Tax Panel

Overview of Connecticut State Revenue System

Office of Policy and Management

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Section I – Overview of Connecticut's State Revenue System

General Fund

General Fund revenues are derived primarily from the collection of State taxes, including the personal income tax, the sales and use tax and the corporation business tax. See appendix A, attached, for a historical summary of revenue raised by each General Fund source.

Personal Income Tax

Since 1991, Connecticut has imposed a personal income tax on the income of residents of the state (including resident trusts and estates), part-year residents and certain non-residents who have taxable income derived from or connected with sources within Connecticut. The current tax, as amended during the 2015 legislative session, is imposed on a progressive scale with a maximum rate of 6.99% on adjusted gross income. Prior to recent legislation, the top marginal rate was 6.7%. Connecticut uses Federal adjusted gross income (AGI) as the starting point to calculate the state income tax. The following table summarizes current tax rates for single and joint filers.

Personal Income Tax
Tax Rates – Effective Income Year 2015

Single Filers			Joint Filers		
Taxable Income			Taxable Income		
From	To	Rate	From	To	Rate
$0	$10,000	3.0%	$0	$20,000	3.0%
$10,000	$50,000	5.0%	$20,000	$100,000	5.0%
$50,000	$100,000	5.5%	$100,000	$200,000	5.5%
$100,000	$200,000	6.0%	$200,000	$400,000	6.0%
$200,000	$250,000	6.5%	$400,000	$500,000	6.5%
$250,000	$500,000	6.9%	$500,000	$1,000,000	6.9%
$500,000	& Over	6.99%	$1,000,000	& Over	6.99%

Depending on federal income tax filing status, the taxable year and Connecticut adjusted gross income, personal exemptions are available to taxpayers, ranging from $12,000 to $24,000. The singles exemption has increased annually and is scheduled to reach $15,000 by taxable year 2016. In addition, tax credits ranging from 1% to 75% of a taxpayer's Connecticut tax liability are also available depending upon federal income tax filing status, the taxable year and Connecticut adjusted gross income. Such exemptions and tax credits are phased out at higher income levels. In addition, lower tax rates are phased out or “recaptured” for high income earners. There is also an income tax credit for property tax paid. The value of the credit has changed several times; the credit is currently valued at $300 per filer. Legislation passed during the 2015 legislative session will decrease the credit to $200 per filer beginning in income year 2016. This credit is phased-out for higher income earners. Taxpayers are also subject to a Connecticut minimum tax, based on their liability, if any, for payment of the federal alternative minimum tax. Neither the personal exemption nor the tax credits described above are available to trusts or estates.

Sales and Use Tax

A sales tax is imposed, subject to certain limitations, on the gross receipts from certain transactions within the state of persons engaged in business in the state, including (a) retail sales of tangible personal property, (b) the rendering of certain services, (c) the leasing or rental of tangible personal property, (d) the production, fabrication, processing, printing, or imprinting of tangible personal property to special order or with materials furnished by the consumer, (e) the furnishing, preparation or serving of food, meals, or drinks, and (f) hotel or lodging house rooms for a period not exceeding thirty consecutive calendar days. A use tax is imposed, with certain exceptions, on the consideration paid for certain services or purchases or rentals of tangible personal property used within the state pursuant to a transaction not subject to the sales tax. The tax rate for the sales and use tax is 6.35%. A separate rate of 15% is charged on the occupancy of hotel rooms. Various exemptions from the sales and use taxes are provided, based on the nature, use or price of the property or services involved or the identity of the purchaser.

Legislation passed during the 2015 legislative session would direct a portion of sales and use tax to the Special Transportation Fund and the Municipal Revenue Sharing Account beginning October 1, 2015 for the Special Transportation Fund and January 1, 2016 for the Municipal Revenue Sharing Account.

Corporate Business Tax

A Corporation Business Tax is imposed on any corporation, joint stock company or association, any dissolved corporation that continues to conduct business, any electric distribution company or fiduciary of any of the foregoing that carries on or has the right to carry on business within the state, owns or leases property, maintains an office within the state, or is a general partner in a partnership or a limited partner in a limited partnership, except an investment partnership, which does business, owns or leases property or maintains an office within the state. Certain financial services companies and domestic insurance companies are exempt from this tax. Corporations compute their tax liability under three methods, determine which calculation produces the greatest tax, and pay that amount to the state.

- The first method of computing the Corporation Business Tax is a tax measured by the net income of a taxpayer (the "Income-Base Tax"). Net income means federal gross income with limited variations less certain deductions, most of which correspond to the deductions allowed under the Internal Revenue Code of 1986, as amended. The Income-Base Tax is at a rate of 7.5% for taxable years commencing on and after January 1, 2000 (exclusive of a surcharge described later.)
- The second method of computing the Corporation Business Tax is a tax on capital. This tax is determined either as a specific maximum dollar amount or at a flat rate on a defined base, usually related in whole or in part to the corporation's capital stock and balance sheet surplus, profit and deficit.
- The third method of computing the Corporation Business Tax is a minimum tax in the amount of $250.

The state requires multi-state and multi-national firms to pay the corporation business tax on the amount of economic activity apportionable to Connecticut. Companies are required to calculate the portion of their profits attributable to Connecticut using a three factor formula: property, payroll, and sales. The sales factor is double weighted. Broadcasting, manufacturing, financial services, and credit card firms use a single-factor receipts formula.

The state limits corporation credits from reducing tax liability by more than 70%. Legislation passed during the 2015 legislative session lowered the amount corporations may reduce their liability using tax credits to 50.01%. Connecticut permits groups of corporations to file a "combined" return if they are permitted to file a federal consolidated return. Corporation groups filing combined returns are also liable for the preference tax; they must also calculate their liability as separate entities and are not entitled to the first $500,000 of tax savings over what they would pay if they filed separately. During the 2015 legislative session, the General Assembly passed, as part of the FY 2016-FY 2017 biennium budget, mandatory unitary reporting beginning in income year 2016. This change would require businesses with multiple majority-owned companies to report those companies as part of a unitary group for purposes of apportioning income to the State of Connecticut.

The state imposed a corporation business tax surcharge of 10% for income years 2009, 2010 and 2011 for businesses with over $100 million in federal adjusted gross income, and increased it to 20% for tax years 2012 through 2015. Legislation passed during the 2015 legislative session would extend the 20% surcharge through tax years 2016 and 2017, lower it to 10% in tax year 2018, and completely phase it out beginning in tax year 2019.

Limited liability corporations (LLCs), limited liability partnerships (LLPs), and S corporations are not subject to the state corporation tax. Rather, a flat $250 charge is levied on these entities. The tax extends to single-member LLCs that are not considered entities separate from their owners for federal tax purposes. Beginning with taxable year 2013, this tax is due biennially.

Other Taxes

Other tax revenues are derived from gift and estate taxes; taxes on gross receipts of public service corporations, on net direct premiums of insurance companies, on gross receipts from the sale of petroleum products, on cigarettes and alcoholic beverages, on real estate transfers, on admissions and dues, on healthcare providers; and other miscellaneous taxes.

Other Non-Tax Revenues

The largest source of non-tax revenue to the General Fund is federal grants. Depending upon the program being funded, federal grants-in-aid are normally conditioned, to some degree, on resources provided by the state. Most unrestricted federal grant revenue is based on expenditures. The state also receives certain restricted federal grants that are not reflected in annual appropriations but that nonetheless are accounted for in the General Fund.

Other non-tax revenues are derived from special revenue transfers (lottery); Indian gaming payments; licenses, permits and fees; sales of commodities and services; rents, fines and escheats; investment income; other miscellaneous revenue sources; and designated Tobacco Settlement Revenues.

Special Transportation Fund

The state has established the Special Transportation Fund for the purpose of budgeting and accounting for all transportation-related taxes, fees and revenues credited to such Fund. Motor fuel taxes, motor vehicle receipts, motor vehicle related licenses, permits and fees, the oil companies tax, and portions of the sales tax are deposited to the fund. Please see appendix B, attached, for a historical summary of revenue raised by each Special Transportation Fund source.

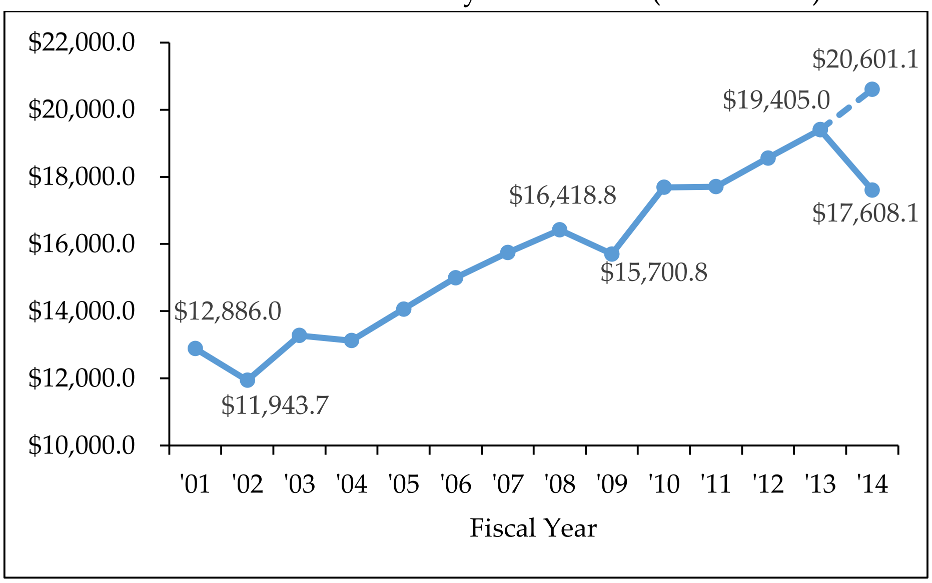
Motor Fuels Tax

The largest source of tax revenue to the Special Transportation Fund is the state excise tax on motor fuels. The Gasoline Tax is imposed on each gallon of gasoline or gasohol sold or used within the state by a distributor and is currently levied at 25¢ per gallon. The tax on special fuels (diesel fuel) is assessed on each gallon of special fuels used within the state in a motor vehicle licensed, or required to be licensed, to operate upon the public highways of the state. The diesel fuel tax rate is adjusted annually and for fiscal year 2016 has been set at 50.3¢ per gallon.

Section II - Revenue Performance

Over the long run, General Fund revenue has grown in conjunction with the state economy, increasing during expansionary periods and decreasing during recessions. Revenue peaked in FY 2001 prior to the early 2000's recession. According to the National Bureau of Economic Research (NBER), the recession's trough occurred in November 2001, during FY 2002. Revenue increased following that recession and hit another peak in FY 2008 before entering into the Great Recession. Since that time, revenue has been growing, albeit at an uneven pace. The graph below shows historical General Fund revenue as reported in the Annual Report of the State Comptroller.

Chart 1
General Fund Revenue by Fiscal Year (in millions)

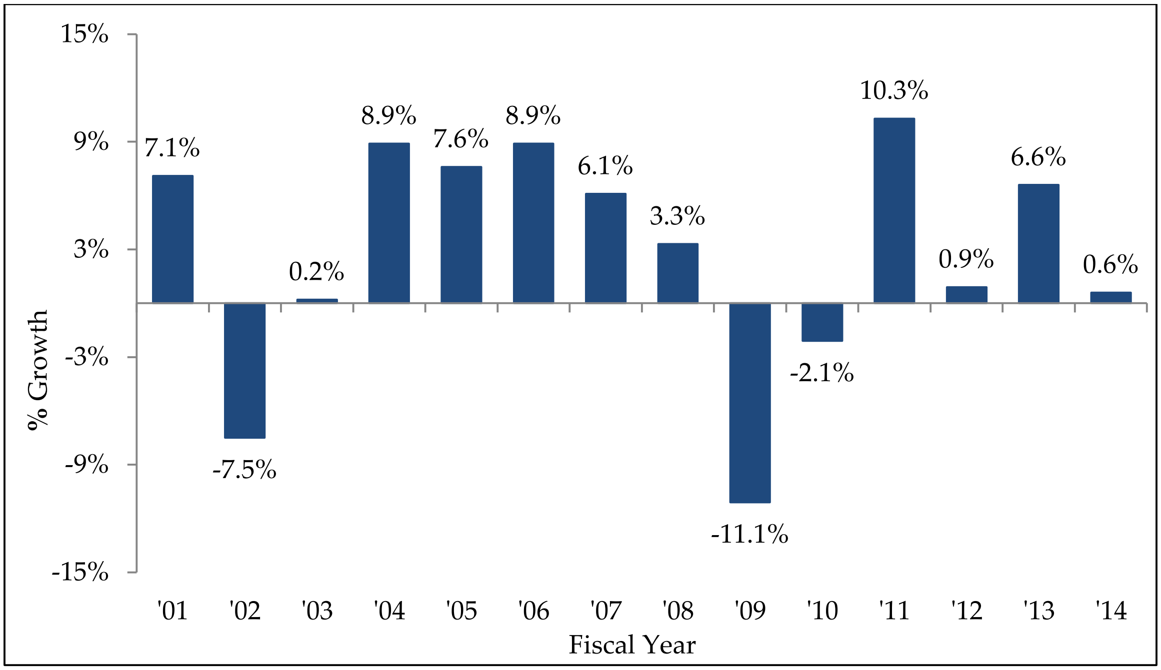


Source: Office of the State Comptroller

Please note that in FY 2014 the state moved to net budgeting of Medicaid; prior to that year, the state counted matching federal reimbursements for Medicaid as General Fund revenue. The change to net budgeting resulted in nearly $3 billion less general fund revenue in FY 2014. The dashed line in Chart 1 represents the revenue that would have been recorded as General Fund revenue in the absence of this change.

While Chart 1 represents nominal growth in General Fund revenue, there have been many tax policy changes over that period of time which have had a fundamental impact on revenue collections. OPM has estimated the "economic growth rate," or baseline growth rate, of the General Fund by controlling for the estimated impact of policy changes. Please note that this method is limited by its reliance on fiscal estimates of policy changes produced prior to implementation of those changes.

Chart 2
General Fund Economic Growth Rates



As shown in this graph, The Great Recession resulted in two years of underlying revenue decline in fiscal years 2009 and 2010. Following the recession, Federal stimulus, rebounding equity markets, and the expectation that the Bush-era tax cuts were going to expire at the end of 2010 led to a 10.3% jump in FY 2011 followed by only a 0.9% increase in FY 2012. Similar to the pattern exhibited in FY 2011 and FY 2012, the partial expiration of the Bush tax cuts at the end of 2012 led to a 6.6% increase in FY 2013 followed by a weakened 0.6% growth in FY 2014.

Over the past decade Connecticut's income tax revenue has fluctuated dramatically. Volatility was primarily driven by estimates and finals collections of the personal income tax. This was due to the performance of the stock market and two recessions. Performance in the financial markets significantly influences the growth in this revenue source. The following two graphs show the economic growth rates, as calculated by OPM, for 1.) withholding and 2.) estimates and finals collections of the personal income tax. Chart 4 also includes data on the growth in capital gains realization from the prior year, demonstrating the outsized impact this source of income has on collections.

Chart 3
Withholding Economic Growth Rates

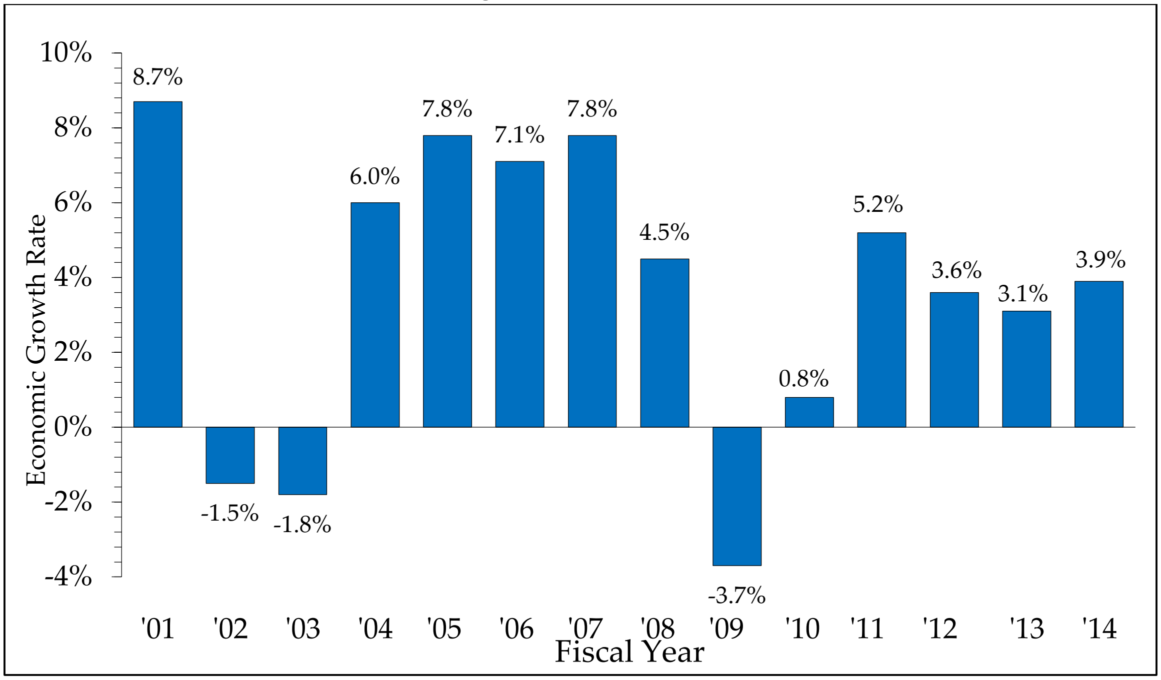
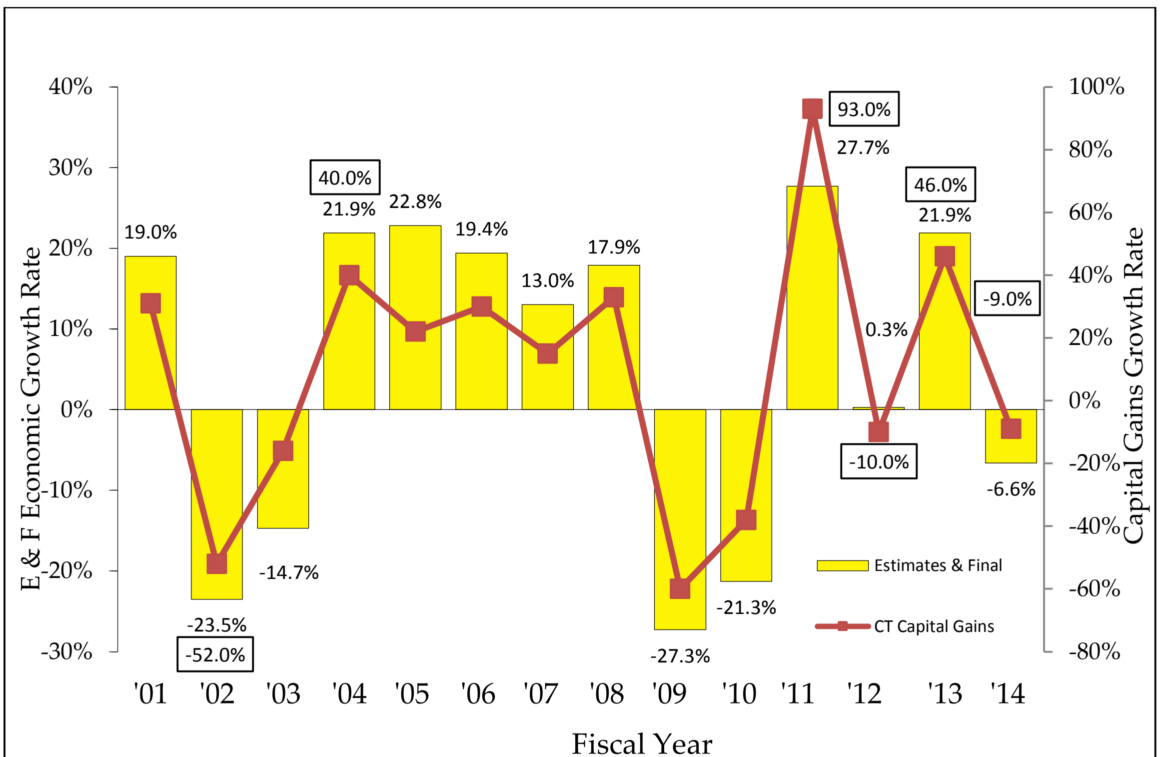


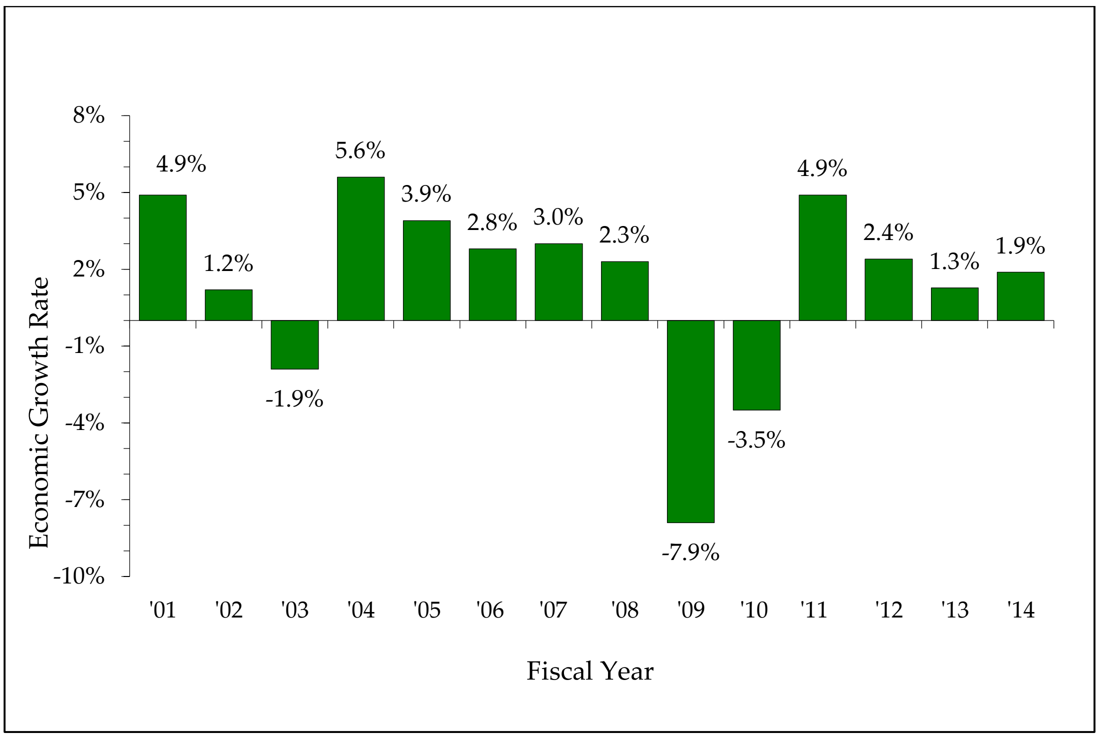
Chart 4
Estimates and Finals Economic Growth Rate



Note: Capital Gains are for the immediately preceding calendar year.

After the personal income tax, the sales and use tax is the second largest source of income to the General Fund. In the aftermath of the Great Recession, the sales tax dropped in two consecutive years, FY 2009 and FY 2010, due to chaos in the financial markets and the worst economic downturn since WWII. Collections in late FY 2011 improved markedly as employment and personal income increased. Weak economic growth and the expiration of the federal payroll tax cut that was a component of the federal government's stimulus measures, effective January 2013, led to only 1.3% growth in FY 2013. Chart 5 show the economic growth rates, as calculated by OPM, for the sales and use tax.

Chart 5
Sales and Use Tax Growth Rates



The recovery of General Fund revenues following the Great Recession has been weaker than prior recoveries. The following graphs compare the recoveries in Personal Income Tax and Sales Tax collections following the prior two recessions. By setting peak years to an index value of 100 and removing the impact of tax changes, ready comparisons can be made about subsequent performance. For the two most recent recession and recovery periods, revenue peaked in FY 2001 and FY 2008, respectively, before entering into recession.

Chart 6

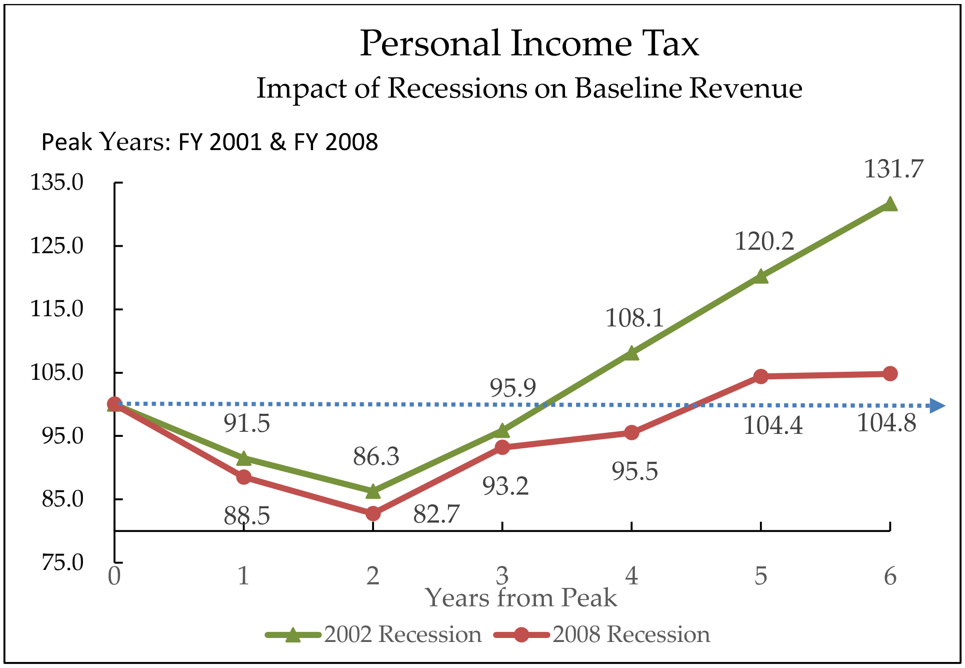
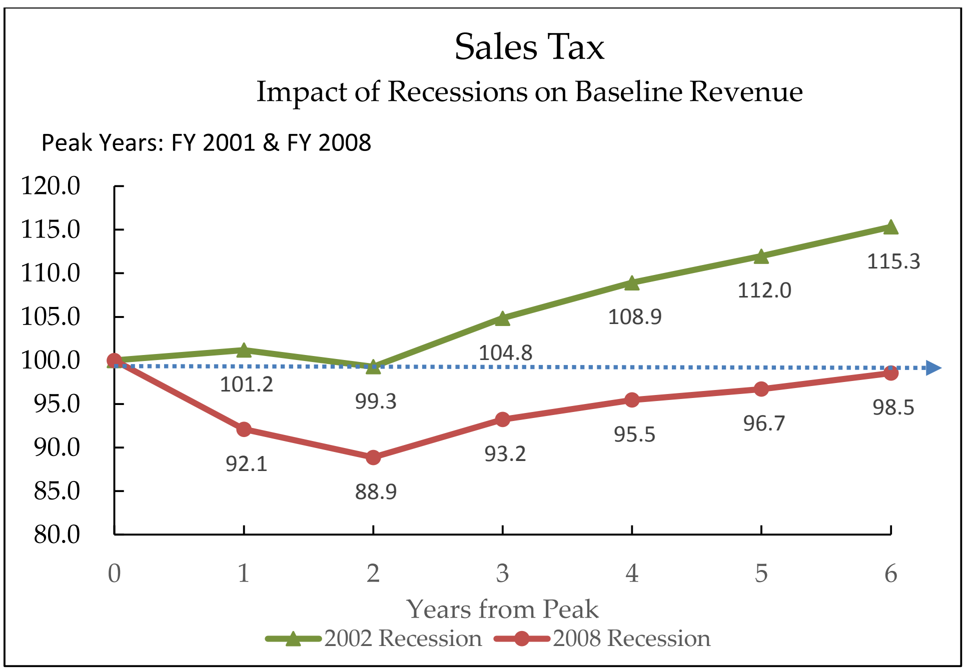


Chart 7



As the graphs above show, as of FY 2014, income tax revenues had exceeded their pre-recession peak for the last two fiscal years. Controlling for tax changes, revenue was 4.8% above pre-recession levels. If this recovery had been similar to the 2003 recovery, income tax revenue would have been $2.0 billion higher in FY 2014. Unlike the income tax, the state's sales tax had not exceeded its pre-recession peak as of FY 2014; the tax was down 1.5% from FY 2008 levels. Had the sales tax recovered at the same pace as in 2003, revenues would have been $601 million higher in FY 2014. It is important to note that, while personal income tax had a deeper trough than sales and use tax, it also recovered more quickly than sales and use tax when controlling for policy changes.

Section III – Revenue Volatility

Connecticut's General Fund and Special Transportation Fund revenue portfolios are comprised of several different revenue sources. Each source has a different base and is subject to different economic and behavioral phenomena. As a result, some revenue sources are more volatile than others. Greater volatility implies more difficulty forecasting future receipts and less reliability as changes occur in the economy.

Buoyancy Analysis

Two common measures of tax volatility are tax buoyancy and tax elasticity. Tax buoyancy measures a revenue source's response to economic growth by comparing changes in tax receipts to changes in gross state product (GSP). Tax elasticity measures the same phenomena while controlling for changes in tax policy. Buoyancy models do not control for changes in tax policy – a major limitation to these types of models. However, tax buoyancy is still commonly used as a measure of tax volatility due to the complexity and uncertainty of estimating the impacts of policy changes.

The Office of Policy and Management has conducted tax buoyancy analyses of General Fund, personal income tax, sales and use tax, and corporation tax revenue. These models were conducted using the following model:

$$Log\ TAX_i = \beta_0 + \beta_1 Log\ GSP + \varepsilon$$

Where TAX is the source of revenue, GSP is Connecticut gross state product, and ε is an error term. Ordinary least squares regression analysis techniques are used to estimate the coefficients. Logarithmic values of TAX and GSP are used to compare a percentage change in GSP to a percentage change in TAX, rather than a unit change. In such a model, the coefficient β_1 is an estimate of the percentage change of a tax type associated with a one percent change in gross state product.

The models were conducted using data found in the Annual Report of the State Comptroller for fiscal years 2001 to 2014. This "peak-to-peak" measurement attempts to control for the impact of economic cycles. In addition, the amount of federal grant money that would have been deposited to the General Fund in the absence of "net-budgeting" of Medicaid is added back to the General Fund for purposes of this analysis. The following table contains the buoyancy of each tax type and the adjusted r-square for each model. The adjusted r-square indicates how much of the variation in each tax type is explained by the model, with values closer to 1.0 fully explaining the change, and weaker explanatory power as the value declines from 1.0:

	Buoyancy	Adjusted R-Square
General Fund	1.18	0.86
Personal Income Tax	1.80	0.92
Sales and Use Tax	0.60	0.66
Corporation Tax	1.43	0.66

This indicates that a 1% change in Connecticut gross state product resulted in a 1.8% change in personal income tax, a 0.6% change in sales and use tax, a 1.4% change in corporation tax, and a 1.2% change in General Fund revenue during the period from fiscal year 2001 to 2014. This finding affirms that personal income tax, the largest source of revenue to the General Fund, is the most volatile and susceptible to changes in the economy of the three largest General Fund taxes. The corporation tax is also volatile relative to the overall General Fund, while sales and use tax has been relatively inelastic.

Budget Reserve Fund Reform

Public Act 15-244, the FY 2016-2017 biennium budget, included several reforms to the Budget Reserve Fund (BRF). The intent of these changes is to mitigate the revenue volatility which has led to budget uncertainty in the state in recent years. In addition, the bill raises the cap on BRF balance from 10% to 15% of General Fund Appropriations.

The bill requires that growth in "combined revenue" above a threshold be deposited to the Budget Reserve Fund beginning in FY 2021. "Combined revenue" means tax revenue from the estimated and final payments of the personal income tax and the corporation business tax. As discussed, estimates and finals payments and the corporation business tax are two of the largest and most volatile sources of General Fund revenue. The threshold is a dollar amount that is derived by taking the ten year average of combined revenue and multiplying that average by the ten year average growth in the ten year moving average of combined revenue. The Comptroller is responsible for determining the threshold for deposits.

If tax changes are enacted that affect combined revenue by 1% or more the Office of Fiscal Analysis (OFA) and the Office of Policy and Management (OPM) are responsible to determine the threshold. The growth should be adjusted for any policy changes.

Adjustments shall be made for a period of ten fiscal years. If revisions in the January or April consensus revenue estimate impact combined reporting in the current year, OFA and OPM may recalculate the threshold level and shall report such revisions along with consensus revenue.

The Act creates a Restricted Grants Fund as a temporary holding account of surplus funds in excess of the threshold within a fiscal year. Amounts above the threshold level are deposited to the Restricted Grants Fund on January 31 and May 15 following consensus revenue estimates. If forecasted combined revenue declines after January 31, revenue within the restricted grants fund can be transferred back to the General Fund based upon a formula. If the consensus revenue estimate of January 15 or April 30 projects a deficit, no transfers will be made to the Restricted Grants Fund. Amounts held in the Restricted Grants Fund will be transferred to Budget Reserve Fund at the close of the fiscal year.

Section IV – Tax Incidence

One of the most common and significant questions regarding state tax revenues is how they impact Connecticut households and businesses. In particular, there is frequent discussion as to whether certain tax types are regressive, progressive, or proportional:

- A tax is "progressive" if higher income earners pay more than lower income earners as a percentage of their income.
- A tax is "proportional" if higher income earners and lower income earners pay a similar amount as a percentage of their income.
- A tax is "regressive" if higher income earners pay less than lower income earners as a percentage of their income.

Department of Revenue Services Study

In order to assess the equity of Connecticut's tax system, the Department of Revenue Services published the Connecticut Tax Incidence study in December 2014. The study utilizes tax year 2011 data, the most recent year for which DRS was able to obtain federal income tax data to match with state income tax data.

The study analyzed the tax incidence for Connecticut taxpayers. Tax incidence differs from tax liability, which is the legal obligation to pay a tax. The study assumes households tend to bear the full impact of their tax liabilities, while businesses distribute their tax impact to individuals and households through consumer pricing, or workforce-related practices. The incidence refers to the ultimate impact of a tax after shifting.

Suits Index

The study utilized the Suits Index to gauge the progressivity of each tax and Connecticut's taxes overall. The Suits Index is a statistical, nonbinary measure of progressivity ranging from negative one to positive one where regressive taxes have negative values, progressive taxes have positive values and a proportional tax would be equal to zero. The degree of a tax's progressive or regressive nature increases the further it is from zero.

The most progressive tax with a Suits Index of 1.0 would have the single Connecticut household with the highest Connecticut AGI paying all of the taxes. Likewise, the most regressive tax would have a Suits Index of -1.0 and have the single Connecticut household with the lowest Connecticut AGI paying all of the taxes. In reality, neither of those scenarios would exist and the Suits Index indicators for Connecticut's taxes will lie somewhere on the spectrum between 1.0 and -1.0.

The DRS model uses a full sample of returns from all taxpayers within a specific tax type to compute the Suits Index that accounts for each Connecticut income tax filer in the model. The full-sample Suits Index provides a more robust and targeted analysis as it takes into account all points of data, as opposed to other levels of analysis which may only compute the Suits Index based on aggregated population or income decile data.

Results

The Suits Index can be used to compare relative progressivity between taxes within Connecticut. The following table summarizes the Suits Index for the taxes studied in the report.

Tax Type	Suits Index
Gift and Estate	0.76
Personal Income	0.11
Corporation Business	-0.02
Real Estate Conveyance	-0.14
Insurance	-0.35
Gross Earnings	-0.38
Local Property Taxes	-0.39
Sales and Use	-0.39
Excise	-0.67
Total	**-0.22**

- Excise taxes include taxes on alcoholic beverages, cigarettes, tobacco, and motor fuels
- Gross Earnings taxes include taxes on community antenna TV, certified competitive video service providers, satellite TV, railroad companies, gas companies, gas sales to residential customers, and electric distribution companies

The Personal Income Tax (0.11) and the Gift and Estate Tax (0.76) are the only two taxes classified as progressive. Some of the many items that contribute to the progressivity of the Personal Income Tax are its graduated rates that increase with Connecticut AGI, tax recapture at higher AGI levels, the Earned Income Tax Credit, and the automatic credits based on AGI that phase out at higher income levels. The Gift and Estate Tax is the most progressive tax due to its $2 million exemption threshold. The incidence of the Gift and Estate Tax is borne entirely by the highest decile of taxpayers.

Excise Taxes (-0.67), which include alcohol, cigarettes and tobacco and motor fuels, are the most regressive. Like the Sales and Use Tax (-0.39), Excise Taxes have a regressive nature since the taxes are levied at the same rate for every consumer regardless of income. Households with lower Connecticut AGIs spend a larger share of their income on Excise and Sales and Use Taxes than households with larger Connecticut AGIs. The overall Suits Index for taxes included in the study was -0.22.

For more information, DRS' full report is available at:
http://www.ct.gov/drs/lib/drs/research/drstaxincidencereport2014.pdf

Section V – Tax Credits

In order to incentivize certain private sector behavior, Connecticut offers taxpayers various tax credits. These credits reduce a taxpayer's liability, and therefore reduce General Fund revenue. Lost revenue may be "made up" by either increases in taxes or decreases in appropriations. The amount that taxpayers may reduce their liability using tax credits is currently capped at certain levels for the corporation business tax, insurance premiums tax, and hospital net revenue tax. The Department of Economic and Community Development (DECD) produces a report on the efficacy of these credits every three years. In their 2014 report, they found that the biggest economic impact results from those tax credits that are tied to job creation.

Connecticut's Department of Revenue Services (DRS) provides annual data on the amount of tax credits claimed against the corporation business tax and the insurance premiums tax by income year. The following table summarizes the amounts claimed during income year 2012, the latest data available, as well as during the five year period from income year 2008 to 2012. The data reveal that, on average, tax credits resulted in over $200 million in foregone revenue per income year during this time period.

Tax Credits Claimed Against Corporation Business and Insurance Premiums Taxes

	Tax Credits Claimed	
Type of Credit	**2012**	**2008-2012**
Fixed Capital	$63,125,737	$358,236,881
Film Production*	$76,567,036	$298,633,051
Electronic Data Processing	$19,421,533	$118,537,600
Research and Experimental Expenditures	$20,681,089	$86,239,102
Urban and Industrial Site Reinvestment	$16,598,275	$54,045,821
Research and Development	$5,516,301	$25,715,841
All Other	$16,147,798	$88,532,982
TOTAL	$218,057,769	$1,029,941,278

**Includes film production infrastructure and digital animation credits.*

Source: DRS Annual Statement

The table also shows several of the most prevalent business tax credits offered by the state. During the period from 2008-2012, a few tax credit types constituted the majority of tax credits claimed.

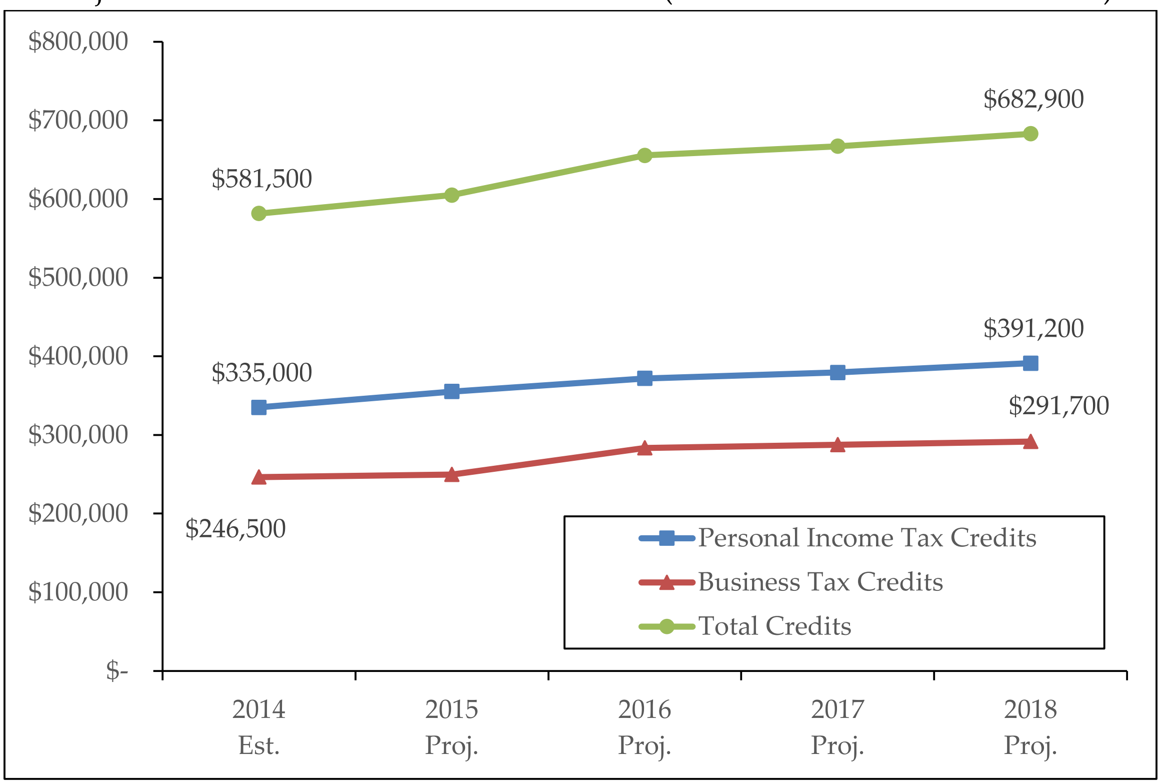
- The largest of these was the fixed capital credit. These credits are worth 5% of the amount paid for any new capital property to be held and used in Connecticut.
- The second largest are the film production tax credits, inclusive of the film production infrastructure and digital animation credits. These credits are available for qualifying media productions. There is currently a moratorium on providing film production credits for major motion picture productions without substantial investment in the state, effective through fiscal year 2017.
- Electronic Data Processing credits provide a 100% credit for property tax owed and paid on electronic data processing equipment.
- Research and Experimental Expenditures credits are based on the incremental increase in expenditures for research and experiments conducted in Connecticut. The amount of the credit equals 20%.
- Urban and Industrial Site Reinvestment Credits are awarded for investments in eligible urban reinvestment projects and industrial site investment projects under the Urban and Industrial Site Reinvestment Act.
- Research and Development credits are based on expenses for research and development conducted in Connecticut. The amount allowed varies from 1% to 6% of R&D expenses.
- All other tax credits accounted for less than 10% of credits claimed against the corporation business tax and insurance premiums tax during the period from 2008-2012.

Relative to corporation tax credits, the State of Connecticut offers few credits against the personal income tax. However, two major credits are:

- The Property Tax Credit. Connecticut residents are eligible for an income tax credit for property taxes paid to a Connecticut political subdivision. Effective for taxable years commencing on or after January 1, 2016, the maximum credit is reduced from $300 to $200 per return. Approximately $209 million in property tax credits were claimed in income year 2013.
- The Earned Income Tax Credit. Connecticut taxpayers may claim an earned income tax credit worth a percentage of any federal earned income credit claimed and allowed. In income year 2013, the rate was 25% of the federal EITC claimed. In income year 2014, the rate was 27.5% of the federal EITC. Approximately $96 million in earned income tax credits were claimed in income year 2013.

In addition, the Office of Policy and Management is required to include a forecast for tax credits claimed as part of the annual Fiscal Accountability Report published in November of each year. The following graph shows OPM's projections for personal income tax credits, business tax credits, and total credits claimed. Business tax projections include credits claimed under the corporation tax, insurance premiums tax, hospital net revenue tax, and the public service companies tax.

Chart 9
Projected Amounts of Tax Credits Claimed (Dollar Amounts in Thousands)



Source: OPM Fiscal Accountability Report, Nov. 2014

Please note that these projections are based on analysis conducted by the Office of Policy and Management in November 2014 and are not reflective of policy changes in the 2015 legislative session or the most recent data available. OPM will produce an updated forecast for the November 2015 Fiscal Accountability Report.

Section VI – Policy Changes 2000-2015

Tax rates in 2000 were significantly different from where they stand today. The impact of two significant recessions, changes in the composition of state's economy, and rising costs for healthcare, education, and unfunded pension liabilities, resulted in numerous tax and revenue policy changes for the state. Some of the more significant changes that have been enacted over the past 15 years include:

<u>Personal Income Tax</u>

In 2000, Connecticut's personal income tax contained two brackets – 3.0% and 4.5%. During the 2003 legislative session the upper 4.5% bracket was raised to 5.0%. During the 2009 legislative session a third bracket was added at a maximum 6.5% rate. During the 2011 legislative session three new tax brackets were added and the maximum rate was increased from 6.5% to 6.7%. Moreover, lower rate recapture provisions were added that eliminated the benefit of various lower rates once a taxpayer reached a certain income level. Finally, during the 2015 legislative session, a seventh tax bracket was added and the maximum upper rate was set at 6.99%.

The property tax credit under the income tax which stood at $500 in 2000 was lowered in the mid-2000s, then increased back to $500 in the later 2000s, only to be reduced again to $300 beginning in 2011. It is scheduled to fall to $200 in income year 2016. Additionally, a more aggressive phase-out of the property tax credit has been enacted over the years.

One area of tax relief which Connecticut has adopted in recent years is a state Earned Income Tax Credit (EITC), which mirrors the federal credit. Originally adopted during the 2011 legislative session, the current value of the state credit is 27.5% of the federal credit. The EITC is currently scheduled to increase to 30.0% of the federal credit beginning in income year 2017.

<u>Sales and Use Tax</u>

In 2000, Connecticut's sales and use tax rate was at 6.0%. Today it stands at 6.35%. In 2000, the clothing exemption was $75.00 whereas today it is has been eliminated. Moreover, in the intervening years, the sales tax was extended to more items. Some items were exempted from the tax during the same time period, but the net effect was a broadening of the base and an overall increase in revenue raised.

Corporation Tax

In 2000, Connecticut's corporation tax rate was at 7.5%, with no surtax. Over the intervening years the rate has remained the same, but in ten of the 15 years covered by this report there was a surtax imposed which ranged from 10% to 25% depending upon the income year. In the most recent legislative session, Connecticut will be converting to a unitary form of corporation tax beginning with income year 2016. The 2015 legislative session also capped at 50% the amount that prior year net operating losses could serve to reduce a firm's net income.

Tax credits

One area where tax relief was provided was in the area of business tax credits. The most significant tax credits that were enacted over that time period include film tax credits (including infrastructure and digital media) and job creation tax credits. In addition, the state facilitated increased use of previously earned research and development tax credits for qualifying companies through the aerospace reinvestment act.

Offsetting this benefit to some extent has been the enactment of overall limitations on the use of tax credits. During the 2002 legislative session a cap of 70% was placed on the overall amount tax credits could reduce tax liability. During the 2015 legislative session this cap was tightened further to 50.01%.

Apportionment

Another area where tax relief was provided was in the area of apportionment. Multi-state businesses typically apportion their income to Connecticut based upon a three factor formula – sales, property, and payroll, with the sales factor double-weighted. During the 2000 legislative session a favorable single factor apportionment based solely on sales was enacted for manufacturers and broadcasters.

Cigarette Taxes

In 2000, the cigarette tax was at 50 cents per pack. Over the intervening years the tax was increased and today stands at $3.65 per pack. It is scheduled to rise to $3.90 per pack on July 1, 2016.

Oil Companies Tax
In 2000 the tax rate on petroleum products gross receipts was 5.0%. Today the rate is 8.1%.

Motor Fuels Tax
In 2000 the excise tax rate on motor fuels was 32 cents per gallon. Today the rate is 25 cents per gallon.

Succession/Estate Tax
During the 2005 legislative session, the state's Succession Tax was repealed and in its place a unified Gift and Estate Tax was enacted with a lifetime $2 million exemption.

Other Revenue Changes
Over the past fifteen years, other major policy changes have included transfers from various funds to the General Fund. Several DRS related initiatives, including amnesty programs, have been instituted in order to raise additional revenue. Taxes have also been enacted on health services providers as part of an overall plan to garner additional federal matching dollars under the Medicaid program.

Appendix A

GENERAL FUND REVENUES

TAXES ($K)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Personal Income	$6,586,099	$7,246,431	$8,310,820	$8,719,245	$8,718,659
Sales and Use	3,203,988	3,353,230	3,830,117	3,896,998	4,100,564
Corporation	667,132	794,473	716,522	742,515	782,239
Public Service Corporation	267,945	269,806	250,397	266,647	293,303
Insurance Companies	226,550	220,626	237,609	260,858	240,666
Inheritance & Estate	177,601	237,573	191,699	439,519	168,075
Cigarettes	387,435	404,111	421,005	399,822	376,835
Oil Companies	123,018	169,163	146,067	175,526	35,580
Electric Generation	-	-	69,532	66,823	15,315
Real Estate Conveyance	100,267	94,822	107,531	113,830	180,511
Alcoholic Beverages	48,196	48,923	60,595	60,406	60,644
Admissions, Dues, Cabaret	34,379	34,456	34,398	36,544	39,935
Miscellaneous	141,892	140,506	536,810	523,028	498,260
Total - Taxes	$11,964,502	$13,014,119	$14,913,103	$15,701,763	$15,510,588
Less Refunds of Taxes	(1,061,433)	(956,054)	(1,105,171)	(1,144,993)	(1,182,397)
Less Refunds of R&D Credit	(8,937)	(8,599)	(3,563)	(4,086)	(5,055)
Total - Taxes Less Refunds	$10,894,132	$12,049,467	$13,804,369	$14,552,684	$14,323,136
OTHER REVENUE					
Transfer-Special Revenue	$289,314	$293,108	$313,757	$315,452	$323,219
Indian Gaming Payments	384,248	359,582	344,645	296,396	279,873
Licenses, Permits & Fees	257,569	250,442	283,414	262,068	314,722
Sales of Commodities & Services	33,678	35,506	35,007	36,298	40,523
Investment Income	4,062	29	964	(792)	(336)
Rents, Fines & Escheats	252,792	157,771	123,424	144,141	130,875
Miscellaneous	142,910	178,728	191,965	163,818	206,782
Less Refunds of Payments	(1,189)	(1,875)	(85,377)	(74,016)	(66,625)
Total - Other Revenue	$1,363,384	$1,273,291	$1,207,780	$1,143,366	$1,229,032
OTHER SOURCES					
Federal Grants	$4,066,314	$4,235,178	$3,607,163	$3,733,910	$1,243,861
Transfer from Tobacco Fund	102,898	95,304	96,100	103,100	107,000
Transfer From/(To) Other Funds	1,261,800	54,215	(153,799)	(128,028)	106,528
Total - Other Sources	$5,431,012	$4,384,697	$3,549,464	$3,708,982	$1,457,389
GRAND TOTAL	$17,688,529	$17,707,454	$18,561,633	$19,405,031	$17,009,556

TAXES	% of Total	% of Total	% of Total	% of Total	% of Total
Personal Income	37.23	40.92	44.77	44.93	51.26
Sales and Use	18.11	18.94	20.63	20.08	24.11
Corporation	3.77	4.49	3.86	3.83	4.60
Public Service Corporation	1.51	1.52	1.35	1.37	1.72
Insurance Companies	1.28	1.25	1.28	1.34	1.41
Inheritance & Estate	0.96	1.34	1.03	2.26	0.99
Cigarettes	2.19	2.28	2.27	2.06	2.22
Oil Companies	0.70	0.96	0.79	0.90	0.21
Electric Generation	-	-	0.37	0.34	0.09
Real Estate Conveyance	0.57	0.54	0.58	0.59	1.06
Alcoholic Beverages	0.27	0.28	0.33	0.31	0.36
Admissions, Dues, Cabaret	0.19	0.19	0.19	0.19	0.23
Miscellaneous	0.80	0.79	2.89	2.70	2.93
Total - Taxes	67.64	73.50	80.34	80.92	91.19
Less Refunds of Taxes	(6.00)	(5.40)	(5.95)	(5.90)	(6.95)
Less Refunds of R&D Credit	(0.05)	(0.05)	(0.02)	(0.02)	(0.03)
Total – Taxes Less Refunds	61.59	68.05	74.37	74.99	84.21
OTHER REVENUE					
Transfer-Special Revenue	1.64	1.66	1.69	1.63	1.90
Indian Gaming Payments	2.17	2.03	1.86	1.53	1.65
Licenses, Permits & Fees	1.46	1.41	1.53	1.35	1.85
Sales of Commodities & Services	0.19	0.20	0.19	0.19	0.24
Investment Income	0.02	-	0.01	(0.00)	(0.00)
Rents, Fines & Escheats	1.43	0.89	0.67	0.74	0.77
Miscellaneous	0.81	1.01	1.01	0.84	1.22
Less Refunds of Payments	(0.01)	(0.01)	(0.01)	(0.38)	(0.39)
Total - Other Revenue	7.71	7.19	6.51	5.89	7.23
OTHER SOURCES					
Federal Grants	22.99	23.92	19.43	19.24	7.31
Transfer from Tobacco Fund	0.58	0.54	0.52	0.53	0.63
Transfer From/(To) Other Funds	7.13	0.31	(0.82)	(0.66)	0.63
Total - Other Sources	30.70	24.76	19.12	19.11	8.57
GRAND TOTAL	100.00	100.00	100.00	100.00	100.00

Appendix B

SPECIAL TRANSPORTATION FUND REVENUES

TAXES ($K)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Motor Fuels	$503,635	$438,526	$492,795	$501,269	$508,058
Oil Companies	141,900	165,300	226,900	199,400	380,700
DMV Sales	67,784	71,943	76,618	79,000	82,216
Less Refunds of Taxes	(7,315)	(6,769)	(7,006)	(6,094)	(6,993)
Total - Taxes Less Refunds	$706,004	$713,999	$789,306	$773,576	$963,981
OTHER REVENUE					
Motor Vehicle Receipts	$220,703	$220,144	$235,446	$234,484	$236,063
Licenses, Permits & Fees	135,004	135,453	135,974	137,284	138,390
Interest Income	6,681	5,506	2,208	4,138	6,771
Federal Grants	3,002	9,360	12,915	12,416	12,100
Transfer from Other Funds	71,200	107,550	81,550	95,245	(76,500)
Transfer to Other Funds	(6,500)	(6,500)	(6,500)	(6,500)	(6,500)
Transfer to TSB	(15,300)	(15,300)	(15,000)	(15,000)	(15,000)
Less Refunds of Payments	(2,906)	(3,005)	(2,979)	(3,154)	(3,614)
Total – Other Revenue	$411,884	$453,208	$443,614	$458,912	$291,710
GRAND TOTAL	$1,117,888	$1,167,208	$1,232,921	$1,232,487	$1,255,690

TAXES	% of Total	% of Total	% of Total	% of Total	% of Total
Motor Fuels	45.05	37.57	39.97	40.67	40.46
Oil Companies	12.69	14.16	18.40	16.18	30.32
DMV Sales	6.06	6.16	6.21	6.41	6.55
Less Refunds of Taxes	(0.65)	(0.58)	(0.57)	(0.49)	(0.56)
Total – Taxes Less Refunds	63.15	61.17	64.02	62.77	76.77
OTHER REVENUE					
Motor Vehicle Receipts	19.74	18.86	19.10	19.03	18.80
Licenses, Permits & Fees	12.08	11.60	11.03	11.14	11.02
Interest Income	0.60	0.47	0.18	0.34	0.54
Federal Grants	0.27	0.80	1.05	1.01	0.96
Transfer from Other Funds	6.37	9.21	6.61	7.73	(6.09)
Transfer to Other Funds	(0.58)	(0.56)	(0.53)	(0.53)	(0.52)
Transfer to TSB	(1.37)	(1.31)	(1.22)	(1.22)	(1.19)
Less Refunds of Payments	(0.26)	(0.26)	(0.24)	(0.26)	(0.29)
Total - Other Revenue	36.85	38.83	35.98	37.23	23.23
GRAND TOTAL	100.00	100.00	100.00	100.00	100.00

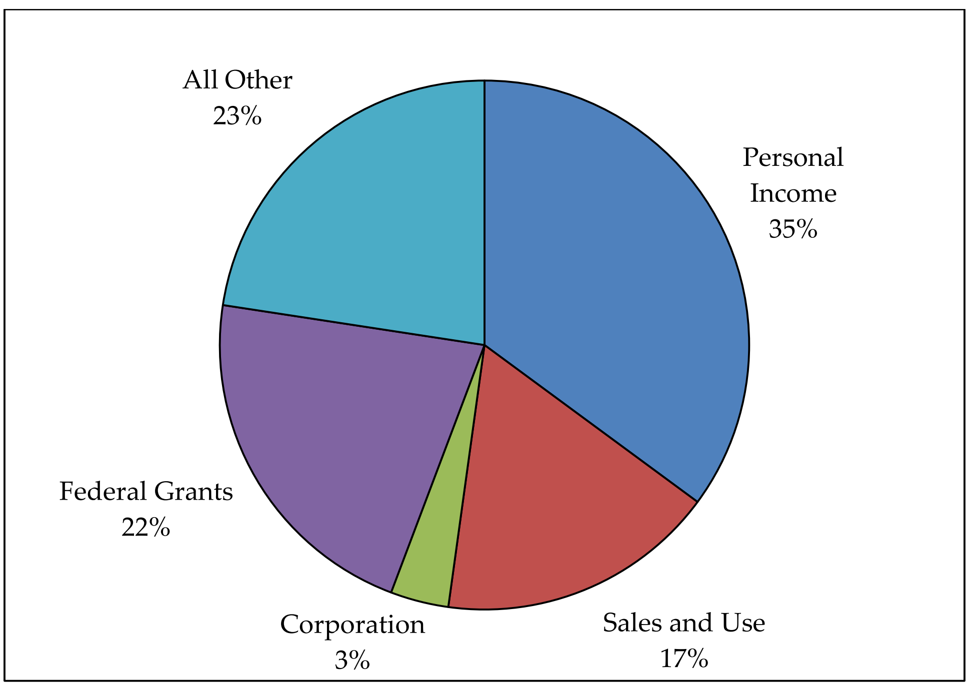
Appendix C

The following charts show the percentage of General Fund revenue derived from the following sources:

- Personal Income Tax;
- Sales and Use Tax;
- Corporation Tax;
- Federal Grants; and,
- All Other Sources

For fiscal years FY 2010 – FY 2014 as presented in Appendix A, revenues are shown as a percentage of collections prior to refunds and net transfers to other funds. For comparative purposes, FY 2014 has been adjusted for net budgeting of Medicaid. Beginning in that year, direct federal grants for Medicaid were applied directly to Medicaid expenditures, rather than being counted as a resource of the General Fund as in prior years.

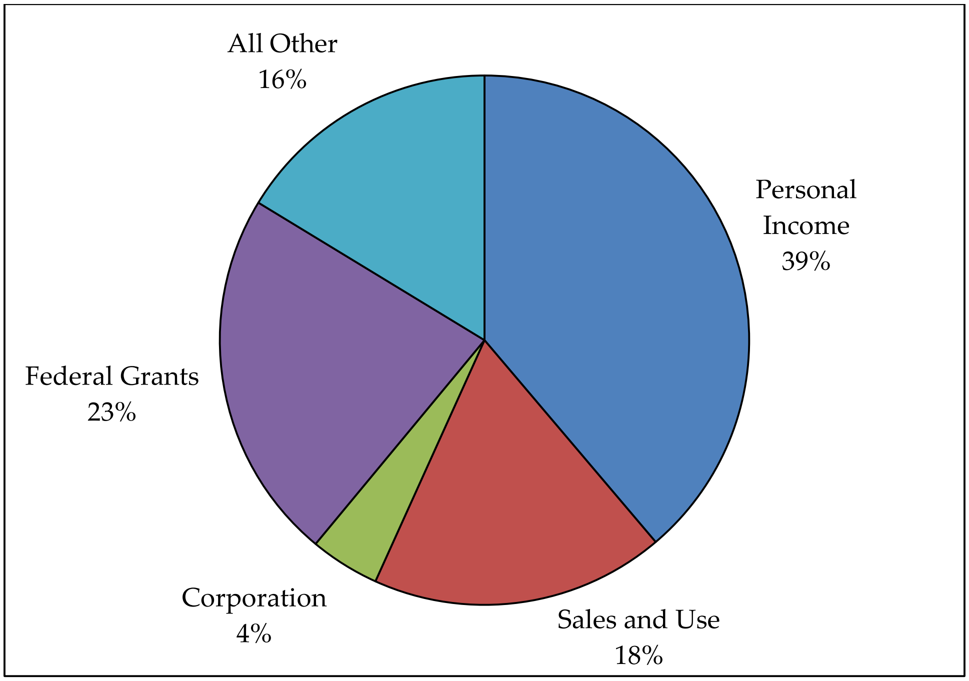
Chart 10
FY 2010



Refunds reduced collections by $1,072 million.

Chart 11

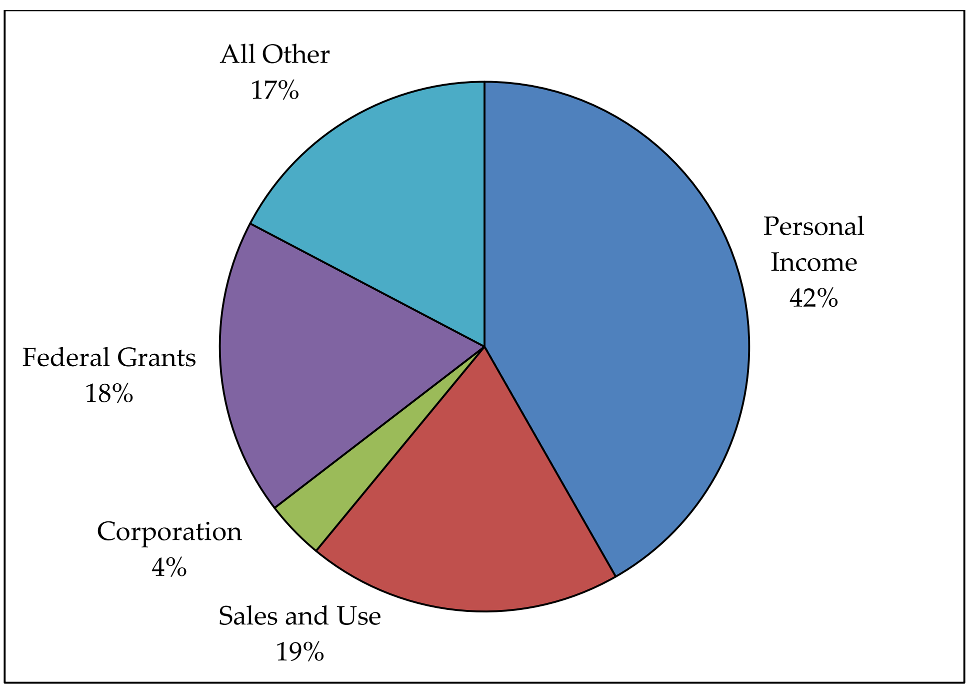
FY 2011



Refunds reduced collections by $967 million.

Chart 12

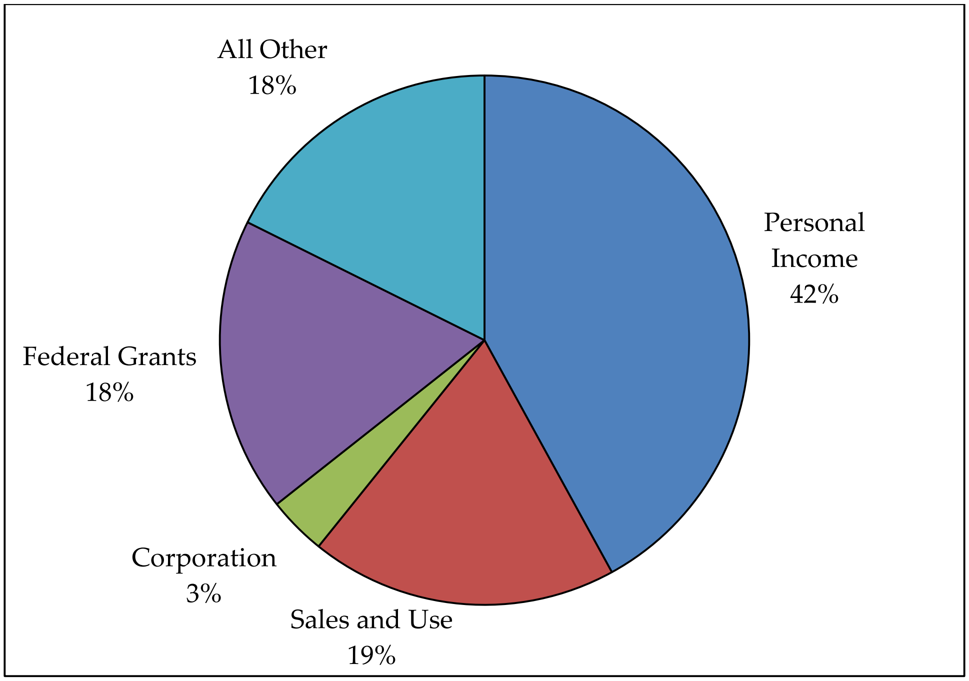
FY 2012



Refunds and transfers reduced collections by $1,348 million.

Chart 13

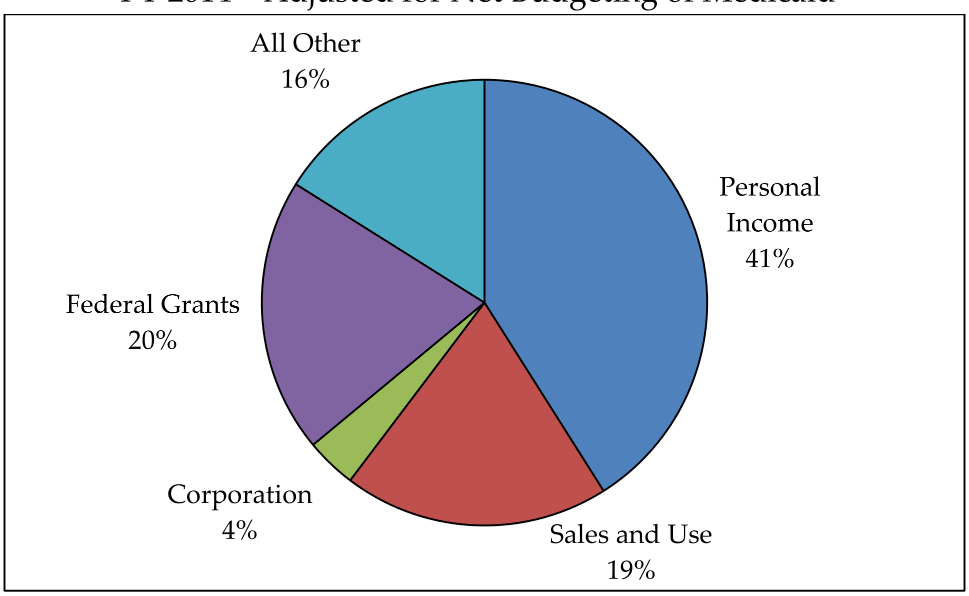
FY 2013



Refunds and transfers reduced collections by $1,351 million.

Chart 14

FY 2014 – Adjusted for Net Budgeting of Medicaid*



Refunds reduced collections by $1,254 million.

**For purposes of this chart, $2,993 million was added to Federal Grants in order to estimate what General Fund revenues would have been had the State of Connecticut not switched to net budgeting Medicaid in FY 2014.*