

Department of Economic and Community Development (DECD). This change will allow fast-growing, early-stage companies to invest in the future economy right here in Connecticut. These tax credits for pass-through entities will be capped at an annual amount of \$25 million and entities will be limited to \$1 million in credits annually. Because the credit is available to pass-through entities, a majority of the cost of this credit will impact revenues subject to the volatility cap. To the extent the tax credit issued exceeds their tax liability, the excess amount of these tax credits for pass-through entities are refundable at 90% for biotechnology firms and 65% for all non-biotechnology firms, which would result in an increase to refunds and a potential minimal impact to General Fund operating revenues.

Working in conjunction with the hospital industry during the 2025 legislative session, the state increased funding for supplemental payments to hospitals by \$140 million and the hospital user fees paid by hospitals by \$375 million in FY 2027. The Governor’s budget proposal will reduce the tax amount by \$275 million without a corresponding reduction in supplemental payments to hospitals, thereby resulting in a net \$40 million gain to the industry compared to the FY 2026 level of taxes and supplemental payments. These changes will support the hospital industry in Connecticut while also ensuring that the state complies with revisions to Medicaid policy under P.L. 119-21 by reducing the inpatient tax rate from 6.0% to 4.1%. The following tables show the impact on stakeholders and the change between the adopted biennial budget and the Governor’s proposed budget.

Modifications to the Hospital Tax

Rebase Provider Tax				
Impact <i>(in millions of \$)</i>	Hospital Impact	State Impact GF	Federal Impact	Total
Increase Hospital Supplemental Payments	+140.0	-140.0	0	0
Federal Medicaid Revenue Impact	0	+93.8	-93.8	0
Increase Hospital Provider Tax	-100.0	+100.0	0	0
Net Impact	+40.0	+53.8	-93.8	0

Changes to Hospital Provider Tax & Payment to Hospitals			
Relative to FY 2026 - \$ in Millions			
	Adopted <u>FY 2027</u>	<u>Change</u>	Governor's Proposed <u>FY 2027</u>
Hospital Provider Tax	\$ 375.0	\$ (275.0)	\$ 100.0
Supplemental Payments to Hospitals	140.0	-	140.0
Federal Medicaid Revenue Impact ⁽¹⁾	93.8	(1.4)	92.4

⁽¹⁾ Technical change that was assumed in the January 15, 2026, consensus revenue forecast