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With 4 Connecticut tax cut plans on the table, lawmakers weigh costs and relief



Gov. Ned Lamont is hoping to reach a budget deal with House Speaker Matt Ritter, right, and Senate President Pro Tem Martin Looney. They are shown at the historic Hall of the House at the state Capitol.

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With the state generating record budget surpluses, Connecticut legislators are now facing a relatively new situation for a previously cash-strapped state: how much should they cut taxes?

Lawmakers are analyzing four different proposals as they scramble to reach a final compromise before the regular legislative session adjourns on June 7.

They are working behind the scenes on the two-year, \$50.5 billion budget that covers everything from salaries for judges to dental care for prison inmates.

Senate Republicans unveiled the largest tax-cut proposal at \$1.5 billion, slightly higher than the House Republicans at \$1.26 billion. Gov. Ned Lamont called for \$654 million

in tax cuts in February, and he expressed disappointment when the legislature's Democratic-controlled tax committee countered with \$513 million.

While supporting tax cuts, Lamont remains cautious about whether the state can afford deeper tax cuts at the level offered by Republicans.

"I don't like to overpromise," Lamont told reporters. "You know, people have been promising to eliminate the income tax ... at least for the last 30 years. Let's not go there. And I also wanna make sure we have the money to do significant investments in education and higher education and child care. I think we've got a good balance."

All sides agree that they should reduce the state income tax, but the difference is in the amounts. Lamont's fiscal plan calls for cutting the income tax in two places, including lowering the 5% rate down to 4.5% and reducing the 3% rate to 2%. When those are combined, families earning \$100,000 per year would save \$594 annually, which is more than Democrats' competing plan to reduce the 5% rate to 4.75%.

Another key difference is that the Senate Republican tax cut would be retroactive to Jan. 1, 2023 — a full year ahead of Lamont's plan. That would save taxpayers an additional \$325 million.

Overall, a family of four earning \$125,000 per year would save \$1,045 from the Senate Republican package, including \$600 from the income tax and \$445 from other taxes. A single individual with no dependents who earns \$40,000 per year would save \$250 from the income tax.

Both Democrats and Republicans have called for lower income thresholds than Lamont, whose initial plan would have allowed tax cuts for couples earning as high as \$690,000 annually. Various proposals sliced those numbers, and the latest GOP plan said there should be no income tax relief for single filers earning more than \$150,000 per year and couples earning more than \$300,000 per year. Lamont has expressed willingness to compromise on the income levels, but no final deal has been reached.



Alison Cross

Senate Republican Leader Kevin Kelly and colleagues Sens. Eric Berthel (left), Lisa Seminara and Tony Hwang of Fairfield are all supporting the Senate Republican budget. Here, they are shown earlier this year at the state Capitol.

Child tax deduction

Unlike Lamont, Republicans are calling for a state income tax deduction of \$2,000 per child for the first time in Connecticut history. Deductions for children have been available on federal tax returns for decades, and some states allow deductions or credits at the state level.

But the idea contradicts the long-held views of many Republicans that the state income tax should remain as simple as possible without the types of deductions that are available on the federal return. Republicans now, however, say that struggling middle-class families with children need relief as they try to balance their household budgets.

Lamont has been cool to the idea, saying he prefers allocating more money for the earned income tax credit that is designed to help families with children. Republicans, too, favor boosting the earned income credit to 40% of the federal credit for eligible families.

“I think what we’ve done is better,” Lamont said.

Spending cap

Even during a time of surpluses, an issue always lurking in the background for budget negotiators is the state spending cap. The state-mandated cap was reconfirmed by both Democrats and Republicans earlier this year. The fiscal guardrails were enacted by the bipartisan budget of 2017 that was crafted when Republicans had more power in a state Senate tied at 18-18.

But a multipronged coalition, known as Recovery for All, is concerned that the tight restrictions could lead to inadequate funding for pre-K to 12 schools, public colleges and universities and social service needs.

“After suffering through the worst crisis in nearly a century, our communities need public investment now more than ever,” the coalition said. “Yet we are deeply alarmed that rigid adherence to the spending cap will result in a state budget that fails to invest in our communities and meet human needs despite our state’s multibillion-dollar surplus and overflowing Rainy Day Fund. Unless lawmakers take action to address this problem, the people of Connecticut will continue to suffer.”

The Recovery coalition includes unions, Common Cause, Connecticut Citizen Action Group and Connecticut Voices for Children, among others.

Nonprofits

One of the groups expecting to receive more money than recommended by the budget-writing committee is the nonprofit organizations that provide services under state contracts. The group argues that the recommended increase of 1% by the budget committee actually represents a cut during a time of high inflation.

Gian-Carl Casa, a former top state budget official who is now president of the statewide nonprofit alliance, described the recommendation as “a cut in services for people with addiction needs, for those with intellectual disabilities, for people who need shelter, for children and adults with behavioral health needs, for people coming home to make new lives after incarceration and for many more vulnerable Connecticut residents.”

Increased funding, Casa said, is especially needed now because the nonprofits took hits during the long years of budget deficits.

Lamont, House Speaker Matt Ritter of Hartford and Senate President Pro Tem Martin Looney of New Haven all have said that more money should be sent to the nonprofits. Senate Republicans offered the highest amount at 2.5%, which would be about \$100 million over two years.

Sen. Cathy Osten, a Sprague Democrat who co-chairs the budget committee, told committee members that tough choices were made in crafting the spending plan that the committee approved by 40-12.

“Our nonprofits do essentially God’s work,” Osten told committee members. “We live within the confines of the spending cap.”



Mark Mirko/The Hartford Courant

Sen. Cathy Osten, co-chairwoman of the budget committee, is a key player in the budget talks. She is shown here at a hearing at the state Capitol complex in Hartford.

Latest budget projections

The talk of tax cuts and spending increases is made possible by the state’s positive financial outlook.

The [latest numbers from the state comptroller’s office](#) shows a projected surplus of \$1.58 billion in the state’s general fund in the current fiscal year that ends on June 30. An additional surplus of nearly \$250 million is projected in the once-troubled Special Transportation Fund, which includes money from gasoline taxes, fees, grants, and other sources. The latest projections come on the heels of a [record-breaking surplus in the general fund last year](#) of \$4.3 billion.

The state’s rainy day fund is expected to grow by the end of the fiscal year to \$6.2 billion, which would allow \$2.9 billion to be transferred to the long-underfunded

pension funds. Of that total, \$2.1 billion would be set aside for state employees, while another \$856 million would go toward the pensions of public school teachers.

Study on car taxes

In a state that collects multiple taxes, another long-running complaint in Connecticut is the property tax on cars. The problem is that the tax rates on the same car vary widely from town to town, depending on the local mill rate.

Lamont, who lives in Greenwich, says residents should not “pay more for a Honda in Hartford than a Hummer in Harwinton.”

Multiple governors have talked about repealing the tax over the past 30 years, but that has never happened because cities and towns have complained that they would not be adequately reimbursed for the lost tax money.

In another attempt, the state Senate voted 36-0 Thursday to create a bipartisan task force of municipal leaders, tax experts and others to study the potential repeal.

Sen. Tony Hwang of Fairfield and other Republicans said that the task force needs to broaden its scope to study how to make up the lost tax income.

“Connecticut is unaffordable,” Hwang said on the Senate floor.

Sen. Herron Gaston, a freshman Democrat, said that his hometown of Bridgeport suffers from income inequality, and his constituents have complained to him about the car tax.

“It is a burden,” Gaston said, adding that lawmakers must concentrate on “making this state much more affordable for people.”

Sen. Saud Anwar, a Democrat, said his previous service as mayor of South Windsor showed him that local budgets “are dependent on the car tax” to balance the books.

“This is not going to be an easy answer by any stretch,” Anwar said. “Not all municipalities are the same.”

Senate Majority Leader Bob Duff noted lawmakers were close to eliminating the tax during the 2017 bipartisan budget talks but did not strike a deal.

“The answers on how to do that have been perplexing for many years,” Duff said. “That has brought the ire of the Connecticut Conference of Municipalities because they’re afraid of losing the revenue. ... Connecticut is a great state. I love living here. I know it’s expensive at times. ... Let’s make sure we get rid of this tax once and for all.”

Looney said the money lost by the elimination of the car tax could be covered through state funding by “a slightly higher increment on income or capital gains.”

One of the issues, Looney said, is the state has 169 “completely, jealously protected municipal fiefdoms” across the state.

The state has a long and unsuccessful history in eliminating the car tax under various plans by Governors Lowell P. Weicker, M. Jodi Rell and Dannel P. Malloy. Rell proposed a complete elimination in 2006 and 2007, while Malloy proposed a partial elimination in 2013 that would apply only to cars with a market value of less than \$28,500. As a result, high-end cars like Rolls-Royces, Bentleys and Ferraris would still have been taxed. But the plans were never adopted.

The next three weeks

With four different plans on the table, the negotiators say they are in general agreement on various points.

“Over 99% of our proposed spending mirrors the budget proposed by the governor,” said Senate Republican leader Kevin Kelly of Stratford.

The differences, Ritter says, are relatively small in the context of a two-year, \$50.5 billion budget, and he recently predicted that the negotiators will reach a comprehensive agreement.

“We always do,” Ritter said.

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