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The Government Affairs Group at Murtha Cullina LLP is pleased to provide information about current topics of interest.

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## BUDGET WARS - CONNECTICUT

On June 26, four days before the beginning of the state's new fiscal year, the last chamber of the Connecticut General Assembly approved a state budget package with General Fund appropriations totaling approximately \$35.5 billion over the next two years. To fund the existing FY09 budget deficit and the projected \$8.85 billion shortfall over the next two fiscal years, the Democrat controlled legislature enacted a series of new and increased taxes and fees, approved some significant budget transfers and authorized new deficit borrowing. Republican Governor M. Jodi Rell already has sent a strong message to legislative leaders that she is not prepared to sign this budget document and, as of this moment, there are not enough votes in the General Assembly to override her veto. The following is a review of the revenue changes and enhancements approved by the legislature.

### Taxes

Except for revenues achieved from borrowing, by far the largest source of new funds planned in the Democrat budget document flows from new and restructured state taxes. Along with 36 other states which have raised, or are planning to raise taxes, Connecticut is supplementing spending cuts with tax increases targeting both high income households and the state's corporations.

#### Income Tax

The legislatively approved budget increases state income taxes for those with taxable incomes over \$500,000 for joint filers, \$265,000 for single filers, \$400,000 for heads of household, and \$250,000 for married couples filing separately. The following are the current and proposed tax rates:

Tax Rates		Connecticut Taxable Income			
		Married Filing Jointly		Single	
<i>Current</i>	<i>Bill</i>	<i>Over</i>	<i>But Not Over</i>	<i>Over</i>	<i>But Not Over</i>
3.0%	3.0%	\$0	\$20,000	\$0	\$10,000
5.0%	5.0%	20,000	500,000	10,000	265,000
	6.0%	500,000	600,000	265,000	318,000
	6.5%	600,000	750,000	318,000	397,500
	7.55	Over \$750,000		Over \$397,500	

Tax Rates		Head of Household		Married Filing Separately	
<i>Current</i>	<i>Bill</i>	<i>Over</i>	<i>But Not Over</i>	<i>Over</i>	<i>But Not Over</i>
3.0%	3.0%	\$0	\$16,000	\$0	\$10,000
5.0%	5.0%	16,000	400,000	10,000	250,000
	6.0%	400,000	480,000	250,000	300,000
	6.5%	480,000	600,000	300,000	375,000
	7.5%	Over \$600,000		Over \$375,000	

The new income taxes are expected to raise \$910.1 million in FY10 (18 months) and \$612.8 million in FY11.

### **Taxes on Businesses and Corporations**

The budget imposes a 25% corporate tax surcharge for income years 2009, 2010 and 2011. The surcharge applies to all companies paying a corporate tax except those owing the \$250 minimum tax.

Anticipated revenues from this surcharge are \$133.4 million in 2010, \$88.4 million in 2011 and \$40.8 million in 2012.

Additional business and corporate taxes are authorized including:

- taxing Connecticut corporations that are classified as domestic international service companies (\$50 million in each FY10 and FY11),
- taxing the sum difference for corporations that are able to file collectively or by affiliates (\$50 million each in FY10 and FY11),
- removing the domestic production activity deduction (\$27.5 million in FY11)
- restructuring the film and digital animation production and infrastructure tax credit (\$10 million in FY11 and \$15 million in FY12).

### **Cigarette and Tobacco Taxes**

The legislature approved an increase in the cigarette tax from \$2 to \$2.75 per pack, raised the wholesale tax on cigars and pipe tobacco from 20% to 27.5% and increased the tax on snuff from \$0.40 to \$0.55 per ounce (\$104.5 million in FY10 and \$95.8 million in FY11).

### **Estate Tax Surcharge**

The approved budget places a 30% surcharge on taxable estates for 2009, 2010 and 2011. The estate tax applies to taxable gifts and estates over \$2 million (\$42.7 million in FY10, \$51.2 million in FY11 and \$53.3 million in FY12).

## Borrowing

Usually the last line of defense in recessionary times, and almost universally frowned upon by economists, is state borrowing to pay for current expenditures. Nevertheless, the General Assembly popped out the state's credit card to make ends meet.

In this budget the legislature securitizes lottery revenues (\$335 million in FY11), authorizes the issuance of \$1.316 billion in Economic Recovery Notes for the next two years and transfers all the Rainy Day Fund to the General Fund (\$461.1 million in FY10 and \$920.7 million in FY11) to close the budget gap.

## Fees

Finally, the legislature approved a wide range of fee increases that hit everything from professional licenses to daycare licenses to copying and recording fees at the Secretary of the State's office (\$86.7 million in FY10 and \$58.7 million in FY11). The legislature also is imposing a \$3 fee for each motor vehicle tire sold in the state (\$6 million in FY10 and \$6 million in FY11).

If you have any questions about the issues addressed here, please feel free to contact David McQuade, Senior Government Affairs Consultant, at 860-240-6141 / [dmcquade@murthalaw.com](mailto:dmcquade@murthalaw.com), or your attorney.