

PART III. REVENUE

Revenue Impact of Policy Changes included in the FRB Revenue Schedule In Millions of Dollars

Enacting Authority	Policy	FY 23 \$	FY 24 \$	FY 25 \$	FY 26 \$	FY 27 \$
General Fund						
Personal Income Tax						
Secs. 360-365 and 448 of PA 23-204	Adjust the Pass-through Entity Tax	-	(2.7)	(6.0)	(6.0)	(6.0)
Sec. 376 of PA 23-204	Reduce Certain Marginal Income Tax Rates	-	(166.8)	(370.4)	(384.8)	(402.3)
Sec. 377 of PA 23-204	Eliminate the "Benefits Cliff" for Pensions and Annuities' Exemption from the Personal Income Tax	-	(16.0)	(32.0)	(32.0)	(32.0)
Sec. 377 of PA 23-204	Eliminate the "Benefits Cliff" for Individual Retirement Accounts' Exemption from the Personal Income Tax	-	(5.1)	(13.3)	(19.8)	(23.9)
	Subtotal	-	(190.6)	(421.7)	(442.6)	(464.2)
Sales and Use Tax						
Secs. 352-353 of PA 23-204	Temporarily Increase the Redemption Rate of Film and Digital Media Production Tax Credits Against the Sales and Use Tax	-	(2.2)	(4.3)	-	-
Sec. 380 of PA 23-204	Provide a Sales Tax Exemption for Narcan	-	-	-	-	-
	Subtotal	-	(2.2)	(4.3)	-	-
Corporation Tax						
Secs. 347-349 of PA 23-204	Extend the Temporary Corporate Tax Surcharge	-	80.0	50.0	20.0	-
Secs. 350-351 of PA 23-204	Expand the Human Capital Investment Tax Credit	-	(2.1)	(3.5)	(3.5)	(3.5)
Secs. 377 and 379 of PA 23-204	Allow Otherwise Federally Disallowed Business Expense Deductions for Cannabis	-	(4.7)	(6.2)	(9.6)	(11.4)
Sec. 372 of PA 23-204	Establish a Tax Credit for Certain Pre-Broadway and Post-Broadway Theater Productions	-	(2.5)	(2.5)	(2.5)	(2.5)
Secs. 57-28 of PA 23-137	Establish State Tax Breaks for Contributions to ABLE Accounts	-	-	(1.0)	(1.0)	(1.0)

Enacting Authority	Policy	FY 23 \$	FY 24 \$	FY 25 \$	FY 26 \$	FY 27 \$
Sec. 354 of PA 23-204	Allow certain corporations who own LLCs to claim the fixed capital investment tax credit for amounts the LLC invested in qualifying fixed capital	-	-	-	(3.0)	(3.0)
	Subtotal	-	70.7	36.8	0.4	(21.4)
Public Service Companies Tax						
Sec. 358 of PA 23-204	Restore Funding to the Connecticut Television Network (CT-N)	-	(0.6)	(0.6)	(0.6)	(0.6)
Sec. 357 of PA 23-204	Change the Taxes Against Which Historic Homes Rehabilitation Tax Credits May Be Claimed	-	-	3.0	3.0	3.0
	Subtotal	-	(0.6)	2.4	2.4	2.4
Refunds of Taxes						
Secs. 355-356 of PA 23-204	Eliminate the Angel Investor Tax Credit for Cannabis Businesses	-	12.5	15.0	15.0	15.0
Sec. 161 of PA 23-205	Establish a Tax Credit for Cash Contributions to a Youth Development Organization	-	(2.5)	(2.5)	-	-
Secs. 196-197 of PA 23-205	Establish State Tax Breaks for Contributions to ABLE Accounts	-	-	(0.1)	(0.1)	(0.1)
Sec. 357 of PA 23-204	Change the Taxes Against Which Historic Homes Rehabilitation Tax Credits May Be Claimed	-	-	(3.0)	(3.0)	(3.0)
	Subtotal	-	10.0	9.4	11.9	11.9
Earned Income Tax Credit						
Sec. 378 of PA 23-204	Increase the State's Earned Income Tax Credit (EITC) Rate	-	(44.6)	(44.6)	(44.6)	(44.6)
	Subtotal	-	(44.6)	(44.6)	(44.6)	(44.6)
	TAXES Subtotal	-	(157.3)	(422.0)	(472.5)	(515.9)
Transfers-Special Revenue						
Secs. 93-97 and 419 of PA 23-204	Eliminate the Transfer of iLottery Revenues to the Debt Free Community College Account	-	2.0	3.0	7.5	12.5

Enacting Authority	Policy	FY 23 \$	FY 24 \$	FY 25 \$	FY 26 \$	FY 27 \$
	Subtotal	-	2.0	3.0	7.5	12.5
Licenses, Permits and Fees						
Secs. 3-6 of PA 23-171	Recognize Revenue from Establishing a Pharmaceutical Representative Licensing Program (to be Administered by the Department of Consumer Protection)	-	0.2	0.2	0.2	0.2
Secs. 12-14 of PA 23-101	Adjust Licensure Fees for Social Workers (SWs), Marital and Family Therapists (MFTs), and Professional Counselors and the Renewal Schedule for MFT Associates	-	(0.7)	(0.7)	(0.7)	(0.7)
	Subtotal	-	(0.5)	(0.5)	(0.5)	(0.5)
Rents, Fines and Escheats						
Sec. 373 of PA 23-204	Adjust Unclaimed Bottle Deposit Requirements	-	-	(3.2)	(10.0)	(19.4)
	Subtotal	-	-	(3.2)	(10.0)	(19.4)
Miscellaneous						
Secs. 89 and 445 of PA 23-204	Recognize General Fund Recovery of Fringe Benefit Costs due to Restructuring Higher Education Fringe Benefits	-	(85.0)	(85.0)	(85.0)	(85.0)
N/A	Recognize General Fund Recovery of Additional Fringe Benefit Costs (in the Insurance Fund) due to an Expansion of Staffing in the Office of Health Strategy	-	0.2	0.2	0.2	0.2
	Subtotal	-	(84.8)	(84.8)	(84.8)	(84.8)
	OTHER Revenue Subtotal	-	(83.3)	(85.5)	(87.8)	(92.2)
Federal Grants						
N/A	Recognize Federal Revenue Gain Attributable to Expenditure Changes	-	40.3	47.3	46.2	46.2
	Subtotal	-	40.3	47.3	46.2	46.2
Transfers from/ (to) Other Funds						
Sec. 449 of PA 23-204	Eliminate Use of ARPA for FY 23 Revenue Replacement	(314.9)	-	-	-	-

Enacting Authority	Policy	FY 23 \$	FY 24 \$	FY 25 \$	FY 26 \$	FY 27 \$
Secs. 29-30 and 381 of PA 23-204	Eliminate Planned Revenue Set Asides to Extinguish the Generally Accepted Accounting Principles (GAAP) Deficit as the GAAP Bonds are Retired	-	120.8	120.8	120.8	120.8
Sec. 383 of PA 23-204	Shift Municipal Grant Funding to the Municipal Revenue Sharing Fund	-	(115.8)	(104.9)	-	-
Sec. 382 of PA 23-204	Credit FY 24 General Fund Revenues to FY 25	-	(95.0)	95.0	-	-
Sec. 138 of PA 23-204	Provide Grants to Certain Native American Tribes	-	(0.06)	(0.06)	(0.06)	(0.06)
Sec. 384 of PA 23-204	General Fund Transfers to the Cannabis Regulatory Fund	-	(10.1)	(10.3)	-	-
Sec. 385 of PA 23-204	General Fund Transfers to the Tourism Fund	-	(2.9)	(1.3)	-	-
Sec. 38 of PA 23-204	Increase Funding for Municipal Grants via the Mashantucket Pequot and Mohegan Fund	-	(1.0)	(1.0)	(1.0)	(1.0)
	Subtotal	(314.9)	(104.06)	98.24	119.74	119.74
	OTHER SOURCES Subtotal	(314.9)	(63.76)	145.54	165.94	165.94
Volatility Cap Adjustment						
Technical Adjustment	Adjust the Pass-through Entity Tax	-	2.2	4.8	4.8	4.8
Technical Adjustment	Reduce Certain Marginal Income Tax Rates	-	16.7	37.0	38.0	41.7
	Subtotal	-	18.9	41.8	42.8	46.5
	Grand Total GF	(314.9)	(285.46)	(320.16)	(351.56)	(395.66)
Special Transportation Fund						
Sales and Use Tax						
Sec. 380 of PA 23-204	Provide a Sales Tax Exemption for Narcan	-	-	-	-	-
	Subtotal	-	-	-	-	-
Motor Fuels Tax						
Sec. 367 of PA 23-204	Temporarily Freeze the Diesel Tax Rate	-	(37.2)	-	-	-
	Subtotal	-	(37.2)	-	-	-
Oil Companies Tax						
Secs. 368-371 of PA 23-204	Exempt Aviation Fuel from the Petroleum Gross Earnings Tax and Temporarily Offset	-	(3.2)	(3.1)	(3.1)	(3.0)

Enacting Authority	Policy	FY 23 \$	FY 24 \$	FY 25 \$	FY 26 \$	FY 27 \$
	CT Airport and Aviation Account Revenue Loss with Transfers					
	Subtotal	-	(3.2)	(3.1)	(3.1)	(3.0)
Transfers from / (to) Other Funds						
Secs. 368-371 of PA 23-204	Exempt Aviation Fuel from the Petroleum Gross Earnings Tax and Temporarily Offset CT Airport and Aviation Account Revenue Loss with Transfers	-	(8.0)	(8.0)	-	-
	Subtotal	-	(8.0)	(8.0)	-	-
	Grand Total STF ***	-	(48.4)	(11.1)	(3.1)	(3.0)
Mashantucket Pequot and Mohegan Fund						
Sec. 138 of PA 23-204	Provide Grants to Certain Native American Tribes	-	0.06	0.06	0.06	0.06
Sec. 38 of PA 23-204	Increase Funding for Municipal Grants via the Mashantucket Pequot and Mohegan Fund	-	1.0	1.0	1.0	1.0
	Grand Total MF	-	1.06	1.06	1.06	1.06
Municipal Revenue Sharing Fund						
Transfers from / (to) Other Funds						
Sec. 400 of PA 23-204	Shift Municipal Grant Funding to the Municipal Revenue Sharing Fund	-	115.8	104.9	-	-
	Subtotal	-	115.8	104.9	-	-
Sales and Use Tax						
Secs. 73-74 of PA 23-204	Re-assign the 0.5% portion of the general sales and use tax rate from the Municipal Revenue Sharing Account (MRSA) to the (appropriated) Municipal Revenue Sharing Fund	-	458.5	469.5	480.7	492.2
	Subtotal	-	458.5	469.5	480.7	492.2
	Grand Total MRSF	-	574.3	574.4	480.7	492.2

Enacting Authority	Policy	FY 23 \$	FY 24 \$	FY 25 \$	FY 26 \$	FY 27 \$
Cannabis Regulatory Fund						
Transfers from / (to) Other Funds						
Sec. 384 of PA 23-204	General Fund Transfers to the Cannabis Regulatory Fund	-	10.1	10.3	-	-
	Grand Total CRF	-	10.1	10.3	-	-
Tourism Fund						
Transfers from / (to) Other Funds						
Sec. 385 of PA 23-204	General Fund Transfers to the Tourism Fund	-	2.9	1.3	-	-
	Grand Total Tourism	-	2.9	1.3	-	-
GRAND TOTAL (ALL APPROPRIATED FUNDS)		(314.9)	254.5	255.8	127.1	94.6

FY 24 and FY 25 Revenue Schedule

(in thousands)

	January Consensus FY 24	Governor Policies	Governor FY 24 Revenue	Consensus Update (April)	April Consensus FY 24	Legislative Revenue Policies	Legislative Revenue FY 24 Revenue
Taxes							
Personal Income Tax-Withholding	8,547,500	(179,600)	8,367,900	-	8,547,500	(166,600)	8,380,900
Estimates and Finals	3,170,400	(41,000)	3,129,400	(504,000)	2,666,400	(24,000)	2,642,400
Sales and Use	5,265,300	-	5,265,300	36,400	5,301,700	(2,200)	5,299,500
Corporations	1,344,300	77,900	1,422,200	99,500	1,443,800	70,700	1,514,500
Pass-Through Entity Tax	1,761,600	-	1,761,600	54,000	1,815,600	-	1,815,600
Public Service Corporations	294,500	-	294,500	(2,300)	292,200	(600)	291,600
Inheritance and Estate	178,100	(38,000)	140,100	-	178,100	-	178,100
Insurance Companies	239,000	-	239,000	23,800	262,800	-	262,800
Alcoholic Beverages	76,400	-	76,400	2,000	78,400	-	78,400
Cigarettes	276,400	-	276,400	-	276,400	-	276,400
Real Estate Conveyance	287,700	-	287,700	-	287,700	-	287,700
Admissions and Dues	25,000	-	25,000	6,000	31,000	-	31,000
Miscellaneous Taxes	45,400	-	45,400	-	45,400	-	45,400
Health Provider	956,400	-	956,400	-	956,400	-	956,400
Total Taxes	22,468,000	(180,700)	22,287,300	(284,600)	22,183,400	(122,700)	22,060,700
Refunds of Taxes	(1,889,500)	12,500	(1,877,000)	-	(1,889,500)	10,000	(1,879,500)
Earned Income Tax Credit	(147,000)	(44,600)	(191,600)	-	(147,000)	(44,600)	(191,600)
R & D Credit Exchange	(7,500)	-	(7,500)	-	(7,500)	-	(7,500)
Taxes Less Refunds	20,424,000	(212,800)	20,211,200	(284,600)	20,139,400	(157,300)	19,982,100
Other Revenue							
Indian Gaming Payments	263,700	-	263,700	20,000	283,700	-	283,700
Transfer Special Revenue	403,800	2,000	405,800	700	404,500	2,000	406,500
Licenses, Permits and Fees	357,000	1,100	358,100	-	357,000	(500)	356,500
Rentals, Fines and Escheats	164,700	-	164,700	8,200	172,900	-	172,900
Investment Income	198,900	-	198,900	-	198,900	-	198,900
Sales of Commodities	15,800	-	15,800	1,100	16,900	-	16,900
Miscellaneous	238,000	(84,800)	153,200	-	238,000	(84,800)	153,200
Refunds of Payments	(65,700)	-	(65,700)	(20,000)	(85,700)	-	(85,700)
Total Other Revenue	1,576,200	(81,700)	1,494,500	10,000	1,586,200	(83,300)	1,502,900
Other Sources							
Federal Grants	1,808,400	1,000	1,809,400	19,100	1,827,500	40,300	1,867,800
Transfer from Tobacco Settlement	108,400	6,000	114,400	-	108,400	-	108,400
Transfers From/To Other Funds	(168,600)	26,600	(142,000)	-	(168,600)	(104,060)	(272,660)
Total Other Sources	1,748,200	33,600	1,781,800	19,100	1,767,300	(63,760)	1,703,540
Volatility Adjustment							
Volatility Cap Adjustment	(1,148,600)	41,000	(1,107,600)	446,500	(702,100)	18,900	(683,200)
Total Volatility Adjustment	(1,148,600)	41,000	(1,107,600)	446,500	(702,100)	18,900	(683,200)
Total General Fund	22,599,800	(219,900)	22,379,900	191,000	22,790,800	(285,460)	22,505,340

	January Consensus FY 25	Governor Policies	Governor FY 25 Revenue	Consensus Update (April)	April Consensus FY 25	Legislative Revenue Policies	Legislative Revenue FY 25 Revenue
Taxes							
Personal Income Tax-Withholding	8,897,000	(404,200)	8,492,800	-	8,897,000	(366,600)	8,530,400
Estimates and Finals	3,297,200	(91,600)	3,205,600	(539,100)	2,758,100	(55,100)	2,703,000
Sales and Use	5,395,200	-	5,395,200	37,300	5,432,500	(4,300)	5,428,200
Corporations	1,386,400	46,500	1,432,900	103,300	1,489,700	36,800	1,526,500
Pass-Through Entity Tax	1,832,100	-	1,832,100	45,200	1,877,300	-	1,877,300
Public Service Corporations	296,700	-	296,700	(2,300)	294,400	2,400	296,800
Inheritance and Estate	182,200	-	182,200	-	182,200	-	182,200
Insurance Companies	242,600	-	242,600	24,200	266,800	-	266,800
Alcoholic Beverages	76,800	-	76,800	2,000	78,800	-	78,800
Cigarettes	262,000	-	262,000	-	262,000	-	262,000
Real Estate Conveyance	292,600	-	292,600	-	292,600	-	292,600
Admissions and Dues	25,300	-	25,300	5,700	31,000	-	31,000
Miscellaneous Taxes	67,800	-	67,800	1,400	69,200	-	69,200
Health Provider	959,700	-	959,700	(2,300)	957,400	-	957,400
Total Taxes	23,213,600	(449,300)	22,764,300	(324,600)	22,889,000	(386,800)	22,502,200
Refunds of Taxes	(1,981,300)	15,000	(1,966,300)	-	(1,981,300)	9,400	(1,971,900)
Earned Income Tax Credit	(151,600)	(44,600)	(196,200)	-	(151,600)	(44,600)	(196,200)
R & D Credit Exchange	(7,800)	-	(7,800)	-	(7,800)	-	(7,800)
Taxes Less Refunds	21,072,900	(478,900)	20,594,000	(324,600)	20,748,300	(422,000)	20,326,300
Other Revenue							
Indian Gaming Payments	266,000	-	266,000	20,000	286,000	-	286,000
Transfer Special Revenue	408,900	3,000	411,900	-	408,900	3,000	411,900
Licenses, Permits and Fees	331,200	1,100	332,300	-	331,200	(500)	330,700
Rentals, Fines and Escheats	166,800	-	166,800	11,600	178,400	(3,200)	175,200
Investment Income	201,700	-	201,700	-	201,700	-	201,700
Sales of Commodities	17,800	-	17,800	-	17,800	-	17,800
Miscellaneous	242,800	(84,800)	158,000	-	242,800	(84,800)	158,000
Refunds of Payments	(67,100)	-	(67,100)	-	(67,100)	-	(67,100)
Total Other Revenue	1,568,100	(80,700)	1,487,400	31,600	1,599,700	(85,500)	1,514,200
Other Sources							
Federal Grants	1,825,200	1,100	1,826,300	14,000	1,839,200	47,300	1,886,500
Transfer from Tobacco Settlement	106,700	6,000	112,700	-	106,700	-	106,700
Transfers From/To Other Funds	(168,600)	37,500	(131,100)	-	(168,600)	98,240	(70,360)
Total Other Sources	1,763,300	44,600	1,807,900	14,000	1,777,300	145,540	1,922,840
Volatility Adjustment							
Volatility Cap Adjustment	(1,187,600)	91,600	(1,096,000)	486,200	(701,400)	41,800	(659,600)
Total Volatility Adjustment	(1,187,600)	91,600	(1,096,000)	486,200	(701,400)	41,800	(659,600)
Total General Fund	23,216,700	(423,400)	22,793,300	207,200	23,423,900	(320,160)	23,103,740

Policies Details - General Fund

Personal Income Tax-Withholding

Adjust the Pass-through Entity Tax

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Personal Income Tax- Withholding	(5,400,000)	(12,000,000)	(500,000)	(1,200,000)	4,900,000	10,800,000
Estimates and Finals	(21,600,000)	(48,000,000)	(2,200,000)	(4,800,000)	19,400,000	43,200,000
Volatility Cap Adjustment	21,600,000	48,000,000	2,200,000	4,800,000	(19,400,000)	(43,200,000)
Total	(5,400,000)	(12,000,000)	(500,000)	(1,200,000)	4,900,000	10,800,000

Background: Sections 1 - 8 of PA 18-49, AAC *an Affected Business Entity Tax, Various Provisions Related to Certain Business Deductions, the Estate and Gift Tax Imposition Thresholds, the Tax Treatment of Certain Wages and Income and a Study to Identify Best Practices for Marketing the Benefits of Qualified Opportunity Zones*, imposed a new income tax on most pass-through businesses at the entity level. The tax was (1) levied at the top personal income tax rate of 6.99%; and (2) offset by a credit at the personal or corporate income tax level. As enacted, the credit against the personal income tax was 93.01%.

The new pass-through entity tax (PET) applied to: (1) partnerships, including limited liability companies that are treated as partnerships for federal income tax purposes, but excluding publicly traded partnerships; and (2) S corporations, including limited liability companies that are treated as S corporations for federal income tax purposes. The PET began January 1, 2018. In 2022, there were 126,115 taxpayers.

Sections 333 - 334 of PA 19-117, AAC *the State Budget for the Biennium Ending June 30, 2021, and Making Appropriations Therefor, and Provisions Related to Revenue and Other Items to Implement the State Budget*, reduced the value (from 93.01% to 87.5%) of the credit for pass-through entity taxes paid, effective January 1, 2019. At the time, this change was estimated to result in a state revenue gain of \$50 million annually.

Governor: Restore to 93.01% the value of the credit for pass-through entity taxes paid.

Sections 14-20 of SB 981, AAC *Revenue Items to Implement the Governor's Budget*, implement the policy.

In addition to the policy change amounts listed under the personal income tax, a technical update is made to the volatility cap adjustment to account for the impact of the policy on volatile revenues governed by the cap.

Legislative Revenue: Maintain the value of the credit for pass-through entity taxes paid. However, make the pass-through entity tax optional.

Sections 360-365 and 448 of PA 23-204, the FY 24 and FY 25 budget, implements the policy making the tax optional, effective 1/1/24.

Reduce Certain Marginal Income Tax Rates

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Personal Income Tax- Withholding	(174,200,000)	(392,200,000)	(150,100,000)	(333,400,000)	24,100,000	58,800,000
Estimates and Finals	(19,400,000)	(43,600,000)	(16,700,000)	(37,000,000)	2,700,000	6,600,000
Volatility Cap Adjustment	19,400,000	43,600,000	16,700,000	37,000,000	(2,700,000)	(6,600,000)
Total	(174,200,000)	(392,200,000)	(150,100,000)	(333,400,000)	24,100,000	58,800,000

Background: Connecticut income tax has seven tax brackets with rates ranging from 3.00% to 6.99%. The income ranges for each tax bracket vary by filing status. The rates are marginal, meaning that only the income that falls within the corresponding range is subject to tax at the specified rate.

The benefits of lower marginal rates are reduced for any filers with CT taxable income above certain thresholds:

- A phase out of the 3% rate which effectively subjects more taxable income to the 5% rate; and
- A benefit recapture beginning at higher CT taxable income thresholds which gradually increases the overall effective rate to the highest marginal rate of 6.99%.

Both adjustments listed above require taxpayers to add specified amounts to their tax liability.

Tax Brackets under Current Law

Tax Rate	Single / Married Filing Separately	Heads of Household	Married Filing Jointly
3%	\$0 to \$10,000	\$0 to \$16,000	\$0 to \$20,000
5%	\$10,001 to \$50,000	\$16,001 to \$80,000	\$20,001 to \$100,000
5.5%	\$50,001 to \$100,000	\$80,001 to \$160,000	\$100,001 to \$200,000
6%	\$100,001 to \$200,000	\$160,001 to \$320,000	\$200,001 to \$400,000
6.5%	\$200,001 to \$250,000	\$320,001 to \$400,000	\$400,001 to \$500,000
6.9%	\$250,001 to \$500,000	\$400,001 to \$800,000	\$500,001 to \$1,000,000
6.99%	> \$500,000	> \$800,000	> \$1,000,000

Historical Tax Brackets

Enacted	Income Year	1	2	3	4	5	6	7
PA 91-3*	1992	4.5%	-	-	-	-	-	-
PA 95-160	1996	3.0%	4.5%	-	-	-	-	-
PA 03-2	2003	3.0%	5.0%	-	-	-	-	-
PA 09-3	2009	3.0%	5.0%	6.0%	-	-	-	-
PA 11-6**	2011	3.0%	5.0%	5.5%	6.0%	6.5%	6.7%	-
PA 15-244	2015	3.0%	5.0%	6.0%	6.5%	6.7%	6.9%	6.99%

*The tax rate for the 1991 income year was set at 1.5% because the tax was not levied for 12 months.

**Established the 3% phase out and benefit recapture mechanisms.

Governor: Make the following changes, effective January 1, 2024:

- Reduce marginal rates for the personal income tax as follows: 3% to 2%; and 5% to 4.5%; and
- Adjust the recapture/add-back amounts to maintain the gradual increase in effective tax rates that exists under current law.

Section 13 of SB 981, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy.

In addition to the policy change amounts listed under the personal income tax, a technical update is made to the volatility cap adjustment to account for the impact of the policy on volatile revenues governed by the cap.

Legislative Revenue: Make the following changes, effective January 1, 2024:

- Reduce marginal rates for the personal income tax as follows: 3% to 2%; and 5% to 4.5%; and
- Add a new benefit recapture provision to gradually eliminate the benefit of the new tax rate reduction for taxpayers with taxable incomes exceeding \$105,000 (single or married filing separately), \$210,000 (married filing jointly), or \$168,000 (head of household).

Section 376 of PA 23-204, the FY 24 and FY 25 budget, implements these policies.

Eliminate the "Benefits Cliff" for Pensions and Annuities' Exemption from the Personal Income Tax

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Personal Income Tax-Withholding	-	-	(16,000,000)	(32,000,000)	(16,000,000)	(32,000,000)

Background: Section 641 of PA 17-2 JSS eliminated the income tax on **pension and annuity income** for taxpayers with federal adjusted gross incomes (AGI) below (1) \$75,000 for single filers, married people filing separately, and heads of households and (2) \$100,000 for married people filing jointly.

As enacted, the exemption was to be implemented in equal portions over seven Income Years: 2019 through 2025. However, Section 410 of PA 22-118 exempted 100% of pension and annuity income beginning with the 2022 income year and applicable to each income year thereafter.

Legislative Revenue: Expand the AGI thresholds, as illustrated in the tables below.

Section 377 of PA 23-204, the FY 24 and FY 25 budget, implements the policy beginning with the 2024 income year.

Joint Filer		
Income range \$ (start)	Income range \$ (end)	Exemption %
-	99,999	100.0
100,000	104,999	85.0
105,000	109,999	70.0
110,000	114,999	55.0
115,000	119,999	40.0
120,000	124,999	25.0
125,000	129,999	10.0
130,000	139,999	5.0
140,000	149,999	2.5
150,000	and up	0
Single / Married Filing Separately / Head of Household		
Income range \$ (start)	Income range \$ (end)	Exemption %
-	74,999	100.0
75,000	77,499	85.0
77,500	79,999	70.0
80,000	82,499	55.0
82,500	84,999	40.0
85,000	87,499	25.0
87,500	89,999	10.0
90,000	94,999	5.0
95,000	99,999	2.5
100,000	and up	0

Estimates and Finals

Adjust the Pass-through Entity Tax

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Personal Income Tax- Withholding	(5,400,000)	(12,000,000)	(500,000)	(1,200,000)	4,900,000	10,800,000
Estimates and Finals	(21,600,000)	(48,000,000)	(2,200,000)	(4,800,000)	19,400,000	43,200,000
Volatility Cap Adjustment	21,600,000	48,000,000	2,200,000	4,800,000	(19,400,000)	(43,200,000)
Total	(5,400,000)	(12,000,000)	(500,000)	(1,200,000)	4,900,000	10,800,000

Background: Sections 1 - 8 of PA 18-49, AAC *an Affected Business Entity Tax, Various Provisions Related to Certain Business Deductions, the Estate and Gift Tax Imposition Thresholds, the Tax Treatment of Certain Wages and Income and a Study to Identify Best Practices for Marketing the Benefits of Qualified Opportunity Zones*, imposed a new income tax on most pass-through businesses at the entity level. The tax was (1) levied at the top personal income tax rate of 6.99%; and (2) offset by a credit at the personal or corporate income tax level. As enacted, the credit against the personal income tax was 93.01%.

The new pass-through entity tax (PET) applied to: (1) partnerships, including limited liability companies that are treated as partnerships for federal income tax purposes, but excluding publicly traded partnerships; and (2) S corporations, including limited liability companies that are treated as S corporations for federal income tax purposes. The PET began January 1, 2018. In 2022, there were 126,115 taxpayers.

Sections 333 - 334 of PA 19-117, AAC *the State Budget for the Biennium Ending June 30, 2021, and Making Appropriations Therefor, and Provisions Related to Revenue and Other Items to Implement the State Budget*, reduced the value (from 93.01% to 87.5%) of the credit for pass-through entity taxes paid, effective January 1, 2019. At the time, this change was estimated to result in a state revenue gain of \$50 million annually.

Governor: Restore to 93.01% the value of the credit for pass-through entity taxes paid.

Sections 14-20 of SB 981, AAC *Revenue Items to Implement the Governor's Budget*, implement the policy.

In addition to the policy change amounts listed under the personal income tax, a technical update is made to the volatility cap adjustment to account for the impact of the policy on volatile revenues governed by the cap.

Legislative Revenue: Maintain the value of the credit for pass-through entity taxes paid. However, make the pass-through entity tax optional.

Sections 360-365 and 448 of PA 23-204, the FY 24 and FY 25 budget, implements the policy making the tax optional, effective 1/1/24.

Reduce Certain Marginal Income Tax Rates

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Personal Income Tax- Withholding	(174,200,000)	(392,200,000)	(150,100,000)	(333,400,000)	24,100,000	58,800,000
Estimates and Finals	(19,400,000)	(43,600,000)	(16,700,000)	(37,000,000)	2,700,000	6,600,000
Volatility Cap Adjustment	19,400,000	43,600,000	16,700,000	37,000,000	(2,700,000)	(6,600,000)
Total	(174,200,000)	(392,200,000)	(150,100,000)	(333,400,000)	24,100,000	58,800,000

Background: Connecticut income tax has seven tax brackets with rates ranging from 3.00% to 6.99%. The income ranges for each tax bracket vary by filing status. The rates are marginal, meaning that only the income that falls within the corresponding range is subject to tax at the specified rate.

The benefits of lower marginal rates are reduced for any filers with CT taxable income above certain thresholds:

- A phase out of the 3% rate which effectively subjects more taxable income to the 5% rate; and
- A benefit recapture beginning at higher CT taxable income thresholds which gradually increases the overall effective rate to the highest marginal rate of 6.99%.

Both adjustments listed above require taxpayers to add specified amounts to their tax liability.

Governor: Make the following changes, effective January 1, 2024:

- Reduce marginal rates for the personal income tax as follows: 3% to 2%; and 5% to 4.5%; and
- Adjust the recapture/add-back amounts to maintain the gradual increase in effective tax rates that exists under current law.

Section 13 of SB 981, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy.

In addition to the policy change amounts listed under the personal income tax, a technical update is made to the volatility cap adjustment to account for the impact of the policy on volatile revenues governed by the cap.

Legislative Revenue: Make the following changes, effective January 1, 2024:

- Reduce marginal rates for the personal income tax as follows: 3% to 2%; and 5% to 4.5%; and
- Add a new benefit recapture provision to gradually eliminate the benefit of the new tax rate reduction for taxpayers with taxable incomes exceeding \$105,000 (single or married filing separately), \$210,000 (married filing jointly), or \$168,000 (head of household).

Section 376 of PA 23-204, the FY 24 and FY 25 budget, implements these policies.

Eliminate the "Benefits Cliff" for Individual Retirement Accounts' Exemption from the Personal Income Tax

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Estimates and Finals	-	-	(5,100,000)	(13,300,000)	(5,100,000)	(13,300,000)

Background: Section 433 of PA 21-2 JSS, *AAC Provisions Related to Revenue and Other Items to Implement the State Budget for the Biennium Ending June 30, 2023*, reduces and then eliminates the income tax on **income from IRA distributions** (other than income from Roth IRAs which is already exempt) for taxpayers with federal adjusted gross incomes (AGI) below (1) \$75,000 for single filers, married people filing separately, and heads of households and (2) \$100,000 for married people filing jointly.

As enacted, the exemption is scheduled to be implemented partially (in equal portions) over four Income Years, with income from IRA distributions fully exempt from the income tax beginning with Income Year 2026.

Income Year	Exemption %
2023	25
2024	50
2025	75
2026 and thereafter	100

Legislative Revenue: Expand the AGI exemption thresholds for income from IRA distributions in the same manner as pensions and annuities. Section 377 of PA 23-204, the FY 24 and FY 25 budget, implements the policy beginning with the 2024 income year.

The schedule of exemption rates (illustrated in the table above) is unchanged.

Sales and Use

Temporarily Increase the Redemption Rate of Film and Digital Media Production Tax Credits Against the Sales and Use Tax

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Sales and Use	-	-	(2,200,000)	(4,300,000)	(2,200,000)	(4,300,000)

Background: Under prior law, the credit could only be claimed against a corporation business and/or insurance premiums tax liability. Section 626 of Public Act 17-2 of the June Special Session, *AAC the State Budget for the Biennium Ending June 30, 2019, Making Appropriations Therefor, Authorizing and Adjusting Bonds of the State and Implementing Provisions of the Budget*, expanded the applicability of this tax credit to the public service companies' tax for income years starting on or after January 1, 2018 at:

- 95% of the tax credit amount if it is transferred, assigned, or sold to a non-related party, or
- 92% of the tax credit amount if it is transferred, assigned, or sold to an entity with at least 50% common ownership.

Section 429 of PA 21-2 JSS, *AAC Provisions Related to Revenue and Other Items to Implement the State Budget for the Biennium Ending June 30, 2023*, allows the film production tax credit to be claimed against the sales and use tax at 78% of the total tax credit amount beginning on or after January 1, 2022 (only if there is at least 50% common ownership between the transferee and transferor).

Legislative Revenue: For the Income Years 2024 and 2025, temporarily increase, from 78% to 92% of the credit's value, the redemption rate of film and digital media credits applied against the sales and use tax.

Sections 352-353 of PA 23-204, the FY 24 and FY 25 budget, implements the policy.

Provide a Sales Tax Exemption for Narcan

Legislative Revenue: Add nonprescription opioid antagonists to the list of nonprescription drugs that are exempt from the state sales and use tax. By law and under the Public Act, an "opioid antagonist" is naloxone hydrochloride (e.g., Narcan) or any similarly acting and equally safe drug that the Food and Drug Administration (FDA) has approved for treating a drug overdose. The FDA recently approved a four-milligram naloxone hydrochloride nasal spray for over-the-counter, nonprescription use. This change is effective July 1, 2023, and applicable to sales made on or after that date.

Section 380 of PA 23-204, the FY 24 and FY 25 budget, implements the policy.

Corporations

Extend the Temporary Corporate Tax Surcharge

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Corporations	80,000,000	50,000,000	80,000,000	50,000,000	-	-

Background: Between income years 2009 and 2020, the corporate tax surcharge was in effect at either 20% or 10%. The temporary surcharge has been extended several times, with the latest extension made pursuant to Sections 422 and 423 of PA 21-2 JSS.

At 10%, the surcharge effectively raises the statutory tax rate on certain entities* from 7.5% (the base tax rate) to 8.25%.

*Companies with less than \$100 million in annual gross revenues or whose tax liability does not exceed the \$250 minimum tax are exempt from the surcharge.

As of January 1, 2023, the 10% surcharge has sunset.

A total of 3,694 filers paid an aggregate of \$69.7 million on an income year basis in corporation business tax surcharge in 2020.

Governor: Temporarily extend the 10% corporate tax surcharge through 2025.

Sections 1-3 of SB 981, *AAC Revenue Items to Implement the Governor's Budget*, implement the policy.

Legislative Revenue: Same as Governor.

Sections 347-349 of PA 23-204, the FY 24 and FY 25 budget, implement the policy.

Expand the Human Capital Investment Tax Credit

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Corporations	(2,100,000)	(3,500,000)	(2,100,000)	(3,500,000)	-	-

Background: Businesses subject to the corporation business tax may take a credit equal to 5% of the amount spent during the year on certain human capital investments. Human capital investments include expenditures made for the in-state job training of people employed in Connecticut, work education programs in Connecticut, certain donations or capital contributions to institutions of higher learning in Connecticut, and childcare subsidies paid to Connecticut employees for childcare provided in Connecticut. Unused credits may be carried forward for up to five years.

Governor: Increase the tax credit rate from 5% to 10% of the amount that a qualifying corporation spends on job training and worker education / training programs. Additionally, the tax credit rate is increased to 25% for corporate spending to develop childcare facilities or to subsidize childcare for their employees. In addition to increasing tax credit rates as described above, raise the overall cap on usage of these credits from 50.01% to 70% of a corporation's liability for childcare subsidies and development of a childcare center only.

Sections 4-5 of SB 981, *AAC Revenue Items to Implement the Governor's Budget*, implement the policy.

Legislative Revenue: Same as Governor, with expanded eligibility to include donations or capital contributions to 501(c)(3) nonprofit organizations for site preparation and planning, constructing, renovating, or acquiring facilities to establish a childcare center for use by children living in the community, including in-state employees' children.

Sections 350-351 of PA 23-204, the FY 24 and FY 25 budget, implement the policy.

Allow Otherwise Federally Disallowed Business Expense Deductions for Cannabis Businesses

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Corporations	-	-	(4,700,000)	(6,200,000)	(4,700,000)	(6,200,000)

Background: Federal tax law disallows deductions of usual and necessary expenses for anyone who 'traffics' in a schedule 1 or schedule 2 substance. Because Connecticut 'piggybacks' its tax code on federal law, the deduction is disallowed in Connecticut, as well.

Legislative Revenue: Allow cannabis licensees to deduct from the state personal income or corporation business tax any business expenses that would otherwise be ineligible for a federal tax deduction but are disallowed because marijuana is a controlled substance.

Sections 377 and 379 of PA 23-204, the FY 24 and FY 25 budget, implements the policy.

Establish a Tax Credit for Certain Pre-Broadway and Post-Broadway Theater Productions

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Corporations	-	-	(2,500,000)	(2,500,000)	(2,500,000)	(2,500,000)

Legislative Revenue: Establish a new tax credit for production companies performing pre- and post-Broadway productions at qualified production facilities in the state. Effective January 1, 2024, and applicable to income and tax years starting on or after that date.

The credit equals 30% of the companies' eligible production and performance expenditures (including up to \$250,000 of payroll per week); unused credits may be carried forward for up to three years and transferred to other taxpayers. The total credits allowed are capped at \$2.5 million per fiscal year; the credit may be applied against the personal income, corporation business, insurance premiums, and utility companies tax.

Section 372 of PA 23-204, the FY 24 and FY 25 budget, implements the policy.

Establish State Tax Breaks for Contributions to ABLE Accounts

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Corporations	-	-	-	(1,000,000)	-	(1,000,000)
Refunds of Taxes	-	-	-	(100,000)	-	(100,000)
Total	-	-	-	(1,100,000)	-	(1,100,000)

Background: ABLE Accounts, which are tax-advantaged savings accounts for individuals with disabilities and their families, were created with the passage of the federal Stephen Beck Jr. Achieving a Better Life Experience Act of 2014 or better known as the ABLE Act. The beneficiary of the account is the account owner, and income earned by the accounts will not be taxed. Contributions to the account, which can be made by any person (the account beneficiary, family, friends Special Needs Trust or Pooled Trust), must be made using post-taxed dollars and will not be tax deductible for purposes of federal taxes; however, some states may allow for state income tax deductions for contributions made to an ABLE account.

Legislative Revenue: Establish a state tax credit for businesses making contributions to employees' ABLE accounts. This results in a General Fund revenue loss of up to \$1 million annually beginning in FY 25. In addition, establish a state personal income tax deduction for ABLE account contributions, which results in a General Fund revenue loss of approximately \$100,000 annually beginning in FY 25. Sections 57-58 of PA 23-137, *AA Resources and Services for Persons with Intellectual or Developmental Disability*, implement the policy.

Allow certain corporations who own LLCs to claim the fixed capital investment tax credit for amounts the LLC invested in qualifying fixed capital

Legislative Revenue: For income years starting on or after July 1, 2025, allow certain corporations to earn fixed capital investment tax credits for investments made by certain limited liability companies (LLCs) they own.

Specifically, allow corporations to do so if they:

1. are headquartered in Connecticut;
2. own, directly or indirectly, at least 80% of an LLC that, for federal tax purposes, is treated as a partnership or disregarded as an entity separate from its owner (i.e., a disregarded entity); and
3. provide telecommunications services.

As under current law for investments in fixed capital held by the corporation, the tax credit (1) equals 5% of the amount the LLC pays or incurs for the fixed capital and (2) applies to fixed capital the LLC will hold and use in Connecticut in the ordinary course of its trade or business for at least five years. The credit may be claimed against the corporation business tax in the income year in which the fixed capital was purchased, or it may be carried forward for the next five income years. By law, fixed capital is (1) tangible personal property with a class life of more than four years; (2) purchased from someone other than a related person; and (3) not leased or acquired to be leased for the first 12 months after its purchase. It does not include inventory, land, building, structures, or mobile transportation property.

Section 354 of PA 23-204, the FY 24 and FY 25 budget, implements the policy changes.

Public Service Corporations

Restore Funding to the Connecticut Television Network (CT-N)

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Public Service Corporations	-	-	(600,000)	(600,000)	(600,000)	(600,000)

Background: Current law (CGS Section 2-71x) annually sets aside \$2.6 million of public service companies tax revenues for the Joint Committee on Legislative Management to fund Connecticut Television Network (CT-N) coverage. Prior to FY 17, the annual set aside for CT-N was \$3.2 million.

Legislative Revenue: Restore the annual set aside to \$3.2 million in recognition of inflationary pressures since 2017 and the expanded, post-pandemic role of CT-N. The increased funding will provide for staffing, broadcast equipment & technology infrastructure. Section 358 of PA 23-204, the FY 24 and FY 25 budget, implements the change, effective in FY 24.

Change the Taxes Against Which Historic Homes Rehabilitation Tax Credits May Be Claimed

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Public Service Corporations	-	-	-	3,000,000	-	3,000,000
Refunds of Taxes	-	-	-	(3,000,000)	-	(3,000,000)
Total	-	-	-	-	-	-

Background: By law, the Department of Economic and Community Development (DECD) issues these credits, subject to certain requirements, to (1) people and nonprofits who own, rehabilitate, and occupy historic homes or (2) businesses that contribute funds for rehabilitating historic homes that are or will be occupied by their owners. Under the program, qualifying property owners may receive a tax credit for 30% of the construction costs they incur in rehabilitating a historic home. To qualify, the historic home must (1) have no more than four units, one of which must be the owner’s principal residence for at least five years after rehabilitation is completed, and (2) be (a) listed on the National or State Register of Historic Places or (b) located in a district listed in either register and certified by DECD as contributing to the district’s historic character.

To qualify for the credit, the project’s construction costs must exceed \$15,000. The credit equals 30% of the eligible construction costs, but may not exceed \$30,000 per dwelling unit (or \$50,000 for owners that are nonprofit corporations). DECD may reserve up to \$3 million in vouchers for these credits each fiscal year, 70% of which must be for rehabilitating homes in the municipalities designated as “regional centers” in the current state plan of conservation and development.

Legislative Revenue: Change the taxes against which historic homes rehabilitation tax credits may be claimed. Section 357 of PA 23-204, the FY 24 and FY 25 budget, implements the policy.

Inheritance and Estate

Adjust the Filing Date for the Estate Tax

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Inheritance and Estate	(38,000,000)	-	-	-	38,000,000	-

Background: Sections 116-118 of PA 09-3, *AAC Expenditures and Revenue for the Biennium Ending June 30, 2011*, reduced the time an executor has to file an estate tax return by making the filing deadline six, rather than nine, months after the date of death, starting with deaths on or after July 1, 2009.

The accelerated filing deadline increased the number of estate tax returns in FY 10, resulting in a one-time revenue gain of approximately \$44 million.

Governor: Match the federal timeline for when the estate tax must be filed by changing the filing deadline from six months to nine months following the death of a person.

Section 6 of SB 981, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy.

Legislative Revenue: Do not extend the filing date for the estate tax.

Refunds of Taxes

Eliminate the Angel Investor Tax Credit for Cannabis Businesses

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Refunds of Taxes	12,500,000	15,000,000	12,500,000	15,000,000	-	-

Background: Section 133 of PA 21-1 JSS, *AAC Responsible and Equitable Regulation of Adult-use Cannabis*, extends the state angel investor tax credit (against the personal income tax) program to eligible cannabis businesses owned and controlled by social equity applicants and raises the overall cap on angel investor tax credits.

Governor: Repeal extending the tax credit to cannabis businesses, effective July 1, 2023.

Sections 7-8 of SB 981, *AAC Revenue Items to Implement the Governor's Budget*, implement the policy.

Legislative Revenue: Same as Governor.

Sections 355-356 of PA 23-204, the FY 24 and FY 25 budget, implement the policy.

Establish a Tax Credit for Cash Contributions to a Youth Development Organization

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Refunds of Taxes	-	-	(2,500,000)	(2,500,000)	(2,500,000)	(2,500,000)

Legislative Revenue: Establish a 50% tax credit (up to \$20,000 for individuals and \$100,000 for businesses) for cash contributions to a youth development organization. Effective January 1, 2024, through Jan 1, 2026.

Section 161 of PA 23-204, the FY 24 and FY 25 budget, implements the policy.

Establish State Tax Breaks for Contributions to ABLE Accounts

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Corporations	-	-	-	(1,000,000)	-	(1,000,000)
Refunds of Taxes	-	-	-	(100,000)	-	(100,000)
Total	-	-	-	(1,100,000)	-	(1,100,000)

Background: ABLE Accounts, which are tax-advantaged savings accounts for individuals with disabilities and their families, were created with the passage of the federal Stephen Beck Jr. Achieving a Better Life Experience Act of 2014 or better known as the ABLE Act. The beneficiary of the account is the account owner, and income earned by the accounts will not be taxed. Contributions to the account, which can be made by any person (the account beneficiary, family, friends Special Needs Trust or Pooled Trust), must be made using post-taxed dollars and will not be tax deductible for purposes of federal taxes; however, some states may allow for state income tax deductions for contributions made to an ABLE account.

Legislative Revenue: Establish a state tax credit for businesses making contributions to employees' ABLE accounts. This results in a General Fund revenue loss of up to \$1 million annually beginning in FY 25. In addition, establish a state personal income tax deduction for ABLE account contributions, which results in a General Fund revenue loss of approximately \$100,000 annually beginning in FY 25.

Sections 57-58 of PA 23-137, *AA Resources and Services for Persons with Intellectual or Developmental Disability*, implement the policy.

Change the Taxes Against Which Historic Homes Rehabilitation Tax Credits May Be Claimed

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Public Service Corporations	-	-	-	3,000,000	-	3,000,000
Refunds of Taxes	-	-	-	(3,000,000)	-	(3,000,000)
Total	-	-	-	-	-	-

Background: By law, the Department of Economic and Community Development (DECD) issues these credits, subject to certain requirements, to (1) people and nonprofits who own, rehabilitate, and occupy historic homes or (2) businesses that contribute funds for rehabilitating historic homes that are or will be occupied by their owners. Under the program, qualifying property owners may receive a tax credit for 30% of the construction costs they incur in rehabilitating a historic home. To qualify, the historic home must: (1) have no more than four units, one of which must be the owner’s principal residence for at least five years after rehabilitation is completed; and (2) be (a) listed on the National or State Register of Historic Places or (b) located in a district listed in either register and certified by DECD as contributing to the district’s historic character.

To qualify for the credit, the project’s construction costs must exceed \$15,000. The credit equals 30% of the eligible construction costs but may not exceed \$30,000 per dwelling unit (or \$50,000 for owners that are nonprofit corporations). DECD may reserve up to \$3 million in vouchers for these credits each fiscal year, 70% of which must be for rehabilitating homes in the municipalities designated as “regional centers” in the current state plan of conservation and development.

Legislative Revenue: Change the taxes against which historic homes rehabilitation tax credits may be claimed.

Section 357 of PA 23-204, the FY 24 and FY 25 budget, implements the policy.

Earned Income Tax Credit

Increase the State's Earned Income Tax Credit (EITC) Rate

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Earned Income Tax Credit	(44,600,000)	(44,600,000)	(44,600,000)	(44,600,000)	-	-

Background: The state Earned Income Tax Credit (EITC) was implemented in 2011 at the statutory rate of 30% of the federal earned income tax credit. The state’s statutory EITC rate for income year 2022 is 30.5%

Federal funds recently were used to boost effective state EITC rates as follows:

- For the 2020 income year, the CT statutory rate of 23% was increased to 41.5% using CARES Act funds; and
- For the 2021 income year, the CT statutory rate of 30.5% was increased to 40% using ARPA funds.

Governor: Permanently increase the state’s statutory EITC rate to 40% beginning in income year 2023.

Section 9 of SB 981, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy.

Legislative Revenue: Same as Governor.

Section 378 of PA 23-204, the FY 24 and FY 25 budget, implements the policy.

Transfer Special Revenue

Eliminate the Transfer of iLottery Revenues to the Debt Free Community College Account

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Transfer Special Revenue	2,000,000	3,000,000	2,000,000	3,000,000	-	-

Background: PA 21-23, *AAC the Authorization, Licensing and Regulation of Online Casino Gaming, Retail and Online Sports Wagering, Fantasy Contests, Keno and Online sale of Lottery Tickets*, established new frameworks for legalizing and regulating:

1. in-person and online sports wagering;
2. online casino gaming;
3. in-person and online keno;
4. online lottery draw games other than keno; and
5. fantasy contests.

For FY 24 and each fiscal year after, the Connecticut Lottery Corporation (CLC) must first transfer the certified amounts from online lottery to the debt-free community college account up to \$14 million and then any amounts above that figure must be transferred to the General Fund. Sections 69-74 of PA 21-2 JSS, implement the policy.

Governor: Eliminate the diversion of iLottery revenues to the debt-free community college program.

Sections 6 - 10 and 12 of SB 982, *AA Implementing the Governor's Recommendations Concerning Higher Education and Repealing the Task Force Concerning Collaboration among State and Municipal Governments*, implement the policy.

Legislative Revenue: Same as Governor.

Sections 90-94 and 445 of PA 23-204, the FY 24 and FY 25 budget, implement the policy.

Licenses, Permits and Fees

Recognize Revenue from Establishing a Pharmaceutical Representative Licensing Program (to be Administered by the Department of Consumer Protection)

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Licenses, Permits and Fees	1,100,000	1,100,000	200,000	200,000	(900,000)	(900,000)

Governor: Require pharmaceutical representatives to be licensed by the Department of Consumer Protection resulting in an estimated annual revenue gain of \$1.2 million per year. Approximately 2,200 initial applications are expected for this license and the annual application and renewal fee is \$550.

Sections 4-8 of HB 6669, *AA Protecting Patients and Prohibiting Unnecessary Health Costs*, implement the policy.

Legislative Revenue: Sections 3-6 of Public Act 23-171, *An Act Protecting Patients and Prohibiting Unnecessary Health Care Costs*, requires pharmaceutical marketing firms to register with the Department of Consumer Protection for an annual fee of \$150 resulting in an estimated revenue gain to the state of \$200,000 in FY 24 and FY 25.

Adjust Licensure Fees for Social Workers (SWs), Marital and Family Therapists (MFTs), and Professional Counselors and the Renewal Schedule for MFT Associates

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Licenses, Permits and Fees	-	-	(700,000)	(700,000)	(700,000)	(700,000)

Legislative Revenue: Change the license renewal schedule for MFT Associates from biennial to annual. The license renewal schedules for the other professions are annual. Reduce initial license fees as follows:

1. from \$315 to \$200 for Clinical SWs, MFTs, and Professional Counselors (PCs), and
2. from \$220 to \$125 for Master SWs and PC Associates.

Change renewal license fees as follows:

1. increase from \$195 to \$200 for Clinical SWs and PCs,
2. reduce from \$320 to \$200 for MFTs,
3. reduce from \$195 to \$125 for Master SWs and PC Associates, and
4. reduce from \$220 to \$125 for MFT Associates.

Sections 12-14 of PA 23-101, *AAC the Mental, Physical and Emotional Wellness of Children*, implement these policies.

Rentals, Fines and Escheats

Adjust Unclaimed Bottle Deposit Requirements

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Rentals, Fines and Escheats	-	-	-	(3,200,000)	-	(3,200,000)

Legislative Revenue: For FY 25, reduce the amount of unclaimed deposits that deposit initiators must quarterly remit to the General Fund from 55% to 50%.

Additionally, reduce the amount of unclaimed deposits remitted to the General Fund under the state’s beverage container redemption law (i.e., “bottle bill”) for FY 24. Specifically, require deposit initiators (e.g., distributors) to keep all unclaimed deposits for the first two quarters of FY 24 (i.e., from July 1, 2023, to the end of the calendar year) to reimburse them for the 10-cent deposit on redeemed beverage containers scheduled to take effect on January 1, 2024. For the third quarter, require them to remit 65% of the outstanding account balance attributable to the quarter, plus any remaining balance they retained for the first and second quarters. For the fourth quarter, require them to remit 65% of the outstanding account balance, as current law requires.

Section 373 of PA 23-204, the FY 24 and FY 25 budget, implements the policy.

Miscellaneous

Recognize General Fund Recovery of Fringe Benefit Costs due to Restructuring Higher Education Fringe Benefits

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Miscellaneous	(85,000,000)	(85,000,000)	(85,000,000)	(85,000,000)	-	-

Background: Currently, the General Fund through the Office of State Comptroller - Fringe Benefits agency effectively pays for the fringe benefits costs of constituent unit employees paid out of the General Fund, while the constituent units bear the fringe benefits costs of those constituent unit employees who are paid out of other college and university funds (e.g., tuition revenues).

Governor: Realign approximately \$1.1 billion in the funding of fringe benefits for employees of constituent units of higher education.

The realignment is made according to expenditure accounts, and results in the payment of direct-charged fringe benefits by the units of higher education; remaining fringe costs (i.e., retirement benefits) would be paid by the General Fund.

Current practice allocates fringe benefits costs among the General Fund and college and university funds (e.g., tuition revenues) according to employees, rather than expenditure accounts. This practice results in the need to recover certain costs for the General Fund, which is reflected as General Fund revenue. In addition to other changes, the realignment consolidates funding for the Alternative Retirement Plan and Teachers' Retirement System in the General Fund, while also consolidating Unemployment Compensation within the constituent units.

Overall, the net effect of these specific adjustments is to reduce General Fund revenue from cost recoveries by \$85 million annually.

Reductions to General Fund appropriations, including adjustments to block grants, are made to offset the \$85 million revenue loss indicated above, making the policy budget neutral.

Section 5 of SB 982, *AA Implementing the Governor's Recommendations Concerning Higher Education and Repealing the Task Force Concerning Collaboration among State and Municipal Governments*, implements the policy.

Legislative Revenue: Same as Governor.

Sections 89 and 445 of PA 23-204, the FY 24 and FY 25 budget, implement the policy.

Recognize General Fund Recovery of Additional Fringe Benefit Costs (in the Insurance Fund) due to an Expansion of Staffing in the Office of Health Strategy

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Miscellaneous	200,000	200,000	200,000	200,000	-	-

Background: Fringe benefit costs are charged to the (other) Fund in which they are paid from and booked as General Fund revenue.
Governor: Expand the Office of Health Strategy and recognize General Fund revenue recoveries of associated fringe benefit costs. Various sections of HB 6669, *AA Protecting Patients and Prohibiting Unnecessary Health Costs*, expand the scope of the agency.
Legislative Revenue: Same as Governor.

Federal Grants

Recognize the Federal Revenue Impact Attributable to State Expenditure or Policy Changes

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Federal Grants	1,000,000	1,100,000	40,300,000	47,300,000	39,300,000	46,200,000

Background: Some state General Fund line items are gross funded, meaning state appropriations are made to cover the full cost with the expectation that federal reimbursements would partially offset those costs. Anticipated federal reimbursements are reflected in the Federal Grants revenue source. These adjustments exclude Medicaid, which is net funded.
Governor: Reflect the impact of changes to appropriations on federal grants revenue.
Legislative Revenue: Reflect an updated appropriations plan.

Transfer from Tobacco Settlement

Adjust the Annual Transfer to the Tobacco Health Trust Fund

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Tobacco Settlement Transfer	6,000,000	6,000,000	-	-	(6,000,000)	(6,000,000)

Background: Sections 196-197 of PA 22-118, the Revised FY 23 Budget, annually (beginning in FY 23) redirect \$12 million of Tobacco Settlement Fund proceeds from the General Fund to the Tobacco and Health Trust Fund.

Projected* Tobacco Settlement Proceeds

amounts in \$ millions	FY 23	FY 24	FY 25	FY 26
General Fund	110.1	108.4	106.7	105
Tobacco and Health Trust Fund	12	12	12	12
Tobacco Settlement Proceeds	122.1	120.4	118.7	117

*Jan 2023 consensus revenue estimates

Governor: Reduce the annual amount allocated to the Tobacco and Health Trust Fund to \$6 million.
 Section 12 of SB 981, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy.
Legislative Revenue: Maintain current law, which provides for a \$12 million transfer annually to the Tobacco and Health Trust Fund.

Transfers From/To Other Funds

Eliminate Planned Revenue Set Asides to Extinguish the Generally Accepted Accounting Principles (GAAP) Deficit as the GAAP Bonds are Retired

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Transfers From/To Other Funds	120,800,000	120,800,000	120,800,000	120,800,000	-	-

Background: GAAP budgeting aligns spending obligations to fiscal years by requiring budgets to reflect when obligations are incurred rather than when cash payments are made. PA 11-48: 1) made the state's budget and financial statements conform to GAAP principles starting in FY 14; and 2) established a procedure to amortize and pay off over 15 years the unreserved negative balances that had accumulated in state funds due to not applying GAAP in the past.

The accumulated GAAP deficit was \$1,217.1 million in FY 14. GAAP conversion bond proceeds of \$598.5 million reduced the deficit to \$727.2 million, which is to be amortized by FY 28 through set asides of General Fund revenues per CGS Sections 3-115b and 3-20i. Since FY 14, the total amount of revenue set asides for this purpose is \$123.1 million. The balance of revenue set asides is therefore approximately \$604.1 million.

Governor: Use \$211.7 million of the projected FY 23 operating surplus in the General Fund to retire the GAAP conversion bonds early, thus eliminating the need for revenue set asides in addition to debt service payments in FY 25 - FY 28.

Sections 29-30 of HB 6659, *AAC the State Budget for the Biennium Ending June 30, 2025, and Making Appropriations Therefor*, implement the policy.

Fiscal Impact to Retire GAAP Bonds Early

amounts in \$ millions	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28	Cumulative
Use of Surplus	(211.7)	-	-	-	-	-	(211.7)
Debt Service Avoidance	-	-	58.4	58.4	58.4	58.4	233.6
Annualized Revenue Impact*	-	120.8	120.8	120.8	120.8	120.8	604.1
Total*	(211.7)	120.8	179.2	179.2	179.2	179.2	626.0

*Fiscal Year amounts do not sum to the cumulative totals due to a rounding effect.

Legislative Revenue: Same as Governor.

Sections 29-30 and 381 of PA 23-204, the FY 24 and FY 25 budget, implement the policy.

Eliminate Use of ARPA for FY 23 Revenue Replacement

Background: Of the \$2,812.3 million total allocation to Connecticut through ARPA's Coronavirus State and Local Fiscal Recovery Fund, the FY 22 - FY 23 biennial budget used \$1,754.8 million (62.4% of the total) as General Fund revenue to help balance the budget. The biennial budget allocations as revenue were as follows: 1) \$559.9 million in FY 22; and 2) \$1,194.9 million in FY 23. The Revised FY 23 Budget eliminated the \$559.9 million revenue allocation in FY 22 and reduced the FY 23 revenue allocation from \$1,194.9 million to \$314.9 million (an \$880 million reduction).

Governor: Eliminate the remaining \$314.9 million ARPA allocation as state revenue in FY 23, thus freeing up that amount to be allocated for expenditures instead.

Section 21 of SB 981, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy.

Legislative Revenue: Same as Governor.

Section 449 of PA 23-204, the FY 24 and FY 25 budget, eliminates the remaining \$314.9 million set aside of ARPA funds as FY 23 General Fund revenues, thus: (1) reducing the projected FY 23 General Fund surplus; and (2) enabling the ARPA funds to be allocated for expenditures, instead.

Transfer to the Municipal Revenue Sharing Fund to provide Supplemental (Stabilization and Municipal Revenue Sharing) Grants

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Transfers From/To Other Funds	(74,700,000)	(74,700,000)	-	-	74,700,000	74,700,000

Governor: The Governor's proposed FY 24 and FY 25 budget redirects the 0.5 percentage point sales tax diversion from the Municipal Revenue Sharing Account to the Municipal Revenue Sharing Fund (MRSF). The MRSF will also be funded via transfers from the General Fund and the Mashantucket Pequot and Mohegan Fund. The MRSF will distribute a total of approximately \$598.6 million in town aid in both FY 24 and FY 25.

Sections 31-32 of HB 6659, *AAC the State Budget for the Biennium Ending June 30, 2025, and Making Appropriations Therefor*, implement the General Fund transfers.

Legislative Revenue: Include this transfer in the total transfer amount per Section 383 of PA 23-204, the FY 24 and FY 25 budget.

The transfer amount is reflected in the separate "Shift Municipal Grant Funding to the Municipal Revenue Sharing Fund" write up, which consolidates the recommended transfers.

Make an Additional Transfer to the Municipal Revenue Sharing Fund

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Transfers From/To Other Funds	(19,500,000)	(8,600,000)	-	-	19,500,000	8,600,000

Governor: The Governor's proposed FY 24 and FY 25 budget redirects the 0.5 percentage point sales tax diversion from the Municipal Revenue Sharing Account to the Municipal Revenue Sharing Fund (MRSF). The MRSF will also be funded via transfers from the General Fund and the Mashantucket Pequot and Mohegan Fund. The MRSF will distribute a total of approximately \$598.6 million in town aid in both FY 24 and FY 25.

Sections 31-32 of HB 6659, *AAC the State Budget for the Biennium Ending June 30, 2025, and Making Appropriations Therefor*, implement the General Fund transfers.

Legislative Revenue: Include this transfer in the total transfer amount per Section 383 of PA 23-204, the FY 24 and FY 25 budget.

The transfer amount is reflected in the separate "Shift Municipal Grant Funding to the Municipal Revenue Sharing Fund" write up, which consolidates the recommended transfers.

Provide Grants to Certain Native American Tribes

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Transfers From/To Other Funds	-	-	(60,000)	(60,000)	(60,000)	(60,000)

Background: Section 59 of PA 22-118, the FY 23 Revised Budget, as amended by Section 12 of PA 22-146, Additional Adjustments to the FY 23 Revised Budget, temporarily adjusted the transfer amount between the General Fund and the Mashantucket Pequot and Mohegan Fund to provide for a \$3,000 grant to each of the following tribes: 1) the Schaghticoke; 2) the Paucatuck Eastern Pequot; and 3) the Golden Hill Paugussett.

Legislative Revenue: Increase the amount of the grant for each of the three tribes to \$20,000 annually and make the grants permanent.

Section 138 of PA 23-204, the FY 24 and FY 25 budget, implements the policy in FY 24 and thereafter.

General Fund Transfers to the Cannabis Regulatory Fund

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Transfers From/To Other Funds	-	-	(10,100,000)	(10,300,000)	(10,100,000)	(10,300,000)

Background: Section 124 of PA 23-204, the FY 24 and FY 25 budget, establishes the appropriated Cannabis Regulatory Fund. Total appropriations to the newly established fund are \$10.1 million in FY 24 and \$10.3 million in FY 25.

Legislative Revenue: Through transfers from the General Fund, provide funding to support the newly established Cannabis Regulatory Fund.

Section 384 of PA 23-204, the FY 24 and FY 25 budget, provides for these transfers in FY 24 and FY 25, only.

General Fund Transfers to the Tourism Fund

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Transfers From/To Other Funds	-	-	(2,900,000)	(1,300,000)	(2,900,000)	(1,300,000)

Background: Appropriations to the Tourism Fund exceed baseline revenue projections.

Legislative Revenue: Provide partial support for Tourism Fund appropriations through transfers from the General Fund.

Section 385 of PA 23-204, the FY 24 and FY 25 budget, transfers funds in FY 24 and FY 25, only.

Credit FY 24 General Fund Revenues to FY 25

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Transfers From/To Other Funds	-	-	(95,000,000)	95,000,000	(95,000,000)	95,000,000

Legislative Revenue: Section 382 of PA 23-204, the FY 24 and FY 25 budget, implements the policy.

Shift Municipal Grant Funding to the Municipal Revenue Sharing Fund

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Transfers From/To Other Funds	-	-	(115,800,000)	(104,900,000)	(115,800,000)	(104,900,000)

Background: The legislature enacted the municipal revenue sharing program in 2015 by setting aside a portion of sales tax revenue to a dedicated account to fund four new grant programs for municipalities. The Municipal Revenue Sharing Account (MRSA) established to account for these set asides is currently funded by a 0.5% portion of the total 6.35% general sales and use tax rate.

Governor: Consolidate municipal grant funding into the Municipal Revenue Sharing Fund.

Legislative Revenue: Beginning in FY 24, permanently re-assign the 0.5% portion of the general sales and use tax rate from the Municipal Revenue Sharing Account (MRSA) to the (appropriated) Municipal Revenue Sharing Fund. In addition, transfer funds from the General Fund to the Municipal Revenue Sharing Fund (MRSF) during the FY 24 - FY 25 biennium.

Transfers Components		
Policy amounts in \$ millions	FY 24	FY 25
Transfer to the Municipal Revenue Sharing Fund to provide supplemental (stabilization and municipal revenue sharing) grants	74.7	74.7
Make an additional transfer to the Municipal Revenue Sharing Fund	19.5	8.6
Update the additional transfer to the Municipal Revenue Sharing Fund	2.6	2.6
Transfer to Support Tiered-PILOT enhancement	19.0	19.0
Total	115.8	104.9

Sections 73-74 of PA 23-204, the FY 24 and FY 25 budget, implement the permanent shift in revenues from MRSA to MRSF.

Section 383 of PA 23-204, the FY 24 and FY 25 budget, implements the temporary transfers in FY 24 and FY 25, which are made up of four distinct adjustments listed in the preceding table.

Increase Funding for Municipal Grants via the Mashantucket Pequot and Mohegan Fund

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Transfers From/To Other Funds	-	-	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)

Legislative Revenue: Increase the grant amount.

Section 38 of PA 23-204, the FY 24 and FY 25 budget, implements the increase by \$1 million.

Volatility Cap Adjustment

Adjust the Pass-through Entity Tax

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Personal Income Tax- Withholding	(5,400,000)	(12,000,000)	(500,000)	(1,200,000)	4,900,000	10,800,000
Estimates and Finals	(21,600,000)	(48,000,000)	(2,200,000)	(4,800,000)	19,400,000	43,200,000
Volatility Cap Adjustment	21,600,000	48,000,000	2,200,000	4,800,000	(19,400,000)	(43,200,000)
Total	(5,400,000)	(12,000,000)	(500,000)	(1,200,000)	4,900,000	10,800,000

Background: Sections 1 - 8 of PA 18-49, *AAC an Affected Business Entity Tax, Various Provisions Related to Certain Business Deductions, the Estate and Gift Tax Imposition Thresholds, the Tax Treatment of Certain Wages and Income and a Study to Identify Best Practices for Marketing the Benefits of Qualified Opportunity Zones*, imposed a new income tax on most pass-through businesses at the entity level. The tax was (1) levied at the top personal income tax rate of 6.99%; and (2) offset by a credit at the personal or corporate income tax level. As enacted, the credit against the personal income tax was 93.01%.

The new pass-through entity tax (PET) applied to: (1) partnerships, including limited liability companies that are treated as partnerships for federal income tax purposes, but excluding publicly traded partnerships; and (2) S corporations, including limited liability companies that are treated as S corporations for federal income tax purposes. The PET began January 1, 2018. In 2022, there were 126,115 taxpayers.

Sections 333 - 334 of PA 19-117, *AAC the State Budget for the Biennium Ending June 30, 2021, and Making Appropriations Therefor, and Provisions Related to Revenue and Other Items to Implement the State Budget*, reduced the value (from 93.01% to 87.5%) of the credit for pass-through entity taxes paid, effective January 1, 2019. At the time, this change was estimated to result in a state revenue gain of \$50 million annually.

Governor: Restore to 93.01% the value of the credit for pass-through entity taxes paid.

Sections 14-20 of SB 981, *AAC Revenue Items to Implement the Governor's Budget*, implement the policy.

In addition to the policy change amounts listed under the personal income tax, a technical update is made to the volatility cap adjustment to account for the impact of the policy on volatile revenues governed by the cap.

Legislative Revenue: Maintain the value of the credit for pass-through entity taxes paid. However, make the pass-through entity tax optional.

Sections 360-365 and 448 of PA 23-204, the FY 24 and FY 25 budget, implements the policy making the tax optional, effective 1/1/24.

Reduce Certain Marginal Income Tax Rates

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Personal Income Tax- Withholding	(174,200,000)	(392,200,000)	(150,100,000)	(333,400,000)	24,100,000	58,800,000
Estimates and Finals	(19,400,000)	(43,600,000)	(16,700,000)	(37,000,000)	2,700,000	6,600,000
Volatility Cap Adjustment	19,400,000	43,600,000	16,700,000	37,000,000	(2,700,000)	(6,600,000)
Total	(174,200,000)	(392,200,000)	(150,100,000)	(333,400,000)	24,100,000	58,800,000

Background: Connecticut income tax has seven tax brackets with rates ranging from 3.00% to 6.99%. The income ranges for each tax bracket vary by filing status. The rates are marginal, meaning that only the income that falls within the corresponding range is subject to tax at the specified rate.

The benefits of lower marginal rates are reduced for any filers with CT taxable income above certain thresholds:

- A phase out of the 3% rate which effectively subjects more taxable income to the 5% rate; and
- A benefit recapture beginning at higher CT taxable income thresholds which gradually increases the overall effective rate to the highest marginal rate of 6.99%.

Both adjustments listed above require taxpayers to add specified amounts to their tax liability.

Governor: Make the following changes, effective January 1, 2024:

- Reduce marginal rates for the personal income tax as follows: 3% to 2%; and 5% to 4.5%; and
- Adjust the recapture/add-back amounts to maintain the gradual increase in effective tax rates that exists under current law.

Section 13 of SB 981, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy.

In addition to the policy change amounts listed under the personal income tax, a technical update is made to the volatility cap adjustment to account for the impact of the policy on volatile revenues governed by the cap.

Legislative Revenue: Make the following changes, effective January 1, 2024:

- Reduce marginal rates for the personal income tax as follows: 3% to 2%; and 5% to 4.5%; and
- Add a new benefit recapture provision to gradually eliminate the benefit of the new tax rate reduction for taxpayers with taxable incomes exceeding \$105,000 (single or married filing separately), \$210,000 (married filing jointly), or \$168,000 (head of household).

Section 376 of PA 23-204, the FY 24 and FY 25 budget, implements these policies.

FY 24 and FY 25 Revenue Schedule

(in thousands)

	January Consensus FY 24	Governor Policies	Governor FY 24 Revenue	Consensus Update (April)	April Consensus FY 24	Legislative Revenue Policies	Legislative Revenue FY 24 Revenue
Taxes							
Motor Fuels Tax	533,500	-	533,500	(700)	532,800	(37,200)	495,600
Oil Companies Tax	380,200	-	380,200	10,000	390,200	(3,200)	387,000
Sales & Use Tax	847,300	-	847,300	12,900	860,200	-	860,200
Sales Tax - DMV	107,500	-	107,500	-	107,500	-	107,500
Highway Use Tax	90,000	-	90,000	-	90,000	-	90,000
Refunds of Taxes	(16,900)	-	(16,900)	-	(16,900)	-	(16,900)
Total Taxes Less Refunds	1,941,600	-	1,941,600	22,200	1,963,800	(40,400)	1,923,400
Other Sources							
Motor Vehicle Receipts	254,100	-	254,100	-	254,100	-	254,100
Licenses, Permits and Fees	132,700	-	132,700	(9,000)	123,700	-	123,700
Interest Income	51,100	-	51,100	8,200	59,300	-	59,300
Federal Grants	9,200	-	9,200	-	9,200	-	9,200
Transfers From/To Other Funds	(5,500)	-	(5,500)	-	(5,500)	(8,000)	(13,500)
Refunds of Payments	(3,600)	-	(3,600)	-	(3,600)	-	(3,600)
Total Other Sources	438,000	-	438,000	(800)	437,200	(8,000)	429,200
Total Special Transportation Fund	2,379,600	-	2,379,600	21,400	2,401,000	(48,400)	2,352,600

Part III. Revenue

	January Consensus FY 25	Governor Policies	Governor FY 25 Revenue	Consensus Update (April)	April Consensus FY 25	Legislative Revenue Policies	Legislative Revenue FY 25 Revenue
Taxes							
Motor Fuels Tax	512,000	-	512,000	(5,300)	506,700	-	506,700
Oil Companies Tax	350,300	-	350,300	10,000	360,300	(3,100)	357,200
Sales & Use Tax	870,100	-	870,100	13,100	883,200	-	883,200
Sales Tax - DMV	106,500	-	106,500	-	106,500	-	106,500
Highway Use Tax	94,100	-	94,100	-	94,100	-	94,100
Refunds of Taxes	(17,400)	-	(17,400)	800	(16,600)	-	(16,600)
Total Taxes Less Refunds	1,915,600	-	1,915,600	18,600	1,934,200	(3,100)	1,931,100
Other Sources							
Motor Vehicle Receipts	255,400	-	255,400	-	255,400	-	255,400
Licenses, Permits and Fees	133,600	-	133,600	(7,500)	126,100	-	126,100
Interest Income	43,900	-	43,900	7,100	51,000	-	51,000
Federal Grants	8,100	-	8,100	-	8,100	-	8,100
Transfers From/To Other Funds	(5,500)	-	(5,500)	-	(5,500)	(8,000)	(13,500)
Refunds of Payments	(3,700)	-	(3,700)	-	(3,700)	-	(3,700)
Total Other Sources	431,800	-	431,800	(400)	431,400	-	423,400
Total Special Transportation Fund	2,347,400	-	2,347,400	18,200	2,365,600	(11,100)	2,354,500

Policies Details - Special Transportation Fund

Sales Tax - STF

Provide a Sales Tax Exemption for Narcan

Legislative Revenue: Add nonprescription opioid antagonists to the list of nonprescription drugs that are exempt from the state sales and use tax. By law and under the Public Act, an “opioid antagonist” is naloxone hydrochloride (e.g., Narcan) or any similarly acting and equally safe drug that the Food and Drug Administration (FDA) has approved for treating a drug overdose. The FDA recently approved a four-milligram naloxone hydrochloride nasal spray for over-the-counter, nonprescription use. This change is effective July 1, 2023, and applicable to sales made on or after that date.

Section 380 of PA 23-204, the FY 24 and FY 25 budget, implements the policy.

Motor Fuels

Temporarily Freeze the Diesel Tax Rate

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Motor Fuels	-	-	(37,200,000)	-	(37,200,000)	-

Background: Per CGS Section 12-458h, the diesel fuel tax rate is the sum of: (1) the fixed rate of 29 cents per gallon (in effect since July 1, 2011); and (2) the product of the petroleum products gross earnings tax of 8.1% multiplied by the average wholesale price per gallon of diesel fuel. The diesel fuel tax rate is recalculated each year and effective July 1st. The average wholesale price used for the calculation is for the period from April 1st. through March 31st.

The average wholesale price for the period of April 1, 2022, and March 31, 2023, is $\$4.028 * 8.1\% = 32.6$ cents per gallon. Including the fixed rate of 29 cents per gallon, the new diesel fuel tax rate per gallon effective July 1, 2023, would be 61.6 cents per gallon.

Legislative Revenue: For FY 24, set the diesel fuel rate at 49.2 cents per gallon. This is equal to the FY 23 rate, determined by DRS according to the statutory calculation.

Section 367 of PA 23-204, the FY 24 and FY 25 budget, implements the policy.

Oil Companies

Exempt Aviation Fuel from the Petroleum Gross Earnings Tax and Temporarily Offset CT Airport and Aviation Account Revenue Loss with Transfers

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Oil Companies	-	-	(3,200,000)	(3,100,000)	(3,200,000)	(3,100,000)
Transfers From/To Other Funds	-	-	(8,000,000)	(8,000,000)	(8,000,000)	(8,000,000)
Total	-	-	(11,200,000)	(11,100,000)	(11,200,000)	(11,100,000)

Background: By law, the Connecticut airport and aviation account is a non-lapsing account within the Grants and Restricted Accounts Fund. Account funds are spent by the Connecticut Airport Authority, with the OPM secretary’s approval, for airport and aviation purposes. Under current law, the account is funded with 75.3% of PGET revenue from aviation fuel sources. In practice, the account is used for CAA-owned and municipal general aviation airports.

	FY 18	FY 19	FY 20	FY 21	FY 22
CT Airport and Aviation Account	8.2	5.5	5.6	3.3	10.9
Special Transportation Fund	2.7	1.8	1.8	1.1	3.6
Total	10.9	7.3	7.4	4.4	14.5

Legislative Revenue: Exempt sales of aviation fuel from the petroleum products gross earnings tax (PGET) starting July 1, 2023, and, starting July 1, 2025, subject aviation fuel sales to a new aviation fuel tax at a 15 cents per gallon rate. (The aviation fuel tax is anticipated to generate \$7.5 million in revenue annually to the CT Airport and Aviation Account.)

Transfer \$8 million from the Special Transportation Fund to the Connecticut airport and aviation account in each of FYs 24 and 25, contingent on CAA entering into a management agreement for Sikorsky Airport. The \$8 million transfer amounts represent the approximate, annual revenue loss to the Connecticut airport and aviation account due to the exemption of aviation fuel from the PGET. Sections 368-371 of PA 23-204, the FY 24 and FY 25 budget, implement the policies.

Transfers From/To Other Funds

Exempt Aviation Fuel from the Petroleum Gross Earnings Tax and Temporarily Offset CT Airport and Aviation Account Revenue Loss with Transfers

Account	Governor FY 24	Governor FY 25	Legislative Revenue FY 24	Legislative Revenue FY 25	Difference FY 24	Difference FY 25
Oil Companies	-	-	(3,200,000)	(3,100,000)	(3,200,000)	(3,100,000)
Transfers From/To Other Funds	-	-	(8,000,000)	(8,000,000)	(8,000,000)	(8,000,000)
Total	-	-	(11,200,000)	(11,100,000)	(11,200,000)	(11,100,000)

Background: By law, the Connecticut airport and aviation account is a non-lapsing account within the Grants and Restricted Accounts Fund. Account funds are spent by the Connecticut Airport Authority, with the OPM secretary’s approval, for airport and aviation purposes. Under current law, the account is funded with 75.3% of PGET revenue from aviation fuel sources. In practice, the account is used for CAA-owned and municipal general aviation airports.

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