

May 4, 2022

On May 3, 2022, the Connecticut General Assembly passed an adjusted state budget for fiscal year 2023.¹ This budget amends the biennial state budget passed by the General Assembly on June 17, 2021.² The following budget snapshot provides a nonpartisan look at how the General Assembly's adjusted budget impacts state revenues by analyzing major policy changes.

The General Assembly's adjusted budget is one of the final steps in the budget development process³

- The budget analyzed in this document is the budget passed by both chambers of the General Assembly. Next, the budget will be sent to Governor Ned Lamont who will either sign it into law, veto it, veto specific line items, or let it go into effect without signing.

Key Revenue Policies in Adjusted Budget⁴

- **Personal Income Tax:** accelerates existing pensions and annuities exemption to 100% in tax year 2022.
- **Corporation Tax:** expands student loan employer tax credit eligibility to all Connecticut Higher Education Supplemental Loan Authority (CHESLA) loans.
- **Gas Tax:** Special Transportation Fund revenues includes a temporary suspension of the gas tax until December 1, 2022.
- **Refunds of Taxes:** expands the property tax credit value from \$200 to \$300, and accelerates the reversion to full eligibility for the property tax credit to tax year 2022. Provides a temporary child tax rebate in FY 2023.
- **Insurance Companies Tax:** reintroduces captive insurers initiative that allows firms to address tax payments owed from a prior period without penalty in addition to changing the definition of a captive insurance company to allow foreign captives to open a branch in Connecticut.
- **Federal Grants:** expenditure changes and reservation of revenue in FY 2022 from federal COVID-19 grants results in increased availability for use in FY 2023.
- **Transfers to Other Funds:** reduction of revenue replacement from American Rescue Plan Act (ARPA) funds.

¹ H.B. 5506 as amended by House Amendment A and C: An Act Adjusting the State Budget for the Biennium Ending June 30, 2023, Concerning Provisions Related to Revenue, School Construction and Other Items to Implement the State Budget and Authorizing and Adjusting Bonds of the State. Gen. Assembly. (Ct. 2022).

² Conn. Acts 21-2 (June Special Session).

³ A more detailed explanation of Connecticut's state budget process can be found at <https://ctschoolfinance.org/reports/connecticuts-state-budget-process>.

⁴ This analysis is focused on the high-level impact of the adjusted budget. For a review of all revenue sources and associated policy changes in the adjusted, please visit: https://cga.ct.gov/asp/cgabillstatus/cgabillstatus.asp?selBillType=Bill&which_year=2022&bill_num=5506.

How do these policy changes impact the state?

- The proposed changes do not significantly change the state's revenue policies.
- Despite changes to Personal Income Tax and Corporation Tax policies, both are projected to be higher than original FY 2023 budgeted amounts due to increases in consensus revenue projections.
- Changes to Personal Income Tax and Corporation Tax policies result in higher projected refunds than the original FY 2023 projection.
- Increased Transfers to Other Funds, and the reduced revenue replacement from federal funding provided as part of the ARPA, result in reduced revenue from other sources.
- Overall changes to General Fund revenues result in a reduction of \$320.8 million in available net General Fund revenue in FY 2023.

Analysis of Selected State Revenues

Tables 1 and 2 below contain proposed revenue estimates for significant state General Fund (Table 1) and Special Transportation Fund (Table 2) revenue sources, as well as key policy changes contained in the adjusted budget for each source. Each revenue item is compared to its FY 2023 projected revenue, and includes the amounts in the governor's proposed budget for comparison.

The sole revenue sources included in Tables 1 and 2 are those **revenues projected to exceed \$100 million in revenue in FY 2023**, or **tax revenues with significant policy changes or public interest** for the sake of clarity.

State revenues projected to increase under the adjusted budget — as compared to projected revenues for FY 2023 under the current biennial budget — are highlighted in green, while state revenues projected to decrease are highlighted in red. Revenues projected to stay the same are highlighted in yellow. The far-right column of each table details the policy changes for each revenue source that are contained in the adjusted budget.

**Table 1: Selected Proposed General Fund Revenue Sources
for FY 2023 under Adjusted Budget
(numbers in millions)**

Revenue Source	Biennial Budget Projected FY 2023 ⁵	Governor's Proposed Budget FY 2023 ⁶	Adjusted Budget FY 2023 ⁷	Adjusted Change from Projected*	Adjusted Budget – Key Policy Details
Taxes					
Personal Income Tax: Withholding	\$7,991.0	\$7,948.1	\$8,184.4	\$193.4	Accelerate existing pensions and annuities exemption to 100% in tax year 2022. (-\$42.9 million in FY 2023)
Personal Income Tax: Estimates and Finals	\$2,838.9	\$2,838.9	\$3,522.7	\$683.8	
Sales & Use	\$4,658.8	\$4,658.8	\$4,777.6	\$118.8	No significant policy change.
Corporation	\$1,180.0	\$1,170.6	\$1,294.2	\$114.2	Expand student loan employer tax credit eligibility to all CHESLA borrowers. (-\$9.4 million in FY 23) Establish a tax rebate program for companies that reach certain job creation targets. (No fiscal impact in FY 2023, -\$40.0 million in FY 2025)
Pass-Through Entity Tax	\$1,567.9	\$1,567.9	\$1,957.3	\$389.4	No significant policy change.
Public Service	\$269.3	\$269.3	\$277.0	\$7.7	No significant policy change.
Inheritance & Estate	\$150.2	\$150.2	\$150.2	\$-	No significant policy change.
Insurance Companies	\$235.6	\$243.1	\$243.1	\$7.5	Captive insurers initiative. (\$7.5 million in FY 2023)

⁵ Conn. Acts 21-2 (June Special Session).

⁶ State of Connecticut, Office of Policy and Management. (2022). *Governor's Recommended Budget Adjustments for FY 2023*. Hartford, CT: Author. Retrieved from https://portal.ct.gov/-/media/OPM/Budget/2023_Midterm/Midterm2023_Final.pdf.

⁷ H.B. 5506 as amended by House Amendment A and C: An Act Adjusting the State Budget for the Biennium Ending June 30, 2023, Concerning Provisions Related to Revenue, School Construction and Other Items to Implement the State Budget and Authorizing and Adjusting Bonds of the State. Gen. Assembly. (Ct. 2022).

Revenue Source	Biennial Budget Projected FY 2023 ⁵	Governor's Proposed Budget FY 2023 ⁶	Adjusted Budget FY 2023 ⁷	Adjusted Change from Projected*	Adjusted Budget – Key Policy Details
Cigarettes	\$308.1	\$308.1	\$308.1	\$-	No significant policy change.
Real Estate Conveyance	\$244.8	\$244.8	\$290.4	\$45.6	No significant policy change.
Health Provider Tax	\$991.8	\$991.8	\$973.8	\$(18.0)	No significant policy change.
Less Refunds of Taxes	\$(1,709.1)	\$(1,832.1)	\$(1,952.4)	\$(243.3)	Provide temporary child tax credit. (-\$125.0 million in FY 2023) Increase maximum property tax credit from \$200 to \$300. (-\$60.0 million in FY 2023) Restore eligibility for the property tax credit to all tax payers. (-\$53.0 million in FY 2023)
Other Revenue					
Transfers-Special Revenue	\$402.9	\$402.9	\$402.2	\$(0.7)	No significant policy change.
Licenses, Permits Fees	\$327.5	\$327.5	\$327.5	\$-	No significant policy change.
Rents, Fines, Escheats	\$164.9	\$164.9	\$163.3	\$(1.6)	No significant policy change.
Miscellaneous	\$219.9	\$219.9	\$224.9	\$5.0	No significant policy change.
Other Sources					
Federal Grants	\$1,833.9	\$1,926.5	\$2,059.0	\$225.1	Revenue gain attributable to expenditure changes, reservation of revenue in FY 2022 for use in FY 2023. (\$125.0 million in FY 2023)
Transfer from Tobacco Fund	\$122.1	\$122.1	\$122.1	\$-	No significant policy change.
Transfers From/ (To) Other Funds	\$1,428.0	\$1,178.0	\$673.0	\$(755.0)	Reduce revenue replacement from ARPA federal stimulus, other revenue

Revenue Source	Biennial Budget Projected FY 2023 ⁵	Governor's Proposed Budget FY 2023 ⁶	Adjusted Budget FY 2023 ⁷	Adjusted Change from Projected*	Adjusted Budget – Key Policy Details
					transfers from General Fund in FY 2022. (-\$880.0 million in FY 2023)
Transfers to BRF - Volatility Adjustment	\$(773.4)	\$(773.4)	\$(1,847.5)	\$(1,074.1)	No significant policy change.
Total					
Total General Fund Revenues	\$22,693.7	\$22,368.5	\$22,388.2	\$(305.5)	Changes outlined above.
Revenue Cap Deduction	\$(283.7)	\$(279.6)	\$(299.0)	\$(15.3)	
Available Net General Fund Revenue	\$22,410.0	\$22,088.9	\$22,089.2	\$(320.8)	

*Note: Increases in revenues can partly be attributed to normal economic growth from the consensus revenue changes.

**Table 2: Selected Proposed Special Transportation Fund Revenue Sources
for FY 2023 under Adjusted Budget
(numbers in millions)**

Revenue Source	Biennial Budget Projected FY 2023 ⁸	Governor's Proposed Budget FY 2023 ⁹	Adjusted Budget FY 2023 ¹⁰	Adjusted Change from Projected	Adopted Budget - Key Policy Details
Taxes					
Motor Fuels Tax	\$494.9	\$494.9	\$344.0	\$(150.9)	Temporary suspension of the gas tax (25 cents per gallon) until December 1, 2022. (-\$150.0 million in FY 23)
Oil Companies Tax	\$294.7	\$294.7	\$402.4	\$107.7	No significant policy change.
Sales & Use Tax	\$794.4	\$794.4	\$794.1	\$(0.3)	No significant policy change.
Sales Tax - DMV	\$102.8	\$102.8	\$106.3	\$3.5	No significant policy change.
Highway Use Tax	\$45.0	\$45.0	\$45.0	\$-	No significant policy change.
Other Sources					
Motor Vehicle Receipts	\$266.5	\$266.5	\$269.0	\$2.5	No significant policy change.
Licenses, Permits, Fees	\$142.1	\$142.1	\$142.1	\$-	No significant policy change.
Interest Income	\$3.3	\$3.3	\$3.3	\$-	No significant policy change.
Federal Grants	\$10.1	\$10.1	\$10.1	\$-	No significant policy change.
Transfers From (To) Other Funds	\$(5.5)	\$(5.5)	\$(5.5)	\$-	No significant policy change.
Less Refunds of Payments	\$(2.5)	\$(2.5)	\$(3.1)	\$(0.6)	No significant policy change.

⁸ Conn. Acts 21-2 (June Special Session).

⁹ State of Connecticut, Office of Policy and Management. (2022). *Governor's Recommended Budget Adjustments for FY 2023*. Hartford, CT: Author. Retrieved from https://portal.ct.gov/-/media/OPM/Budget/2023_Midterm/Midterm2023_Final.pdf.

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