OLR Bill Analysis

sSB 1246

AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE BIENNIAL BUDGET.

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Sets the volatility cap threshold at $4,929.3 million for FY 25 and $4,506.9 million for FY 26; requires the cap to be adjusted for inflation for FY 27 and after

§ 53 — SUPPLEMENTAL BUDGET RESERVE FUND

Requires the state treasurer to transfer $700 million to a new special fund (the Supplemental Budget Reserve Fund) by June 30, 2025; requires the fund to be used for transferring funds for certain projected deficits

SUMMARY

This bill makes numerous state tax and fee changes. A section-by-section analysis follows.

EFFECTIVE DATE: Various, see below

§ 1 — NET OPERATING LOSS DEDUCTION FOR CERTAIN COMBINED GROUPS

Eliminates an alternative NOL rule that currently applies to certain combined groups that had more than $6 billion in NOLs from pre-2013 tax years, which subjects them to the standard NOL carry forward limitation applicable to other corporations

The combined unitary reporting law allowed combined groups with over $6 billion in net operating losses (NOLs) from pre-2013 tax years to make a special election during the 2015 income year. This election allowed the groups to give up 50% of their pre-2015 losses in exchange for using the remaining loss carry over to reduce their tax by up to $2.5 million in any income year (before applying the corporation business tax surcharge and any tax credits) beginning in 2015. Eligible combined groups had to make this election on their 2015 income year returns. Under current law, combined groups that made this election are only subject to the standard NOL limitation (see *Background*) once they have applied all of their pre-2015 operating losses in this way.

The bill sunsets this alternative NOL rule and instead requires these groups to recalculate their remaining loss carry over on their 2025 income year return as if they had not been required to give up 50% of their pre-2015 losses to make this election. It allows them to use these recalculated operating losses beginning with the 2025 income year, subject to the corporation business tax law's provisions, including the standard NOL limitation and carry forward period, based on when the losses were incurred.

EFFECTIVE DATE: Upon passage, and applicable to income years

beginning on or after January 1, 2025.

Background

Standard NOL Limitation. The law's standard NOL limitation limits a corporation's NOL deduction to the lesser of (1) 50% of its pre-NOL net income or (2) the difference between the amount of NOL in the current income year and the amount carried forward from prior years.

NOL Carryforward. By law, corporations may carry forward NOLs until there are used, for up to a maximum of 20 years (for losses incurred during the 2000 to 2024 income years) or 30 years (for losses incurred during the 2025 income year or after).

§ 2 — CAP ON A COMBINED GROUP'S TAX LIABILITY ON A UNITARY BASIS

Eliminates the $2.5 million cap on the amount a combined group's tax, calculated on a combined unitary basis, can exceed the tax it would have paid on a separate basis

Starting with the 2025 income year, the bill eliminates the $2.5 million cap on the amount a combined group's tax, calculated on a combined unitary basis, can exceed the tax it would have paid on a separate basis (i.e. its nexus combined base tax).

EFFECTIVE DATE: Upon passage

§ 3 — FILM AND DIGITAL MEDIA PRODUCTION TAX CREDIT

Modifies the film and digital media production tax credit's rate structure, principally by increasing the production expenditures required to earn a 15% and 30% credit

Under current law, the film and digital media production tax credit has three tiers (10%, 15%, and 30%) based on the qualified production's total eligible production expenditures. Starting with the 2025 income year, the bill modifies the credit's rate structure as shown in the following table. Specifically, it (1) increases the production expenditures required to earn a 15% and 30% credit; (2) decreases the credit amount for productions incurring between $500,000 and $1 million in eligible expenses; and (3) allows qualified productions incurring up to $100,000 in eligible expenditures to qualify for a 10% credit by eliminating the $100,000 minimum expenditure threshold for the credit.

Table: Film and Digital Media Production Tax Credit Rate Changes

Credit Rate	*Total Production Expenses or Costs*	
	Current Law	*Bill*
10%	Between $100,000 and $500,000	Up to $1 million
15%	More than $500,000 and up to $1 million	More than $1 million and up to $10 million
30%	More than $1 million	More than $10 million

EFFECTIVE DATE: Upon passage

§ 4 — RELIEF FROM INTEREST ON ESTIMATED TAX UNDERPAYMENTS

Exempts corporation business taxpayers from interest on estimated tax because of specified tax changes under the bill

The bill exempts corporation business taxpayers from interest on underpayments of estimated tax for income years starting on or after January 1, 2025, but before the bill's passage, for any additional tax due as a result of the following corporation business tax changes made by the bill:

1. eliminating the alternative NOL rule for certain combined groups (§ 1);

2. eliminating the $2.5 million cap on the amount a combined group's tax, calculated on a combined unitary basis, can exceed the tax it would have paid on a separate basis (§ 2); and

3. modifying the film production tax credit's rate structure (§ 3).

EFFECTIVE DATE: Upon passage

§§ 5 & 6 — CORPORATION BUSINESS TAX SURCHARGE

Extends the 10% corporation business tax surcharge for three additional years, to the 2026 through 2028 income years

The bill extends the 10% corporation business tax surcharge for three additional years, to the 2026 through 2028 income years. Under current law, the surcharge expires after the 2025 income year.

As under existing law for the current surcharge, the surcharge for

2026-2028 applies to companies that have more than $250 in corporation tax liability and either (1) have at least $100 million in annual gross income in those years or (2) are taxable members of a combined group that files a combined unitary return, regardless of the amount of annual gross income. The companies must calculate their surcharges based on their tax liability, excluding any credits.

Under the bill, the surcharge that applies to the capital base tax component of the corporation business tax applies only for the 2026 and 2027 income years because the tax is scheduled to be eliminated starting in 2028.

EFFECTIVE DATE: Upon passage

§ 7 — REFUND VALUE OF R&D AND R&E CREDITS FOR QUALIFYING SMALL BIOTECHNOLOGY COMPANIES

Increases, from 65% to 90%, the cash refund a qualifying small biotechnology company may receive for its unused R&D and R&E tax credits

The bill increases the cash refund a qualifying small biotechnology company may receive for research and development (R&D) and research and experimental (R&E) tax credits from 65% to 90% of the credit amount.

By law, this refund is available to qualified small businesses that earn R&D and R&E tax credits for R&D expenditures but cannot use them because they have no corporation business tax liability. A qualified small business is a company whose gross income for the prior year is $70 million or less, including income from transactions with related entities. The refund is capped at $1.5 million per company for each income year, and a qualified small business may carry its unused credits forward instead of applying for a cash refund. As under current law, qualifying small businesses that are not biotechnology companies may receive a refund of 65% of the credit amount.

Under the bill, a "biotechnology company" is one that applies certain technologies (e.g., 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: July 1, 2025, and applicable to income years beginning on or after January 1, 2025.

Background — Tax Credits for R&D Expenses

The law authorizes two corporation business tax credits for businesses incurring qualifying R&D expenses: the non-incremental R&D expenditures credit and the incremental R&E expenditures credit.

The R&D credit generally applies to R&D spending that a business incurs in the state to develop or improve a product and qualifying research payments it makes to nonprofit organizations (i.e. non-incremental R&D spending) (CGS § 12-217n). The tentative credit amount generally ranges from 1% for spending up to $50 million to 6% for spending over $200 million, except for eligible small businesses and certain companies headquartered in an enterprise zone.

The R&E credit applies to R&D spending that a business incurs in Connecticut that exceeds the amount it spent during the preceding income year (i.e. incremental R&D spending) (CGS § 12-217j). Eligible businesses receive a credit equal to 20% of their incremental R&D spending.

§§ 8 & 9 — HOSPITAL PROVIDER TAX

Beginning in FY 27, requires the base year on which the hospital provider tax is calculated to be tied to an applicable federal fiscal year, rather than FY 16, and makes various corresponding changes; eliminates provisions allowing taxpayers subject to the hospital provider tax or user fees on intermediate care facilities and nursing homes to request a payment extension under certain circumstances

Tax Rate and Base

Inpatient Hospital Services. Under current law, the tax rate for inpatient hospital services is 6% of each hospital's FY 16 audited net revenue attributable to these services. Beginning July 1, 2026, the bill instead sets the rate at 6% of each hospital's audited net revenue for the applicable federal fiscal year (FFY), as described below, attributable to these services (i.e. the amount of revenue a hospital reports to the Department of Revenue Services (DRS) commissioner that it received for providing inpatient hospital services during the applicable FFY,

subject to adjustments as described below).

The following table indicates the applicable FFY used to calculate the tax base for both the inpatient and outpatient services components of the tax. (The FFY runs from October 1 to September 30 of the following year.)

Table: Applicable FFY Under the Bill

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

Outpatient Hospital Services. Under current law, the effective tax rate on outpatient hospital services is 10.4858% for FY 26 and after. This rate is calculated based on $820 million minus the total tax imposed on all hospitals for providing inpatient services, divided by the total FY 16 audited net revenue for outpatient services.

For FY 27, the bill instead sets the rate at $960 million, minus the total tax imposed on all hospitals for providing inpatient services, divided by the total audited net revenue for the applicable FFY attributable to outpatient hospital services of all hospitals required to pay the tax (i.e. the amount of revenue a hospital reports to the DRS commissioner that it received for providing outpatient hospital services during the applicable FFY, subject to adjustments as described below).

Beginning with FY 28, the bill requires the starting amount used to calculate the tax ($960 million) to be increased by $25 million over the prior fiscal year (e.g., $985 million for FY 28 and $1.01 billion for FY 29).

Total Audited Net Revenue. Under the bill, the tax base for both inpatient and outpatient hospital services is calculated based on the total audited net revenue attributable to these services reported to the DRS commissioner for the applicable FFY by all hospitals subject to the tax, subject to any (1) adjustments by the commissioner and (2) hospital

dissolutions, cessation of operations, or disallowed exemptions, as described below.

If an audited financial statement for the applicable FFY does not report revenue for the entire fiscal year, its revenue must be calculated by projecting the amount it would have received for the entire year based proportionally on the amount reported. The same provision applies under current law when calculating FY 16 audited net revenue.

Hospital Dissolutions or Cessation of Operations

Under the bill, as under current law, the amount of hospital tax due from each hospital must be recalculated if a hospital dissolves or ceases to be subject to the hospital tax.

By law, if a hospital dissolves (i.e. 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 recalculated for the following fiscal year and each year after. The bill requires these recalculations to be based on the total audited net revenue for the applicable federal fiscal year, rather than FY 16, as follows:

1. the total audited net revenue for the applicable FFY must be adjusted to exclude the audited net revenue of the hospital that dissolved or ceased to operate and

2. the effective tax rate must be adjusted so that the total tax amount to collect is proportionately redistributed among the surviving hospitals.

Under the bill, "audited net revenue for the applicable FFY" is net revenue reported in each hospital's audited financial statements, minus the amount of revenue a hospital receives from anything other than providing inpatient or outpatient hospital services. Total audited net revenue is the sum of all of these amounts for all hospitals required to pay the tax.

By law, unchanged by the bill, if a hospital or hospitals subject to the

tax merge, consolidate, are acquired by, or otherwise reorganize, then the surviving hospital is liable for the total tax 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.

Information Reporting Requirements

Under the bill, each hospital required to pay the hospital provider tax must submit to the DRS commissioner the information he requires to calculate the audited net inpatient and outpatient revenue and net revenue for all of the hospitals for the applicable fiscal year. Each hospital must do so by January 1, 2026; January 1, 2029; and every four years after.

The amounts reported are deemed accepted on the first day of the state fiscal year, as long as the commissioner has not started an audit of the hospital before then. If he has started an audit, the hospital must comply with the commissioner's requests for additional information within 14 days of his request.

Under the bill, hospitals that do not provide the requested information by these specified dates, or fail to comply with a request for additional information, are subject to a penalty of $1,000 per day for each day the failure continues. (The same penalty applied under current law to information submissions and requests related to FY 16 audited net revenue.) And as under existing law, the commissioner may engage an independent auditor to help him with these duties and responsibilities.

Administrative Protests

The bill allows hospitals that are under an audit to file an administrative protest under the hospital provider tax to contest the DRS commissioner's determination of additional audited net revenue.

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 14 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 his 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.

Quarterly Reports to Office of Policy and Management (OPM) and Department of Social Services (DSS)

The bill requires the DRS commissioner to report quarterly, starting by November 15, 2026, to the DSS commissioner and 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, by law, the hospital provider tax provisions do not affect the DRS commissioner's statutory obligations to keep confidential tax returns and return information, except under certain narrow conditions.

Payment Extensions Disallowed

The bill eliminates provisions allowing taxpayers subject to the hospital provider tax or user fees on intermediate care facilities and nursing homes to request a payment extension under certain circumstances.

Specifically, current law allows taxpayers to file, on or before the date a tax or fee payment is due, a request for a reasonable extension of time

to pay the tax or fee due to undue hardship. The taxpayer must demonstrate undue hardship by a showing that it is at substantial risk of defaulting on a bond covenant or similar obligation if it were to pay the amount due on the due date. The DRS commissioner may grant an extension only if he determines that an undue hardship exists (and not for a general statement of hardship or for the taxpayer's convenience).

EFFECTIVE DATE: July 1, 2026, and applicable to calendar quarters beginning on or after July 1, 2026.

Background — Related Bill

SB 1550, favorably reported by the Finance, Revenue and Bonding Committee, subjects children's general hospitals to the hospital provider tax starting on July 1, 2026.

§ 10 — HOSPITAL MEDICAID SUPPLEMENTAL PAYMENTS

Increases Medicaid supplemental payments to hospitals by $140 million for FY 27 and requires this total to be increased in subsequent years by $25 million over the preceding year if the total amount of hospital provider tax collected for that year increased by $25 million over the preceding year

Under current law, and to the extent required by the settlement and related court orders, DSS must pay specified amounts in supplemental Medicaid payments to hospitals in the state.

For FY 27 and subsequent years, current law requires DSS to pay out the amount paid in FY 26 (currently set at $568.3 million) unless it is changed by state law. The bill increases these required payments for FY 27 by $140 million to $708.3 million. For FY 28 and after, it requires the total payments 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.

The bill explicitly prohibits DSS from making these payments in a way that does not comply with applicable federal requirements and required federal approvals. This includes making payments that cause the total hospital payments in an applicable category to exceed the upper payment limit.

EFFECTIVE DATE: July 1, 2026

§§ 11 & 12 — TAX REVENUE ACCRUAL

Authorizes the state comptroller to record revenue from the tobacco products and controlling interest transfer taxes received within five business days after July 31 as revenue for the preceding fiscal year

Beginning in FY 26, the bill authorizes the state comptroller to record revenue from the tobacco products and controlling interest transfer taxes received within five business days after July 31 as revenue for the preceding fiscal year. By law, the same revenue accrual rules apply to payments from other state taxes.

EFFECTIVE DATE: July 1, 2025

§ 13 — CONNECTICUT ITINERANT VENDORS GUARANTY FUND

Transfers the Connecticut Itinerant Vendors Guaranty Fund's remaining balance to the General Fund

The bill requires the state comptroller to transfer the Connecticut Itinerant Vendors Guaranty Fund's remaining balance to the General Fund by June 30, 2026. The legislature eliminated this fund in 2017.

EFFECTIVE DATE: Upon passage

§§ 14-43 — OCCUPATIONAL LICENSE OR CERTIFICATION FEES

Eliminates numerous occupational license or certification fees

The bill eliminates the occupational license or certification fees listed in the following table.

Table: Occupational License Fees Eliminated Under the Bill

§	*Citation*	*Occupational License or Certification*	*Current Fee*
14	20-12b	Physician assistant license	190
14	20-12b	Physician assistant temporary permit	150
15	20-12j	Physician assistant license renewal	155
16	20-86c	Nurse-midwife license	100
17	20-86g	Midwife renewal license	15
18	20-93	Registered nurse (RN) license	180
19	20-94	Registered nurse, license by endorsement	180
19	20-94	Registered nurse temporary permit	180

§	Citation	Occupational License or Certification	Current Fee
20	20-94a	Advanced practice registered nurse license	200
20	20-94a	Advanced practice registered nurse, license by endorsement	200
21	20-96	Licensed practical nurse (LPN) license	150
22	20-97	Licensed practical nurse, license by endorsement	150
22	20-97	Licensed practical nurse temporary permit	150
23	20-162i	Dental hygienist license	150
24	20-126k	Dental hygienist, license by endorsement	150
25	20-260ll	Paramedic license	150
25	20-260ll	Paramedic license renewal	155
26	20-206mm	Certified EMT as licensed paramedic renewal	155
27	20-70	Physical therapist license	285
27	20-70	Physical therapist assistant license	190
28	20-71	Physical therapist, license by endorsement	225
28	20-71	Physical therapist assistant, license by endorsement	150
29	20-74d	Occupational therapist temporary permit	50
30	20-74f	Occupational therapist license	200
31	20-74h	Occupational therapist and occupational therapist assistance license renewal	205
32	19a-88	Dental hygienist license renewal	105
32	19a-88	Registered nurse license renewal	110
32	19a-88	Retired registered nurse license renewal	15
32	19a-88	Advanced practice registered nurse license renewal	130
32	19a-88	Retired advanced practice registered nurse license renewal	17
32	19a-88	Licensed practical nurse license renewal	70
32	19a-88	Retired licensed practical nurse license renewal	11
32	19a-88	Nurse-midwife license renewal	130
32	19a-88	Physical therapist license renewal	105
32	19a-88	Physical therapist assistant license renewal	65
34	20-195c	Marital and family therapist license	200
34	20-195c	Marital and family therapist associate license	125
34	20-195c	Marital and family therapist, license by endorsement	200
34	20-195c	Marital and family therapist associate, license by endorsement	125
34	20-195c	Marital and family therapist license renewal	200

§	Citation	Occupational License or Certification	Current Fee
34	20-195c	Marital and family therapist associate license renewal	125
35	20-195o	Clinical social worker license	200
35	20-195o	Master social worker license	125
35	20-195o	Clinical social worker license renewal	200
35	20-195o	Master social worker license renewal	125
36	20-195t	Master social worker license temporary permit	50
37	20-195cc	Professional counselor license	200
37	20-195cc	Professional counselor associate license	125
37	20-195cc	Professional counselor license renewal	200
37	20-195cc	Professional counselor associate renewal	125
38, 41	20-333, 20-335	Electrical unlimited or limited contractor: (1) application fee and (2) initial and renewal license	(1) 150 (2) 150
38, 41	20-333, 20-335	Electrical unlimited or limited journeyperson: (1) application fee and (2) initial and renewal license	(1) 90 (2) 120
38, 41	20-333, 20-335	Solar electric limited contractor: (1) application fee and (2) initial and renewal license	(1) 150 (2) 150
38, 41	20-333, 20-335	Solar electric limited journeyperson: (1) application fee and (2) initial and renewal license	(1) 90 (2) 120
38, 41	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
38, 41	20-333, 20-335	Heating, piping, and cooling unlimited or limited journeyperson: (1) application fee and (2) initial and renewal license	(1) 90 (2) 120
38, 41	20-333, 20-335	Heating, piping, and cooling stationary engineer: (1) application fee and (2) initial and renewal license	(1) 90 (2) 120
38, 41	20-333, 20-335	Plumbing and piping unlimited or limited contractor: (1) application fee and (2) initial and renewal license	(1) 150 (2) 150
38, 41	20-333, 20-335	Plumbing and piping unlimited journeyperson: (1) application fee and (2) initial and renewal license	(1) 90 (2) 120
38, 41	20-333, 20-335	Sheet metal work limited contractor: (1) application fee and (2) initial and renewal license	(1) 150 (2) 150
38, 41	20-333, 20-335	Sheet metal work limited journeyperson: (1) application fee and (2) initial and renewal license	(1) 90 (2) 120
43	10-145b	Initial educator certificate	200
43	10-145b	Provisional educator certificate	250

§	Citation	Occupational License or Certification	Current Fee
43	10-145b	Professional educator certificate	375
43	10-145b	Adult educator program teacher certificate	100
43	10-145b	Issuance of subject area endorsement	100

The bill also makes technical and conforming changes, including eliminating a provision that requires $2 from each RN or LPN license renewal fee to be transferred to the professional assistance program account until January 1, 2028 (§ 33).

EFFECTIVE DATE: October 1, 2025

Background — Related Bill

SB 611 (File 326), favorably reported by the General Law Committee, caps at $100 various Department of Consumer Protection occupational registration, certification, and license fees, including tradesperson licenses.

§ 44 — SALES AND USE TAX EXEMPTION FOR AMBULANCES

Exempts certain ambulances and ambulance-type vehicles from sales and use tax

The bill exempts from sales and use tax:

1. ambulance-type vehicles used exclusively to transport medically incapacitated individuals, except those used to transport these individuals for payment, and

2. ambulances operating under a license or certificate issued by the Department of Public Health (DPH).

By law, DPH issues licenses or certificates, as applicable, to commercial, municipal, volunteer, nonprofit, and state agency ambulance services. Existing law already exempts sales of goods and services to municipalities, state agencies, and charitable nonprofits from sales and use tax (CGS § 12-412(1) & (8)).

EFFECTIVE DATE: July 1, 2025, and applicable to sales occurring on or after that date.

§ 45 — DUES TAX EXEMPTION

Increases the threshold for exempting annual dues and initiation fees from the state's 10% dues tax from $100 to $250

The bill increases, from $100 or less to $250 or less, the annual dues and initiation fees that are exempt from the state's dues tax. The 10% dues tax applies to amounts paid as dues or initiation fees to any social, athletic, or sporting club (i.e. organizations owned, operated, or owned and operated, by members). The tax is imposed on the club, but then reimbursed by its members.

By law, the following are also exempt from the tax:

1. clubs sponsored or controlled by a charitable or religious organization, government agency, or nonprofit educational institution;

2. any society, order, or association operating under the lodge system or any local fraternal organization among college or university students; and

3. lawn bowling clubs.

EFFECTIVE DATE: July 1, 2025

§ 46 — CHILD TAX CREDIT

Establishes a refundable state child tax credit against the personal income tax for resident taxpayers with qualifying incomes; credit equals $150 per child for up to three children but phases out as taxpayer income increases above specified thresholds

Starting with the 2025 tax year, the bill establishes a refundable state child tax credit (CTC) against the personal income tax (but not the withholding tax) for resident taxpayers with qualifying incomes. The CTC equals $150 per dependent child for up to three children (age 16 or younger) but phases out at 10% intervals as taxpayer federal adjusted gross income (AGI) increases above specified income levels, which vary by filing status.

The table below shows, for each filing status, the income level at which taxpayers (1) qualify for the maximum CTC and (2) no longer qualify for the credit. The state earned income tax credit must be

disregarded in calculating a taxpayer's tax liability for the CTC.

Table: CTC Qualifying Income Levels by Filing Status

Filing Status	*Maximum CTC (Federal AGI ≤)*	*No Credit (Federal AGI >)*
Single or Married Filing Separately	$100,000	$109,000
Head of Household	160,000	169,000
Joint Filers or Surviving Spouses	200,000	209,000

EFFECTIVE DATE: July 1, 2025, and applicable to tax years starting on or after January 1, 2025.

§ 47 — FARM INVESTMENT TAX CREDIT

Creates a refundable business tax credit for farmers' investments in eligible machinery, equipment, and buildings equal to 20% of the amount spent or incurred on the eligible property

Eligible Farmers

The bill creates a refundable business tax credit for farmers' investments in eligible machinery, equipment, and buildings. Under the bill, a farmer is eligible for the credit if he or she is a Connecticut taxpayer whose federal gross income from farming for the income or tax year is at least two-thirds of their federal gross income from all sources over $30,000 (i.e. "excess federal gross income"). Taxpayers may use a three-year average when determining their income eligibility, calculated using their federal gross income from farming for the respective income or tax year and the two previous consecutive years.

Eligible Property and Agricultural Production

Under the bill, the credit is 20% of the amount eligible farmers paid or incurred for eligible property in the applicable income or tax year. Eligible property ("farm investment property") includes:

1. machinery and equipment purchased by an eligible farmer on or after January 1, 2026, and

2. buildings and structural components an eligible farmer acquired, constructed, reconstructed, or erected and placed in service on or after that date.

In either case, the farm investment property must (1) be located in the state; (2) have a class life of more than four years, as determined under specified IRS rules; and (3) be held and used in the state by an eligible farmer in the course of "agricultural production" for at least five years after being acquired or placed in service. Property is not eligible if it is (1) acquired from a related person (e.g., other business entities controlled by the farmer) or (2) leased or acquired to be leased to another person during the first 12 months after being acquired or placed into service.

Under the bill, "agricultural production" is engaging in any of the following as a trade or business: (1) raising or harvesting any agricultural or horticultural commodity; (2) dairy farming; (3) forestry; (4) raising, feeding, caring for, shearing, training, or managing livestock; or (5) raising and harvesting fish, oysters, clams, mussels, or other molluscan shellfish.

Credit Claims and Refunds

Under the bill, farmers may claim the tax credit against the corporation business tax or the personal income tax (but not the withholding tax). Taxpayers who do so may not claim any other state tax credit for the same investment.

If the taxpayer is an S corporation or treated as a partnership for federal income tax purposes, the taxpayer's shareholders and partners may claim the credit. If the taxpayer is a single member limited liability company (LLC) that is disregarded for federal tax purposes, the LLC's owner may claim the credit as long as the owner is subject to corporation business or personal income tax.

If a farmer's credit amount exceeds his or her tax liability, the DRS commissioner must treat the excess as an overpayment and refund the excess amount to the farmer without interest. By law, and under the bill, the DRS commissioner may withhold tax refunds to pay outstanding liabilities for other taxes and to reimburse the state for certain debts.

Credit Recapture

The bill imposes a credit recapture requirement that applies for five years after the property is acquired. Specifically, the farmer must repay (1) 100% of the credit if the property is no longer held or used in the state for agricultural production within the first three years after it was acquired or (2) 50% of the credit if this occurs within the fourth or fifth year. The farmer must repay the recaptured amount on his or her tax return for the income or tax year immediately after the year in which the three- or five-year period expires, as applicable.

Recapture payments that are not paid within three months after the income or tax year ends are subject to interest at the rate of 1% per month or partial month. Under the bill, the recapture requirements do not apply to property for which the farmer received a credit and subsequently replaced.

EFFECTIVE DATE: January 1, 2026, and applicable to income and tax years beginning on or after that date.

Background — Related Bill

sHB 7175, favorably reported by the Finance, Revenue and Bonding Committee, contains an identical provision.

§ 48 — INCOME TAX CREDIT FOR FAMILY CHILD CARE HOME OWNERS

Establishes a refundable income tax credit for taxpayers who own a state-licensed family child care home

The bill establishes a refundable income tax credit for taxpayers who own a state-licensed family child care home. The credit equals $500 and applies against the personal income tax, but not the withholding tax.

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

If the credit exceeds the taxpayer's liability, the bill requires the DRS commissioner to treat the excess as an overpayment and refund it

without interest. By law, and under the bill, the DRS commissioner may withhold tax refunds to pay outstanding liabilities for other taxes and to reimburse the state for certain debts.

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

Background

Family Child Care Homes. Family child care homes are state-licensed, private family homes generally caring for up to six children (or nine children, if the provider employs an approved staff member), including the provider's own children, who are not in school full-time. During the school year, the homes may take up to three additional children who are in school full-time. These homes generally provide between 3 and 12 hours of care per day (with specified exceptions for extended care or intermittent short-term overnight care) (CGS § 19a-77(a)(3)).

Related Bill. sHB 7240, favorably reported by the Finance, Revenue and Bonding Committee, includes an identical provision.

§ 49 — CHET CONTRIBUTION TAX CREDIT

Establishes a new business tax credit for employer contributions to a qualifying employee's CHET account

The bill establishes a new business tax credit for contributions employers make to a qualifying employee's Connecticut Higher Education Trust (CHET) account. The credit equals 25% of the employer's contribution and is capped at $500 per employee per income or tax year. Taxpayers may apply the credit against the corporation business, insurance premiums, or personal income taxes (but not the withholding tax).

Under the bill, employers may receive a tax credit for contributions they make to their employees' CHET accounts as long as the employees are not the employer's owners, members, partners, or family members. If the taxpayer is an S corporation or treated as a partnership for federal income tax purposes, the taxpayer's shareholders and partners may claim the credit. If the taxpayer is a single member limited LLC that is

disregarded for federal tax purposes, the LLC's owner may claim the credit as long as the owner is subject to insurance premiums, corporation business, or personal income tax.

EFFECTIVE DATE: July 1, 2025, and applicable to income and tax years starting on or after January 1, 2025.

Background — Related Bill

sSB 1462, favorably reported by the Finance, Revenue and Bonding Committee, contains an identical provision.

§ 50 — TEMPORARY CAPITAL GAINS SURCHARGE

Imposes a 1.75% capital gains surcharge on taxpayers with incomes exceeding specified thresholds for the 2025 through 2028 tax years; allows taxpayers to claim a one-time exclusion for capital gains from the sale of their primary residence or ownership interest in a business

Applicable Tax Years and Taxpayers

For the 2025 through 2028 tax years, the bill imposes a 1.75% surcharge on net gain from the sale or exchange of capital assets (i.e. capital gains) for taxpayers, other than trusts or estates, with incomes that exceed specified thresholds. The surcharge (1) applies to income classified as capital gains under federal income tax rules and (2) is in addition to any other tax, fee, or surcharge for which the taxpayer is liable. It allows taxpayers to claim a one-time exclusion for capital gains from the sale of their (1) primary residence in Connecticut or (2) ownership interest in a business.

Under the bill, the surcharge applies to taxpayers with Connecticut adjusted gross income of more than (1) $1 million for single filers and married individuals filing separately, (2) $1.6 million for heads of households, and (3) $2 million for joint filers.

Filing and Remitting Returns

The bill requires taxpayers subject to the surcharge to file a report with DRS by April 15 in the form, and containing the information, the commissioner prescribes. The report must accurately list the taxpayer's capital gains for the preceding tax year and the amount of the taxpayer's surcharge liability for that year. Any taxpayer who is required to file a

report must pay, without receiving an assessment, notice, or demand, the surcharge by April 15.

Penalties and Interest for Late Payments

The bill imposes a penalty of 10% of the tax due or $50, whichever is greater, on taxpayers who fail to pay the surcharge. The penalty gathers interest at the rate of 1% per month or partial month from the surcharge's due date until it is paid. The commissioner may waive all or part of any penalty, subject to the law's provisions on the Penalty Review Committee, when the taxpayer proves to the commissioner's satisfaction that the failure to pay the surcharge was due to reasonable cause and not intentional or due to neglect.

Collection and Enforcement Procedures

The bill applies several collection, enforcement, and appeal process requirements established in statute for the admissions and dues taxes to the surcharge, except those provisions that are inconsistent with the bill. Under these provisions, the DRS commissioner can (1) impose record retention requirements on taxpayers and examine their records and (2) administer oaths, subpoena witnesses, and receive testimony. Taxpayers can request a hearing on the amount of taxes they owe and appeal the hearing decision if aggrieved. They may also request refunds from the commissioner if they believe they have overpaid.

DRS must collect the tax and any penalties using the same methods for collecting unpaid admissions and dues taxes (i.e. tax warrants, liens against real property, and foreclosure against that property). And an additional penalty may be imposed on taxpayers for willful violations or filing fraudulent returns.

EFFECTIVE DATE: Upon passage

§ 51 — BUSINESS TAX CREDIT FOR CERTAIN STUDENT ATHLETE ENDORSEMENT CONTRACTS

Creates a 50% business tax credit for compensation a business paid to a student athlete enrolled at a higher education institution in Connecticut under an endorsement contract; caps the total credits allowed for each fiscal year at $5 million

The bill creates a tax credit for compensation a business paid to a

student athlete enrolled at a higher education institution in Connecticut under an endorsement contract (i.e. a written agreement to employ or compensate a student athlete for using his or her person, name, image, or likeness by another party to promote a product, service, or event). The credit equals 50% of the compensation paid for the tax or income year, as applicable, and can be applied against the corporation business, insurance premiums, and personal income taxes (but not the withholding tax). The bill caps the total credits allowed each fiscal year at $5 million.

Under the bill, taxpayers may apply to the DRS commissioner to reserve a credit allocation. The DRS commissioner must prescribe the application, which must contain the information he deems necessary.

If the taxpayer is an S corporation or treated as a partnership for federal income tax purposes, the taxpayer's shareholders and partners may claim the credit. If the taxpayer is a single member LLC that is disregarded for federal tax purposes, the LLC's owner may claim the credit as long as the owner is subject to the corporation business, insurance premiums, or personal income tax.

EFFECTIVE DATE: Upon passage and applicable to tax and income years beginning on or after January 1, 2025.

§ 52 — VOLATILITY CAP THRESHOLD

Sets the volatility cap threshold at $4,929.3 million for FY 25 and $4,506.9 million for FY 26; requires the cap to be adjusted for inflation for FY 27 and after

The bill sets the volatility cap threshold at $ 4,929.3 million for FY 25 and $4,506.9 million for FY 26. For FY 27 and after, it requires the $4,506.9 million threshold to be annually adjusted for inflation as under current law (i.e. 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 in excess of the applicable threshold amount 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 pass-through entity tax. Current law sets the threshold at $3,150 million and requires that it be annually adjusted for personal income growth, as described above. The threshold is $3,929.3 million for FY 25.

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: June 30, 2025

§ 53 — SUPPLEMENTAL BUDGET RESERVE FUND

Requires the state treasurer to transfer $700 million to a new special fund (the Supplemental Budget Reserve Fund) by June 30, 2025; requires the fund to be used for transferring funds for certain projected deficits

The bill requires the state treasurer, by June 30, 2025, to transfer $700 million to a new special fund named the Supplemental Budget Reserve Fund. Under the bill, this fund must be used for transferring funds when General Fund revenues for the current biennium decline by 1% or more due to changes in circumstances since the budget was adopted.

EFFECTIVE DATE: June 30, 2025

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 33 Nay 19 (04/24/2025)