery draw</b>						
CT Equitable Investment Fund	-	2.0	3.0	7.5	12.5	17.5
<b>Other potential revenue sources designated to the CEIF</b>	-	33.5	64.8	79.9	97.7	104.0
<b>Transfers</b>						
General Fund	(244.8)	1,089.5	1,197.6	(34.0)	(34.0)	(34.0)
Tourism Fund	9.8	3.1	-	-	-	-
<b>Subtotal</b>	<b>(235.0)</b>	<b>1,092.6</b>	<b>1,197.6</b>	<b>(34.0)</b>	<b>(34.0)</b>	<b>(34.0)</b>
<b>GRAND Total</b>	<b>(235.0)</b>	<b>1,195.2</b>	<b>2,012.4</b>	<b>664.5</b>	<b>690.9</b>	<b>692.0</b>

Table 3. Policy Estimates by Section in millions								
Section #s	Policy	Fund	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26
1, 2	NEW voluntary wage compensation tax program - target revenues	CEIF	-	-	50.0	50.0	50.0	50.0
1, 2	NEW voluntary wage compensation tax program - target revenues	GF	-	-	(50.0)	(50.0)	(50.0)	(50.0)
3	NEW consumption tax	CEIF	-	-	500.0	500.0	500.0	500.0
4	NEW digital advertising services tax	CEIF	-	75.0	162.0	175.0	188.0	201.0
5	Adjust EITC rate	CEIF	-	(76.9)	(76.9)	(76.9)	(76.9)	(76.9)
5	Shift existing EITC to the equitable investment fund	CEIF		(132.7)	(109.7)	(112.9)	(116.1)	(119.3)
5	Shift existing EITC to the equitable investment fund	GF		132.7	109.7	112.9	116.1	119.3
7-12	Require the CT Lottery Corp to establish online lottery draw games	CEIF	-	2.0	3.0	7.5	12.5	17.5
13	Designate revenues from other types of online wagering (if approved) to the CEIF	CEIF	-	28.5	33.4	38.0	33.0	37.7
13	Designate state tax revenues from legalized adult-use cannabis (if approved) to the CEIF	CEIF	-	5.0	31.4	41.9	64.7	66.3
14-16	Maintain the 10% Corporate Tax Surcharge	GF	-	80.0	50.0	50.0	50.0	50.0
17	Restore the R&D Tax Credit to 70% of liability	GF	-	(31.4)	(21.5)	(21.5)	(21.5)	(21.5)

Table 3. Policy Estimates by Section in millions								
Section #s	Policy	Fund	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26
18	Raise the aggregate cap on the Insurance Reinvestment Fund by \$200m	GF	-	-	-	-	-	(20.0)
19	Expand potential use of the Film Production Tax credit (at a discount)	GF	-	0.8	1.6	1.6	1.6	1.6
20-24	Eliminate admissions tax	GF	-	(17.0)	(17.0)	(17.0)	(17.0)	(17.0)
25	Establish a state child tax credit	GF	-	-	(150.0)	(300.0)	(300.0)	(300.0)
26	Extend existing tax exemption for pensions/annuities to IRAs	GF	-	-	(55.3)	(50.2)	(63.7)	(71.1)
27	Impose a surcharge on capital gains	GF	-	-	262.0	262.0	262.0	262.0
28	Maintain current eligibility on the Property Tax Credit	GF	-	53.0	53.0	-	-	-
29	Exempt breast feeding supplies from sales tax	GF	-	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
29	Exempt breast feeding supplies from sales tax *	MRSA	-	-	-	-	-	-
29	Exempt breast feeding supplies from sales tax *	STF	-	-	-	-	-	-
30	Provide that restaurants retain the 1% 'meals tax' revenue in FY 22	GF	-	(49.5)	-	-	-	-
31-35	Adjust Ambulatory Surgical Center Tax	GF	-	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)
36-41	Impose Convenience Fee for Credit/Debit Card Use	GF	-	-	2.5	2.5	2.5	2.5
36-41	Impose Convenience Fee for Credit/Debit Card Use	STF	-	-	2.5	2.5	2.5	2.5
42	Implement Highway Use Tax	STF	-	-	45.0	90.0	94.1	98.3
43	Implement a (DRS) Tax Amnesty Program	GF	-	40.0	(4.0)	-	-	-
44	Transfer to the Tourism Fund	Tour	9.8	3.1	-	-	-	-
44	Transfer to the Tourism Fund	GF	(9.8)	(3.1)	-	-	-	-
45	Delay GAAP Deficit Payment to FY 2024	GF	-	85.1	85.1	(34.0)	(34.0)	(34.0)
46	Transfer FY 21 General Fund surplus	GF	(235.0)	117.5	117.5	-	-	-
47	Federal Stimulus/Transfer from Budget Reserve Fund	GF	-	890.0	995.0	-	-	-
	<b>GRAND Total</b>		<b>(235.0)</b>	<b>1,195.2</b>	<b>2,012.4</b>	<b>664.5</b>	<b>690.9</b>	<b>692.0</b>

\* Est. annual revenue loss for each fund is \$39,000 (STF and MRSA receive a share of the 6.35% Sales Tax)

**Sections 1 & 2** effectively allow certain employees or contractors to shift their state income tax burden to employers, beginning in calendar year 2022. It is unknown to what extent employers would adjust future compensation levels in response to any such shift. The potential for employers to adjust future compensation levels would be limited by collective bargaining agreements and competition within some industries/job categories. Most state and municipal employees are compensated according to collective bargaining agreements. To the extent these employees choose to participate in the program there would be a cost equal to 5% of wages paid to the state and

municipalities. For illustrative purposes, the state and local payroll for unionized employees is approximately \$4 billion and \$8.6 billion, respectively. If all these employees participated in the program, there would be a cost of \$200 million and \$430 million to the state and municipalities, respectively.

The bill designates any revenue collected under the Voluntary Wage Compensation Tax to the newly established Equitable Investment Fund, with the General Fund absorbing the negative revenue impact of resulting credits against the state income tax.<sup>2</sup> The preliminary fiscal note on the bill reflected a \$50 million revenue target in FY 23 to the Equitable Investment Fund due to the new Voluntary Wage Compensation Tax, which (if achieved) would reduce General Fund revenue by an approximately equivalent amount.

There is a potential net revenue loss and a potential net revenue gain to the two funds depending on the behavior of taxpayers who choose to take part in the program. The potential revenue loss is from participants whose income is reduced or who forgo an increase in income as a result of the program.<sup>3</sup> The potential revenue gain is from participants who are able to keep their income relatively flat or maintain scheduled increases.<sup>4</sup>

**Section 6** expands the existing estate tax reduction for decedents that made qualifying investments during their lifetimes. This could result in a significant, future state revenue loss to the extent that participation in the new program reduces tax liabilities under the estate tax.

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<sup>2</sup> Under the bill, participating employees and contractors would continue to be subject to the state income tax but with a credit equal to 95% of the new Voluntary Wage Compensation Tax paid by their employer.

<sup>3</sup> The revenue loss is relatively small per participant, typically less than \$100 per tax filer.

<sup>4</sup> The potential revenue gain is a result of the state benefiting from providing a credit for payroll taxes paid of 95% (rather than 100%) which is worth .0025% of a participant's income. For an average tax payer making \$75,000 the benefit would be approximately \$188 per tax filer.

**Section 13** establishes the Connecticut Equitable Investment Fund (CEIF) as a permanent investment fund to receive, invest, and distribute specified tax revenue, including revenue from new taxes established in the bill (consumption tax, voluntary wage compensation tax, digital advertising services tax) as well as revenues potentially generated via other bills authorizing adult-use cannabis and online gaming. Under **Section 5** of the bill, the state Earned Income Tax Credit (EITC) is to be funded through the CEIF at a rate equal to 40% of the federal EITC level.

Costs to implement the tax provisions of the bill are estimated to total approximately \$2.5 million in FY 22 and \$1.9 million in FY 23. This includes \$768,722 in FY 22 and \$1.4 million in FY 23 in salary and fringe benefits costs for Revenue Agents, Revenue Examiners, and a Tax Appellate Officer, as well as one-time costs totaling \$1.7 million in FY 22 and \$500,000 in FY 23 for new tax type programming and information technology costs, after which the only ongoing costs would be for personnel. The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

### ***The Out Years***

Outyear impacts identified above.