



**Governor Ned Lamont
State of Connecticut**



FACT SHEET
2023 Legislative Session

**SENATE BILL 981
AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET**

Summary of Proposal:

This bill contains the major revenue elements of the Governor's plan to provide low- and middle-class income tax relief as well as balance the FY 2024 – FY 2025 biennial budget. The fiscal impact of the Governor's recommended proposals would decrease revenue by \$314.9 million in FY 2023, decrease by \$206.8 million in FY 2024, and decrease by \$472.9 million in FY 2025. The reduction in marginal rates in the Personal Income Tax and the Pass-through Entity Tax proposals would reduce the volatility cap transfer amount by \$41.0 million in FY 2024 and \$91.6 million in FY 2025. The net General Fund revenue impact would decrease revenues by \$165.8 million in FY 2024 and decrease by \$381.3 million in FY 2025 prior to accounting for the state's revenue cap. The Governor is not recommending any policy changes that would impact revenue in the Special Transportation Fund.

Reason for Proposal:

To provide low- and middle-class tax relief and to support Governor Lamont's proposed biennial budget.

Significant Impacts:

The bill will have the following impact on the state's revenue in FY 2024 and FY 2025 (all dollar amounts in millions):

Sec.	Governor's Proposals - General Fund	FY 2024	FY 2025
1-3	Maintain 10% Corp. Tax Surcharge for IY 2023 through IY 2025	\$ 80.0	\$ 50.0
4-5	Increase Human Capital Credit from 5% to 10%; 25% for Childcare	(2.1)	(3.5)
6	Match Federal Estate Filing Timeline from 6 to 9 Months	(38.0)	-
7-8	Repeal Cannabis Expansion of Angel Investor Tax Credit	12.5	15.0
9	Increase EITC Rate from 30.5% to 40% for IY 2023	(44.6)	(44.6)
10	Bond Lock Extension	-	-
11	Maintain Current Treatment of Bond Premium for Debt Service	Exp. Bdgt.	Exp. Bdgt.
12	Reduce Tobacco & Health Trust Fund Transfer from \$12M to \$6M	6.0	6.0
13	Reduce 5% Rate to 4.5% & 3% Rate to 2.0%	(193.6)	(435.8)
14-20	Restore PET Credit from 87.5% to 93.01%	(27.0)	(60.0)
21	Eliminate \$314.9M of ARPA for FY 2023 Revenue Replacement	-	-
	Gross General Fund Impact	\$ (206.8)	\$ (472.9)
	Volatility Adjustment	41.0	91.6
	Net General Fund Impact	\$ (165.8)	\$ (381.3)

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Additional Information:

Sections 1-3: Maintain 10% Corporation Tax Surcharge for IY 2023 through IY 2025, Inclusive. This proposal extends the 10% corporation tax surcharge for 3 income years—income years 2023, 2024, & 2025. The 10% surcharge is on top of the existing 7.5% rate. The surcharge does not apply to companies (1) with less than \$100 million in annual gross revenues or (2) whose tax liability does not exceed the \$250 minimum tax. Effective 1/1/2023.

Sections 4-5: Increase Human Capital Tax Credit from 5% to 10% & to 25% for Childcare. This proposal would:

1. Increase the overall rate at which the tax credit is earned from 5% to 10% of qualifying expenses;
2. Increase the rate at which the tax credit is earned for expenses relating to childcare subsidies and the development of a childcare center from 5% to 25%; and
3. Increase the limitation at which the tax credit can be claimed against Corporation Tax liability from 50.01% to 70% of tax liability for tax credits earned for childcare subsidies and development of a childcare center only.

Aside from the expenses related to childcare as noted above, this tax credit can also be earned for expenses related to job training, work education and training programs, and donations of capital to higher education institutions. This expansion of the tax credit is estimated to cost the state \$2.1 million in FY 2024 and \$3.5 million annually beginning in FY 2025. Effective 1/1/2024.

Section 6: Match the Federal Estate Tax Filing Timeline from 6 to 9 Months. This proposal extends the timeline for when the Estate Tax must be filed by changing the filing deadline to match the federal timeline from 6 months to 9 months following the death of a person. The federal return is needed in order to file the CT return so this proposal would enhance compliance. Prior to 2009, the state conformed to the federal due date, but due to budget shortfalls, the state decoupled from the federal due date to create a one-time revenue acceleration. This is not a tax cut as it only results in a shift of revenue of approximately \$38.0 million in FY 2024. The CT Estate Tax is 12% of the estate value over the federal exemption amount, which is \$12.92 million for 2023. Effective 7/1/2023.

Sections 7-8: Repeal Cannabis Expansion of the Angel Investor Tax Credit. This proposal would eliminate the expansion of the Angel Investor Tax Credit for investments made in cannabis-related businesses. The Angel Investor Tax Credit program provides a tax credit worth 25% of investments made in businesses related to bioscience, advanced materials, photonics, information technology, or emerging technology. Investments must be at least \$25K and tax credits are capped at \$500K per angel investor. No more than \$5 million in tax credits can be issued per FY through FY 2028, inclusive. In the 2021 legislative session, the tax credit program was expanded to investments made in cannabis-related businesses. For investments in cannabis-related businesses only, the tax credit was worth 40% of the investment and was capped at \$15 million per FY through FY 2028, inclusive. Due to the overwhelming interest in entities seeking to be part of the cannabis market, this proposal would scale the program back to its original parameters, excluding cannabis. This proposal would generate \$12.5 million of General Fund revenue in FY 2024 and \$15.0 million annually beginning in FY 2025. Effective 7/1/2023.

Section 9: Increase the EITC from 30.5% to 40% for IY 2023. This proposal would increase the Earned Income Tax Credit (EITC) from 30.5% to 40% of the federal tax credit permanently beginning in income year 2023 — a 31% increase. The maximum benefit of a filer with 3 children would increase from \$2,115 to \$2,774 — an increase of \$659. In 2020, the EITC was at 23%. During the 2021 legislative session, the EITC was increased to 30.5% beginning in income year 2021. This tax credit is refundable and will benefit approximately 211,000 recipients. With this increase, Connecticut will have the 5th highest EITC in the nation and almost double the national average of a 22% EITC. Increasing the EITC to 40% is estimated to cost the state approximately \$44.6 million beginning in FY 2024. Under this proposal and the Personal Income Tax cut proposal (section 13), a family of 4 with an AGI of \$50,500 or less will pay no income tax to CT. Effective 1/1/2023.

Section 10: Bond Lock Extension. This proposal would extend the Bond Lock by 10 years from FY 2024 through the end of FY 2033. The current Bond Lock is set to expire at the end of FY 2023 and has been a critical feature in ensuring the success of the fiscal guardrails by incorporating those guardrails into a bond covenant. The Bond Lock essentially states that the General Assembly cannot alter the State's spending cap, revenue cap, or volatility cap unless the Governor declares a state of emergency, or the General Assembly passes an alteration with at least a three-fifths vote in each chamber. Effective upon passage.

Section 11: Maintain Current Treatment of Bond Premium for Debt Service. This proposal would delay the change in how bond premium is treated until FY 2026. Under current law starting in FY 2024 all bond premium generated for the issuance of general obligation sales will be deposited into the state's bond funds to pay for projects and programs. This proposal would allow general obligation bond premium generated during the biennium to pay down debt service. This proposal is estimated to save the state \$20 million in FY 2024 and \$60 million in FY 2025. Effective 7/1/2023.

Section 12: Reduce the Tobacco & Health Trust Fund Transfer from \$12 million to \$6 million. This proposal would reduce the General Fund revenue intercept from \$12.0 million to \$6.0 million annually beginning in FY 2024. In 2022, the General Assembly reinstated the transfer of \$12.0 million from the General Fund to the Tobacco and Health Trust Fund in order to 1) support and encourage development of programs to reduce tobacco abuse through prevention, education and cessation programs, 2) support and encourage development of programs to reduce substance abuse, and 3) develop and implement programs to meet the unmet physical and mental health needs in the state. The transfer had been dormant since 2017. Effective 7/1/2023.

Section 13: Reduce the 5% PIT Rate to 4.5% and 3% PIT Rate to 2%. This proposal would lower the 2 lowest marginal rates in the Personal Income Tax. The 5% rate would be reduced to 4.5% and the 3% rate would be reduced to 2%. This would be the first income tax rate relief in almost 30 years. This would impact approximately 1.1 million (63.2%) of the 1.7 million Personal Income Tax filers. Depending on a filer's adjusted gross income (AGI), some joint filers could receive almost \$600 in tax relief and some single filers could receive almost \$300 in tax relief. This

proposal is expected to cost the state approximately \$193.6 million in FY 2024 and \$435.8 million in FY 2025, however, a portion of this will impact the volatility cap. General Fund budgetary balance is expected to be reduced by \$174.2 million in FY 2024 and \$392.2 million in FY 2025. Under this proposal and the EITC proposal (section 9), a family of 4 with an AGI of \$50,500 or less will pay no income tax to CT. Effective 1/1/2024.

Sections 14-20: Restore the PET Credit from 87.5% to 93.01%. This proposal would make the Pass-through Entity Tax (PET) and tax credit revenue neutral again (as when the PE Tax was first enacted in 2018) by increasing the tax credit percentage against the Personal Income tax from 87.5% to 93.01%. In the 2019 legislative session, the PET credit was reduced from 93.01 to 87.5% to generate approximately \$50 million of revenue to address budget shortfalls. Because the tax and credit will be revenue neutral, this proposal will provide businesses with the option to decide whether the federal tax savings are worth the administrative costs of paying the tax at the entity level rather than at the individual level. This proposal is estimated to cost the state \$27.0 million in FY 2024 and \$60.0 million annually beginning in FY 2025, however, a portion (approx. 80%) of this proposal would impact the volatility cap. General Fund budgetary balance is expected to be reduced by \$5.4 million in FY 2024 and \$12.0 million annually beginning in FY 2025. Effective 1/1/2024.

Section 21: Eliminate the Use of ARPA for FY 2023 Revenue Replacement. The FY 2023 General Fund budget anticipated utilizing \$314.9 million of federal American Rescue Plan Act of 2021 (ARPA) dollars to help balance the FY 2023 budget. This proposal would eliminate the one-time \$314.9 million of ARPA revenue replacement from the General Fund in FY 2023 as the current projected surplus is in excess of \$1.3 billion as of 1/20/23. Removing this ARPA revenue replacement would reduce the projected FY 2023 surplus by \$314.9 million and allow \$314.9 million of ARPA funds to be used for other priorities. Effective upon passage.