

MAJOR REVENUE CHANGES

The biennial budget (PA 11-6, as adjusted by PA 11-61, PA 11-44, PA 11-51, PA 11-140, PA 11-233, and PA 11-86), generates additional General Fund revenue of \$2.0 billion in FY 12 and \$1.8 billion in FY 13.

GENERAL FUND REVENUE CHANGES BY SOURCE (in millions)

	FY 12 \$	FY 13 \$
Health Provider Tax	403.9	408.2
Net Other Taxes	1,369.5	1,227.1
Licenses, Fees, Permits, Transfers, Other	132.0	80.4
Net Federal Funds	89.6	70.4
TOTAL REVENUE CHANGES	1,995.0	1,786.1

Excluding the Health Provider tax increases on Nursing Homes, Intermediate Care Facilities for the Mentally Retarded and Hospitals, the biennial budget raises General Fund taxes by \$1,479.7 million in FY 12 and \$1,343.5 million in FY 13. These totals are offset by earned income tax credits of \$91.8 million in FY 12 and \$97.1 million in FY 13.

OTHER GENERAL FUND TAX CHANGES BY TYPE (in millions)

	FY 12 \$	FY 13 \$
Personal Income *	985.3	740.6
Sales and Use	330.1	344.6
Corporation	38.8	104.8
Inheritance and Estate	22.4	22.4
Insurance Companies	20.5	19.3
Cigarette	50.5	44.8
Oil Companies	(56.6)	(29.1)
Electric Generation (New)	71.0	71.0
Admissions and Dues	4.0	8.0
Alcoholic Beverages	9.8	9.3
Enhanced Enforcement - DRS system	3.9	7.8
Earned Income Tax Credit	(110.2)	(116.5)
NET OTHER TAXES TOTAL	1,369.5	1,227.1
* FY 12 reflects 18 months' of revenue (the 2011 calendar and the first 6 months of 2012).		

General Fund Revenue Changes by Type - The following information provides a description by category on the major tax and other revenue changes enacted during the 2011 regular and special sessions. A table showing the revenue amounts follows these descriptions.

Income Tax

- **Marginal Rate Changes** - Increase the number of Income Tax brackets from three to six. The new income tax rates are 3%, 5%, 5.5%, 6%, 6.5%, and 6.7% (from 3%, 5% and 6.5%). Effective upon passage and applicable to the 2011 tax year.
- **Phase-Out 3% Marginal Rate** - Phase out the lowest (3%) income tax bracket for taxpayers at certain Connecticut adjusted gross income thresholds. Effective upon passage and applicable to the 2011 tax year.
- **Marginal Rate Recapture** - Eliminate the benefit of having portions of income taxed at lower marginal rates for taxpayers at certain Connecticut adjusted gross income thresholds. Effective upon passage and applicable to the 2011 tax year.
- **Reduce the Property Tax Credit** - Reduce, from \$500 to \$300, the income tax credit for property taxes paid in Connecticut, and phase out the credit at a steeper rate. Effective upon passage and applicable to the 2011 tax year.
- **Establish an Earned Income Tax Credit** - Resident taxpayers are eligible to claim a refundable state earned income tax credit equal to 30% of the earned income tax credit claimed and allowed on the federal income tax return for the same tax year. Effective upon passage and applicable to the 2011 tax year.
- **Risk-Based Scoring Decision System** - Funding is provided for a Collections & Enforcement scoring and prioritization system to analyze various outstanding tax liabilities, prioritize potential action according to projected outcomes, and assign the best available and most cost-effective resources. This is anticipated to result in tax revenue totaling \$3.9 million in FY 12 and \$7.7 million in FY 13 from the Income, Sales, and Corporation taxes.

Sales & Use Tax

Rate Changes (effective July 1, 2011)

- **Sales Tax Rate** - The general sales tax rate increases from 6% to 6.35%. The state retains revenue from 6.25% of the 6.35% rate and deposits the remaining 0.1% into the municipal revenue sharing account.
- **Room Occupancy Tax Rate** - The room occupancy tax rate increase from 12% to 15%. The state retains revenue generated from 14% of the 15% rate and deposits the remaining 1% into the regional performance incentive account.
- **Luxury Tax Rate** - A sales tax rate of 7% applies to the price of the following:
 1. \$ 50,000 for motor vehicles, with certain exceptions;
 2. \$ 100,000 for boats;
 3. \$ 5,000 for jewelry (real or imitation); and
 4. \$ 1,000 for clothing or footwear (including handbags, luggage, umbrellas, wallets, and watches).

- The state retains revenue from 6.9% of the 7% rate and deposits the remaining 0.1% into the municipal revenue sharing account.
- Rental Car Rate - The rental car sales tax increases from 6% to 9.35%. The state retains revenue from 8.35% of the 9.35% rate and deposits the remaining 1% into the regional performance incentive account.

Sales Tax Exemptions Eliminated (effective July 1, 2011)

- Clothing and Footwear under \$50 - Sales tax applies to clothing and footwear costing less than \$50.
- Non-prescription Drugs and Medicine - Sales tax applies to non-prescription drugs and medicine including vitamin or mineral concentrates; dietary supplements; natural or herbal drugs or medicines; products intended to be taken for coughs, colds, asthma or allergies; antihistamines; laxatives; antidiarrheal medicines; analgesics; antibiotic, antibacterial, antiviral and antifungal medicines; antiseptics; astringents; anesthetics; steroidal medicines; anthelmintics; emetics and antiemetics; antacids; and any medication prepared to be used in the eyes, ears or nose.
- Smoking Cessation Products - Sales tax applies to specially formulated gum, inhalants, or similar products (including patches and tablets) designed to aid in the cessation of a smoking habit.
- Hazardous Waste Removal - Sales tax applies to services rendered in the voluntary evaluation, prevention, treatment, containment or removal of hazardous waste or other contaminants of air, water or soil to industrial, commercial or income-producing real property.
- Airport Valet Services - Sales tax applies to valet parking provided at any airport.
- Clothing or fabric for Non-commercial Sewing - Sales tax applies to items necessary in sewing that become component parts of clothing for noncommercial use. Additionally, sales tax applies to the sale of yarn.
- Yoga Instruction - Sales tax applies to Yoga instruction provided at a yoga studio (a fixed interior location substantially dedicated to yoga instruction).

New Sales Taxes (effective July 1, 2011)

- Cosmetic Surgery - Sales tax applies to services in connection with any medical procedure performed on an individual that is directed at improving the individual's appearance and that does not meaningfully promote the proper function of the body or prevent or treat illness or disease.
- Spa Services - Sales tax applies to spa-related services, including body waxing and wraps, peels, scrubs and facials, regardless of where they are performed.
- Pet Grooming Services - Sales tax applies to pet grooming and pet boarding services, except if such services are provided as an integral part of professional veterinary services, and pet obedience services.

- Livery Services - Sales tax applies to intrastate transportation services provided by livery services, including limousines, community cars or vans, with a driver.
- Motor Vehicle Towing and Road Services - Sales tax applies to motor vehicle towing and road services.
- Nail Services - Sales tax applies to manicure services, pedicure services and all other nail services, regardless of where they are performed.
- Packing and Crating - Sales Tax applies to packing and crating services.
- Motor Vehicle Storage - Sales tax applies to motor vehicle storage services, including storage of motor homes, campers and camp trailers.
- Remote Sellers - The law requires certain remote retail sellers who have no physical presence in the state to collect sales tax. Under the law, an affiliation between a remote seller and a Connecticut business creates a "nexus" in which the remote seller is determined to be engaged in business within the state though not physically present. These remote sellers are therefore required to collect sales tax on purchases made by Connecticut residents and remit the revenue to the state.

Corporation Business Tax

- Corporation Tax Surcharge - A 20% corporation tax surcharge is imposed for income years 2012 and 2013 on companies that have: (1) at least \$100 million in annual gross income and (2) a tax liability that exceeds \$250. Effective upon passage and applicable to income years beginning on or after January 1, 2011.
- Lift 70% Credit Utilization Cap - Lift the 70% cap on the utilization of corporation tax credits for job creation by companies. The tax liability offset above 70% is equal to \$6,000 times the company's average net monthly increase in employees, up to 100% of its total liability. Effective upon passage and applicable to income years beginning on or after January 1, 2011.
- Raise Cap on Certain Job Creation Tax Credits - Increase the total amount of tax credits available for creating new jobs from \$11 million to \$20 million. Effective July 1, 2011.
- Neighborhood Assistance Act Changes - The maximum amount of Neighborhood Assistance Act tax credits that may be claimed in any one year is increased from \$75,000 to \$150,000. Credit eligibility is also extended to S corporations, limited liability companies, limited liability partnerships, and other entities subject to the Business Entity Tax. These provisions also apply to the Insurance Premiums Tax. Effective October 1, 2011.
- Manufacturing Reinvestment Account - Certain manufacturers may establish a Manufacturing Reinvestment Account and deposit up to \$50,000 annually on a tax-deferred basis for up to five years. Withdrawals are taxed at a reduced rate of 3.5%, regardless of corporate or business structure. Effective July 1, 2011.

Inheritance and Estate Tax

- Lower Exemption Level - The exemption level is lowered from \$3.5 million to \$2 million, with the 7.2% rate extending to estates and gifts valued at between \$2 million and \$3.5 million. Effective upon passage, and applicable to deaths occurring and gifts made on or after January 1, 2011.

Insurance Premiums Tax

- Film Tax Credit Transferability Revision - A limitation is imposed on the amount of film tax credits that may be assigned annually. The maximum transfer of credits is: (1) 50% in any one income year for credits earned in 2011, and (2) 25% in any one income year for credits earned in 2012 and beyond, with certain exemptions. These restrictions also apply to credits taken under the Corporation Business Tax. Effective July 1, 2011.
- Lower 70% Credit Utilization Cap - Lower, from 70% to 30%, the amount by which an insurer can reduce its annual insurance premium tax liability through tax credits for calendar years 2011 and 2012, with certain exemptions. Insurers may also lift the 30% cap through use of the job creation tax credit (see **Corporation Business Tax** above). Effective upon passage, and applicable to calendar years starting on or after January 1, 2011.

Cigarette Tax

- Increase Cigarette Excise Tax - The cigarette excise tax is increased from \$3.00 to \$3.40 per pack. Additionally, a 40-cent "floor tax" is imposed on each pack of cigarettes dealers and distributors have in their inventories as of the close of business on June 30, 2011. Effective July 1, 2011.
- Increase Taxes on Other Tobacco Products - The excise tax on tobacco products is raised: (1) from 55 cents to \$1.00 per ounce on snuff products, and (2) from 27.5% to 50% of the wholesale price on all other tobacco products, not to exceed 50 cents for cigars. Effectively July 1, 2011.

Petroleum Products Gross Earnings Tax

- Increase Special Transportation Fund Transfer - Petroleum Products Gross Earnings Tax (PGET) revenue dedicated for annual use in the Special Transportation fund is increased through the out-years.
- Eliminate Fuel Oil Conservation Account - Eliminate the requirement that up to \$5 million in PGET revenue be transferred annually to a separate, non-lapsing Fuel Oil Conservation account when PGET revenue exceeds FY 06 levels.

Electric Generation Tax

- Establish an Electric Generation Tax - A temporary tax of \$.0025 per net kilowatt hour of electricity generated and uploaded to the regional bulk power grid at Connecticut facilities. Electric generation by fuel cell, alternative power, resources recovery facilities, and customer-side

distributed resources is exempt. Effective July 1, 2011 and scheduled to sunset on July 1, 2013.

Admissions and Dues Tax

- Repeal Exemptions - Exemptions from the 10% admissions tax on admissions charges are repealed for specific facilities throughout the state. Effective January 1, 2012, and applicable to charges imposed on or after that date.

Alcoholic Beverages Tax

- Increase Alcoholic Beverages Excise Tax - Increase all alcohol excise tax rates by 20%. Additionally, a 20% "floor tax" is imposed on alcoholic beverages in sellers' inventories as of the opening of business on July 1, 2011. Effective upon passage, and applicable to sales occurring on or after July 1, 2011.

Licenses, Permits, and Fees (effective July 1, 2011)

- Privatize Sealed Ticket Sales - Allow private distributors to sell sealed tickets in place of the Gaming Division of the Department of Consumer Protection. The state retains 30% of the gross revenue derived from distributors' sealed ticket sales.
- Divert Banking Fund Fines to the General Fund.
- Increase Cremation Certificate Fee - Increase, from \$100 to \$150, the statutorily required fee for a cremation certificate, which is required for the cremation of a body for which a death certificate has been issued.
- Transfer Boating Account Revenue - Eliminate the separate, non-lapsing Boating Account and redirect associated watercraft registration and numbering fees to the General Fund.

Rents, Fines, and Escheats

- Reduce Citizens' Election Fund Transfer - Reduce total CEF transfer by \$8.0 million in FY 12. Funding for the CEF is from the sale of abandoned property. Effective July 1, 2011.

Health Provider Taxes

- Hospital User Fee - A user fee on general hospital's inpatient and outpatient revenue. This fee is assessed at 5.5% on inpatient revenue and 3.83% on outpatient revenue. Hospitals that experienced an aggregate loss in excess of 1% over the past five years are exempt from the outpatient fee. Proceeds of the hospital user fee are appropriated back to the hospital system via a Medicaid rate increase, thereby garnering additional federal matching revenue for the state. Effective July 1, 2011.
- Nursing Home and ICF/MR Provider Tax - The current nursing home provider tax is increased to the federally allowed maximum of 6% and applied for the first time to Intermediate Care Facilities for the Mentally Retarded (ICF/MR's). Proceeds of the provider tax are returned

to the system via appropriations and Medicaid rate increases, thereby garnering additional federal matching revenue for the state. Effective July 1, 2011.

Transfers

- Reduce Transfer from General Fund to Special Transportation Fund - A total reduction of \$42.5 million in FY 12. Effective July 1, 2011.
- Transfer Transportation Strategy Board Account Revenue - Transfer any unspent balance in the Department of Transportation's separate, non-lapsing Transportation Strategy Board account to the General Fund. Effective July 1, 2011.
- Mashantucket Pequot/Mohegan - Transfer \$73.2 million of Indian gaming revenue from the Mashantucket Pequot and Mohegan Fund (MPMF) to the General Fund. All Indian gaming revenues are deposited into the General Fund; appropriations for grants to towns from the MPMF reduce the amount of General Fund deposit. Of \$135 million in total current services funding for MPMF grants to towns, only \$61.8 million was appropriated, resulting in a \$73.2 million transfer of revenue to the General Fund.

Transportation Fund - During the 2011 regular session the legislature enacted provisions anticipated to result in a net Transportation Fund revenue gain of \$6.8 million in FY 12 and \$62.2 million in FY 13 associated with increases in the diesel tax, various Department of Motor Vehicle fees and changes in the transfers from the General Fund to the Transportation Fund.

The table on the following page summarizes the revenue changes enacted by PA 11-6 unless otherwise indicated.

TRANSPORTATION FUND REVENUE CHANGES (in millions)

	FY 12 \$	FY 13 \$	FY 14 \$	FY 15 \$	FY 16 \$
Motor Fuels Tax					
Increase Diesel Tax 26 to 29 cents/gal	8.5	8.7	8.7	8.7	8.7
Diesel Floor Tax	0.2	-	-	-	-
Increase Oil Co. Tax Transfers	61.6	34.1	43.5	47.6	52.2
Motor Vehicles Receipts					
Increase Various Registration Fees	10.0	10.0	10.0	10.0	10.0
Increase Driver's License Fees \$10	3.1	3.1	3.1	3.1	3.1
Transfer Fines to Municipalities for Failing to Register In-State	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
License, Permits and Fees					
Implement \$25 Renewal Fee	2.2	2.2	2.2	2.2	2.2
Electronic VIN Inspection Fee \$10	5.5	5.5	5.5	5.5	5.5
CAA Transfer Airport Fees ¹	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Transfers - Other					
Reduce TSB Projects Account Transfer	0.3	0.3	0.3	0.3	0.3
Reduce GF Transfer ²	(42.5)	-	-	-	-
Total Policy Revisions	47.3	62.2	71.6	75.7	80.3

¹PA 11-84 transfers general aviation revenues to the newly established quasi-public authority - Connecticut Airport Authority.

²PA 11-61 reduces the transfer for FY 12.

Legislation's Impact on Revenue - During the 2011 regular session the legislature enacted provisions anticipated to result in a net General Fund revenue gain of \$1.995 billion in FY 12 and \$1.786 billion in FY 13. The changes consist of revenue from taxes (\$1.4 billion in FY 12 and \$1.2 billion in FY 13, excluding the Health Provider Tax), licenses, permits, fees, transfers, and other non-tax sources (\$132.0 million in FY 12 and \$80.4 million in FY 13), federal funds (\$89.6 million in FY 12 and \$70.4 million in FY 13), and a Health Provider Tax (\$403.9 million in FY 12 and \$408.2 million in FY 13).

The table below provides a summary of the fiscal impact of each piece of major legislation affecting General Fund revenue.

MAJOR LEGISLATION AFFECTING GENERAL FUND REVENUE (in millions)

Public Act	Item Description	FY 12 \$	FY 13 \$	FY 14 \$	FY 15 \$	FY 16 \$
Personal Income Tax						
11-6	Income Tax Rate Changes	834.8	589.7	634.5	670.7	706.9
11-6	Reduce Property Tax to \$300	150.5	150.9	152.4	153.9	155.5
11-6	Earned Income Tax Credit	(110.2)	(116.5)	(123.5)	(130.9)	(138.8)
Sales & Use Tax						
11-6	Sales Tax Rate Change	138.7	144.7	148.9	150.8	152.0

Public Act	Item Description	FY 12 \$	FY 13 \$	FY 14 \$	FY 15 \$	FY 16 \$
11-6	Hotel Tax Rate Change	11.1	11.6	11.9	12.1	12.2
11-6	Luxury Tax	3.6	4.0	4.1	4.2	4.2
11-6	Rental Car Tax Rate Change	3.8	4.0	4.1	4.2	4.2
11-6	Sales Tax Exemptions Eliminated	146.1	152.6	157.0	159.1	160.3
11-6	New Sales Taxes	23.6	24.6	25.3	25.6	25.9
Corporation Business Tax						
11-6	Corporation Tax Surcharge	46.0	116.0	70.7	3.0	0.0
11-6/11-61	Film Tax Credit Transferability Revision	1.8	0.8	0.8	0.8	0.8
11-6	Lift 70% Credit Utilization Cap (for Job Creation)	(6.9)	(8.1)	-	-	-
11-86	Raise Cap on Certain Job Creation Tax Credits	(0.5)	(1.7)	(5.2)	(4.8)	(2.1)
11-140	Neighborhood Assistance Act Changes	(1.4)	(1.8)	(1.8)	(1.8)	(1.8)
11-140	Manufacturing Reinvestment Account	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Inheritance and Estate Tax						
11-6	Lower Exemption Level	22.4	22.4	22.4	22.4	22.4
Insurance Premiums Tax						
11-61	Lower 70% Credit Utilization Cap	19.5	19.5	-	-	-
11-6/11-61	Film Tax Credit Transferability Revision	2.0	1.1	1.1	1.1	1.1
11-6	Lift Credit Utilization Cap (for Job Creation)	(0.5)	(0.5)	-	-	-
11-140	Neighborhood Assistance Act Changes	(0.5)	(0.8)	(0.8)	(0.8)	(0.8)
Cigarette Tax						
11-6	Increase Cigarette Excise Tax	45.6	39.9	37.9	36.0	34.2
11-6	Increase Taxes on Other Tobacco Products	4.9	4.9	4.9	4.9	4.9
Petroleum Products Gross Earnings Tax						
11-6	Increase Special Transportation Fund Transfer	(61.6)	(34.1)	(43.5)	(47.6)	(52.2)
11-6	Eliminate Fuel Oil Conservation Account	5.0	5.0	5.0	5.0	5.0
Electric Generation Tax						
11-6/11-233	Establish an Electric Generation Tax	71.0	71.0	-	-	-
Admissions and Dues Tax						
11-6	Repeal Exemptions	4.0	8.0	8.0	8.0	8.0
Alcoholic Beverages Tax						
11-6	Increase Alcoholic Beverages Excise Tax	9.8	9.3	9.3	9.3	9.3
Licenses, Permits, and Fees						
11-51	Privatize Sealed Ticket Sales	0.0	(0.5)	(0.5)	(0.5)	(0.5)
11-6	Divert Banking Fund Fines to the General Fund	1.5	1.5	1.5	1.5	1.5
11-6	Increase Cremation Certificate Fee	0.6	0.6	0.6	0.6	0.6
11-61	Transfer Boating Account Revenue	5.6	5.6	5.6	5.6	5.6
Rents, Fines, and Escheats						
11-6	Reduce Citizens' Election Fund Transfer	8.0	-	-	-	-
Health Provider Taxes						

Public Act	Item Description	FY 12 \$	FY 13 \$	FY 14 \$	FY 15 \$	FY 16 \$
11-44/11-61	Hospital User Fee	349.1	349.1	366.6	384.9	404.1
11-44	Nursing Home and ICF/MR Provider Tax	54.8	59.1	62.1	65.2	68.4
Transfers						
11-61	Reduce Transfer From GF to STF	42.5	-	-	-	-
11-6	Transfer Transportation Strategy Board Revenue	0.6	-	-	-	-
11-6/11-61	Mashantucket Pequot/Mohegan Fund	73.2	73.2	73.2	73.2	73.2