PART III. REVENUE

Table 3.1 Revenue Impact of Policy Changes
In Millions of Dollars

Category & Enacting Authority	Policy	FY 26	FY 27	FY 28	FY 29	FY 30
General Fund						
Personal Income Tax – Withholding						
Sec. 18 of PA 26-35	Establish a state personal income tax deduction for certain honor guard compensation: est. $25k annual revenue loss in FY 27+	-	-	-	-	-
Sec. 19 of PA 26-35	Establish a state personal income tax deduction for state active-duty National Guard pay: est. $40k annual revenue loss in FY 28+	-	-	-	-	-
	Subtotal	**-**	**-**	**(0.1)**	**(0.1)**	**(0.1)**
Personal Income Tax – Estimates and Finals						
Sec. 267 of PA 26-68	Allow certain pass-through entities to earn (partially refundable) research and development tax credits	-	(20.0)	(20.0)	(20.0)	(20.0)
	Subtotal	**-**	**(20.0)**	**(20.0)**	**(20.0)**	**(20.0)**
Sales and Use Tax						
Sec. 262 of PA 26-68	Increase the per-item cost and expand items exempted during the sales "tax free week"	-	(2.5)	(2.6)	(2.7)	(2.7)
Sec. 272 of PA 26-68	Exempt school supplies from the sales tax	-	(5.9)	(6.0)	(6.2)	(6.3)
Secs. 223 and 268 of PA 26-68, as amended by Section 81 of PA 26-76	Extend the enhanced redemption rate of certain film and digital media production tax credits	-	-	-	-	-
	Subtotal	**-**	**(8.4)**	**(8.6)**	**(8.9)**	**(9.0)**
Corporation Tax						
Secs. 265-266 of PA 26-68	Decouple from a new federal law (Federal P.L. 119-21) related to expensing rules for certain (historical) research and experimentation expenditures	-	66.8	(33.4)	(25.7)	(8.1)

Category & Enacting Authority	Policy	FY 26	FY 27	FY 28	FY 29	FY 30
General Fund						
Secs. 265-266 of PA 26-68	Decouple entirely from a provision in a new federal law (P.L. 119-21) allowing immediate expensing of certain depreciable qualified production property expenditures rather than over thirty-nine years	-	-	103.6	100.9	98.4
Sec. 275 of PA 26-68 as amended by Sec. 34 of PA 26-76	Provide a supplemental film tax credit	-	-	(1.5)	(1.5)	-
	Subtotal	**-**	**66.8**	**68.7**	**73.7**	**90.3**
Health Provider Tax						
Sec. 358 of PA 26-68	Adjust hospital policies – reduce hospital provider tax	-	(221.0)	(222.2)	(222.8)	(222.7)
Sec. 359 of PA 26-68	Adjust hospital policies – support the NEW Hospital Supplemental Payment Account with the remaining hospital provider tax**	-	(974.0)	(997.8)	(1,022.2)	(1,047.3)
	Subtotal	**-**	**(1,195.0)**	**(1,220.0)**	**(1,245.0)**	**(1,270.0)**
Miscellaneous Tax						
Sec. 264 of PA 26-68	Replace the Cannabis total THC potency tax with an excise tax of 10.75% and adjust the General Fund's share of revenues temporarily to hold harmless the Social Equity Fund	-	(1.4)	(1.5)	-	-
	Subtotal	**-**	**(1.4)**	**(1.5)**	**-**	**-**
Refunds of Taxes						
Sec. 263 of PA 26-68, as amended by Sec. 85 of PA 26-76	Provide a tax credit to small businesses as a match for contributions to fund individual coverage health reimbursement arrangements (ICHRA) through Access Health CT's BusinessPlus platform	-	(5.0)	(5.0)	(5.0)	(5.0)
Sec. 271 of PA 26-68	Provide a nonrefundable income tax credit for family caregiver expenditures	-	-	(1.8)	(1.8)	(1.8)
Secs. 254-255 of PA 26-68	Provide a tax credit to qualified operators	-	-	(2.0)	(2.0)	(2.0)

Category & Enacting Authority	Policy	FY 26	FY 27	FY 28	FY 29	FY 30
General Fund						
Sec. 277 of PA 26-68	Expand the military retirement pay exemption under the personal income tax to include the commissioned corps of the Public Health Service**	-	(0.1)	(0.1)	(0.1)	(0.1)
	Subtotal	**-**	**(5.1)**	**(8.9)**	**(8.9)**	**(8.9)**
Research and Development (R&D) Credit Exchange						
Sec. 267 of PA 26-68	Allow certain pass-through entities to earn (partially refundable) research and development tax credits	-	(5.0)	(5.0)	(5.0)	(5.0)
	Subtotal	**-**	**(5.0)**	**(5.0)**	**(5.0)**	**(5.0)**
TAXES TOTAL		**-**	**(1,168.1)**	**(1,195.4)**	**(1,214.2)**	**(1,222.7)**
Federal Grants						
Sec. 363 of PA 26-28	Reflect the federal match from the hospital payment proposal	-	147.6	186.3	217.2	249.5
Sec. 211 of PA 26-68	UConn Health Center to retain federal revenue for Waterbury Hospital to pay the hospital provider tax	-	(15.0)	(15.0)	(15.0)	(15.0)
Sec. 1 of PA 26-68	Reflect the federal revenue impact of other expenditure changes	-	1.9	1.9	1.9	1.9
	Subtotal	**-**	**134.5**	**173.2**	**204.1**	**236.4**
Transfers from / (to) Other Funds						
Sec. 10 of PA 26-68	Suspend scheduled transfer from the Probate Court Administrator Fund (PCAF)	(24.0)	-	-	-	-
Sec. 257 of PA 26-68	Adjust inter-FY revenues to help balance**	130.0	(130.0)	-	-	-
Sec. 258 of PA 26-68	Reflect use of FY 26 volatility to help balance FY 27	(233.7)	233.7	-	-	-
Sec. 259 of PA 26-68	Transfer to the NEW Federal Cuts Response Fund	(50.0)	-	-	-	-
Sec. 260 of PA 26-68	Update the General Fund subsidy of the Municipal Revenue Sharing Fund	13.1	15.0	-	-	-
Sec. 360 of PA 26-68	Return anticipated surplus in the Hospital Supplemental Payment Account to the General Fund**	-	10.7	-	-	-

Category & Enacting Authority	Policy	FY 26	FY 27	FY 28	FY 29	FY 30
General Fund						
Secs. 269-270 and 465 of PA 26-68	Shift the funding source for municipal aid grants to Ledyard and Montville	-	(1.6)	(1.6)	(1.6)	(1.6)
Sec. 1 of PA 26-68	Provide revenue adjustment to reflect the FY 27 appropriations change in the Mashantucket Pequot and Mohegan Fund	-	(0.1)	(0.1)	(0.1)	(0.1)
	Subtotal	**(164.6)**	**127.7**	**(1.7)**	**(1.7)**	**(1.7)**
Transfer to Housing Trust Fund						
Sec. 261 of PA 26-68	Suspend the transfer to the Housing Trust Fund	33.6	30.3	-	-	-
	Subtotal	**33.6**	**30.3**	**-**	**-**	**-**
OTHER SOURCES TOTAL		**(131.0)**	**292.5**	**171.5**	**202.4**	**234.7**
Volatility Cap Adjustment						
Sec. 256 of PA 26-68	Adjust Volatility Cap threshold	813.7	-	-	-	-
Sec. 267 of PA 26-68	Allow certain pass-through entities to earn (partially refundable) research and development tax credits	-	20.0	20.0	20.0	20.0
	Subtotal	**813.7**	**20.0**	**20.0**	**20.0**	**20.0**
VOLATILITY CAP TOTAL		**813.7**	**20.0**	**20.0**	**20.0**	**20.0**
GENERAL FUND TOTAL		**682.7**	**(855.6)**	**(1,003.9)**	**(991.8)**	**(968.0)**
**Adjustment to reconcile with FRB Schedule of 5/1		-	92.1	-	-	-
FRB TOTAL GENERAL FUND policy changes		**-**	**(763.5)**	**-**	**-**	**-**
Special Transportation Fund						
Sales and Use Tax						
Sec. 262 of PA 26-68	Increase the per-item cost and expand items exempted during the sales "tax free week"	-	(0.2)	(0.2)	(0.2)	(0.3)
Sec. 272 of PA 26-68	Exempt school supplies from the sales tax	-	(0.6)	(0.6)	(0.6)	(0.6)
	Subtotal	**-**	**(0.8)**	**(0.8)**	**(0.8)**	**(0.9)**
Transfers from / (to) Other Funds						
Sec. 276 of PA 26-68	Transfer excess STF revenues to FY 27	(100.0)	100.0	-	-	-
	Subtotal	**(100.0)**	**100.0**	**-**	**-**	**-**
SPECIAL TRANSPORTATION FUND TOTAL		**(100.0)**	**99.2**	**(0.8)**	**(0.8)**	**(0.9)**

Category & Enacting Authority	Policy	FY 26	FY 27	FY 28	FY 29	FY 30
Municipal Revenue Sharing Fund						
Sales and Use Tax						
Sec. 262 of PA 26-68	Increase the per-item cost and expand items exempted during the sales "tax free week"	-	(0.2)	(0.2)	(0.2)	(0.3)
Sec. 272 of PA 26-68	Exempt school supplies from the sales tax	-	(0.6)	(0.6)	(0.6)	(0.6)
	Subtotal	-	**(0.8)**	**(0.8)**	**(0.8)**	**(0.9)**
Transfers from / (to) Other Funds						
Sec. 260 of PA 26-68	Update the General Fund subsidy of the Municipal Revenue Sharing Fund	(13.1)	(15.0)	-	-	-
	Subtotal	**(13.1)**	**(15.0)**	**-**	**-**	**-**
MUNICIPAL REVENUE SHARING FUND TOTAL		**(13.1)**	**(15.8)**	**(0.8)**	**(0.8)**	**(0.9)**
Mashantucket Pequot and Mohegan Fund						
Transfers from / (to) Other Funds						
Secs. 269-270 and 465 of PA 26-68	Shift the funding source for municipal aid grants to Ledyard and Montville	-	1.6	1.6	1.6	1.6
Sec. 1 of PA 26-68	Provide revenue adjustment to reflect the FY 27 appropriations change in the Mashantucket Pequot and Mohegan Fund	-	0.1	0.1	0.1	0.1
MASHANTUCKET PEQUOT AND MOHEGAN FUND TOTAL		**-**	**1.7**	**1.7**	**1.7**	**1.7**
Sec. 464 of PA 26-68 appropriates $100 million to the Office of Policy and Management from the resources of the (FY 26) General Fund to provide an additional, "one-time" grant distributed according to the Mashantucket Pequot and Mohegan Fund formula.						
Cannabis Prevention and Recovery Services Fund						
Cannabis Excise Tax						
Sec. 264 of PA 26-68	Replace the Cannabis total THC potency tax with an excise tax of 10.75 and adjust the General Fund's share of revenues temporarily to hold harmless the Social Equity Fund	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
CANNABIS PREVENTION AND RECOVERY SERVICES FUND TOTAL		**(0.5)**	**(0.5)**	**(0.5)**	**(0.5)**	**(0.5)**

Category & Enacting Authority	Policy	FY 26	FY 27	FY 28	FY 29	FY 30
NEW Federal Cuts Response Fund						
Transfers from / (to) Other Funds						
Sec. 259 of PA 26-68	Transfer to the NEW Federal Cuts Response Fund	50.0	-	-	-	-
NEW FEDERAL CUTS RESPONSE FUND TOTAL		**50.0**	**-**	**-**	**-**	**-**
Cannabis Social Equity and Innovation Fund (non-appropriated)						
Cannabis Excise Tax						
Sec. 264 of PA 26-68	Replace the Cannabis total THC potency tax with an excise tax of 10.75 and adjust the General Fund's share of revenues temporarily to hold harmless the Social Equity Fund	-	-	-	(1.6)	(1.7)
CANNABIS SOCIAL EQUITY AND INNOVATION FUND TOTAL		**-**	**-**	**-**	**(1.6)**	**(1.7)**
Housing Trust Fund (non-appropriated)						
Transfers from / (to) Other Funds						
Sec. 261 of PA 26-68	Suspend the transfer to the Housing Trust Fund	(33.6)	(30.3)	-	-	-
HOUSING TRUST FUND TOTAL		**(33.6)**	**(30.3)**	**-**	**-**	**-**
Probate Court Administrator Fund (non-appropriated)						
Transfers from / (to) Other Funds						
Sec. 10 of PA 26-68	Suspend scheduled transfer from the Probate Court Administrator Fund (PCAF)	24.0	-	-	-	-
Secs. 393-395 of PA 26-68	Transfer from the PCAF to a NEW Temporary Education Aid for School Districts Account	(10.9)	-	-	-	-
PROBATE COURT ADMINISTRATOR FUND TOTAL		**13.1**	**-**	**-**	**-**	**-**
NEW Temporary Education Aid for School Districts Account (non-appropriated)						
Transfers from / (to) Other Funds						
Secs. 393-395 of PA 26-68	Transfer from the PCAF to a NEW Temporary Education Aid for School Districts Account	10.9	-	-	-	-
NEW TEMPORARY EDUCATION AID FOR SCHOOL DISTRICTS ACCOUNT TOTAL		**10.9**	**-**	**-**	**-**	**-**

Category & Enacting Authority	Policy	FY 26	FY 27	FY 28	FY 29	FY 30
NEW Hospital Supplemental Payment Account (non-appropriated)						
Hospital Provider Tax						
Sec. 359 of PA 26-68	Adjust hospital policies – support the NEW Hospital Supplemental Payment Account with the remaining hospital provider tax	-	974.0	997.8	1,022.2	1,047.3
	Subtotal	**-**	**974.0**	**997.8**	**1,022.2**	**1,047.3**
Transfers from / (to) Other Funds						
Sec. 360 of PA 26-68	Return anticipated surplus in the Hospital Supplemental Payment Account to the General Fund	-	(10.7)	-	-	-
	Subtotal	**-**	**(10.7)**	**-**	**-**	**-**
	NEW HOSPITAL SUPPLEMENTAL PAYMENT ACCOUNT TOTAL	**-**	**963.3**	**997.8**	**1,022.2**	**1,047.3**
Budget Reserve Fund and/or Pensions						
Volatility Cap Adjustment						
Sec. 256 of PA 26-68	Adjust Volatility Cap threshold	(813.7)	-	-	-	-
BUDGET RESERVE FUND AND/OR PENSIONS TOTAL		**(813.7)**	**-**	**-**	**-**	**-**
GRAND TOTAL ALL FUNDS		**(204.2)**	**162.0**	**(6.5)**	**28.4**	**77.0**

Revised FY 27 Revenue Schedule – General Fund

In Thousands of Dollars

	Original FY 27 Budget	January Consensus FY 27	Governor Policies	Governor FY 27 Revenue	Consensus Update (April)	April Consensus FY 27	Legislative Revenue Policies	Legislative Revenue FY 27 Revenue
Taxes								
Personal Income Tax-Withholding	9,645,100	9,864,000	-	**9,864,000**	-	9,864,000	-	9,864,000
Estimates and Finals	3,434,700	3,876,900	(20,000)	**3,856,900**	241,400	4,118,300	**(20,000)**	4,098,300
Sales and Use	5,230,300	5,409,900	-	**5,409,900**	35,000	5,444,900	**(8,400)**	5,436,500
Corporations	1,656,300	1,460,500	66,800	**1,527,300**	(174,700)	1,285,800	**66,800**	1,352,600
Pass-Through Entity Tax	2,170,300	2,365,600	-	**2,365,600**	70,000	2,435,600	-	2,435,600
Public Service Corporations	322,200	347,500	-	**347,500**	-	347,500	-	347,500
Inheritance and Estate	235,700	190,400	-	**190,400**	10,300	200,700	-	200,700
Insurance Companies	328,600	354,000	-	**354,000**	30,400	384,400	-	384,400
Alcoholic Beverages	79,500	76,600	-	**76,600**	-	76,600	-	76,600
Cigarettes	215,800	203,800	-	**203,800**	-	203,800	-	203,800
Real Estate Conveyance	299,300	317,800	-	**317,800**	20,500	338,300	-	338,300
Admissions and Dues	40,200	43,800	-	**43,800**	1,000	44,800	-	44,800
Miscellaneous Taxes	21,300	21,300	-	**21,300**	-	21,300	**(1,400)**	19,900
Health Provider	1,293,200	1,313,900	(275,000)	**1,038,900**	-	1,313,900	**(1,192,300)**	121,600
Total Taxes	**24,972,500**	**25,846,000**	**(228,200)**	**25,617,800**	**233,900**	**26,079,900**	**(1,155,300)**	**24,924,600**
Refunds of Taxes	(2,040,800)	(2,060,800)	(505,000)	**(2,565,800)**	(8,000)	(2,068,800)	**(5,000)**	(2,073,800)
Earned Income Tax Credit	(240,500)	(240,500)	-	**(240,500)**	-	(240,500)	-	(240,500)
R & D Credit Exchange	(10,100)	(10,100)	(5,000)	**(15,100)**	300	(9,800)	**(5,000)**	(14,800)
Taxes Less Refunds	**22,681,100**	**23,534,600**	**(738,200)**	**22,796,400**	**226,200**	**23,760,800**	**(1,165,300)**	**22,595,500**
Other Revenue								
Indian Gaming Payments	349,900	380,100	-	**380,100**	-	380,100	-	380,100
Transfer Special Revenue	385,700	381,700	-	**381,700**	-	381,700	-	381,700
Licenses, Permits and Fees	335,600	340,200	(15,900)	**324,300**	-	340,200	-	340,200
Rentals, Fines and Escheats	198,300	223,300	-	**223,300**	28,100	251,400	-	251,400
Investment Income	251,400	225,200	-	**225,200**	11,200	236,400	-	236,400
Sales of Commodities	17,600	18,000	-	**18,000**	-	18,000	-	18,000
Miscellaneous	194,100	167,100	-	**167,100**	-	167,100	-	167,100
Refunds of Payments	(92,100)	(108,900)	-	**(108,900)**	-	(108,900)	-	(108,900)
Total Other Revenue	**1,640,500**	**1,626,700**	**(15,900)**	**1,610,800**	**39,300**	**1,666,000**	**-**	**1,666,000**
Other Sources								
Federal Grants	2,035,300	1,940,800	1,900	**1,942,700**	136,500	2,077,300	**134,500**	2,211,800
Transfer from Tobacco Settlement	90,200	90,200	-	**90,200**	(4,200)	86,000	-	86,000
Transfers From/To Other Funds	89,300	89,300	489,600	**578,900**	-	89,300	**217,000**	306,300
Transfer to Housing Trust Fund	-	(9,800)	-	**(9,800)**	(20,500)	(30,300)	**30,300**	-
Total Other Sources	**2,214,800**	**2,110,500**	**491,500**	**2,602,000**	**111,800**	**2,222,300**	**381,800**	**2,604,100**
Volatility Adjustment								
Volatility Cap Adjustment	(622,700)	(1,233,400)	20,000	**(1,213,400)**	(318,000)	(1,551,400)	**20,000**	(1,531,400)
Total Volatility Adjustment	**(622,700)**	**(1,233,400)**	**20,000**	**(1,213,400)**	**(318,000)**	**(1,551,400)**	**20,000**	**(1,531,400)**
Total General Fund	**25,913,700**	**26,038,400**	**(242,600)**	**25,795,800**	**59,300**	**26,097,700**	**(763,500)**	**25,334,200**

Revised Policies Details - General Fund

Personal Income Tax-Withholding

Establish a state personal income tax deduction for certain honor guard compensation

Legislative Revenue
Establish a state personal income tax deduction for per diem payments ($60 per day per member, under CGS Section 27-76) to members of an honor guard detail at a veteran's funeral.

Sec. 18 of PA 26-35, *An Act Concerning Assorted Measures Recognizing and Honoring the Heroism of Veterans...*, implements the policy effective July 1, 2026, and applicable to taxable years commencing on or after January 1, 2026.

The estimated annual General Fund revenue loss associated with the policy is $25,000 beginning in FY 27.

Establish a state personal income tax deduction for state active-duty National Guard pay

Legislative Revenue
Establish a state personal income tax deduction for pay a National Guard member receives for being ordered out for active service.

Sec. 19 of PA 26-35, *An Act Concerning Assorted Measures Recognizing and Honoring the Heroism of Veterans...*, implements the policy effective July 1, 2026, and applicable to taxable years commencing on or after January 1, 2027.

The estimated annual General Fund revenue loss associated with the policy is $40,000 beginning in FY 28.

Estimates and Finals

Allow certain pass-through entities to earn (partially refundable) research and development tax credits

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Estimates and Finals	(20,000,000)	(20,000,000)	-
R & D Credit Exchange	(5,000,000)	(5,000,000)	-
Volatility Cap Adjustment	20,000,000	20,000,000	-
Total	**(5,000,000)**	**(5,000,000)**	**-**

Background
A state corporation research and development (R&D) tax credit is available to C corporations for: (1) federally deductible R&D expenditures the business incurs and (2) qualifying "basic research payments" including payments made to qualifying nonprofit educational institutions, scientific research organizations, or grant organizations for eligible research.

Governor
Expand the R&D tax credit by allowing pass-through entities to earn them. The new tax credit program is capped at $25 million per year in total, with a maximum $1.5 million tax credit for any single pass-through entity. If the tax credit exceeds the tax liability, then the excess amount of the credit would be refundable at the following rates: 1) 90% for biotechnology firms; and 2) 65% for all other firms. Firms would be required to apply to the Commissioner of the Department of Economic and Community Development to reserve a tax credit allocation. The policy is primarily expected to offset estimated and final payments of the personal income tax. However, to the extent that refunds are issued, a $5 million revenue loss is estimated to the General Fund.

Section 5 of SB 84, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy effective from passage and applicable to taxable years commencing on or after January 1, 2026.

Legislative Revenue
Same as Governor.

Sec. 267 of PA 26-68, the FY 27 Revised Budget, implements the policy effective from passage and applicable to taxable years commencing on or after January 1, 2026.

Sales and Use

Increase the per-item cost and expand items exempted during the sales "tax free week"

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Sales and Use	-	(2,500,000)	(2,500,000)

Background
Under current law, during the third week of August (third Sunday through the following Saturday), 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.

Legislative Revenue
Expand 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.

Sec. 262 of PA 26-68, the FY 27 Revised Budget, implements the policy effective from passage.

Note: The general sales tax rate of 6.35 percentage points generates revenue primarily to the General Fund (5.35 percentage points) with remaining portions of 0.5 percentage points each benefiting the Special Transportation and Municipal Revenue Sharing funds.

Exempt school supplies from the sales tax

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Sales and Use	-	(5,900,000)	(5,900,000)

Legislative Revenue
Exempt from the state's 6.35% sales and use tax non-electronic school supplies, like backpacks, lunchboxes, notebooks, pens, pencils, crayons, rulers, and paper.

Sec. 272 of PA 26-68, the FY 27 Revised Budget, implements the policy effective July 1, 2026, and applicable to sales occurring on or after that date.

Note: The general sales tax rate of 6.35 percentage points generates revenue primarily to the General Fund (5.35 percentage points) with remaining portions of 0.5 percentage points each benefiting the Special Transportation and Municipal Revenue Sharing funds.

Extend the enhanced redemption rate of certain film and digital media production tax credits

Background
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. Secs. 352-353 of PA 23-204, the FY 24 - FY 25 Biennial Budget, temporarily increased the redemption rate of film and digital media production tax credits against the sales and use tax, with General Fund revenue losses of $2.2 million in FY 24 and $4.3 million in FY 25.

Legislative Revenue
Extend the 92% redemption rate for two additional years, to the 2026 and 2027 income years.

Secs. 223 and 268 of PA 26-68, as amended by Section 81 of PA 26-76, *An Act Concerning the Failure to File...*, extend the policy effective from passage.

Corporations

Delay conformity to a new federal law (Federal P.L. 119-21) related to expensing rules for certain (historical) research and experimentation expenditures

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Corporations	66,800,000	66,800,000	-

Background
Starting in 2025, P.L. 119-21 allows federal corporation income taxpayers **to deduct domestic research and experimentation (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.

Governor
Disallow the immediate deduction for Connecticut tax purposes for the 2025 income year and instead require 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. Conform to the new federal law's rules for immediate expensing beginning in the 2026 income year and thereafter.

The policy precludes a projected state revenue loss of $66.8 million in FY 27 as R&E cumulative expenditures from 2022 through the 2025 income years would have been expensed all together. The policy effectively dilutes the state revenue loss related to historical corporate expenditures over five years rather than one, with a net fiscal impact of zero over time.

Sections 1-2 of SB 84, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy effective from passage.

Legislative Revenue
Same as Governor.

Sections 265-266 of PA 26-68, the FY 27 Revised Budget, implements the policy effective from passage.

Decouple entirely from a provision in a new federal law (P.L. 119-21) allowing immediate expensing of certain depreciable qualified production property expenditures rather than over thirty-nine years

Background
Federal 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.

*Bonus depreciation is a tax incentive that allows businesses to immediately deduct the cost of qualifying assets, such as equipment, instead of over time.

Governor
Decouple entirely from this federal law, impacting revenue beginning in FY 28 with an estimated state revenue gain of $103.6 million.

Sections 1-2 of SB 84, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy effective from passage.

Legislative Revenue
Same as Governor.

Sections 265-266 of PA 26-68, the FY 27 Revised Budget, implement the policy effective from passage.

Temporarily provide a supplemental film tax credit

Background
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.

Legislative Revenue
Allow companies that are eligible for the existing credits to apply to the Department of Economic and Community Development (DECD) for a voucher for an additional production tax credit for the 2027 and 2028 income years which may be applied against the insurance premium; corporation business; cable, satellite, and competitive video; and sales and use taxes for the income year in which the production expenses or costs were incurred, or in the five immediately succeeding income years, and may be sold, assigned, or otherwise transferred according to the process under existing law for the film and digital media production tax credits.

The additional credit must be for production expenses or costs incurred for a state-certified qualified production for which principal photography shooting occurs in Bridgeport, Hartford, or New Haven, or any combination of them, for at least one day. The credit equals a percentage of these production expenses and costs, ranging from 30% to 50%. Specifically, 30% for expenses and costs between

$100,000 and $500,000, 35% for those over $500,000 up to $1 million, and 50% for those over $1 million. **Total supplemental credits issued in each income year cannot exceed $1.5 million.**

Sec. 275 of PA 26-68, the FY 27 Revised Budget, as amended by Sec. 34 of PA 26-76, *An Act Concerning the Failure to File...*, implements the policy.

Miscellaneous Taxes

Replace the Cannabis total THC potency tax with an excise tax of 10.75 and adjust the General Fund's share of revenues temporarily to hold harmless the Social Equity Fund

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Miscellaneous Taxes	-	(1,400,000)	(1,400,000)

Legislative Revenue
Replace 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. Section 264 of PA 26-68, the FY 27 Revised Budget, implements the change effective October 1, 2026, and applicable to sales occurring on or after that date.

Increase, from 65% to 70%, the amount of cannabis tax revenue directed to the social equity and innovation account for FY 27 and FY 28 and correspondingly decrease the amount directed to the General Fund for those years, from 10% to 5%. This adjustment effectively shifts the impact of the projected revenue loss under the tax change to the General Fund, only. Beginning in FY 29, the social equity and innovation account would bear the projected revenue loss due to the tax change.

Health Provider

Adjust hospital tax and state payments to medical providers

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Health Provider	(275,000,000)	(1,192,300,000)	(917,300,000)
Federal Grants	-	132,600,000	132,600,000
Total	**(275,000,000)**	**(1,059,700,000)**	**(784,700,000)**

Background
During the 2025 legislative session, hospital provider taxes for FY 27 were increased by $375 million over FY 26 levels with a corresponding increase of $140 million in supplemental payments to hospitals.

Governor
Reduce the hospital provider tax increase for FY 27 to $100 million while maintaining the $140 million increase in supplemental payments to hospitals.

Section 3 of SB 84, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy effective July 1, 2026.

Legislative Revenue
Adjust hospital policies as follows:

1. Reduce the hospital provider tax per Sec. 358 of PA 26-68, the FY 27 Revised Budget;
2. Shift the remaining hospital provider tax revenue to the newly established off-budget "Hospital Supplemental Payment" account, to offset planned expenditures per Sec. 359 of PA 26-68, the FY 27 Revised Budget;
3. Recognize an increase in federal grant revenue as a partial match for the increase in hospital supplemental payments over the original FY 27 appropriation per Sec. 363 of PA 26-28, the FY 27 Revised Budget;

4. Set aside $15 million annually of the increased federal grant revenue to fund UConn Health Center's payment of the hospital provider tax on behalf of Waterbury Hospital (which recently merged with UConn) per Sec. 211 of PA 26-68, the FY 27 Revised Budget; and
5. Return anticipated, FY 27 operating surplus of $10.7 million in the Hospital Supplemental Payment account to the General Fund per Sec. 360 of PA 26-68, the FY 27 Revised Budget.

The table below provides a revenue summary of these policies by fiscal year, beginning in FY 27 as there is no FY 26 fiscal impact.

Adjust Hospital Policies in $ millions - *Reflects Current Law*							
Fund or Account	**Revenue Category**	**Policy**	**FY 27**	**FY 28**	**FY 29**	**FY 30**	**FY 31**
General Fund	Health Provider Tax	Reduce the Hospital Provider Tax	(221.0)	(222.2)	(222.8)	(222.7)	(221.9)
General Fund	Health Provider Tax	Shift Hospital Provider Tax to the Hospital Supplemental Payment account*	(974.0)	(997.8)	(1,022.2)	(1,047.3)	(1,073.1)
General Fund	**Health Provider Tax**	**Subtotal**	**(1,195.0)**	**(1,220.0)**	**(1,245.0)**	**(1,270.0)**	**(1,295.0)**
General Fund	Federal Grants	Reflect the federal match	147.6	186.3	217.2	249.5	283.1
General Fund	Federal Grants	Retain a portion of the federal match to subsidize payment by Waterbury Hospital	(15.0)	(15.0)	(15.0)	(15.0)	(15.0)
General Fund	**Federal Grants**	**Subtotal**	**132.6**	**171.3**	**202.2**	**234.5**	**268.1**
General Fund	Transfers From/To Other Funds	Return anticipated surplus to the General Fund**	10.7	-	-	-	-
Hospital Supplemental Payment Account	Transfer From/To Other Funds	id.**	(10.7)	-	-	-	-
All Funds	**Transfer From/To Other Funds**	**Subtotal**	**-**	**-**	**-**	**-**	**-**
General Fund	**All Categories**	**Net Impact**	**(1,051.7)**	**(1,048.7)**	**(1,042.8)**	**(1,035.5)**	**(1,026.9)**
Hospital Supplemental Payment Account	**All Categories**	**Net Impact**	**963.3**	**997.8**	**1,022.2**	**1,047.3**	**1,073.1**

* The $974 million figure reflects current law, although the underlying amount reflected in the revenue schedule that the Finance, Revenue and Bonding Committee adopted on May 1, 2026, in support of the Revised FY 27 Budget, is $971.3 million.

**Although included in the language of Public Act 26-68, the $10.7 million transfer is not reflected in the revenue schedule that the Finance, Revenue and Bonding Committee adopted on May 1, 2026, in support of the Revised FY 27 Budget.

Refunds of Taxes

Provide a tax credit to qualified operators

Background
Existing law allows the Capital Region Development Authority (CRDA) to enter into two separate agreements concerning the XL Center's (1) management and operation and (2) reconstruction and renovation. (The XL Center is now known as the PeoplesBank Arena). The reconstruction and renovation agreement must provide that CRDA, the state, or both together, must contribute no more than $125 million, and the contractor must contribute at least $20 million toward the cost of any renovation or reconstruction occurring after January 1, 2023.

Legislative Revenue
Establish a refundable sales and use tax credit up to $10 million under which, generally, the PeoplesBank Arena's facility management company may qualify if it contracts with UConn to host at least 20 events per academic year at the arena for an agreed upon period of

time. The credit may be claimed in the latter of (1) each of the first five academic years identified in the qualified agreement or (2) the academic year commencing July 1, 2027, and the four subsequent academic years. The amount of the credit allowable for each of the first five academic years must not exceed $2 million for any academic year (up to the aggregate $10 million cap).

Secs. 254-255 of PA 26-68, the FY 27 Revised Budget, implement the policy effective July 1, 2026.

Provide a tax credit to small businesses as a match for contributions to fund individual coverage health reimbursement arrangements (ICHRA) through Access Health CT's BusinessPlus platform

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Refunds of Taxes	(5,000,000)	(5,000,000)	-

Background
BusinessPlus is a new platform to help brokers and employers administer Individual Coverage Health Reimbursement Arrangements, also known as ICHRA. This is a type of health benefit where employers can provide employees with pretax dollars to help cover health insurance premiums and qualified medical expenses. With ICHRA, employees can shop, compare and enroll in one of the 22 Qualified Health Plan (QHP) options offered through Access Health CT. Source: AccessHealthCT.com

Further information
Issued in October 2017, President Trump's Executive Order 13813, "Promoting Healthcare Choice and Competition Across the United States," directed the Secretaries of the Treasury, Labor and Health and Human Services to consider proposing regulations or revising guidance to increase the usability of health reimbursement arrangements (HRA) and to expand employers' ability to offer them to their employees. Accordingly, in June 2019, the "Final Rule" governing ICHRA was formally introduced into the Federal Register by the Internal Revenue Service, the Department of Labor (DOL), and the Department of Health and Human Services (HHS).

An HRA is a group health plan funded solely by employer contributions that reimburses an employee’s medical care expenses up to a maximum dollar amount for a coverage period.

HRA reimbursements are excludable from the employee’s income and wages for federal income tax and employment tax purposes. An employer may allow funds that remain in the HRA at the end of the year to carry over into future years. In addition to the employee, an HRA may also reimburse expenses incurred by the employee’s spouse, dependents, and children who, as of the end of the taxable year, have not attained age 27 (dependents). The HRA rule allows employers to meet Patient Protection and Affordable Care Act (PPACA) requirements by offering an ICHRA that requires employees and any covered dependents to be enrolled in individual health insurance coverage; or Medicare Parts A and B, or Part C; to receive reimbursements for medical care expenses from the ICHRA. Source: CMIS.

Governor
Provide a tax credit of up to $1,000 per covered employee per year under the BusinessPlus program, with an annual program cap of $5 million.

Section 4 of HB 5041, *AA Expanding Health Care Coverage*, implements the policy effective from passage and applicable to income and taxable years commencing on or after January 1, 2026.

Legislative Revenue
Same as Governor.

Sec. 263 of PA 26-68, the FY 27 Revised Budget, as amended by Sec. 85 of PA 26-76, *An Act Concerning the Failure to File...*, implements the policy effective from passage and applicable to income and taxable years commencing on or after January 1, 2026.

Access volatile revenues to implement policies

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Refunds of Taxes	(500,000,000)	-	500,000,000
Transfers From/To Other Funds	500,000,000	233,700,000	(266,300,000)
Total	**-**	**233,700,000**	**233,700,000**

Background
A component of the 'fiscal guardrails', the **volatility cap** limits the amount of total revenue from designated volatile sources* available to balance the General Fund budget. Volatile revenues exceeding the volatility cap are used maintain the Budget Reserve Fund at 18.0% of net General Fund appropriations and to reduce long-term (primarily pensions) debt.

* By law, designated volatile revenues are the: (1) estimated and finals portion of the personal income tax; and (2) pass-through entity tax.

Governor
Raise the FY 26 volatility cap threshold by $500 million and credit that amount to FY 27 to fund a tax rebate. The tax rebate of $200 - $400 benefits certain full-year CT residents who filed a personal income tax return for tax year 2024. This is estimated to impact 1.6 million taxpayers.

Sections 6-9 of SB 84, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy with various effective dates.

Note: The proposal to divert FY 26 volatility funds precludes savings to the state's actuarially determined employer contribution for the state employees and teachers' pension systems by approximately $41.5 million annually beginning in FY 28, amortized over 25 years.

Legislative Revenue
Temporarily increase the volatility cap by $813.7 million in FY 26, thus making available that revenue as a resource to support the various purposes listed in the **FY 26 Volatility Cap Increase and Related Uses** table in the Transfers From/To Other Funds section of the revenue report below. Due to this policy, the projected FY 27 additional deposits into the pensions funds are reduced by $726 million. The associated foregone annual savings (beginning in FY 29) to the Actuarially Determined Employer Contribution (ADEC) because of this reduced deposit is estimated to be $62.2 million.

The remaining FY 26 projected Volatility Cap Transfer after the $813.7 million adjustment is $1,284.2 million. Of the remaining FY 26 Volatility Cap Transfer amount, (1) $150.9 million is designated to maintain the Budget Reserve Fund at the 18.0% maximum relative to net General Fund appropriations in FY 27; and (2) $1,133.3 million is available to make an additional deposit into pension funds to reduce the State's long-term pensions debt. The associated annual ADEC savings is $97.1 million beginning in FY 29 (and would have been $159.4 million absent the $813.7 million increase to the volatility cap).

Expand the military retirement pay exemption under the personal income tax to include the commissioned corps of the Public Health Service

Legislative Revenue
Expand the military retirement income tax deduction to include retirement pay for members of the U.S. Public Health Service's commissioned corps (a U.S. uniformed service).

Sec. 277 of PA 26-68, the Revised FY 27 Budget, implements the policy effective July 1, 2026, and applicable to tax years starting on or after January 1, 2026.

The estimated, annual state General Fund revenue loss of $100,000 (beginning in FY 27) due to the policy is not reflected in the revenue schedule that the Finance, Revenue and Bonding Committee adopted on May 1, 2026, in support of the Revised FY 27 Budget.

R & D Credit Exchange

Allow certain pass-through entities to earn (partially refundable) research and development tax credits

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Estimates and Finals	(20,000,000)	(20,000,000)	-
R & D Credit Exchange	(5,000,000)	(5,000,000)	-
Volatility Cap Adjustment	20,000,000	20,000,000	-
Total	**(5,000,000)**	**(5,000,000)**	**-**

Background
A state corporation research and development (R&D) tax credit is available to C corporations for: (1) federally deductible R&D expenditures the business incurs and (2) qualifying "basic research payments" including payments made to qualifying nonprofit educational institutions, scientific research organizations, or grant organizations for eligible research.

Governor
Expand the R&D tax credit by allowing pass-through entities to earn them. The new tax credit program is capped at $25 million per year in total, with a maximum $1.5 million tax credit for any single pass-through entity. If the tax credit exceeds the tax liability, then the excess amount of the credit would be refundable at the rates of: 1) 90% for biotechnology firms; and 2) 65% for all other firms. Firms would be required to apply to the Commissioner of the Department of Economic and Community Development to reserve a tax credit allocation. The policy is primarily expected to offset estimated and final payments of the personal income tax. However, to the extent that refunds are issued, a $5 million revenue loss is estimated to the General Fund.

Section 5 of SB 84, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy effective from passage and applicable to taxable years commencing on or after January 1, 2026.

Legislative Revenue
Same as Governor.

Sec. 267 of PA 26-68, the FY 27 Revised Budget, implements the policy effective from passage and applicable to taxable years commencing on or after January 1, 2026.

Licenses, Permits and Fees

Eliminate certain occupational license application and renewal fees

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Licenses, Permits and Fees	(15,900,000)	-	15,900,000

Background
Sections 415-433 of PA 25-168, the FY 26 & FY 27 Budget, eliminated application fees for select healthcare and educational professions. Additionally, renewal fees for paramedic and initial educator licenses were eliminated, affecting nearly 20,000 workers, and the annual General Fund revenue loss was estimated to be $3.8 million.

Governor
As in his FY 26 – FY 27 Biennial Budget proposal, the Governor proposes to eliminate application and renewal fees for select professions. Fees range from $65 to $375, depending on the license, impacting over 160,000 workers. The annual General Fund revenue loss is $21.2 million (FY 27 partial year revenue loss is $15.9 million as the changes would take effect on 10/1/26).

Sections 14-28 of SB 84, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy effective October 1, 2026.

Legislative Revenue
No additional fees are eliminated.

Federal Grants

Adjust hospital tax and state payments to medical providers

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Health Provider	(275,000,000)	(1,192,300,000)	(917,300,000)
Federal Grants	-	132,600,000	132,600,000
Total	**(275,000,000)**	**(1,059,700,000)**	**(784,700,000)**

Background
During the 2025 legislative session, hospital provider taxes for FY 27 were increased by $375 million over FY 26 levels with a corresponding increase of $140 million in supplemental payments to hospitals.

Governor
Reduce the hospital provider tax increase for FY 27 to $100 million while maintaining the $140 million increase in supplemental payments to hospitals.

Section 3 of SB 84, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy effective July 1, 2026.

Legislative Revenue
Adjust hospital policies as follows:

1. Reduce the hospital provider tax per Sec. 358 of PA 26-68, the FY 27 Revised Budget;
2. Shift the remaining hospital provider tax revenue to the newly established off-budget "Hospital Supplemental Payment" account, to offset planned expenditures per Sec. 359 of PA 26-68, the FY 27 Revised Budget;
3. Recognize an increase in federal grant revenue as a partial match for the increase in hospital supplemental payments over the original FY 27 appropriation per Sec. 363 of PA 26-28, the FY 27 Revised Budget;

4. Set aside $15 million annually of the increased federal grant revenue to fund UConn Health Center's payment of the hospital provider tax on behalf of Waterbury Hospital (which recently merged with UConn) per Sec. 211 of PA 26-68, the FY 27 Revised Budget; and
5. Return anticipated, FY 27 operating surplus of $10.7 million in the Hospital Supplemental Payment account to the General Fund per Sec. 360 of PA 26-68, the FY 27 Revised Budget.

The table in the preceding Health Provider section of this report provides a revenue summary of these policies by fiscal year, beginning in FY 27 as there is no FY 26 fiscal impact.

Reflect the federal revenue impact of other expenditure changes

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Federal Grants	1,900,000	1,900,000	-

Background
Some state General Fund line items are gross funded, meaning state appropriations are made to cover the full cost with the expectation that federal reimbursements would partially offset those costs. Anticipated federal reimbursements are reflected in the Federal Grants revenue source. These adjustments exclude Medicaid, which is net funded.

Governor
Reflect the impact of other (aside from altering supplemental payments to hospitals) changes to appropriations on federal grants revenue.

Legislative Revenue
Same as Governor.

Transfers From/To Other Funds

Access volatile revenues to implement policies

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Refunds of Taxes	(500,000,000)	-	500,000,000
Transfers From/To Other Funds	500,000,000	233,700,000	(266,300,000)
Total	**-**	**233,700,000**	**233,700,000**

Background
A component of the 'fiscal guardrails', the **volatility cap** limits the amount of total revenue from designated volatile sources* available to balance the General Fund budget. Volatile revenues exceeding the volatility cap are used maintain the Budget Reserve Fund at 18.0% of net General Fund appropriations and to reduce long-term (primarily pensions) debt.

* By law, designated volatile revenues are the: (1) estimated and finals portion of the personal income tax; and (2) pass-through entity tax.

Governor
Raise the FY 26 volatility cap threshold by $500 million and credit that amount to FY 27 to fund a tax rebate. The tax rebate of $200 - $400 benefits certain full-year CT residents who filed a personal income tax return for tax year 2024. This is estimated to impact 1.6 million taxpayers.

Sections 6-9 of SB 84, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy with various effective dates.

Note: The proposal to divert FY 26 volatility funds precludes savings to the state's actuarially determined employer contribution for the state employees and teachers' pension systems by approximately $41.5 million annually beginning in FY 28, amortized over 25 years.

Legislative Revenue
Temporarily increase the volatility cap by $813.7 million in FY 26, thus making available that revenue as a resource to support the various purposes listed in the **FY 26 Volatility Cap Increase and Related Uses** table below. Due to this policy, the projected FY 27 additional deposits into the pensions funds are reduced by $726 million. The associated foregone annual savings (beginning in FY 29) to the Actuarially Determined Employer Contribution (ADEC) because of this reduced deposit is estimated to be $62.2 million.

The remaining FY 26 projected Volatility Cap Transfer after the $813.7 million adjustment is $1,284.2 million. Of the remaining FY 26 Volatility Cap Transfer amount, (1) $150.9 million is designated to maintain the Budget Reserve Fund at the 18.0% maximum relative to net General Fund appropriations in FY 27; and (2) $1,133.3 million is available to make an additional deposit into pension funds to reduce the State's long-term pensions debt. The associated annual ADEC savings is $97.1 million beginning in FY 29 (and would have been $159.4 million absent the $813.7 million increase to the volatility cap).

FY 26 Volatility Cap Increase and Related Uses
In Millions of Dollars

Policy Change in PA 26-68	FY 26	FY 27
Increase the volatility cap - Sec. 256	813.7	-
Authorize additional spending* for supplemental education grants - Secs. 390-391	(162.2)	-
Authorize additional spending* for charter, magnet, and vocational agriculture schools - Sec. 390	(17.8)	-
Authorize additional spending* for State Dept. of Education's administrative costs to assist local boards of education and to distribute grants - Sec. 390(a)(6)	(3.0)	-
Authorize additional spending* for municipal grants to be distributed per the Mashantucket Pequot and Mohegan Fund formula - Sec. 464	(100.0)	-
Adjust the FY 26 - FY 27 revenue transfer - Sec. 258	(233.7)	233.7
Total General Fund surplus / (deficit) impact **	297.0	-

* New FY 26 General Fund spending exempted from the spending cap per an emergency declaration of the Governor and affirmative vote of at least 3/5 in each chamber of the General Assembly: (1) $183 million related to supporting K-12 education; and (2) $100 million related to municipal aid distributed via the Mashantucket Pequot and Mohegan Fund allocation formula.

The sections listed in the table above authorizing additional FY 26 spending also allow the funding to be carried forward and distributed in FY 27.

** Pursuant to Public Act 25-93, *An Act Increasing Resources for Students, Schools and Special Education*, the entirety of any projected operating surplus in the General Fund will be transferred to the Early Childhood Education Endowment Fund.

Update the General Fund subsidy of the Municipal Revenue Sharing Fund

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Transfers From/To Other Funds	21,400,000	15,000,000	(6,400,000)

Background
The Municipal Revenue Sharing Fund (MRSF) provides resources to make grant payments to municipalities to ease the property tax burden. By law, MRSF payments go towards:

1. Reimbursing certain municipalities for property tax revenue lost due to the statewide cap on mill rates (currently 32.46 mills) that can be charged on automobiles;
2. Providing municipalities with payments in lieu of taxes (PILOT) for certain tax-exempt properties, such as state-owned buildings, private colleges and hospitals, using a "tiered" system that provides a higher percentage of reimbursement for the state's poorest municipalities;
3. Providing (supplemental revenue sharing) via fixed-amount grants to certain municipalities and districts to provide financial relief and stability; and **if any funding remains after items #1 - #3 have been satisfied**
4. Providing (municipal revenue sharing) grants based on a statutory formula incorporating town populations and mill rates, with an emphasis on supporting municipalities with higher property tax burdens.

The total FY 26 MRSF grant amount (covering items #1 through #3 above) is estimated to be $559.4 million. The total amount in FY 27 is projected to be $551.8 million.

MRSF revenues consist of: 1) a 0.5 share of the 6.35 general sales tax rate; and 2) ad hoc, General Fund transfers to subsidize MRSF grants if projected revenues from the sales tax diversion are insufficient to cover the full cost of items #1 - #3 above.

Governor
Update the General Fund subsidy in both FY 26 and FY 27 to reflect: 1) improved sales tax projections; and 2) lowered grant requirements. The policy results in a General Fund revenue gain of $13.1 million in FY 26 and $21.4 million in FY 27.

Section 10 of SB 84, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy effective from passage.

Legislative Revenue
Adjust the FY 27 transfer amount to help balance both funds.

Section 260 of PA 26-28, the Revised FY 27 Budget, implements the policy effective from passage.

Adjust inter-FY revenue transfers

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Transfers From/To Other Funds	(30,000,000)	(30,000,000)	-

Background
The FY 26 - FY 27 biennial budget included a provision* which credited $244 million of FY 26 General Fund revenue to FY 27 to help balance the second year of the biennial budget.

Governor
Reduce the revenue credit to FY 27 by $30 million to maximize the FY 26 General Fund surplus. Improving the FY 26 General Fund surplus increases the deposit into the Early Childhood Education Endowment (ECEE) Fund. By law, the ECEE Fund is entitled to the full amount of any unappropriated surplus in the General Fund, as projected by the Office of Policy and Management (OPM) in its monthly statement of June of each year.

In its monthly statement of January 2026 (immediately preceding the Governor's budget recommendation), the OPM projected a General Fund surplus of $85.9 million, which was $214.1 million less than the administrators of the ECEE Fund had planned on (as reported in the ECEE Fund's 2025 Annual Report submitted on January 9, 2026).

Total FY 26 support for the ECEE Fund under the Governor's proposal is $129 million, consisting of three parts: 1) projected operating General Fund surplus of $85.9 million as of January 2026; 2) the $13.1 million associated with the separate policy adjustment to "Update the General Fund subsidy of the Municipal Revenue Sharing Fund"; and the $30 million adjustment here.

Section 9 of SB 84, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy effective from passage.

Legislative Revenue
Reduce the revenue credit to FY 27 by $130 million.* (Current law)

Sec. 257 of PA 26-68, the FY 27 Revised Budget, implements the policy.

*Note that the FRB Schedule reflects a $30 million adjustment, only.

Increase the fund balance retained by the Home Improvement Guaranty Fund

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Transfers From/To Other Funds	(200,000)	-	200,000

Background
The Department of Consumer Protection maintains the Home Improvement Guaranty Fund. This fund was created and is replenished from annual assessments of registered contractors ($100) and salesperson ($40), and can be used to help satisfy an unpaid judgment (or court-confirmed arbitration decision) to a homeowner. A homeowner may be eligible for up to $25,000 from the Fund if they had hired a registered home improvement contractor and the resulting problem meets certain criteria. Source: ct.gov/dcp

FY 25 program statistics:

1. $2.7 million total restitution;
2. 214 consumers receiving restitution; and
3. $12,700 average restitution payment.

Under current law the fund can reach a maximum of $750,000, then the first $400,000 in excess is transferred to the consumer protection enforcement account, and any remaining excess funds is transferred to the General Fund.

Governor
Increase the amount of funds retained from $750,000 to $1,000,000.

Section 13 of SB 84, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy change effective July 1, 2026.

Legislative Revenue
Do not increase the fund balance retained by the Home Improvement Guaranty Fund.

Shift the funding source for municipal aid grants to Ledyard and Montville

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Transfers From/To Other Funds	(1,600,000)	(1,600,000)	-

Background
CGS Section 3-55i requires the annual transfer amount from the General Fund to the Mashantucket Pequot and Mohegan Fund to be equal to the total appropriation to the Mashantucket Pequot and Mohegan Fund.

The FY 26 and FY 27 Budget, as amended by the 2025 bond bill, effectively provides a $1.6 million (FY 27) General Fund appropriation to increase the grant amounts to two towns (Montville and Ledyard) in the Mashantucket Pequot and Mohegan Fund grant program.

Governor
Increase the FY 27 appropriation to the Mashantucket Pequot and Mohegan Fund by $1.6 million, with a corresponding decrease to the General Fund appropriation. The proposed change to appropriations triggers the statutory provision (CGS Section 3-55i) requiring a corresponding adjustment to the (revenues) transfer between funds.

Sections 8 and 20 of HB 5032, *AA Adjusting the State Budget for the Biennium Ending June 30, 2027*, implement the change to appropriations effective July 1, 2026.

Legislative Revenue
Same as Governor.

Secs. 269-270 and 465 of PA 26-68, the FY 27 Revised Budget, implement the policy, effective July 1, 2026.

Provide revenue adjustment to reflect the FY 27 appropriations change in the Mashantucket Pequot and Mohegan Fund

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Transfers From/To Other Funds	-	(100,000)	(100,000)

Legislative Revenue
Increase the FY 27 appropriation to the Mashantucket Pequot and Mohegan Fund by $0.1 million, with a corresponding decrease to the General Fund appropriation. The proposed change to appropriations triggers the statutory provision (CGS Section 3-55i) requiring a corresponding adjustment to the (revenues) transfer between funds.

Transfer to Housing Trust Fund

Suspend the transfer to the Housing Trust Fund

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Transfer to Housing Trust Fund	-	30,300,000	30,300,000

Background
Under current law, starting in FY 26, the state comptroller must transfer, from the General Fund to the Housing Trust Fund, any real estate conveyance tax revenue the state receives each fiscal year exceeding $300 million. The threshold amount for this transfer must be adjusted annually for inflation beginning with FY 27.

Legislative Revenue
Suspend the transfer to the Housing Trust Fund.

Sec. 261 of PA 26-68, the FY 27 Revised Budget, implements the policy effective from passage and applicable to the FY 26 and FY 27 fiscal years. The transfer to the Housing Trust Fund is scheduled to resume in FY 28 and will reflect inflation adjustments in FY 27.

Volatility Cap Adjustment

Allow certain pass-through entities to earn (partially refundable) research and development tax credits

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Estimates and Finals	(20,000,000)	(20,000,000)	-
R & D Credit Exchange	(5,000,000)	(5,000,000)	-
Volatility Cap Adjustment	20,000,000	20,000,000	-
Total	**(5,000,000)**	**(5,000,000)**	**-**

Background
A state corporation research and development (R&D) tax credit is available to C corporations for: (1) federally deductible R&D expenditures the business incurs and (2) qualifying "basic research payments" including payments made to qualifying nonprofit educational institutions, scientific research organizations, or grant organizations for eligible research.

Governor
Expand the R&D tax credit by allowing pass-through entities to earn them. The new tax credit program is capped at $25 million per year in total, with a maximum $1.5 million tax credit for any single pass-through entity. If the tax credit exceeds the tax liability, then the excess amount of the credit would be refundable at the rates of: 1) 90% for biotechnology firms; and 2) 65% for all other firms. Firms would be required to apply to the Commissioner of the Department of Economic and Community Development to reserve a tax credit allocation. The policy is primarily expected to offset estimated and final payments of the personal income tax. However, to the extent that refunds are issued, a $5 million revenue loss is estimated to the General Fund.

Section 5 of SB 84, *AAC Revenue Items to Implement the Governor's Budget*, implements the policy effective from passage and applicable to taxable years commencing on or after January 1, 2026.

Legislative Revenue
Same as Governor.

Sec. 267 of PA 26-68, the FY 27 Revised Budget, implements the policy effective from passage and applicable to taxable years commencing on or after January 1, 2026.

Revised FY 27 Revenue Schedule – Special Transportation Fund

In Thousands of Dollars

	Original FY 27 Budget	January Consensus FY 27	Governor Policies	Governor FY 27 Revenue	Consensus Update (April)	April Consensus FY 27	Legislative Revenue Policies	Legislative Revenue FY 27 Revenue
Taxes								
Motor Fuels	494,400	501,600	-	**501,600**	2,900	504,500	**-**	504,500
Oil Companies	300,200	270,900	-	**270,900**	87,500	358,400	**-**	358,400
Sales Tax - STF	902,250	922,700	-	**922,700**	(5,100)	917,600	**(800)**	916,800
Sales Tax DMV	119,300	112,800	-	**112,800**	(2,000)	110,800	**-**	110,800
Highway Use Tax	62,600	61,700	-	**61,700**	-	61,700	**-**	61,700
Refunds of Taxes	(10,600)	(10,600)	-	**(10,600)**	-	(10,600)	**-**	(10,600)
Total Taxes Less Refunds	**1,868,150**	**1,859,100**	**-**	**1,859,100**	**83,300**	**1,942,400**	**(800)**	**1,941,600**
Other Sources								
Motor Vehicle Receipts	283,400	275,400	-	**275,400**	(3,100)	272,300	**-**	272,300
Licenses, Permits and Fees	137,200	141,100	-	**141,100**	-	141,100	**-**	141,100
Interest Income	41,500	48,600	-	**48,600**	15,800	64,400	**-**	64,400
Federal Grants	-	-	-	**-**	-	-	**-**	-
Transfers From/To Other Funds	117,500	117,500	-	**117,500**	-	117,500	**100,000**	217,500
Refunds of Payments	(11,100)	(11,100)	-	**(11,100)**	(1,200)	(12,300)	**-**	(12,300)
Total Other Sources	**568,500**	**571,500**	**-**	**571,500**	**11,500**	**583,000**	**100,000**	**683,000**
Total Special Transportation Fund	**2,436,650**	**2,430,600**	**-**	**2,430,600**	**94,800**	**2,525,400**	**99,200**	**2,624,600**

Revised Policies Details - Special Transportation Fund

Sales Tax - STF

Increase the per-item cost and expand items exempted during the sales "tax free week"

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Sales Tax - STF	-	(200,000)	(200,000)

Background
Under current law, during the third week of August (third Sunday through the following Saturday), 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.

Legislative Revenue
Expand 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.

Sec. 262 of PA 26-68, the FY 27 Revised Budget, implements the policy effective from passage.

Note: The general sales tax rate of 6.35 percentage points generates revenue primarily to the General Fund (5.35 percentage points) with remaining portions of 0.5 percentage points each benefiting the Special Transportation and Municipal Revenue Sharing funds.

Exempt school supplies from the sales tax

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Sales Tax - STF	-	(600,000)	(600,000)

Legislative Revenue
Exempt from the state's 6.35% sales and use tax non-electronic school supplies, like backpacks, lunchboxes, notebooks, pens, pencils, crayons, rulers, and paper.

Sec. 272 of PA 26-68, the FY 27 Revised Budget, implements the policy effective July 1, 2026, and applicable to sales occurring on or after that date.

Note: The general sales tax rate of 6.35 percentage points generates revenue primarily to the General Fund (5.35 percentage points) with remaining portions of 0.5 percentage points each benefiting the Special Transportation and Municipal Revenue Sharing funds.

Transfers From/To Other Funds

Adjust FY 26 - FY 27 transfer in the Special Transportation Fund

Account	Governor FY 27	Legislative Revenue FY 27	Difference FY 27
Transfers From/To Other Funds	-	100,000,000	100,000,000

Background
As of April 2026, the Special Transportation Fund was projected to close FY 26 with an operating surplus of well over $100 million.

In contrast, FY 28 was projected to run an operating deficit of $266.5 million.

Legislative Revenue
Require the state comptroller, by June 30, 2026, to transfer $100 million of FY 26 Special Transportation Fund resources to be accounted for as FY 27 STF revenue, thereby maintaining these revenues as a resource for future fiscal years.

Section 276 of PA 26-68, the FY 27 Revised Budget, implements the policy.
