

# OFFICE OF FISCAL ANALYSIS

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sSB-981

AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE BIENNIAL BUDGET.

## **OFA Fiscal Note**

**State Impact:** See Below

**Municipal Impact:** See Below

## **Explanation**

The bill makes various changes with fiscal impacts described below.

## **Summary Revenue Impacts by Fund or Account, in \$ millions**

	FY 23	FY 24	FY 25	FY 26
General Fund	(614.9)	(286.9)	(430.2)	(486.5)
Special Transportation Fund	-	(0.3)	(0.3)	(0.3)
Municipal Revenue Sharing Account	-	(0.3)	(0.3)	(0.3)
Municipal Host Grants Account (NEW)	-	50	50	50
Municipal Needs Capacity Account (NEW)	-	25	25	25
Arts, Culture and Tourism Account (NEW)	-	25	25	25
Supplemental Grants in Lieu of Taxes Account (NEW)	300	Potential: Up to 300	N/A	N/A
Municipal Tax Revenue Account (NEW)	N/A	N/A	Potential	Potential
Total	(314.9)	(187.5)	(330.8)	(387.1)

## **Detailed Revenue Impacts by Section, in \$ millions**

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5/8/23

Section	Policy	Fund impacted	FY 23	FY 24	FY 25	FY 26
1-3	Extend the temporary corporate tax surcharge	General Fund	-	80	50	20
4	Expand the human capital tax credit	General Fund	-	(2.1)	(3.5)	(3.5)
5	Increase the state's Earned Income Tax Credit (EITC) rate to 45%	General Fund	-	(68.4)	(68.4)	(68.4)
6	Lower the 3% marginal personal income tax rate to 2%, effective 1/1/24	General Fund	-	(49.4)	(109.7)	(113)
6	Lower the 5% marginal personal income tax rate to 4.75%, effective 1/1/24	General Fund	-	(68.1)	(151.3)	(155.8)
6	Limit the personal income tax reductions above to taxpayers with less than \$100k (single) or \$200k (married filing jointly)	General Fund	-	3.0	6.5	6.5
N/A	Adjust volatility cap transfer amount to reflect E&F portion of the personal income tax policies above	General Fund	-	6.5	14.5	14.9
7	Eliminate the benefits cliff by phasing out the pension & annuity exemption for joint filers from \$100,000 to \$150,000 and single, separate, and head of household filers from \$75,000 to \$100,000 with an alternative phase-out	General Fund	-	(48.1)	(32)	(32)
7	Eliminate the benefits cliff by phasing out the IRAs exemption for joint filers from \$100,000 to \$150,000 and single, separate, and head of household filers from \$75,000 to \$100,000 with an alternative phase-out	General Fund	-	(10)	(13.3)	(19.8)
7-8	Allow otherwise federally disallowed business expense deductions for cannabis businesses	General Fund	-	(4.7)	(6.2)	(9.6)
9-10	Increase the amount of the film and digital media production tax credits to be claimed against the sales tax under certain circumstances	General Fund	-	(2.2)	(4.3)	(4.3)
Section	Policy	Fund impacted	FY 23	FY 24	FY 25	FY 26

11	Increase the rate of the credit refund value for research and experimental expenditures or research and development expenses of biotechnology companies	General Fund	-	(1.1)	(1.1)	(1.1)
12	Adjust requirements for unclaimed bottle deposits	General Fund	-	(11.7)	(3.2)	(10)
13	Exclude personnel training services from the sales and use taxes	General Fund	-	(2.9)	(2.9)	(2.9)
13	Exclude personnel training services from the sales and use taxes	Special Transportation Fund	-	(0.3)	(0.3)	(0.3)
13	Exclude personnel training services from the sales and use taxes	Municipal Revenue Sharing Account	-	(0.3)	(0.3)	(0.3)
14-15	Increase the maximum tax credit allowed for each construction trade apprentice	General Fund	-	(0.2)	(0.2)	(0.2)
16-20	Divert meals tax revenues	General Fund	-	(100)	(100)	(100)
16-20	Divert meals tax revenues	Municipal Host Grants Account	-	50	50	50
16-20	Divert meals tax revenues	Arts, Culture and Tourism Account	-	25	25	25
16-20	Divert meals tax revenues	Municipal Needs Capacity Account	-	25	25	25
21	Establish a revenue sharing program with municipalities (1)	General Fund	-	SEE BELOW		
22	Divert surplus revenues to make supplemental payments in lieu of taxes (PILOT) (2)	General Fund	(300)	Up to (300)	-	-
22	Divert surplus revenues to make supplemental payments in lieu of taxes (PILOT) (2)	Supplemental Grants in Lieu of Taxes Account	300	Up to 300	-	-
23	Extend the period that corporations may carry forward a net operating loss deduction	General Fund	-	-	(7.5)	(4.7)
24	Allow certain corporations who own LLCs to claim the fixed capital investment tax credit for amounts the LLC invested in qualifying fixed capital	General Fund	-	-	(0.4)	(0.4)
25-26	DRS reporting and planning requirements	General Fund	N/A	N/A	N/A	N/A
27	Eliminate use of ARPA for FY 23 General Fund revenue replacement	General Fund	(314.9)	-	-	-

(1)

**Establish a revenue sharing program with municipalities**

Beginning in FY 25, potential municipal revenue gain and commensurate revenue loss annually to the state by transferring excess revenue above the revenue estimates adopted by Finance, Revenue and Bonding into a new “municipal tax revenue account.” Any impact would occur only in years where revenues exceed budgeted estimates and can be potentially significant depending upon the year. State revenues diverted under this provision would otherwise be deposited into the Budget Reserve Fund or be used to reduce long-term obligations (primarily unfunded pension liabilities).

In order to track, record, and attribute to municipalities the various revenue sources covered under the bill, the Department of Revenue Services would incur one-time programming costs of up to \$75,000 in FY 24 only.

This provision also results in a potential cost to the Office of Policy and Management (OPM) beginning in FY 24 for staff to (1) calculate the growth rate projections on a municipal basis for certain taxes and (2) calculate a municipal needs capacity gap metric for each municipality. There is also a cost to OPM to administer grants from the municipal tax revenue account and a corresponding revenue gain to certain municipalities that receive the grant. It is estimated the total grant amount will be approximately \$20 million as OPM may not administer the grant until the account reaches \$40 million and may not allow the account to fall below \$20 million. Any revenue gain to municipalities will depend on when the account reaches the required amount.

(2)

Divert up to \$300 million annually in surplus from the General Fund to provide supplemental grants in lieu of taxes to municipalities in FY 23 and FY 24.

**Other Cost Impacts**

In order to administer the remaining tax provisions of the bill there is (1) a one-time cost of up to \$450,000 in FY 24 for programming costs and form modification, and (2) an ongoing annual cost of \$50,000 beginning in FY 24 associated with retaining and storing corporation business tax forms for an additional 10 years in order to implement the net operating loss provisions.

**Sections 25 & 26** result in consulting costs of \$250,000 for the tax gap and tax incidence reports required of DRS under the bill.

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

The annualized, ongoing cost impacts indicated above would continue into the future, subject to inflation.

### **Summary Outyear Revenue Impacts by Fund or Account, in \$ millions**

	FY 27	FY 28
General Fund	(531.8)	(545.8)
Special Transportation Fund	(0.3)	(0.3)
Municipal Revenue Sharing Account	(0.3)	(0.3)
Municipal Host Grants Account (NEW)	50	50
Municipal Needs Capacity Account (NEW)	25	25
Arts, Culture and Tourism Account (NEW)	25	25
Supplemental Grants in Lieu of Taxes Account (NEW)	N/A	N/A
Municipal Tax Revenue Account (NEW)	See explanation in body of fiscal note	
Total	(432.4)	(446.4)