

April 23, 2021

On April 22, 2021, the Connecticut General Assembly's Finance, Revenue and Bonding Committee released a budget revenue proposal for fiscal years 2022 and 2023.¹ The proposed budget contains revenue sources needed to fund government services, policy priorities, and all other state appropriations. Below is a snapshot of how the Finance, Revenue and Bonding Committee proposes to fund the State of Connecticut's budget over the next two fiscal years.

Finance, Revenue and Bonding Committee budget proposal is part of the second step of the budget development process²

- The General Assembly has reviewed the governor's proposed budget, beginning with the Appropriations and Finance, Revenue and Bonding Committees.
- The Appropriations Committee has put forth a spending plan and the Finance, Revenue, and Bonding committee has put forth a revenue package.
- The General Assembly will make adjustments to the budget after negotiations between the executive branch and legislative leadership, and then the amended budget will be put to a vote by each chamber of the legislature.
- Once each chamber passes the same exact version of the budget, the budget is presented to the governor who will sign it into law, veto it, veto specific line items, or let it go into effect without signing.

Key Proposed Revenue Policies³

- Includes \$1.89 billion in American Rescue Plan funds across the biennium.
- Implements a two percent tax on capital gains for high-income taxpayers beginning in FY 2023, which is projected to generate \$262 million in yearly tax revenue.
- Extends 10 percent Corporation Tax Surcharge through the biennium, providing \$130 million over the next two fiscal years.
- Establishes a new Equitable Investment Fund to receive, invest, and distribute specified revenue.
- Equitable Investment Fund is supported by a new social media advertising tax, taxes from recreational cannabis and online gaming, an optional payroll tax, and a new consumption tax levied using the basis income on high income taxpayers.
- Increases the state earned income tax credit (EITC) from 23 percent to 40 percent of the federal credit, and funds the credit through the Equitable Investment Fund.
- Special Transportation Fund is supported by a new mileage-based tax on heavy-weight vehicles based on the weight of the truck, which is projected to provide \$45 million in new resources in FY 2023, and annualized to \$90 million in FY 2024.

¹ Connecticut General Assembly, Office of Fiscal Analysis. (2021). *Preliminary Fiscal Notes for Finance Committee Meeting on April 22, 2021*. Hartford, CT: Author. Retrieved from https://cga.ct.gov/ofa/Documents/year/PFNFIN/2021/PFNFIN-20210422_Preliminary%20Fiscal%20Notes%20for%20Finance%20Committee%20Meeting%20on%20April%202022,%202021.pdf.

² A more detailed explanation of Connecticut's state budget process can be found at <http://ctstatefinance.org/resources/connecticuts-state-budget-process>.

³ Connecticut General Assembly, Office of Fiscal Analysis. (2021). *Preliminary Fiscal Notes for Finance Committee Meeting on April 22, 2021*. Hartford, CT: Author. Retrieved from https://cga.ct.gov/ofa/Documents/year/PFNFIN/2021/PFNFIN-20210422_Preliminary%20Fiscal%20Notes%20for%20Finance%20Committee%20Meeting%20on%20April%202022,%202021.pdf.

Analysis of Selected State Revenues

Table 1 below contains key policy changes regarding revenue contained in the Finance, Revenue and Bonding Committee's budget. For comparative purposes, key policy changes from the governor's budget proposal are also included. The sole revenue sources included in Tables 1 are those **revenues projected to exceed \$100 million in revenue in FY 2022**, or **tax revenues with significant policy changes or public interest** for the sake of clarity.

Table 1: Selected General Fund Policy Changes Under Proposed Revenue Packages

Revenue Source	Governor's Proposed Budget ⁴	Finance, Revenue & Bonding Committee ⁵
Taxes		
Personal Income Tax	<ul style="list-style-type: none"> Hold Teachers' Pension Exemption at 25% (+\$8M in FY 22, +\$8M in FY 23) Hold Pension and Annuity Exemption at 28% (+\$16M in FY 22, +\$33M in FY 23) Maintain property tax credit restrictions (+\$53M in FY 22, +\$53M in FY 23) 	<ul style="list-style-type: none"> Impose a 2% surcharge on capital gains (+\$262M in FY 23 and FY 24) Extend existing tax exemption for pensions/annuities to IRAs (-\$40.1M in FY 23, -\$38.7M in FY 24) Maintain property tax credit restrictions (+\$53M in FY 22, +\$53M in FY 23)
Sales & Use	<ul style="list-style-type: none"> Delay transfers to the Municipal Revenue Sharing Account (+\$377M in FY 22, + \$387M in FY 23) Cannabis Legalization Sales Tax (+\$1.9M in FY 22, +\$12M in FY 23) 	<ul style="list-style-type: none"> Cannabis Legalization Sales Tax revenue deposited in new Equitable Investment Fund (please see below)
Corporation	<ul style="list-style-type: none"> Maintain 10% Tax Surcharge (+\$80M in FY 22, +\$50M in FY 23) Delay and extend the elimination of the Capital Base Tax (+\$21M in FY 22, +\$29M in FY 23) Limit carryforward of new R&D credits to 15 years (no revenue change) 	<ul style="list-style-type: none"> Maintain 10% Tax Surcharge Restore R&D tax credit to 70% of liability (-\$31.4M in FY 23)
Pass-Through Entity Tax	<ul style="list-style-type: none"> No significant policy changes 	<ul style="list-style-type: none"> No significant policy changes

⁴ State of Connecticut, Office of Policy and Management. (2021). *Connecticut FY 2022 – FY 2023 Biennium Governor's Budget*. Hartford, CT: Author. Retrieved from https://portal.ct.gov/-/media/OPM/Budget/2022_2023_Biennial_Budget/Bud_WebPage/GovBud_2022-23_Final_Web.pdf.

⁵ Connecticut General Assembly, Office of Fiscal Analysis. (2021). *Preliminary Fiscal Notes for Finance Committee Meeting on April 22, 2021*. Hartford, CT: Author. Retrieved from https://cga.ct.gov/ofa/Documents/year/PFNFIN/2021PFNFIN-20210422_Preliminary%20Fiscal%20Notes%20for%20Finance%20Committee%20Meeting%20on%20April%202022.%202021.pdf.

Revenue Source	Governor's Proposed Budget ⁴	Finance, Revenue & Bonding Committee ⁵
Public Service	<ul style="list-style-type: none"> Eliminate exemption for gas sold to a facility with 775 MW capacity (+\$3M in FY 22, +\$3M in FY 23) Cap tax credits to 50.01% of liability (+\$2M in FY 22, +\$2M in FY 23) 	<ul style="list-style-type: none"> Cap tax credits to 50.01% of liability (no revenue change) Eliminate exemption for gas sold to a facility with 775 MW capacity (+\$3M in FY 22, +\$3M in FY 23)
Inheritance & Estate	<ul style="list-style-type: none"> No significant policy changes 	<ul style="list-style-type: none"> No significant policy changes
Insurance Companies	<ul style="list-style-type: none"> Captive insurers initiative (+\$8M in FY 22, +\$0.2M in FY 23) 	<ul style="list-style-type: none"> No significant policy changes
Cigarettes	<ul style="list-style-type: none"> Ban flavored vaping products (-\$1.9M in FY 22, -\$2.5M in FY 23) 	<ul style="list-style-type: none"> Ban flavored vaping products with no impact to budget
Real Estate Conveyance	<ul style="list-style-type: none"> No significant policy changes 	<ul style="list-style-type: none"> No significant policy changes
Health Provider Tax	<ul style="list-style-type: none"> Implement recommendation of ambulatory surgical centers tax study (-\$0.5M in FY 22 and FY 23) 	<ul style="list-style-type: none"> Adjust ambulatory surgical centers tax (-\$6.4M in FY 22 and FY 23)
Admissions & Dues Tax	<ul style="list-style-type: none"> No significant policy changes 	<ul style="list-style-type: none"> Eliminate admissions tax rate on certain venues (-\$17M in FY 22 and FY 23)
Miscellaneous Tax	<ul style="list-style-type: none"> Cannabis Excise Tax (+\$3.2M in FY 22, +\$19M in FY 23) DRS Tax Amnesty Program (+\$40M in FY 22, -\$4M in FY 23) CREATES Revenue Initiative (+40M in FY 23) 	<ul style="list-style-type: none"> DRS Tax Amnesty Program – same as Governor CREATES Revenue Initiative (+40M in FY 23)
Other Revenue		
Transfers-Special Revenue	<ul style="list-style-type: none"> No significant policy changes 	<ul style="list-style-type: none"> No significant policy changes
Indian Gaming Payments	<ul style="list-style-type: none"> Implement iGaming and sports betting (+\$2M in FY 22, +\$3M in FY 23) 	<ul style="list-style-type: none"> No significant policy changes
Licenses, Permits Fees	<ul style="list-style-type: none"> Safe drinking water assessment (+\$2M in FY 22, +2M in FY 23) Cannabis licensing (+\$5M in FY 22, +\$2M in FY 23) 	<ul style="list-style-type: none"> No significant policy changes
Rents, Fines, Escheats	<ul style="list-style-type: none"> No significant policy changes 	<ul style="list-style-type: none"> No significant policy changes
Miscellaneous	<ul style="list-style-type: none"> Implement 2% convenience fee for credit/debit card use (+\$3M in FY 23) 	<ul style="list-style-type: none"> Implement 2% convenience fee for credit/debit card use (+\$3M in FY 23)

Revenue Source	Governor's Proposed Budget ⁴	Finance, Revenue & Bonding Committee ⁵
Other Sources		
Federal Grants	<ul style="list-style-type: none"> No significant policy changes 	<ul style="list-style-type: none"> No significant policy changes
Transfer from Tobacco Fund	<ul style="list-style-type: none"> No significant policy changes 	<ul style="list-style-type: none"> No significant policy changes
Transfers From/(To) Other Funds	<ul style="list-style-type: none"> Delay GAAP deficit payment (+\$85M in FY 22, +\$85M in FY 23) Transfer excess Regional Performance Incentive funds (+4M in FY 22 and 23) Federal stimulus/budget reserve fund transfer (+\$775M in FY 22, +\$975M in FY 23) Transfer to the Tourism Fund (-\$3M in FY 22) 	<ul style="list-style-type: none"> Delay GAAP deficit payment – same as Governor Federal stimulus (+\$890M in FY 22, +\$995M in FY 23) Transfer FY 21 GF surplus (-\$234M in FY 22, +\$117.5M in FY 23) Support the Tourism Fund (-\$9.8M in FY 22, -\$3.1M in FY 23)
Transfers to Budget Reserve Fund - Volatility Adjustment	<ul style="list-style-type: none"> No significant policy changes 	<ul style="list-style-type: none"> No significant policy changes
Earned Income Tax Credit Refunds of Taxes		<ul style="list-style-type: none"> Shift existing EITC to the equitable investment fund (+\$104M in FY 23).

Table 2 below contains proposed key policy changes in the Finance, Revenue and Bonding Committee's budget that impact revenue for the state's Special Transportation Fund. For comparative purposes, key policy changes from the governor's budget proposal are also included. The revenue sources included in the below table are those **revenues projected to exceed \$100 million in revenue in FY 2022**, or **tax revenues with significant policy changes or public interest** for the sake of clarity.

Table 2: Selected Special Transportation Fund Policy Changes Under Proposed Revenue Packages

Revenue Source	Governor's Proposed Budget ⁶	Finance, Revenue & Bonding Committee ⁷
Taxes		
Motor Fuels Tax	<ul style="list-style-type: none"> No significant policy changes 	<ul style="list-style-type: none"> No significant policy changes
Oil Companies Tax	<ul style="list-style-type: none"> No significant policy changes 	<ul style="list-style-type: none"> No significant policy changes
Sales & Use Tax	<ul style="list-style-type: none"> Cannabis Legalization Sales Tax (+\$200K in FY 22, +\$1.0M in FY 23) 	<ul style="list-style-type: none"> Same as Governor: Cannabis Legalization Sales Tax (+\$200K in FY 22, +\$1.0M in FY 23)
Sales Tax - DMV	<ul style="list-style-type: none"> No significant policy changes 	<ul style="list-style-type: none"> No significant policy changes
Highway Use Tax	<ul style="list-style-type: none"> Tax per mile for heavy weight vehicles with rate assessed by truck weight, effective January 1, 2023 (+\$45M in FY 23) 	<ul style="list-style-type: none"> Same as Governor: Tax per mile for heavy weight vehicles with rate assessed by truck weight, effective January 1, 2023 (+\$45M in FY 23)
Other Sources		
Motor Vehicle Receipts	<ul style="list-style-type: none"> No significant policy changes 	<ul style="list-style-type: none"> No significant policy changes
Licenses, Permits, Fees	<ul style="list-style-type: none"> No significant policy changes 	<ul style="list-style-type: none"> No significant policy changes
Less refunds of Payments	<ul style="list-style-type: none"> Impose 2% convenience fee for credit/debit cards 	<ul style="list-style-type: none"> Same as Governor

⁶ State of Connecticut, Office of Policy and Management. (2021). *Connecticut FY 2022 – FY 2023 Biennium Governor's Budget*. Hartford, CT: Author. Retrieved from https://portal.ct.gov/-/media/OPM/Budget/2022_2023_Biennial_Budget/Bud_WebPage/GovBud_2022-23_Final_Web.pdf.

⁷ Connecticut General Assembly, Office of Fiscal Analysis. (2021). *Preliminary Fiscal Notes for Finance Committee Meeting on April 22, 2021*. Hartford, CT: Author. Retrieved from https://cga.ct.gov/ofa/Documents/year/PFNFIN/2021PFNFIN-20210422_Preliminary%20Fiscal%20Notes%20for%20Finance%20Committee%20Meeting%20on%20April%202022,%202021.pdf.

Table 3 below contains proposed key policy changes regarding revenue contained in the Equitable Investment Fund, which would be created under the Finance, Revenue and Bonding Committee's proposed budget.

Table 3: Selected Equitable Investment Fund Policy Changes Under Proposed Revenue Packages

Revenue Source	Governor's Proposed Budget ⁸	Finance, Revenue & Bonding Committee ⁹
Earned Income Tax Credit	Governor's budget proposal does not contemplate the creation of an Equitable Investment Fund.	<ul style="list-style-type: none"> • Increase ETIC to 40% • Shift existing EITC to the Equitable Investment Fund (+\$104.0M in FY 22, +\$107.0M in FY 23)
Social Media Advertising Tax		<ul style="list-style-type: none"> • Establish social media advertising tax (+\$150M in FY22, +\$162M in FY 23)
Gaming		<ul style="list-style-type: none"> • Reflect gaming agreement (+\$30.5M in FY 22, +\$43.1M in FY 23)
Adult-use Cannabis		<ul style="list-style-type: none"> • Legalize adult-use cannabis, except portion diverted to STF (+\$10.9M in FY 22, +\$38.5M in FY 23)
Wage Compensation Tax		<ul style="list-style-type: none"> • Optional tax on employee wages (+\$50M in FY 23)
Consumption Tax		<ul style="list-style-type: none"> • Implements new tax on part of income above \$140K assessed by income brackets (+\$700M in FY 22, +\$700M in FY 23)

⁸ State of Connecticut, Office of Policy and Management. (2021). *Connecticut FY 2022 – FY 2023 Biennium Governor's Budget*. Hartford, CT: Author. Retrieved from https://portal.ct.gov/-/media/OPM/Budget/2022_2023_Biennial_Budget/Bud_WebPage/GovBud_2022-23_Final_Web.pdf.

⁹ Connecticut General Assembly, Office of Fiscal Analysis. (2021). *Preliminary Fiscal Notes for Finance Committee Meeting on April 22, 2021*. Hartford, CT: Author. Retrieved from https://cga.ct.gov/ofa/Documents/year/PFNFIN/2021/PFNFIN-20210422_Preliminary%20Fiscal%20Notes%20for%20Finance%20Committee%20Meeting%20on%20April%202022,%202021.pdf.