
OLR Bill Analysis

sSB 84

AN ACT CONCERNING ADJUSTMENTS TO STATE REVENUE.

TABLE OF CONTENTS:

SUMMARY

§§ 1 & 2 — CORPORATION BUSINESS TAX

Decouples the state corporation business tax from the federal bonus depreciation deduction for qualified production property, starting with the 2026 income year; delays, by one year, conforming the state corporation business tax to recent changes to the federal deduction for domestic R&E expenditures and disallows the retroactive application of these changes for the 2022 to 2025 income years; generally exempts corporation business taxpayers from penalties and interest on any additional tax due to these changes

§ 3 — RESEARCH AND DEVELOPMENT TAX CREDIT FOR QUALIFIED SMALL BUSINESSES

Creates an income tax credit for qualifying small businesses that incur eligible R&D spending in Connecticut and requires DECD to administer a tax credit voucher system for the credit; Caps the maximum amount of these credits that DECD can reserve each tax year at \$1.5 million per business and \$25 million in total

§ 4 — VOLATILITY CAP THRESHOLD

Increases the volatility cap threshold for FY 26 by \$650 million, from \$4,728.6 million to \$5,378.6 million, and resets it for FY 27 at \$5,009.1 million

§ 5 — TRANSFER OF FY 26 GENERAL FUND REVENUE TO FY 27

Decreases, by \$30 million, the amount of FY 26 General Fund resources the state comptroller must transfer to be accounted for as FY 27 General Fund revenue

§ 6 — GENERAL FUND TRANSFER TO THE MUNICIPAL REVENUE SHARING FUND

Decreases, by \$13.1 million for FY 26 and \$21.4 million for FY 27, the required transfers from the General Fund to the Municipal Revenue Sharing Fund

§§ 7 & 8 — MUNICIPAL AID TO LEDYARD AND MONTVILLE

Shifts the funding source for municipal aid grants to Ledyard and Montville in FY 27 from Other Expenses to the Mashantucket Pequot and Mohegan Fund

§ 9 — HOME IMPROVEMENT GUARANTY FUND

Increases, from \$750,000 to \$1 million, the Home Improvement Guaranty Fund's annual maximum balance

§§ 10-25 — OCCUPATIONAL LICENSE OR CERTIFICATION FEES

Eliminates numerous occupational license or certification fees

§ 26 — TAX ON CANNABIS SALES

Replaces the current state taxes on retail sales of cannabis plant material, cannabis edible products, and other cannabis with a single tax

§ 27 — MILK PRODUCER REFUNDABLE TAX CREDIT

Establishes a refundable tax credit for milk producers that they may earn when the federally set milk price is lower than the cost of production

§§ 28 & 29 — SALES AND USE TAX ON PEER-TO-PEER CAR SHARING

Explicitly subjects short-term peer-to-peer car sharing to the 9.35% sales and use tax rate applicable to passenger motor vehicle rentals or leases and directs this revenue to the Special Transportation Fund

§§ 28 & 29 — MOTOR VEHICLES SUBJECT TO LUXURY TAX RATE

Increases the sales price threshold for a motor vehicle subject to the 7.75% sales and use tax rate from \$50,000 to \$75,000

§§ 28 & 29 — MEALS AND BEVERAGES TAX DIVERSION TO TOURISM FUND

Directs 50% of the additional 1% sales and use tax on meals and beverages to the Tourism Fund

§ 30 — PERSONAL PROPERTY USED IN BURIALS AND CREMATIONS

Increases the sales and use tax exemption for certain personal property used in burials and cremations from \$2,500 to \$10,000

§ 31 — SALES TAX FREE WEEK

Increases the exemption amount for “sales tax free week” from \$100 to \$300 and adds backpacks and clefted shoes to the list of exempt items

§ 32 — FILM AND DIGITAL MEDIA TAX CREDIT

Extends, to the 2026 and 2027 income years, the increased redemption rate for film and digital media tax credits claimed against the sales tax

§ 33 — COMMUNITY PARTNERSHIP OPPORTUNITY AGREEMENTS

Creates a program within DECD designed to increase educational achievement and workforce skills in communities experiencing persistent economic disadvantages through partnerships between DECD and specified stakeholders

§§ 34-44 — HOSPITAL PROVIDER TAX

Replaces the current hospital provider tax, starting in FY 27, with new taxes on inpatient and outpatient hospital services but requires the taxes to cease and the current tax structure to be reimposed if CMS determines that either tax is impermissible; repeals provisions in the FY 26-27 biennial budget act, scheduled to take effect on July 1, 2026, that principally change the base year on which the provider tax is calculated and increase the total tax revenue on which the tax is calculated

§ 44 — TAX ON NURSING HOMES AND INTERMEDIATE CARE FACILITIES

Repeals the 6% tax on nursing home and ICF revenue scheduled to take effect on July 1, 2026, and instead retains the current user fee on these facilities

§ 44 — HOSPITAL MEDICAID SUPPLEMENTAL PAYMENTS

Repeals the increases to Medicaid supplemental payments to hospitals for FY 27 and after, and instead retains the requirement that DSS pay out the same amount paid in FY 26 for these years

SUMMARY

This bill makes various changes to state taxes and fees, and adjustments to the FY 26-27 biennial budget act, as described in the section-by-section analysis below.

EFFECTIVE DATE: Various, see below.

§§ 1 & 2 — CORPORATION BUSINESS TAX

Decouples the state corporation business tax from the federal bonus depreciation deduction for qualified production property, starting with the 2026 income year; delays, by one year, conforming the state corporation business tax to recent changes to the federal deduction for domestic R&E expenditures and disallows the retroactive application of these changes for the 2022 to 2025 income years; generally exempts corporation business taxpayers from penalties and interest on any additional tax due to these changes

Qualified Production Property (§ 1)

Beginning with the 2026 income year, the bill disallows the federal bonus depreciation deduction for qualified production property (26 U.S.C. § 168(n)). In doing so, it requires taxpayers to add back this deduction when calculating their net income for Connecticut's corporation business tax. Existing law already disallows the federal bonus depreciation deduction that applies to other qualifying property (26 U.S.C. § 168(k)).

The federal FY 25 reconciliation act (P.L. 119-21) allows federal corporation income taxpayers to take a 100% bonus depreciation allowance for qualified production property, rather than depreciating the costs over 39 years. Under federal law, qualified production property is generally manufacturing-related real property, other than property used for offices, lodging, sales, research, software development, parking, and other non-manufacturing functions. To qualify for this tax treatment, the property must be built after January 19, 2025, and before January 1, 2029, and placed in service before January 1, 2031.

Research and Experimental (R&E) Expenditures (§ 1)

Starting in 2025, P.L. 119-21 allows federal corporation income taxpayers to deduct domestic R&E expenditures in the year paid or incurred, rather than requiring them to capitalize and amortize the expenses over five or, if elected, over 10 years. Under the bill, this federal treatment of R&E expenditures flows through for Connecticut corporation business tax purposes beginning only in the 2026 income year. Specifically, the bill disallows this deduction for Connecticut tax purposes for the 2025 income year and instead requires any R&E expenditures paid or incurred for the 2022 through 2025 income years to be deducted as allowed under the federal law on amortizing R&E expenditures in effect on July 3, 2025 (before P.L. 119-21 took effect).

P.L. 119-21 also gives eligible small business taxpayers (generally those with average annual gross receipts below a specified threshold (\$31 million or less for 2025)) the option to retroactively apply this change starting with the 2022 tax year. Taxpayers making this federal election must do so by July 4, 2026, and file an amended return for each affected tax year. The bill disallows the retroactive application of this change starting with the 2022 tax year.

Relief From Penalties and Interest on Related Tax Underpayments (§ 2)

The bill exempts corporation business taxpayers from interest on estimated tax underpayments for any additional tax due because of the changes described above. Specifically, the exemption applies to underpayments for (1) income years starting on or after January 1, 2026, but before the bill's passage, for the change made to the qualified production property deduction and (2) the 2022 through 2025 income years for the changes to the R&E deduction.

The bill also requires the Department of Revenue Services (DRS) commissioner to waive any interest or penalties for any part of an underpayment for the 2022 through 2025 income years because of the changes to the R&E deduction if the taxpayer pays the additional tax by (1) November 15, 2026, or (2) the due date for the tax return on which they report the additional tax, regardless of any filing extension.

Taxpayers must submit evidence that they are eligible for this waiver as the DRS commissioner prescribes.

EFFECTIVE DATE: Upon passage

§ 3 — RESEARCH AND DEVELOPMENT TAX CREDIT FOR QUALIFIED SMALL BUSINESSES

Creates an income tax credit for qualifying small businesses that incur eligible R&D spending in Connecticut and requires DECD to administer a tax credit voucher system for the credit; Caps the maximum amount of these credits that DECD can reserve each tax year at \$1.5 million per business and \$25 million in total

The bill creates a tax credit for qualifying small businesses that incur eligible research and development (R&D) spending in Connecticut and allows the businesses' owners to claim the credit against their personal income tax liability (other than income tax withholding). It requires the Department of Economic and Community Development (DECD) to administer a voucher system for the credit program within available appropriations. Qualified small businesses must apply for and receive a credit voucher to claim the credit, which equals 6% of the R&D spending they pay or incur for a tax year.

Eligible R&D Spending

Under the bill, credit-eligible R&D spending generally includes the same two categories of expenditures that are eligible under the state's existing corporation R&D tax credit: (1) federally deductible R&D expenditures the business incurs and (2) qualifying "basic research payments" that are eligible for a federal R&D tax credit. The first category of credit-eligible spending generally includes the R&D expenditures a business incurs to develop or improve a product (current-year R&D expenditures deductible under 26 USCA § 174, as in effect on May 28, 1993, and determined without regard to the federal credit for increasing research activities). The second category includes payments made to qualifying nonprofit educational institutions, scientific research organizations, or grant organizations for eligible research.

In both cases, the expenditures or payments must (1) be paid or incurred for R&D and basic research done in Connecticut and (2) not be

funded by any grant or contract with a public or private entity.

Qualified Small Businesses

To qualify for the credit, the business must be an S corporation or entity considered a partnership for federal income tax purposes, such as a limited liability company (LLC), and have gross income for the previous tax year of \$70 million or less, including income derived from transactions with related entities, as determined by the DECD commissioner. (S corporations and partnerships are generally referred to as pass-through businesses because their profits “pass-through” to their owners and are taxed as part of the owners’ personal income tax.)

Credit Administration

Reserving Credits. Under the bill, a qualified small business may apply to the DECD commissioner to reserve a credit allocation based on the amount of R&D spending it intends to pay or incur for a tax year. The commissioner may reserve a credit for the business based on this amount, and notify the business of its reserved credit, if he determines that it is likely to pay or incur R&D spending for the tax year.

The bill caps the maximum amount of these credits that can be reserved each tax year at \$1.5 million per business and \$25 million in total. In deciding whether to issue credit reservation notices, the commissioner must prioritize qualified small businesses that, in his opinion, show a likelihood for in-state growth or will best contribute to the state’s economic ecosystem.

The commissioner must set the credit application form and process and may require the application to contain any information he finds necessary to administer the credit program. Additionally, he may adopt regulations to implement the credit.

Issuing Vouchers. Within 90 days after the end of a tax year, a qualified small business that received a credit reservation notice must verify the R&D spending it paid or incurred for the tax year as the DECD commissioner prescribes. In reviewing this verification, if the commissioner determines that the business paid or incurred the

spending, he must issue the business a tax credit voucher for 6% of the expenses. The voucher's amount cannot exceed the business's credit reservation.

The DECD commissioner must notify the DRS commissioner and Office of Policy and Management (OPM) secretary about each tax credit voucher issued under the program.

Credit Claims and Refunds

Under the bill, if the qualified small business is an S corporation or entity treated as a partnership for federal income tax purposes, its shareholders or partners may claim the credit. If it is a single member LLC that is disregarded as an entity separate from its owner, the owner may claim the credit if he or she is subject to income tax.

Taxpayers claiming the credit must apply it before applying any other income tax credits. If the credit exceeds the taxpayer's income tax liability, the bill allows the taxpayer to apply to the DRS commissioner to exchange it for a partial refund for the excess amount when filing the tax return on which it claimed the credit.

The refund amount equals 90% of the excess for credits earned by biotechnology businesses and 65% for credits earned by other qualified small businesses. Under the bill, a "biotechnology business" is one that applies certain technologies (such as biochemistry or genetics) to produce or modify products, improve plants or animals, identify targets for small molecule pharmaceutical development, transform biological systems into useful processes and products, or develop microorganisms for specific uses.

EFFECTIVE DATE: Upon passage and applicable to tax years starting on or after January 1, 2026.

§ 4 — VOLATILITY CAP THRESHOLD

Increases the volatility cap threshold for FY 26 by \$650 million, from \$4,728.6 million to \$5,378.6 million, and resets it for FY 27 at \$5,009.1 million

The bill increases the volatility cap threshold for FY 26 by \$650 million, from \$4,728.6 million to \$5,378.6 million, and resets it for FY 27

at \$5,009.1 million (the estimated FY 27 threshold based on January consensus revenue estimates). For FY 28 and after, it requires the \$5,009.1 million threshold to be annually adjusted for inflation as under existing law (based on the compound annual growth rate of state personal income over the preceding five calendar years, using U.S. Bureau of Economic Analysis data).

The “volatility cap” is a mechanism for diverting volatile tax revenue to the Budget Reserve Fund (BRF). It requires the state treasurer to transfer to the BRF any revenue the state receives each fiscal year over the applicable threshold from (1) personal income tax estimated and final payments (generated from taxpayers who make estimated income tax payments on a quarterly basis) and (2) the passthrough entity tax.

By law, the legislature may amend the threshold amount, by a vote of three-fifths of the members of each house, due to changes in state or federal tax law or policy or significant adjustments to economic growth or tax collections.

EFFECTIVE DATE: Upon passage

§ 5 — TRANSFER OF FY 26 GENERAL FUND REVENUE TO FY 27

Decreases, by \$30 million, the amount of FY 26 General Fund resources the state comptroller must transfer to be accounted for as FY 27 General Fund revenue

The FY 26-27 biennial budget act currently requires the state comptroller, by June 30, 2026, to transfer \$244 million of FY 26 General Fund resources to be accounted for as FY 27 General Fund revenue. The bill decreases this required transfer by \$30 million, to \$214 million.

EFFECTIVE DATE: Upon passage

§ 6 — GENERAL FUND TRANSFER TO THE MUNICIPAL REVENUE SHARING FUND

Decreases, by \$13.1 million for FY 26 and \$21.4 million for FY 27, the required transfers from the General Fund to the Municipal Revenue Sharing Fund

The bill reduces the required transfers from the General Fund to the Municipal Revenue Sharing Fund by (1) \$13.1 million for FY 26, from \$101 million to \$87.9 million, and (2) \$21.4 million for FY 27, from \$90 million to \$68.6 million.

EFFECTIVE DATE: Upon passage

§§ 7 & 8 — MUNICIPAL AID TO LEDYARD AND MONTVILLE

Shifts the funding source for municipal aid grants to Ledyard and Montville in FY 27 from Other Expenses to the Mashantucket Pequot and Mohegan Fund

The FY 26-27 biennial budget act earmarks \$800,000 each to Ledyard and Montville for FY 27. The bill shifts the funding source for these municipal aid grants from Other Expenses to the Mashantucket Pequot and Mohegan Fund.

EFFECTIVE DATE: July 1, 2026

§ 9 — HOME IMPROVEMENT GUARANTY FUND

Increases, from \$750,000 to \$1 million, the Home Improvement Guaranty Fund's annual maximum balance

The bill increases the Home Improvement Guaranty Fund's annual maximum balance from \$750,000 to \$1 million. By law, unchanged by the bill, if the fund's balance exceeds the cap, the first \$400,000 of the excess is transferred into the Department of Consumer Protection's consumer protection enforcement account and the remainder is transferred to the General Fund.

The Home Improvement Guaranty Fund generally reimburses consumers who are unable to collect on losses for damages caused by a registered home improvement contractor. Contractors and home improvement salespeople pay an annual fee to the fund (\$100 and \$40, respectively).

EFFECTIVE DATE: July 1, 2026

Background — Related Bill

sHB 5224 (File 185), favorably reported by the General Law Committee, makes minor changes to the Home Improvement Guaranty Fund law, including requiring an applicant for an award to provide a signed, sworn statement that he or she made a good faith effort to collect what is owed before receiving a payment from the fund.

§§ 10-25 — OCCUPATIONAL LICENSE OR CERTIFICATION FEES*Eliminates numerous occupational license or certification fees*

The FY 26-27 biennial budget act eliminated occupational license or certification fees for specified health care professionals and educators. The bill eliminates the (1) applicable renewal fees for these specified professionals and (2) initial and applicable renewal fees for other occupational licenses or certifications, including various tradespeople and educators.

The following table lists the occupational license or certification fees eliminated under the bill. It also makes technical and conforming changes, including eliminating a provision that requires \$2 from each registered nurse (RN) or licensed practical nurse (LPN) license renewal fee to be transferred to the professional assistance program account until January 1, 2028 (§ 16).

Table: Occupational License Fees Eliminated Under the Bill

§	Citation	Occupational License or Certification	Current Fee
10	20-12j	Physician assistant license renewal	\$155
11	20-86g	Midwife renewal license	15
12	20-260ll	Paramedic license renewal	155
13	20-206mm	Certified EMT as licensed paramedic renewal	155
14	20-74h	Occupational therapist and occupational therapy assistant license renewal	205
15	19a-88	Dental hygienist license renewal	105
15	19a-88	RN license renewal	110
15	19a-88	Retired RN license renewal	15
15	19a-88	Advanced practice registered nurse license renewal	130
15	19a-88	Retired advanced practice registered nurse license renewal	17
15	19a-88	LPN license renewal	70
15	19a-88	Retired LPN license renewal	11
15	19a-88	Nurse-midwife license renewal	130
15	19a-88	Physical therapist license renewal	105
15	19a-88	Physical therapist assistant license renewal	65
17	20-195c	Marital and family therapist license renewal	200
17	20-195c	Marital and family therapist associate license renewal	125
18	20-195o	Clinical social worker license renewal	200
18	20-195o	Master social worker license renewal	125

§	Citation	Occupational License or Certification	Current Fee
19	20-195cc	Professional counselor license renewal	200
19	20-195cc	Professional counselor associate renewal	125
20, 23	20-333, 20-335	Electrical unlimited or limited contractor: (1) application fee and (2) initial and renewal license	(1) 150 (2) 150
20, 23	20-333, 20-335	Electrical unlimited or limited journeyman: (1) application fee and (2) initial and renewal license	(1) 90 (2) 120
20, 23	20-333, 20-335	Solar electric limited contractor: (1) application fee and (2) initial and renewal license	(1) 150 (2) 150
20, 23	20-333, 20-335	Solar electric limited journeyman: (1) application fee and (2) initial and renewal license	(1) 90 (2) 120
20, 23	20-333, 20-335	Heating, piping, and cooling unlimited or limited contractor: (1) application fee and (2) initial and renewal license	(1) 150 (2) 150
20, 23	20-333, 20-335	Heating, piping, and cooling unlimited or limited journeyman: (1) application fee and (2) initial and renewal license	(1) 90 (2) 120
20, 23	20-333, 20-335	Heating, piping, and cooling stationary engineer: (1) application fee and (2) initial and renewal license	(1) 90 (2) 120
20, 23	20-333, 20-335	Plumbing and piping unlimited or limited contractor: (1) application fee and (2) initial and renewal license	(1) 150 (2) 150
20, 23	20-333, 20-335	Plumbing and piping unlimited journeyman: (1) application fee and (2) initial and renewal license	(1) 90 (2) 120
20, 23	20-333, 20-335	Sheet metal work limited contractor: (1) application fee and (2) initial and renewal license	(1) 150 (2) 150
20, 23	20-333, 20-335	Sheet metal work limited journeyman: (1) application fee and (2) initial and renewal license	(1) 90 (2) 120
25	10-145b	Provisional educator certificate	250
25	10-145b	Professional educator certificate	375
25	10-145b	Adult educator program teacher certificate	100
25	10-145b	Issuance of subject area endorsement	100

EFFECTIVE DATE: October 1, 2026

§ 26 — TAX ON CANNABIS SALES

Replaces the current state taxes on retail sales of cannabis plant material, cannabis edible products, and other cannabis with a single tax

The bill replaces the current state taxes on retail sales of cannabis plant material, cannabis edible products, and other cannabis (which are 0.625 cents, 2.75 cents, and 0.9 cents, respectively, per milligram of total THC reflected on its label) with a single tax of 10.75% of a retailer's gross

receipts from cannabis sales.

As under existing law, the tax applies to sales by a cannabis retailer, hybrid retailer, or micro-cultivator. It does not apply to (1) sales of cannabis for palliative (medical) use; (2) sales of cannabis by a delivery service to a consumer; or (3) the transfer of cannabis to a transporter for transport to any other cultivator, micro-cultivator, food and beverage manufacturer, product manufacturer, product packager, dispensary facility, cannabis retailer, hybrid retailer, or producer.

Under existing law and the bill, retailers and micro-cultivators must collect the tax from consumers at the time of sale (except for the exempt sales described above). The tax applies in addition to the 3% municipal cannabis tax and the 6.35% state general sales tax.

Relatedly, the bill increases, from 65% to 70%, the amount of cannabis tax revenue directed to the social equity and innovation account for FYs 27 and 28 and correspondingly decreases the amount directed to the General Fund for those years, from 10% to 5%.

The bill also makes technical and conforming changes, including deleting an obsolete definition.

EFFECTIVE DATE: October 1, 2026, and applicable to sales occurring on or after that date.

Background — Cannabis Terms

By law, “cannabis” has the same meaning as “marijuana,” which is all parts of a plant or species of the genus cannabis, whether growing or not, and including its resin, compounds, manufactures, salts, derivatives, mixtures, and preparations; high-THC hemp products; manufactured cannabinoids; or cannabimon, cannabimol, cannabidiol (CBD), and similar compounds, except CBD derived from hemp. Marijuana and cannabis do not include the following:

1. a plant’s mature stalks; fiber made from the stalks; oil or cake made from the plant’s seeds; a compound, manufacture, salt, derivative, mixture, or preparation made from the stalks other

- than the extracted resin;
2. the plant's seeds;
 3. hemp with a total THC concentration of up to 0.3% on a dry weight basis that is not a high-THC product;
 4. any substance the federal Food and Drug Administration approves as a drug and that is reclassified in any controlled substance schedule, or that it un-schedules; or
 5. infused beverages.

A "cannabis edible product" is a product containing cannabis or cannabis concentrate, combined with other ingredients, that is intended to be ingested, including by sublingual or oral absorption.

"Cannabis plant material" is the cannabis flower, trim, and all parts of the cannabis plant or species, excluding (1) a growing plant and its seeds or (2) hemp as defined under state law.

"Total THC" is the sum of the percentage by weight of tetrahydrocannabinolic acid, multiplied by 0.877, plus the percentage of weight of THC.

Background — Social Equity and Innovation Account

The social equity and innovation account's money must be allocated by the OPM secretary for purposes that the Social Equity Council determines further the principles of equity and may include providing (1) access to capital for businesses in any industry, (2) technical assistance for the start-up and operation of a business in any industry, (3) funding for workforce education in any industry, (4) funding community investments, and (5) funding investments in disproportionately impacted areas.

Background — Related Bills

sSB 405 (File 303), § 2, favorably reported by the Public Safety and Security Committee, reduces, by 5%, the amount of tax revenue the social equity and innovation account receives under current law (from

65% to 60% in FYs 27 and 28 and from 75% to 70% starting in FY 29).

sHB 5109, favorably reported by the Finance, Revenue and Bonding Committee, has identical provisions.

sHB 5350 (File 401), §§ 17 & 47, favorably reported by the General Law Committee, make several changes to the definition of cannabis.

§ 27 — MILK PRODUCER REFUNDABLE TAX CREDIT

Establishes a refundable tax credit for milk producers that they may earn when the federally set milk price is lower than the cost of production

The bill establishes a refundable tax credit for “milk producers” (people, firms, and corporations registered with the Department of Agriculture (DoAg) as producers of milk for pasteurization). The credit amount is calculated using the same formula that is used for an existing state grant program that pays milk producers based on, generally, (1) the federally set milk price and (2) an amount needed to sustain state dairy operations.

The credit is available starting with the 2027 income and tax year and may be applied against the corporation business or personal income tax, but not the withholding tax. The bill caps the total amount of credits that may be reserved for this program at \$8 million per year.

EFFECTIVE DATE: January 1, 2027, and applicable to income and tax years starting on or after that date.

Milk Pricing and Terms

Federal law governs the price paid to dairy farmers for milk. Generally, U.S. Department of Agriculture (USDA) marketing orders set the price for milk and milk products by region. One order sets the price paid in the New England and Mid-Atlantic states and is broken down into class 1 (fluid) milk and various other classes of milk products.

Under existing law and the bill, “federal pay price” is the northeast monthly uniform price for milk in the Hartford zone pursuant to the USDA Northeast Federal Milk Marketing Order. “Minimum sustainable monthly cost of production” is 82% of the baseline the USDA’s

Economic Research Service determines as the monthly average cost of production for a New England state, or, if the baseline is unavailable, a baseline determined by the DoAg commissioner using data and variables published by USDA.

Credit Formula, Reservations, and Vouchers

Under the bill, for each month of the income and tax year that the federal pay price is below the minimum sustainable monthly cost of production, the tax credit equals the difference between the federal pay price and the minimum sustainable monthly cost of production, multiplied by the amount of milk a milk producer produced during the month.

Under the bill, milk producers may apply to the DoAg commissioner to reserve a credit allocation. The commissioner must create the application form, which must include the information he needs to administer the tax credit program. Relatedly, the bill requires milk producers to file with the commissioner information to support the amount of milk they produced, in a way he prescribes. Once verified, the commissioner must issue the milk producer a voucher for its credit amount. The milk producer must file this voucher with its state tax return for the applicable income or tax year.

Credit Claims

If the milk producer is an S corporation or treated as a partnership for federal income tax purposes, the milk producer's shareholders and partners may claim the credit. If the milk producer is a single member LLC that is disregarded as an entity separate from its owner, the LLC's owner may claim the credit, as long as the owner is subject to either the corporation business or personal income tax.

Credit Refundability

As is the case under existing law for most other refundable tax credits, the bill requires the DRS commissioner to refund, without interest, any amount of the tax credit that exceeds a milk producer's liability, unless he retains the refund, which, by law, he may do if the milk producer (1) owes state or municipal taxes or other obligations or

(2) is in default of a student loan made by the Connecticut Student Loan Foundation or the Connecticut Higher Education Supplemental Loan Authority.

Background — Related Bill

sHB 5570 (File 672), favorably reported by the Finance, Revenue and Bonding Committee, has identical provisions.

§§ 28 & 29 — SALES AND USE TAX ON PEER-TO-PEER CAR SHARING

Explicitly subjects short-term peer-to-peer car sharing to the 9.35% sales and use tax rate applicable to passenger motor vehicle rentals or leases and directs this revenue to the Special Transportation Fund

The bill explicitly subjects short-term peer-to-peer (P2P) car sharing to sales and use tax at the 9.35% rate that applies to short-term car rentals or leases under existing law (see *Background – DRS Guidance on P2P Car Sharing and Sales and Use Tax*). As with car rentals and leases, the 9.35% tax rate applies only to P2P car sharing for periods of 30 consecutive days or less. By law, car rentals and leases for longer periods are subject to sales and use tax at the 6.35% rate.

Under the bill, the revenue from sales and use tax on short-term P2P car sharing must be directed to the Special Transportation Fund, starting with calendar quarters ending on or after December 31, 2026.

EFFECTIVE DATE: October 1, 2026, and applicable to sales occurring on or after that date.

Background — DRS Guidance on P2P Car Sharing and Sales and Use Tax

In 2021, DRS issued guidance stating that P2P car sharing constitutes a lease of a motor vehicle under the sales and use tax laws and is taxable if the sale is made by a retailer (and not on a casual or isolated basis). The guidance notes that 9.35% sales tax applies to the rental or lease of a passenger motor vehicle for a period of 30 consecutive days or less.

It further concluded that a P2P car sharing company that meets the law’s definition of a marketplace facilitator must collect and remit tax on sales that take place on its platform. (Marketplace facilitators are

generally businesses that (1) facilitate retail sales of at least \$250,000 during the previous 12-month period for sellers by providing a forum that lists or advertises the sellers' goods and services, (2) collect receipts from customers, (3) remit payments to sellers, and (4) are compensated for their services. By law, they are considered retailers for these sales and therefore must collect and remit sales tax for them.)

Background — Related Bill

sHB 5443, §§ 1 & 2, favorably reported by the Finance, Revenue and Bonding Committee, includes identical provisions.

§§ 28 & 29 — MOTOR VEHICLES SUBJECT TO LUXURY TAX RATE

Increases the sales price threshold for a motor vehicle subject to the 7.75% sales and use tax rate from \$50,000 to \$75,000

The bill increases, from \$50,000 to \$75,000, the sales price threshold for motor vehicles subject to the 7.75% sales and use tax rate (known as the luxury tax rate).

By law, this rate applies to the full sales price of motor vehicles costing more than the threshold amount, except for vehicles (1) purchased by an active duty U. S. military member stationed in Connecticut; (2) weighing over 12,500 pounds; or (3) weighing 12,500 pounds or less that are designed or used for commercial purposes and issued a commercial or more specific type of registration from the Department of Motor Vehicles.

EFFECTIVE DATE: October 1, 2026, and applicable to sales occurring on or after that date.

Background — Related Bill

sHB 5443, §§ 1 & 2, favorably reported by the Finance, Revenue and Bonding Committee, includes identical provisions.

§§ 28 & 29 — MEALS AND BEVERAGES TAX DIVERSION TO TOURISM FUND

Directs 50% of the additional 1% sales and use tax on meals and beverages to the Tourism Fund

Existing law imposes an additional 1% tax on meals and certain

beverages that applies on top of the 6.35% sales and use tax rate. Starting October 1, 2026, the bill directs half of the revenue from this 1% tax to the Tourism Fund.

Under current law, the Tourism Fund receives 10% of room occupancy tax revenue.

EFFECTIVE DATE: October 1, 2026, and applicable to sales occurring on or after that date.

Background — Related Bills

sHB 5443, §§ 1 & 2, favorably reported by the Finance, Revenue and Bonding Committee, includes identical provisions.

sSB 1, § 7, favorably reported by the Finance, Revenue and Bonding Committee, exempts from sales and use tax sandwiches, grinders, coffee, and tea prepared and sold in a supermarket for takeout, other than when they are sold in the food court or snack bar area (which are currently subject to the additional 1% meals and beverages tax).

sSB 2, §§ 2-5, favorably reported by the Finance, Revenue and Bonding Committee, dedicates half of the additional 1% tax on meals and beverages to the Tourism Fund and the other half to a new municipal diversification account, starting October 1, 2026.

§ 30 — PERSONAL PROPERTY USED IN BURIALS AND CREMATIONS

Increases the sales and use tax exemption for certain personal property used in burials and cremations from \$2,500 to \$10,000

Current law exempts from the 6.35% sales and use tax property sold by funeral homes and used directly in preparing and conducting burials and cremations, up to \$2,500 per funeral. The bill increases this exemption to up to \$10,000 per funeral.

EFFECTIVE DATE: October 1, 2026, and applicable to sales occurring on or after that date.

Background — Related Bill

sHB 5443, § 3, favorably reported by the Finance, Revenue and

Bonding Committee, includes an identical provision.

§ 31 — SALES TAX FREE WEEK

Increases the exemption amount for “sales tax free week” from \$100 to \$300 and adds backpacks and cleated shoes to the list of exempt items

The bill expands the sales and use tax exemption for clothing and footwear sold from the third Sunday in August through the following Saturday (sales tax free week) to (1) items costing less than \$300, rather than \$100, and (2) backpacks and cleated shoes costing less than \$300. Basketball and running shoes (without cleats) are already exempt under current DRS guidance.

Under current law, during this week, the state’s 6.35% sales and use tax does not apply to clothing and footwear costing less than \$100, except for (1) special athletic and protective clothing and footwear not normally worn except for its specialized use and (2) jewelry, handbags, luggage, umbrellas, wallets, watches, and similar items that people carry but do not wear.

EFFECTIVE DATE: October 1, 2026, and applicable to sales occurring on or after that date.

Background — Related Bills

sSB 1, §§ 1 & 7, favorably reported by the Finance, Revenue and Bonding Committee, exempts from sales and use tax (1) nonelectronic school supplies, including backpacks, and (2) clothing and footwear costing less than \$100 (and correspondingly eliminates “sales tax free week” for these items).

sHB 5443, § 4, favorably reported by the Finance, Revenue and Bonding Committee, includes a similar provision increasing the exemption amount for “sales tax free week” from \$100 to \$300 and adding backpacks to the list of exempt items.

§ 32 — FILM AND DIGITAL MEDIA TAX CREDIT

Extends, to the 2026 and 2027 income years, the increased redemption rate for film and digital media tax credits claimed against the sales tax

Existing law allows eligible production companies and certain

taxpayers to whom they transfer credits (transferees) to apply film and digital media production tax credits against the sales and use tax at a reduced amount of their face value. The law temporarily increased this amount from 78% to 92% of the credits' value for the 2024 and 2025 income years. The bill extends this 92% redemption rate for two additional years, to the 2026 and 2027 income years.

As under existing law, transferees may claim these credits against the sales and use tax only if there is at least 50% common ownership between the transferee and the eligible production company that sold, assigned, or otherwise transferred the credits. The credits may also be claimed against the corporation business and insurance premiums taxes at full face value and the community antenna television systems tax at a reduced value.

EFFECTIVE DATE: Upon passage

§ 33 — COMMUNITY PARTNERSHIP OPPORTUNITY AGREEMENTS

Creates a program within DECD designed to increase educational achievement and workforce skills in communities experiencing persistent economic disadvantages through partnerships between DECD and specified stakeholders

The bill creates a program within DECD designed to increase educational achievement and workforce skills in communities experiencing persistent economic disadvantages through partnerships between DECD and specified stakeholders (participating investors, certified community development corporations (CDCs, see *Background – CDC Certification Process and Grant Eligibility*), service providers, and independent evaluators). These partnerships are commonly referred to as social impact bonds.

Under the bill, DECD and these stakeholders must enter into “community partnership opportunity agreements” under which participating investors commit capital to fund specified education and workforce development programs offered by eligible service providers. The programs are tied to specific performance outcomes over a five-year period and their progress must be measured by an independent evaluator. If the programs achieve the performance metrics outlined in

the agreement, investors are repaid their investment plus a performance-based premium, in the form of a “success payment” from DECD.

Under the bill, a community partnership opportunity agreement must first be proposed by a certified CDC and then approved by DECD if it meets the bill’s criteria. The bill sets specific requirements for these agreements, including that they have (1) a five-year performance period; (2) performance metrics, progress milestones, and evaluation methodologies; and (3) a success payment contract.

The bill also establishes the community partnership opportunity account as a separate, nonlapsing account to hold any moneys the law requires to be deposited in it. Under the bill, any funds participating investors provide must be deposited in the account. DECD must use the account to fund the program and specifically to pay for (1) implementing the specified initiatives, (2) evaluating their performance, and (3) making the success payments. The state treasurer must invest the moneys in the account subject to use for the program’s purposes.

Lastly, the DECD commissioner must annually report to the Finance, Revenue and Bonding Committee on each of these agreements, for each year of the agreement’s five-year period. For each year, the reports must describe the results of any performance metrics or progress evaluations done and summarize the certified CDC’s initiatives.

EFFECTIVE DATE: Upon passage

Community Partnership Opportunity Agreements

Required Components for All Agreements. Under the bill, the community partnership opportunity agreements must at least include the following:

1. a five-year performance period that begins when the agreement is executed and includes (a) specified periods for delivering services and measuring outcomes and (b) when baseline performance and progress is measured;

2. performance metrics and progress milestones, including how and when they are evaluated;
3. participating investors, which can include private, philanthropic, or mission-driven investors, and their capital commitment;
4. the certified CDC that will coordinate the agreement's initiatives to achieve its specified performance metrics and progress milestones, and the fee for these services;
5. the implementing organization, as described below, and the fee for its services;
6. the independent evaluator, which will evaluate the performance metrics and progress milestones and verify that they have been met, and the fee for its services; and
7. a success payment contract, as described below.

Any amendments to these agreements must be agreed to, in writing, by all the parties.

Requirements for Education Outcome Agreements. These agreements must focus on achieving measurable improvements in kindergarten-readiness and grade-three reading proficiency for children living in the community the certified CDC serves. They must include performance metrics for:

1. kindergarten-readiness that are based on increasing the percentage of these children who meet the state's standard for kindergarten-readiness at enrollment and
2. grade three literacy proficiency that are based on increasing the percentage of these children achieving grade-level reading proficiency by grade three, regardless of which school they attend.

Requirements for Workforce Outcome Agreements. These agreements must focus on increasing workforce skills attainment and

career-linked employment for working-age people living in the community the certified CDC serves. They must include performance metrics like industry-recognized credential attainment and placement in career-path jobs with specific wage and retention milestones.

Implementing Organizations. Under the bill, implementing organizations are responsible for delivering the services or interventions to achieve the community partnership agreement’s performance metrics. They can be one of three types:

1. an “early childhood implementing organization,” which is any school or for-profit or nonprofit organization with the professional capacity to provide preschool or early childhood instruction designed to increase kindergarten-readiness;
2. a “literacy implementing organization,” which is any school, for-profit, or nonprofit organization with the professional capacity to provide intensive tutoring or reading interventions for ensuring grade-level reading proficiency by grade three; or
3. a “workforce implementing organization,” which is a higher education institution or for-profit or nonprofit organization capable of providing training in specialized skills, such as health care, manufacturing, or other high-demand fields.

Independent Evaluator. An “independent evaluator” is the person or entity responsible for measuring performance metrics and progress milestones using the methods laid out in the agreement and verifying that they have been met. It may be an academic institution, professional consultant, or organization with a documented history of verifying performance-based program outcomes. It must have expertise in the agreement’s specific subject matter and may not have a financial interest in the agreement’s outcome, other than the fee for its evaluation services.

Success Payment Contract. The agreement’s success payment contract must establish a schedule of success payments to participating investors that are contingent on the agreement achieving its

performance metrics. The schedule must include the repayment of the investors' capital, a performance-based premium on that amount, and the maximum success payment obligation. The bill specifies that these payments are to recognize the (1) acquisition of a high-yield economic asset once the performance metrics are achieved and (2) projected lifetime value of these achievements to the state.

Under the bill, the DECD commissioner must make these payments as authorized capital expenditures. The legal effect of this provision is unclear.

Proposals

The bill requires each certified CDC to submit a proposal to the DECD commissioner to enter into a community partnership opportunity agreement that includes the names and contact information of the agreement's other required stakeholders. The commissioner must help the CDC prepare the proposal.

The proposal must include enough information to demonstrate, to the commissioner's satisfaction, that:

1. the implementing organizations have the necessary experience in delivering the applicable evidence-based interventions in distressed municipalities (see *Background – Distressed Municipalities*),
2. the proposed intervention model is designed to reach at least 20% of the people living in the community the certified CDC serves that are (a) children grade three or younger or (b) working-age residents,
3. the proposed intervention model demonstrates a reasonable probability of achieving the applicable performance metrics,
4. participating investors have made verified commitments of enough capital to fund the full five-years of the agreement's performance period without relying on state appropriations, and

5. the proposed outcomes are clearly linked to the longitudinal success of the people living in the community.

The commissioner must execute the agreement within 90 days after receiving the proposal if he finds that it meets the bill's criteria. If he determines that it does not meet these criteria, he must notify the person who submitted the proposal in writing and identify the unmet requirements.

Once an agreement is executed, the certified CDC may do anything necessary to meet its performance metrics and progress milestones. This may include (1) collaborating with the implementing organization, independent evaluator, and state agencies to measure these metrics and milestones; (2) collaborating with other entities (such as early childhood education providers, schools, employers, and workforce development organizations) needed to help achieve the metrics and milestones; and (3) engaging with participating investors.

Background — CDC Certification Process and Grant Eligibility

Existing law allows nonprofits that meet certain eligibility requirements to become certified CDCs by applying to DECD's Office of Community Economic Development Assistance (OCEDA). To date, DECD has certified one CDC under this program, the Clay Arsenal CDC.

To be a certified CDC, the nonprofit must:

1. focus a substantial majority of its efforts on serving one or more target areas, as described below;
2. have the purpose of engaging and working with local residents and businesses on community development efforts to sustainably develop and improve urban communities in a way that creates and expands economic opportunities for low- and moderate-income people; and
3. show OCEDA that its constituency is meaningfully represented on its board in specified ways.

A “target area” is a contiguous geographic area in which the (1) current unemployment rate exceeds the state’s by at least 25% or (2) mean household income is 80% or less of the state’s in the most recent decennial census. OCEDA must identify the eligible target areas and post them on DECD’s website.

Background — Distressed Municipalities

DECD annually ranks municipalities based on their relative economic and fiscal distress and designates the top 25 as “distressed municipalities.” Most recently, in 2025, DECD designated the following municipalities as distressed: Bridgeport, Derby, East Hartford, East Haven, Hartford, Killingly, Lisbon, Mansfield, Meriden, New Britain, New London, North Canaan, Norwich, Plainfield, Plymouth, Putnam, Sprague, Stafford, Sterling, Torrington, Waterbury, West Haven, Willington, Winchester, and Windham.

Background — Related Bills

sSB 514, favorably reported by the Finance, Revenue and Bonding Committee, has identical provisions.

sSB 307 (File 561), favorably reported by the Commerce Committee, eliminates OCEDA and transfers its responsibilities to DECD.

§§ 34-44 — HOSPITAL PROVIDER TAX

Replaces the current hospital provider tax, starting in FY 27, with new taxes on inpatient and outpatient hospital services but requires the taxes to cease and the current tax structure to be reimposed if CMS determines that either tax is impermissible; repeals provisions in the FY 26-27 biennial budget act, scheduled to take effect on July 1, 2026, that principally change the base year on which the provider tax is calculated and increase the total tax revenue on which the tax is calculated

The bill replaces the current hospital provider tax with new taxes on inpatient and outpatient hospital services, starting in FY 27. In doing so, it (1) sunsets the current provider tax on June 30, 2026, (§ 38) and (2) repeals provisions in the FY 26-27 biennial budget act, scheduled to take effect on July 1, 2026, that change the base year on which the provider tax is calculated and increase the total tax revenue on which the tax is calculated by \$375 million, among other things.

Generally, the new taxes established under the bill:

1. update the base year for calculating the taxes on inpatient and outpatient services from FY 16 to federal fiscal year (FFY) 24;
2. impose a 4% tax rate on inpatient hospital services, rather than the current 6% rate;
3. impose a 7.8223% tax rate on outpatient hospital services for FY 27, rather than the current effective rate of 10.4858%, and then incrementally increase the rate over the next four years to 8.9689%;
4. extend the tax to cover children's general hospitals, which are exempt from the current hospital provider tax;
5. incorporate various administrative provisions that apply to the current tax; and
6. require the new taxes to cease and the current tax structure to be reimposed if the Centers for Medicare and Medicaid Services (CMS) determine that either tax is impermissible.

The bill also makes numerous technical and conforming changes.

EFFECTIVE DATE: July 1, 2026, except the repealed provisions take effect upon passage.

Repeal of Hospital Provider Tax Changes Enacted in PA 25-168 (§ 44)

The FY 26-27 biennial budget act (PA 25-168, §§ 360 & 361) makes various changes to the hospital provider tax that are due to take effect July 1, 2026. Principally, it:

1. updates the base year on which the tax is calculated, requiring that it be tied to net revenue from an applicable FFY as shown in the table below, rather than FY 16, and makes various corresponding changes to the tax structure;
2. increases, by \$375 million, the total revenue on which the tax on outpatient hospital services is calculated and requires the starting

amount used to calculate the tax in later years to be increased by \$25 million over the prior fiscal year;

3. requires the Department of Social Services (DSS) commissioner to seek approval from CMS to remove the exemption for children's general hospitals; and
4. makes other administrative changes to the tax, including eliminating provisions allowing taxpayers to request a payment extension under certain circumstances.

Table: Applicable FFY for the Hospital Provider Tax Under PA 25-168, § 360

State FY (July 1 – June 30)	Applicable FFY (October 1 – September 30)
FYs 27-29	FFY 24
FY 2 30-33	FFY 27
FY 34 and every four years	FFY that ended in the calendar year two years before the four-year period started

The bill repeals these changes before they take effect, but incorporates select provisions into the new taxes established under the bill, as described below.

New Taxes on Inpatient and Outpatient Hospital Services (§§ 34 & 35(a))

Current law imposes a 6% tax on each hospital's FY 16 audited net revenue attributable to inpatient hospital services. Starting in FY 27, the bill instead imposes a 4% tax on each hospital's "audited net revenue for FFY 24" attributable to inpatient hospital services. The bill specifies that this rate applies through FY 31 and after unless it is changed by law.

Under current law, the tax on outpatient hospital services is based on a total amount of revenue (\$820 million for FY 26 and after) minus the total tax imposed on all hospitals for providing inpatient services, divided by the total FY 16 audited net revenue for outpatient services. It results in an effective tax rate on outpatient hospital services of 10.4858% for FY 26 and after, subject to specific adjustments, including for any hospital dissolutions or disallowed exemptions.

The bill instead imposes a tax on “audited net revenue for FFY 24” attributable to outpatient hospital services equal to:

1. 7.8223% for FY 27,
2. 8.0973% for FY 28,
3. 8.3799% for FY 29,
4. 8.6704% for FY 30, and
5. 8.9689% for FY 31 and after (unless changed by law).

Under the bill, as under the current hospital provider tax, net revenue derived from providing a health care item or service to a patient may only be taxed once.

“Audited Net Revenue for FFY 24.” For any hospital with audited financial statements for FFY 24, its “audited net revenue for FFY 24” is the net revenue reported in these statements, minus any revenue the DRS commissioner determines, based on federal law, that the hospital received from anything other than providing inpatient and outpatient hospital services. For any hospital without these audited financial statements, it is the net revenue reported in the hospital’s financial filings submitted to the Office of Health Strategy (OHS), adjusted according to audited financial statement standards, minus the same adjustment described above.

If an audited financial statement for FFY 24 does not report revenue for the entire fiscal year, its net revenue must be calculated by projecting the amount it would have received for the entire year based proportionally on the amount reported in the audited financial statements or by reviewing its financial filings with OHS.

Under the bill, as under current law, audited net inpatient revenue and audited net outpatient revenue must be based on information provided by each hospital required to pay the taxes.

Other Defined Terms. For purposes of these taxes, the bill retains the

same definitions of hospitals, inpatient and outpatient hospital services, net revenue, and related terms that apply under the current hospital provider tax.

Tax Recalculations Based on Organizational Changes (§ 35(a))

Under the bill, as under the current hospital provider tax, if a hospital or hospitals subject to the taxes merge, consolidate, are acquired, or otherwise reorganize, then the surviving hospital is liable for the total taxes imposed on the merging, consolidating, acquired, or reorganizing hospitals. The surviving hospital must also assume any outstanding liabilities from periods before the merger, consolidation, acquisition, or reorganization.

Unlike the current tax, however, the amount of taxes due from each hospital is not recalculated if a hospital dissolves or ceases to be subject to the taxes. Under current law, if a hospital dissolves (ceases to operate for any reason other than a merger, consolidation, acquisition, or reorganization) or ceases for any reason to be subject to the hospital tax, the amount due from each hospital is not recalculated for the fiscal year in which the hospital dissolves or ceases to operate. But, in the following fiscal year and each subsequent year, the tax must be recalculated so that the total tax amount to be collected is proportionately redistributed among the surviving hospitals.

Refunds for Exceeding Federally Permissible Tax Rate (§ 35(a))

Under the current hospital provider tax, starting in FY 27, the state must issue refunds if the DSS commissioner determines that the effective tax rate for inpatient services exceeds the rate allowed under federal Medicaid law. The bill applies this same provision to the taxes imposed under the bill. As under current law, each hospital's refund must be in proportion to the amount of inpatient hospital service net revenue on which it was taxed for the same fiscal year.

As under the current tax, each hospital subject to the bill's taxes must report annually to the DSS commissioner the amount of (1) tax paid and (2) net revenue it received for providing inpatient hospital services in the fiscal year two years prior to the reporting date. The same timeframe

and procedures for issuing these refunds under current law apply under the bill.

Tax Payment Requirements (§ 35(a))

Under the bill, as under current law, hospitals must pay the taxes in four quarterly payments according to the existing filing and payment requirements.

Information Reporting Requirements (§ 35(a))

By July 31, 2026, each hospital required to pay the taxes must submit to the DRS commissioner the information he requires to calculate “audited net inpatient revenue for FFY 24” and “audited net outpatient revenue for FFY 24” for each hospital. Under the bill, this is the amount of revenue that the DRS commissioner determines, based on federal law, that a hospital received for providing these services during FFY 24. The amounts reported are deemed accepted on July 1, 2026, as long as the commissioner has not started an audit of the hospital before then. (It is unclear whether the DRS commissioner can start this audit before the tax takes effect.)

If he has started an audit, the hospital must comply with the commissioner’s requests for the additional information he needs to fully audit the hospital within 30 days after his request. The commissioner may extend this period by request.

Under the bill, hospitals that do not provide the requested information by July 31, 2026, or fail to comply with a request for additional information, are subject to a penalty of \$1,000 for each day the failure continues. And as under current law, the commissioner may engage an independent auditor to help him with these duties and responsibilities.

Administrative Protests (§ 35(a))

The bill allows hospitals to file an administrative protest to contest the DRS commissioner’s determination of additional audited net revenue. (The FY 26-27 biennial budget act’s changes to the hospital provider tax include similar provisions on administrative protests.)

Under the bill, the commissioner must mail the taxpayer a notice by the first day of the state fiscal year if he determines there is additional audited net revenue. The amount becomes final 30 days after he mails the notice unless the taxpayer files a written protest. If the taxpayer files a protest, the commissioner must reconsider the additional audited net revenue. The commissioner may hold a hearing if the taxpayer or its authorized representative requests one. The commissioner must mail the taxpayer a notice about his determination, which must briefly state his findings of fact and the basis for any decision that goes against the taxpayer. The commissioner's action on the taxpayer's protest becomes final one month after the notice is mailed unless the taxpayer appeals to the courts within this timeframe.

If the protest or appeal is pending on the first day of the next succeeding state fiscal year, the protesting or appealing taxpayer must use the amounts it reported to tentatively calculate the tax due until the matter is resolved. If any of these amounts is later revised under the protest or appeal, the commissioner must recalculate the amounts due for each hospital and issue assessments or refunds, as applicable, for any affected quarter.

Exempt Hospitals (§ 35(b))

The bill requires the DSS commissioner to seek approval from CMS to exempt from the taxes (1) specialty hospitals; (2) hospitals owned exclusively by the state, other than those the state operates as a receiver; and (3) "sole community hospitals" (but only from the tax on outpatient hospital services). Current law requires the commissioner to seek CMS's approval to exempt these same hospitals, as well as children's general hospitals, from the current hospital provider tax. (The FY 26-27 biennial budget act requires the DSS commissioner to seek approval from CMS to remove the exemption for children's general hospitals. The bill repeals this requirement along with the other changes that act made to the hospital provider tax.)

As under current law, any hospital for which CMS grants an exemption is exempt from the taxes, and any hospital denied an exemption must pay the taxes at the same effective rates imposed on

other hospitals. Hospitals must give the commissioner any information he requests to make any calculations needed to seek these exemption approvals.

As under current law, these CMS requests are exempt from a separate state law that requires the DSS commissioner to notify and, in some cases, get approval from the Appropriations and Human Services committees for certain CMS applications before submitting them to the federal government.

Sole Community Hospitals. Under federal law, CMS classifies a hospital as a “sole community hospital” if it is more than 35 miles from similar hospitals or located in a rural area and meets one of several other conditions (42 C.F.R. § 412.92). Under the bill, similar to current law, if CMS denies a sole community hospital’s exemption, then in the following calendar quarter the total tax due for outpatient hospital services from each hospital must be adjusted to ensure that the total tax to be collected is redistributed. (It is unclear how this redistribution is calculated under the bill.)

Notice to Hospitals. As under current law, the bill requires the DSS commissioner to notify all of the hospitals subject to the taxes whenever she receives a determination by CMS that a hospital is not exempt. Specifically, the commissioner must notify the hospitals about (1) the corresponding increase to the total audited net revenue for FFY 24 and (2) any change in the effective tax rate to be collected. (However, unlike the current hospital provider tax, the bill does not contemplate an effective tax rate for either the inpatient or outpatient hospital services taxes.)

Under the bill, she must issue the notice before the end of the calendar quarter following the date of CMS’s determination. If the determination is made after the start of a fiscal year, the recalculations must be prorated to account for the amount already paid.

DRS Reporting Requirements (§ 35(c)-(f))

As under the current hospital provider tax, the bill requires the DRS

commissioner to:

1. issue guidance on administering the tax after completing a study of the applicable federal law governing the administration of health care provider taxes, in collaboration with various stakeholders, and
2. determine if there is any underreporting of revenue on audited financial statements, in consultation with certain state officials and entities.

It also requires the commissioner, starting by November 15, 2026, to report quarterly to the DSS commissioner and the OPM secretary on the amount of (1) tax paid by each hospital for the most recently completed calendar quarter and (2) any delinquent hospital provider taxes, penalties, and interest owed by a hospital. However, as under current law, the bill's tax provisions do not affect the DRS commissioner's statutory obligations to keep confidential tax returns and return information, except under certain narrow conditions.

Tax Administration (§§ 36 & 39-43)

Under the bill, various provisions that apply to the current hospital provider tax also apply to the new taxes. Principally, these provisions:

1. prohibit tax credits from being applied against the taxes;
2. establish specific requirements for filing the quarterly returns and remitting the taxes;
3. allow taxpayers to request a reasonable extension for paying the taxes due to undue hardship, subject to certain conditions;
4. set the penalty and interest that apply to unpaid taxes and allow the DRS commissioner to waive all or part of any penalty for reasonable cause;
5. authorize the DSS commissioner to deduct and withhold tax amounts due from any amount DSS would otherwise pay the taxpayer;

6. impose a penalty for willfully (a) failing to pay the taxes, file returns, keep records, or supply information or (b) supplying fraudulent or false information;
7. authorize the DRS commissioner to (a) require taxpayers to keep certain records, (b) examine taxpayer records, and (c) make deficiency assessments;
8. authorize the DRS commissioner to enter into agreements with the DSS commissioner to administer the tax and ensure compliance with the state's Medicaid program;
9. allow the commissioner to adopt implementing regulations;
10. allow taxpayers to file claims for tax overpayments;
11. establish hearing and appeals procedures for aggrieved taxpayers;
12. authorize the DRS commissioner to take certain actions to collect and enforce the tax; and
13. allow the comptroller, at the close of each fiscal year, to record as revenue the amount of the taxes received by the DRS commissioner within five business days after the July 31 following the end of the fiscal year.

Reinstatement of the Current Hospital Provider Tax Structure (§ 37)

Under the bill, the taxes on inpatient and outpatient hospital services will revert to the current tax structure (CGS § 12-263q, revised to January 1, 2025) if CMS (1) determines that either tax is an impermissible tax under the federal health provider tax law (see *Background – Limits on Provider Tax Rates Under P.L. 119-21*), (2) does not issue a required tax waiver, or (3) finds any aspect of the taxes to be invalid. If any of these events happen, the General Assembly must consider amending the statutes to ensure compliance with federal law. It must do so during the next regular or special session, whichever comes first.

Background — Limits on Provider Tax Rates Under P.L. 119-21

Federal law allows states to use health care provider taxes to help finance their share of Medicaid expenditures but requires that the taxes be broad-based, uniform, and not hold providers harmless for the cost of the tax. P.L. 119-21 imposes new limits on these taxes effective October 1, 2026, including lowering the threshold for determining whether a tax holds providers harmless (the indirect hold harmless threshold) (§ 71115). Under the law, the tax rate for most existing provider taxes must phase down from FFY 28 through FFY 32 to the lower of the (1) rate in place on July 4, 2025, or (2) applicable percent for that year (phasing down in steps from 5.5% in FFY 28 to 3.5% in FFY 32 and after).

§ 44 — TAX ON NURSING HOMES AND INTERMEDIATE CARE FACILITIES

Repeals the 6% tax on nursing home and ICF revenue scheduled to take effect on July 1, 2026, and instead retains the current user fee on these facilities

The bill repeals provisions in the FY 26-27 biennial budget act (§§ 359, 361, 363 & 364) that terminate the quarterly user fee on nursing homes and intermediate care facilities for individuals with intellectual disabilities (ICF) as of July 1, 2026, and instead impose a quarterly 6% tax on their revenue as of that date. In doing so, it retains the current quarterly user fee on these facilities of (1) \$16.13 for municipally owned nursing homes and facilities with more than 230 beds, (2) \$21.02 for all other nursing homes, and (3) \$27.76 for ICFs. The amount due from each facility is determined by multiplying the user fee by the facility's resident days for the calendar quarter.

The bill similarly eliminates provisions in the budget act that require:

1. the DSS commissioner, before January 1, 2026, to seek approval from CMS to exempt certain continuing care retirement communities licensed on or before July 1, 2017, from the nursing home tax;
2. the tax to cease and the user fees to be reimposed if CMS determines that the tax is impermissible; and

3. these facilities to include the amount of their nursing facility and ICF service revenue on their quarterly provider tax returns to DRS.

EFFECTIVE DATE: Upon passage

§ 44 — HOSPITAL MEDICAID SUPPLEMENTAL PAYMENTS

Repeals the increases to Medicaid supplemental payments to hospitals for FY 27 and after, and instead retains the requirement that DSS pay out the same amount paid in FY 26 for these years

Existing law requires DSS to pay specified amounts in supplemental Medicaid payments to hospitals in the state to the extent required by the settlement agreement for *The Connecticut Hospital Association et al. v. Connecticut Department of Social Services et al.* (No. HHB-CV16-6035321-S) approved by the General Assembly on December 18, 2019, and related court orders. The law sets the total amount of these payments at \$568.3 million for FY 26.

The bill repeals provisions in the FY 26-27 biennial budget act (§ 362) that (1) increase these required payments for FY 27 by \$140 million to \$708.3 million and (2) require the total payments for FY 28 and after to be increased by an additional \$25 million over the preceding year if the total amount of hospital provider tax collected for that year, across all hospitals subject to the tax, increased by at least \$25 million over the preceding year. Instead, the bill retains the current requirement that DSS pay out the amount paid in FY 26 (\$568.3 million) for FY 27 and after, unless it is changed by state law.

The bill also repeals a provision in the budget act that explicitly prohibits DSS from making these payments in a way that does not comply with applicable federal requirements and required federal approvals, including making payments that cause the total hospital payments in an applicable category to exceed the upper payment limit.

EFFECTIVE DATE: Upon passage

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 35 Nay 17 (03/31/2026)