

February 10, 2022

On February 9, 2022, Governor Ned Lamont released his recommended midterm state budget adjustments for fiscal year 2023.¹ These recommended budget adjustments would amend the biennial state budget passed by Connecticut's General Assembly on June 17, 2021.² This document details the revenue changes contained in the governor's recommended budget adjustments for FY 2023.

Governor's budget proposal is the first step of the budget development process³

- The General Assembly will review the governor's proposed budget, beginning with the Appropriations and Finance, Revenue and Bonding Committees.
- The General Assembly will make adjustments to the budget, 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 Policies⁴

- 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) borrowers.
- Insurance Companies Tax: reintroduces captive insurers initiative that allows firms to address tax payments owed from a prior period without penalty.
- 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.
- 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. This change ensures compliance with the FY 2022 state revenue cap.
- Transfers to Other Funds: reduction of revenue replacement from American Rescue Plan Act (ARPA) funds to ensure compliance with the FY 2023 state revenue cap.

¹ 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.

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/resources/connecticut-state-budget-process-office-of-fiscal-analysis>.

⁴ This analysis is focused on the high-level impact of the governor's proposed budget. For a review of all revenue sources and associated policy changes in the governor's budget proposal, please see: State of Connecticut, Office of Policy and Management. (2022). *Connecticut FY 2023 Governor's Budget Adjustments*. Hartford, CT: Author. Retrieved from <https://portal.ct.gov/OPM/Bud-Budgets/FY-2023-Budget-Adjustments/FY-2023-Budget-Adjustments>.

For a more in-depth examination of all state revenue sources, please see <http://ctstatefinance.org/revenue>.

- The Special Transportation Fund Revenues have no significant changes recommended under Governor Lamont's proposed budget adjustments.

How do these proposed policy changes impact the state?

- The proposed changes do not significantly change the state's revenue policies.
- Changes to Personal Income Tax, Corporation Tax, and refunds of taxes results in reduced projected tax collections compared to FY 2023 baseline projections.
- Increased Transfers to other fund, and the reduced revenue replacement from federal funding provided as part of the ARPA, results in reduced revenue from other sources.
- Overall changes to General Fund revenues result in a reduction of \$321.1 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 governor's proposed budget adjustments for each source. Each revenue item is compared to its FY 2023 projected revenue.

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 — as compared to FY 2023 projected revenues — under Governor Lamont's proposed budget adjustments are highlighted in green, while state revenues projected to decrease are highlighted in red. The far-right column of each table details the policy changes for each revenue source that are contained in the governor's proposed budget.

**Table 1: Selected Proposed General Fund Revenue Sources
Under Governor's Proposed Biennial Budget⁵
(numbers in millions)**

Revenue Source	FY 2023 Projected	Governor's Proposed Budget FY 2023	Change from Projected FY 2023	Key Policy Details
Taxes				
Personal Income Tax: Withholding	\$7,991.0	\$7,948.1	\$(42.9)	<ul style="list-style-type: none"> Accelerate existing pensions and annuities exemption to 100% in tax year 2022.
Personal Income Tax: Estimates and Finals	\$2,838.9	\$2,838.9	\$-	
Sales & Use	\$4,658.8	\$4,658.8	\$-	<ul style="list-style-type: none"> No significant policy change.
Corporation	\$1,180.0	\$1,170.6	\$(9.4)	<ul style="list-style-type: none"> Expand student loan employer tax credit eligibility to all CHESLA borrowers.
Pass-Through Entity Tax	\$1,567.9	\$1,567.9	\$-	<ul style="list-style-type: none"> No significant policy change.
Public Service	\$269.3	\$269.3	\$-	<ul style="list-style-type: none"> No significant policy change.
Inheritance & Estate	\$150.2	\$150.2	\$-	<ul style="list-style-type: none"> No significant policy change.
Insurance Companies	\$235.6	\$243.1	\$7.5	<ul style="list-style-type: none"> Captive insurers initiative.
Cigarettes	\$308.1	\$308.1	\$-	<ul style="list-style-type: none"> No significant policy change.
Real Estate Conveyance	\$244.8	\$244.8	\$-	<ul style="list-style-type: none"> No significant policy change.
Health Provider Tax	\$991.8	\$991.8	\$-	<ul style="list-style-type: none"> No significant policy change.
Less Refunds of Taxes	\$(1,709.1)	\$(1,832.1)	\$(123.0)	<ul style="list-style-type: none"> Expand the property tax credit value from \$200 to \$300, accelerate the reversion to full eligibility for the property tax credit to tax year 2022.
Other Revenue				
Transfers-Special Revenue	\$402.9	\$402.9	\$-	<ul style="list-style-type: none"> No significant policy change.
Licenses, Permits Fees	\$327.5	\$327.5	\$-	<ul style="list-style-type: none"> No significant policy change.
Rents, Fines, Escheats	\$164.9	\$164.9	\$-	<ul style="list-style-type: none"> No significant policy change.
Miscellaneous	\$219.9	\$219.9	\$-	<ul style="list-style-type: none"> No significant policy change.

⁵ 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.

Revenue Source	FY 2023 Projected	Governor's Proposed Budget FY 2023	Change from Projected FY 2023	Key Policy Details
Other Sources				
Federal Grants	\$1,833.9	\$1,926.5	\$92.6	<ul style="list-style-type: none"> Revenue gain attributable to expenditure changes, reservation of revenue in FY 2022 for use in FY 2023.
Transfer from Tobacco Fund	\$122.1	\$122.1	\$-	<ul style="list-style-type: none"> No significant policy change.
Rents, Fines, Escheats	\$164.9	\$164.9	\$-	<ul style="list-style-type: none"> No significant policy change.
Transfers From/ (To) Other Funds	\$1,428.0	\$1,178.0	\$(250.0)	<ul style="list-style-type: none"> Reduce revenue replacement from ARPA federal stimulus, other revenue transfers from General Fund in FY 2022.
Transfers to BRF – Volatility Adjustment	\$(773.4)	\$(773.4)	\$-	<ul style="list-style-type: none"> No significant policy change.
Total				
Total General Fund Revenues	\$22,693.7	\$22,368.5	\$(325.2)	<ul style="list-style-type: none"> See Above
Revenue Cap Deduction	\$(283.7)	\$(279.6)	\$4.1	
Available Net General Fund Revenue	\$22,410.0	\$22,088.9	\$(321.1)	

**Table 2: Selected Proposed Special Transportation Fund Revenue Sources
Under Governor's Proposed Biennial Budget⁶
(numbers in millions)**

Revenue Source	FY 2023 Projected	Governor's Proposed Budget FY 2023	Change from Projected FY 2023	Key Policy Details
Taxes				
Motor Fuels Tax	\$494.9	\$494.9	\$-	• No significant policy change.
Oil Companies Tax	\$294.7	\$294.7	\$-	• No significant policy change.
Sales & Use Tax	\$794.4	\$794.4	\$-	• No significant policy change.
Sales Tax - DMV	\$102.8	\$102.8	\$-	• No significant policy change.
Highway Use Tax	\$45.0	\$45.0	\$-	• No significant policy change.
Other Sources				
Motor Vehicle Receipts	\$266.5	\$266.5	\$-	• No significant policy change.
Licenses, Permits, Fees	\$142.1	\$142.1	\$-	• No significant policy change.
Interest Income	\$3.3	\$3.3	\$-	• No significant policy change.
Federal Grants	\$10.1	\$10.1	\$-	• No significant policy change.
Transfers From (To) Other Funds	\$5.5	\$5.5	\$-	• No significant policy change.
Less refunds of Payments	\$2.5	\$2.5	\$-	• No significant policy change.

⁶ Ibid.