OFFICE of the STATE COMPTROLLER

Special Examination on

H.R.1: One Big Beautiful Bill Act

Comptroller Sean Scanlon
165 Capitol Avenue
Hartford, Connecticut 06106
Telephone: (860) 702-3300

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PREFACE

On July 4, 2025, President Trump signed the "One Big, Beautiful Bill Act" (OBBBA) into law. This is a significant piece of legislation, and I have been getting a lot of questions about what its impact will be on Connecticut. This report aims to answer those questions, and to identify unanswered questions that will require further study and consideration.

It's the job of the State Comptroller to monitor both our state budget and the overall economy, and I have tried hard—as have my predecessors—to be an umpire who calls balls and strikes regardless of what team is at the plate.

To that end, we present this information to the public in a neutral format.

I personally believe this law will have both positive and negative outcomes for residents in our state, but I leave it to you the reader to evaluate the information within this report and come to your own conclusion on what its net impact will be.

Political debate about the issues that impact our lives is a healthy feature of democracy. But we must strive to agree on a common set of facts upon which we can then debate, and my hope is that this report can serve as a basis for that in the coming months and years as we experience the impact, good and bad, of this law.

Sean Scanlon
State Comptroller

INTRODUCTION

Congressional Republicans recently passed sweeping domestic policy legislation entitled the "One Big, Beautiful Bill Act" (OBBBA) that extends temporary tax cuts from the 2017 Tax Cuts and Jobs Act (TCJA), sets the State and Local Tax (SALT) deduction cap at $40,000 through 2029, and enacts much of President Trump's domestic agenda. These expensive revenue and spending changes are partly offset by large reductions to healthcare, food assistance, clean energy, and student financial aid—including the largest reductions to the social safety net in decades. Because the offsets fall short of covering the full cost, the Congressional Budget Office (CBO) projects the law will add $3.4 trillion to the national debt over ten years, worsening the U.S. long-term fiscal outlook.

This special examination of the OBBBA discusses critical parts of the law and its implications for Connecticut residents, businesses, and state government.

Some Connecticut individuals and families —particularly moderate-income seniors benefiting from a new $6,000 deduction, taxpayers aided by the higher SALT cap, and those with substantial tip or overtime income—will see beneficial tax changes as a result of OBBBA. However, most of the bill's tax cuts (which total over $4.3 trillion through 2034) simply extend provisions from the 2017 TCJA that were set to expire after 2025, including lower income tax rates, a doubled standard deduction, an expanded child tax credit, more wealth shielded from the estate tax, and the 20% qualified business income (QBI) deduction for small businesses. As a result, most Connecticut residents will not experience these changes as meaningful tax cuts.

A significant number of low-income residents in Connecticut are expected to lose eligibility for government benefits under the law and will feel the cuts acutely. Nationally, 11.8 million fewer people are projected to have health insurance in 2034 as a result, and some 22 million are projected to lose monthly help covering food costs. Benefits with large projected federal spending cuts include:

- Medicaid (called HUSKY Health in Connecticut)
- Affordable Care Act (ACA) premium-tax-credit subsidies for purchasing health insurance on the State's exchange, Access Health CT
- Supplemental Nutritional Assistance Program (SNAP), formerly known as food stamps

The law will have disparate impacts on different parts of Connecticut's economy. In general, small businesses and corporations will benefit from more favorable tax treatment, such as the permanent reinstatement of 100% bonus depreciation for qualified equipment purchases and full and immediate deductions for domestic research and development costs. However, the State's healthcare sector, clean energy industry, and higher education institutions will face new challenges. Higher interest rates, as a result of growing U.S. fiscal deficits, are expected to increase the cost of borrowing throughout the economy, raising the cost of mortgages and business loans.

Implications for Economic Growth

Economists differ on how the final bill will impact the economy overall. The non-partisan Tax Foundation expects it to increase long-run gross domestic product (GDP) for the United States by 1.2%; however, much of that benefit will go to foreigners in the form of higher interest payments on U.S. debt. Americans' incomes (as measured by long-run gross national product (GNP)) are projected to rise only 0.4% by 2034 because of the law.

Another estimate comes from the well-respected Penn Wharton Budget Model (PWBM) at the University of Pennsylvania. They estimate the bill will have little net impact on the size of the economy in the first ten years (-0.3% change to GDP in 2034), but it will significantly shrink the economy (-4.6%) in 30 years, thanks to the overwhelming negative impacts of the rising debt.

Distribution of Impacts

When it comes to winners and losers, non-partisan analysts generally agree. Most income gains will go to the wealthy, while the poorest groups of Americans will see their after-tax-and-transfers resources shrink when accounting for cuts to government benefits. According to the PWBM, the richest 10% of American households (who were already paying about 70% of federal taxes) will receive 80% of the benefits. The bottom 40% of the income distribution will see negative income impacts by 2030, taking lower benefits from SNAP, Medicaid, and ACA subsidies into account, with the bottom 10% losing $1,305 (-7.4%) of their income in 2033. The middle quintile, those earning at least $53,000 but less than $96,000, would see an average boost in resources of $1,430 in 2027, thanks to new but temporary tax benefits targeting the middle class. However, they would see virtually no difference in 2033 (-$65 on average). Those in the 95% to 99% percentiles (making roughly $400,000 to $1 million) would see the biggest percentage gains in income—a 3.5% increase ($20,790) in 2027 and a 2.7% increase in 2033.

This examination aims to highlight some of the legislation's major impacts on Connecticut, as anticipated at this early stage.

Following a summary table that describes some of the many Connecticut impacts, the report describes the **changes to the social safety net programs** and **health insurance** on the Affordable Care Act (ACA) exchange. Those changes will have big implications for the State budget and Connecticut's healthcare industry in the years ahead.

Next, it discusses major changes to **taxes** for both individuals and businesses, highlighting policies that could impact State revenues.

The report then turns to the **repeal of green energy incentives**, which could hamper the supply of new electricity at a time when demand is rising, fueled by the construction of data centers to power new artificial intelligence technologies.

We then cover some of the law's major changes to **financial aid for higher education**, a higher endowment tax that targets wealthy schools like Yale, immigration enforcement funding and a new tax on remittances, new defense spending that could benefit Connecticut's military contractors, and the impact of rising U.S. budget deficits on long-term interest rates and the State's borrowing costs.

Not all impacts of OBBBA will hit at the same time. Since the tax cuts generally kick in right away (for the 2025 tax year now in progress), the income gains for the wealthy from the higher SALT cap and estate tax thresholds, the 20% QBI deduction for pass-throughs, and favorable corporate tax policies will be felt soon. The impacts for targeted middle-income households (with tips and overtime income, or seniors) will be felt early as well but disappear after 2028. Much of the negative impacts to SNAP and Medicaid will come later, after the 2026 midterm elections.

In short, while OBBBA provides meaningful tax relief for some individuals, businesses, and families in Connecticut, it does so through adding to our already-large national deficit and through steep benefit cuts that will be felt by many low-income and middle-class residents.

The sections that follow unpack these tradeoffs in detail, offering a closer look at how the law reshapes federal support for healthcare, food security, clean energy, education, affordable housing, and state finances—and what those changes could mean for Connecticut's economy and residents in the decades ahead.

SUMMARY TABLE *Major Policy Changes in OBBBA with Connecticut Impacts*

Policy Area	OBBBA Change	Connecticut Impact
Medicaid	Imposes an 80-hour per month work requirement for the first time. Increases eligibility checks to twice per year and imposes new cost-sharing (up to $35, capped at 5% of family income, for those at or above 100% FPL) for HUSKY D enrollees. Prevents federal funding for non-abortion services provided by Planned Parenthood for one year. Prevents the implementation of Biden-era final rules. Eliminates coverage for certain legal immigrants. Reduces retroactive coverage from 3 to 1 or 2 months. Creates $50 billion rural health transformation grant program. Starting in 2028, the current "hold harmless" cap of 6% on states' provider taxes will be reduced by 0.5% each year until reaching 3.5% in 2032.	Between 100,000 and 200,000 Connecticut residents are expected to lose health insurance coverage from HUSKY over the coming years, mostly because of people otherwise eligible getting kicked off due to red tape; various legal immigrant groups will also lose coverage. HUSKY D enrollees will have to go through redetermination twice a year instead of once, and those with incomes above the federal poverty level will face new co-pays that could deter care. The State of Connecticut will likely face $20 million to $50 million in new costs (e.g., for new technology and staffing for assessing and tracking work requirement compliance and exemptions, administering co-pays for certain enrollees, more call center staff to deal with confused enrollees, more staffing to double the frequency of eligibility redeterminations). The State could potentially cover the federal share of Planned Parenthood services for an estimated $5 million (preliminary estimate). The legislation does provide some implementing funding for states. The State share of benefit costs could drop by $50 to $100 million per year due to lower enrollment. The State will receive less federal matching funding due to both lower enrollment and the progressively lower cap on provider taxes. KFF estimates Connecticut will lose $13 billion (-18%) in federal funding for Medicaid over the next 10 years, with the funding loss expected to increase over time until 2032. Less federal funding will likely require the State to cut optional eligibility/benefits or raise other revenue (e.g., tax increases). Connecticut's healthcare system could see major impacts, via fewer patients and more uncompensated care, putting providers who serve large Medicaid populations at risk and potentially leading to cost shifting to commercial health insurance. The Rural Health Transformation Fund may provide modest provider support.
ACA Health Insurance	Requires new pre-enrollment verifications for premium tax credit eligibility that effectively end auto-renewal processes in 2028. Excludes certain types of immigrants from receiving premium tax credits on the ACA Marketplaces. Eliminates caps on IRS repayments for misstated income.	New pre-enrollment processes will make it harder to renew coverage with financial assistance. About 16,000 lawfully present immigrants currently receiving premium tax credits will lose them. Low-income households that experience a large swing in income from enrollment to when they file their taxes will have to pay back full amount of excess advance premium tax credits. Access Health CT projects they could lose one third of their 150,000 enrollees due to OBBBA and other federal changes in 2026.
Extends 2017 Tax Cuts and Jobs Act (TCJA)	Permanently enshrines most of Trump's 2017 tax cuts set to expire.	Residents and businesses will see a continuation of the lower rates, higher standard deduction, and most other tax changes passed in President Trump's first term. Avoids a tax hike for most but will not feel like a tax cut.

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Policy Area	OBBBA Change	Connecticut Impact
SNAP	Extends existing work requirement max age from 55 to 65, adds parents of children over 14 years old and previously exempt groups. Excludes most immigrants that aren't green card holders from SNAP. Limits Heat & Eat program to elderly/disabled. Limits future adjustments to benefits to inflation (CPI). Requires state governments to pay 75% instead of 50% of administrative costs and 0%-15% of benefit costs (for the first time ever) depending on their payment error rate.	Some current SNAP recipients will be excluded from benefits: certain immigrant categories and those not meeting new work requirements (older residents, those with older children, veterans, former foster youth and those experiencing homelessness). Benefits will fall for others. Prevents benefit increases based on changing "basket of goods." The State budget will have to cover higher costs for SNAP (est. $84 million to $173 million per year) or provide fewer benefits to reduce costs.
New Deductions for Tips, Overtime, Auto Loan Interest	Creates personal income tax deductions, including for non-itemizers, for 2025 through 2028 only on tips (up to $25,000), overtime (up to $12,500), and interest paid on auto loans for new U.S.-assembled vehicles (up to $10,000); all have income limits.	Tax savings for moderate-income workers with substantial tip and overtime income and eligible loan payments; savings could extend to state income taxes depending on how the changes are codified (potentially giving those groups extra tax savings and resulting in an income tax revenue loss for the State). Firms in tipped industries are likely to find it easier to hire.
SALT Deduction	Raises federal SALT cap from $10,000 to $40,000 through 2029, starts phasing back to $10,000 above $500,000 income for couples.	Major benefit for higher-income Connecticut taxpayers that could boost spending in the state. It could reduce State tax revenue indirectly (up to $50 million per year) if fewer businesses organized as "pass-throughs" pay Connecticut's pass-through entity tax (PET). PET is the workaround the State created after the first SALT cap passed, so those businesses could continue deducting their state and local taxes.
Estate & Gift Tax	Preserves the TCJA's doubled estate and gift tax exemption and raises it further – in 2026 the estate tax exclusion would jump to $15 million per individual ($30 million for a couple) and then index with inflation.	Benefits wealthy residents who can pass more money to their children tax-free. Creates a revenue loss for Connecticut (estimated at $57 million annually) because the higher exemption expiration was built into current revenue forecasts.
Small Business Tax (QBI, Section 199A)	Makes 20% pass-through deduction permanent, expands the income phase-in range to $75,000 (single) and $150,000 (joint returns)	With thousands of CT small businesses structured as pass-throughs, continuing the 20% deduction is a big benefit to these businesses. The State can continue its current, optional pass-through entity tax.

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Policy Area	OBBBA Change	Connecticut Impact
Bonus Depreciation / R&D Expensing	Permanently allows for 100% bonus depreciation for property acquired and placed in service on or after Jan. 19, 2025. Permanently allows taxpayers to immediately deduct domestic research or experimental expenditures paid or incurred starting in 2025, with retroactive relief for small businesses.	Benefits Connecticut businesses by allowing them to expense full cost of investments in the first year, reducing upfront tax costs on new investments. R&D expensing especially benefits Connecticut's biotech, life sciences and advanced manufacturing sectors. Should accelerate or stimulate investment helping the State's economy to grow faster, possibly increasing State revenues as a result.
Clean Energy Credits	Rapidly phases-out of solar/wind, electric vehicle (EV) credits, but retains others.	Residents/businesses interested in getting solar, energy efficiency upgrades and electric vehicles will lose out on big discounts, likely slowing adoption. Large project incentives for solar and wind phase out in 2027. State's clean energy sector (~46,000 jobs in 2023) could see job losses; counteracts State's goal of achieving net-zero greenhouse gas emissions by 2050. Other clean energy types (e.g., nuclear, fuel cell, geothermal) benefit.
Federal Student Loans	Major changes to federal student loan repayment options (only two plans for new borrowers) including phasing out unemployment and economic hardship deferments and forgiveness after 30 years instead of 20-25 currently; allows defaulted loans to be rehabilitated twice (instead of once currently); eliminates GradPlus loans; creates new caps on student and parent federal borrowing; school accountability - colleges must improve graduates' earnings to participate in federal loan system based on "do no harm" standard; establishes Workforce Pell Grants.	Could restrict access to more expensive degree programs for students (e.g., law, medicine) or increase families' reliance on higher-cost private loans if program costs exceed borrowing limits. New repayment plans could be beneficial for some but cost more for others. Will impact many of Connecticut's nearly 550,000 borrowers that may need to switch plans in 2028. New borrowers will have to wait longer for loan forgiveness under the new Repayment Assistance Plan. Programs whose graduates have low earnings (like master's degrees for social work) could face trouble from accountability requirements. UConn Medical and Law Schools, among other institutions, could see enrollment quality decline in post-bachelor's programs. Community colleges can serve more students in high-demand, short-term credential programs thanks to new financial aid.
Endowment Tax	Increases endowment tax from 1.4% to a tiered rate of up to 8% on investment returns for large university endowments with enrollment over 3,000.	Increased endowment tax is likely to hit Yale University hard, with potential employment consequences for the New Haven area.
New Defense Spending	$150 billion added to defense budget.	Defense contractors are major employers in Connecticut. Some could benefit from shipbuilding focus and spending on Golden Dome missile defense system. Coast Guard Academy in New London could get new funding that boosts local spending.

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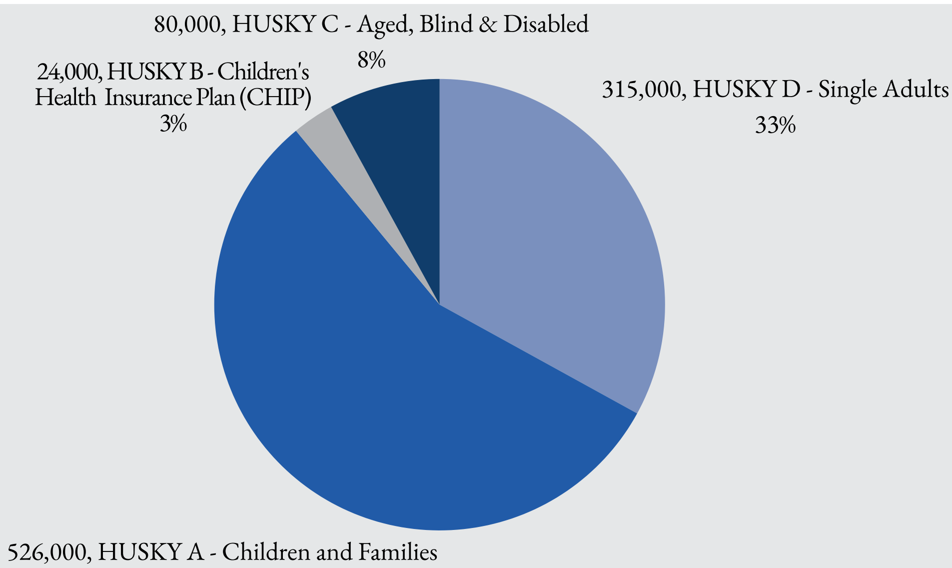
Policy Area	OBBBA Change	Connecticut Impact
Immigration Enforcement & Remittance Tax	Adds funds for border wall, immigration enforcement, detention centers, and state partnerships with the federal government; International money transfers will face 1% tax (unless made from a bank account or with a U.S.-issued credit or debit card) .	State's Trust Act precludes accepting funding tied to state and local law enforcement assisting with federal immigration efforts so State unlikely to benefit from immigration funding; ICE activity nationwide expected to ramp up with additional funding; Immigrant community will see new cost to send remittances to family overseas.
Affordable Housing Funding	In the Low-Income Housing Tax Credit (LIHTC) program, permanently increases the state allocation ceiling by 12% and lowers the bond-financing threshold from 50% to 25% for projects financed by bonds starting in 2026.	State has a shortage of units affordable to low-income renters. Connecticut Housing Finance Authority (CHFA) will have more public funds and flexibility to subsidize the creation of new, affordable rental housing in Connecticut. The State's allocation for 9% LIHTC was about $11 million in 2025. Based on that, about $12.3 million, $1.3 million more, would be expected in 2026. The bond-financing threshold change gives CHFA flexibility to provide the 4% LIHTC awards to more projects.
Debt & Deficit	Raises federal debt ceiling by $5 trillion; adds an estimated $3.4 trillion to the deficit over 10 years.	Avoids crisis from U.S. defaulting on its debt in August; growing deficits are likely to push up long-term interest rates for government debt, increasing borrowing costs for residents, businesses, and the State, slowing economic growth.
Note: this document only discusses a selection of the legislation's many provisions and is not intended to be exhaustive. This document is meant for information purposes only and does not constitute any official opinions of the State of Connecticut.		

Medicaid: *New Work Requirements and Less Federal Funding*

OBBBA includes an estimated $1 trillion in cuts to federal Medicaid spending over the 2025-2034 decade with over 11.8 million fewer people projected to have health insurance coverage by 2034 nationwide under the bill, according to the non-partisan Congressional Budget Office (CBO).[1]

Medicaid, known as HUSKY Health in Connecticut, is the health insurance program for low-income Americans that is jointly funded by the federal government and states. In Connecticut, it's how more than 25% of state residents get healthcare.

Connecticut Medicaid Enrollees



Source: February 2025 Enrollment (rounded), Department of Social Services.

HUSKY is Medicaid in Connecticut

As of February 2025, there were about 945,000 enrollees in Connecticut's Medicaid program—more than 25% of state residents. According to KFF, Medicaid covers 38% of children, 19% of working-age adults, and 68% of nursing home residents in the state.

The federal government reimburses the State for about 63% of the program's overall costs, with different reimbursement rates applying for different types of costs and enrollees. Thanks to the 2010 Affordable Care Act (ACA), states that expanded eligibility to childless adults with incomes up to 138% of the federal poverty level now receive a 90% reimbursement rate for those enrollees' costs. Connecticut is among the 40 states that **expanded Medicaid coverage,** with the program known as HUSKY D.

The new legislation makes major changes to Medicaid that are **projected to result in 103,000 to 171,000 Connecticut residents losing access to HUSKY Health**, based on KFF estimates that allocate the CBO-estimated national impact to specific states. Much of those losses will result from otherwise eligible people getting kicked off the program due to red tape. The law will also restrict funding for the State's portion of Medicaid costs through a new lower cap on healthcare provider taxes. KFF estimates **Connecticut will see about $13 billion (18%) less in federal reimbursements for Medicaid over the next decade.** Lower spending on Medicaid patients will ripple through the healthcare industry, Connecticut's largest industry by employment.

Work Requirement. For the first time, OBBBA institutes a "community engagement requirement" for Medicaid eligibility, satisfied for able-bodied adults aged 19 to 64 by 80 hours of work, education, or volunteering in the month prior to initial application and each redetermination. States are required to start enforcing the requirement by **December 31, 2026,** but can delay it through a waiver to as late as December 31, 2028, at the Health and Human Services (HHS) Secretary's discretion, provided the state has shown good faith efforts to implement it.

[1]*Includes the impact of changes to ACA Marketplace coverage as well as Medicaid cuts.*

Medicaid: *New Work Requirements and Less Federal Funding*

While much of the population's health insurance is tied to employment, Medicaid eligibility has not been, except in a few states that have tried it. That means the social safety net will now be considerably weaker. Most adults on Medicaid are already working. In Connecticut, 73% of adults on Medicaid are working, according to KFF, but proving that will be a hurdle. Many people who are meeting the requirement are projected to lose coverage due to the new compliance paperwork. Many of those not working, for example, due to caregiving responsibilities or a disability, would qualify for an exemption, but even significant numbers of those who should be exempt are expected to be disenrolled due to the new bureaucracy involved with proving it.

Arkansas tried work requirements in its Medicaid program in 2018 and saw no significant change in employment but a 25% drop in enrollment among the targeted population, despite most of those individuals either meeting the requirements or qualifying for an exemption, according to KFF.

The CBO projected that 18.5 million people across the country would be subject to the new requirement in the original House version of the bill, and assumed 26% of that group would become uninsured as a result of the provision.[2] In addition to losing Medicaid coverage, the law also prohibits that group from receiving premium tax credits for coverage on the ACA Marketplaces (in Connecticut that's Access Health CT), meaning the cost of their insurance could rise from nothing to tens of thousands of dollars (a huge proportion of their very low income) for failure to respond to mailed notices or fill out all the necessary forms. The State of Connecticut will work to raise awareness to prevent eligible people from losing coverage, but the new law is clear that states do not have a choice about enforcing the new work requirements.

Exempt from Medicaid Work Requirements

- Pregnant and postpartum individuals
- Foster and former foster youth
- Indians/Urban Indians
- Veterans with rated disabilities
- Medically frail individuals (e.g. blind, disabled, children with serious emotional disturbances, adults with serious mental illness, chronic substant use disorders, serious and complex medical conditions)
- Individuals with alcohol use disorder and substance use disorder
- Individuals already meeting work requirements for SNAP and/or TANF
- Parents and caregivers of a dependent child aged 13 and under or an individual with a disability
- Individuals recently released from incarceration for 90 days post-release
- Individuals with a short-term hardship waiver

Non-citizen eligibility changes. Starting October 1, 2026, individuals such as refugees, asylees, trafficking victims, humanitarian parolees, and other non-citizens who currently qualify for HUSKY Health will no longer be eligible due to their immigration status. The law limits immigrant eligibility to legal permanent residents, Cuban/Haitian entrants, and Compacts of Free Association (COFA) citizens (from small Pacific islands), once the necessary immigrant waiting period (typically 5 years) has elapsed. These immigrant groups are also being excluded from ACA Marketplace premium tax credits, putting affordable health coverage out of reach for these groups who are legally in the United States.

More frequent redeterminations—every 6 months for HUSKY D enrollees—will also cause some eligible beneficiaries to become disenrolled for failure to jump through all the hoops, as well as likely increasing the State's administrative costs for staff and technology. Enrollees above the federal poverty level ($26,650 in 2025 for a family of 3) would also have to pay co-pays (up to $35) for appointments, which will likely deter people from getting needed care. Certain services are exempt from the new co-pay requirement, including primary care, prenatal care, pediatric care, services provided by a federally qualified health center, and emergency care.

[2] *The final bill applies the requirement to more parents (including those with kids aged 14-17), which will likely increase the number of people losing coverage from that provision compared to the CBO's earlier estimate..*

Medicaid: *New Work Requirements and Less Federal Funding*

The law also prohibits HHS from implementing, administering or enforcing final rules issued under the Biden administration through 2034, including expanding automatic enrollment into Medicare Savings Programs and Medicaid, simplifying eligibility and enrollment for Medicaid and CHIP (for children), and the final staffing rule for nursing facilities.

OBBBA eliminates federal Medicaid reimbursements for non-abortion services provided by Planned Parenthood for one year after enactment.[3] To lose all Medicaid patients would be a huge blow for the organization. The State may be able to cover the federal share for those services for around $5 million, according to a very preliminary Department of Social Services (DSS) estimate that is subject to revision, should policymakers decide to do that.

Provider Taxes. States frequently use provider taxes to help fund their share of Medicaid costs. (That share typically ranges between 10% and 50% in Connecticut.) It works like this: states collect special provider taxes on hospitals and other healthcare facilities. Connecticut collected about $912.6 million from these organizations in fiscal year 2025 based on the latest revenue projections. States then use that revenue to make payments on behalf of Medicaid patients to hospitals and other providers, which is matched (at a rate of dollar-for-dollar or better) by the federal government. So, states pull down additional matching dollars from the federal government by using provider taxes to fund higher payments to hospitals. Both the hospitals and the states can end up better off under this scenario than they would under lower state payments without the revenue from provider taxes. More federal funding for Medicaid means the State can reimburse providers at a rate closer to the cost of care or use less of the State's other revenue to cover the program's costs.

The law cuts federal funding by reducing the cap on how much provider taxes states can charge. The House bill would have frozen state provider taxes at their current rates upon the bill's enactment, which elected officials planned for by maximizing the current threshold in Connecticut's recently enacted biennial budget. The Senate version that passed, however, reduces rather than freezes hospital provider taxes, generating larger savings for the federal government and a funding loss for states. The law reduces the current 6% "safe harbor" cap on hospital provider taxes to 5.5% in 2028 and further reduces it by 0.5% per year until settling at 3.5% for 2032 and beyond.

The Connecticut budget adopted last month increased provider taxes in fiscal year 2027 by $375 million over the fiscal year 2026 level, as the former hospital settlement that governed provider tax amounts and state supplemental payments ends in fiscal year 2026. The amount providers will ultimately pay is still being negotiated; however, OBBBA limits how much revenue the State's General Fund could receive from hospital provider taxes after October 1, 2028. This is expected to result in less federal funding for the State's Medicaid program in future years. The annual stepdown could be substantial, in the tens of millions of additional dollars or more being cut off each year. The State is awaiting federal guidance to be able to estimate the impact and determine next steps.

Preliminarily, DSS estimates a $50 to $100 million decline in the State's cost share for Medicaid due to 100,000 to 200,000 people losing Medicaid coverage from the law, as well as $20 to $50 million in new administrative costs for the State related to new systems and operational work.

Meanwhile those on Medicaid will see more red tape, with roughly 3% to 5% of the State's population projected to lose their Medicaid coverage in the years to come. As funding for Medicaid falls, policymakers will have to make difficult choices about which goals will be prioritized.

[3] *Federal funding already cannot be used to pay for abortion care except in very limited circumstances under the Hyde Amendment.*

Obamacare Health Insurance: *More Paperwork and Higher Premiums*

For the 150,000 or so people in Connecticut who buy health insurance through Connecticut's ACA health insurance marketplace, Access Health CT (AHCT), the OBBBA means more paperwork, and **it doesn't stop Obamacare plans from getting a lot more expensive for about 9 out of 10 enrollees in 2026.** AHCT estimates that the bill, along with Congress's failure to extend the enhanced premium subsidies that expire at the end of 2025 and new regulations, **will result in about a third of their consumers becoming uninsured by 2034.**

The law requires new pre-enrollment verifications for premium tax credit eligibility that effectively end auto-renewal processes now in place for most consumers, starting in 2028. Currently, enrollees whose information is verified by AHCT using trusted sources of external data (e.g., IRS) have 90 days after enrollment to finish uploading all verification paperwork and can receive advance premium tax credits (APTC) during that time.

OBBBA also exposes consumers to large penalties if they accept larger APTC during the year than their total annual income warrants—for example because they got a new job or made a mistake on their enrollment paperwork. Rules currently in effect limit repayments to the IRS for those who are low-income. Separately from OBBBA, new federal regulations will also shorten the period to sign up for Marketplace coverage by cutting the length of open enrollment nearly in half.

Premiums for most enrollees are set to rise dramatically in 2026. That's because the bill fails to extend enhanced federal subsidies that were added by the American Rescue Plan Act (ARPA) in 2021, which end in 2025. CBO estimates that the expiration of the expanded premium tax credits will result in 4.2 million fewer people nationally having health insurance in 2034. Some of those becoming uninsured will be middle-class Connecticut individuals and families who decide the huge price increase for insurance next year just isn't worth it.

While the end of the enhanced subsidies is not directly tied to the bill, the omission of an extension means that marketplace plan costs will rise dramatically beginning in 2026, unless Congress acts again. The impact is most pronounced for the 21% of Connecticut exchange enrollees with incomes above 400% FPL (that's income of at least $81,760 for a family of 2 in 2025), since they will lose all access to subsidies in 2026. This higher-income group has many enrollees aged 55-64, who face the highest premium costs and make up the largest cohort of Marketplace enrollees nationwide. ARPA capped premium costs at 8.5% of household income for that group, providing subsidies to fill the gap between actual premiums and that amount.

For those on Covered Connecticut, the state's program for providing free health insurance to those up to 175% FPL, the loss of enhanced federal subsidies will be borne by the State with an estimated annual budget impact of $32 million. About half of that cost will hit in the current fiscal year ending June 30, 2026.

Starting in 2027, the OBBBA will exclude many lawfully present immigrants from federal benefits, including Marketplace subsidies. The provision removes premium support for about 11,000 non-citizen enrollees currently on AHCT.

The bill also excludes green card holders with incomes below 100% FPL—who face a 5-year residency waiting period to become eligible for Medicaid but can currently receive subsidized coverage on marketplaces—from enrolling through the exchanges at all. The 4,855 legal residents currently enrolled through AHCT with qualifying incomes but not yet eligible for Medicaid will not be eligible for either beginning January 1, 2026.

Wider Impacts on Connecticut's Healthcare Industry

Connecticut's healthcare industry is likely to feel the impact of lower Medicaid enrollment through fewer patients seeking care and more being unable to pay when they do. A **study** by the Robert Wood Johnson Foundation and Urban Institute found that Connecticut is likely to see healthcare spending through 2034 fall by $8.5 billion, as a result of OBBBA, including $3.3 billion less spending at hospitals. Meanwhile, uncompensated care sought by those becoming uninsured through the bill is expected to total $2.2 billion over the same period.

Those figures rise if you include the tens of thousands of people expected to drop their ACA Marketplace coverage when plan costs spike for most people in 2026 (due to the end of enhanced subsidies and immigrant exclusions). Not included in that study, but also likely to impact healthcare spending in Connecticut, is lower state spending that results from the bill's new caps on provider taxes and the impacts of required cuts to Medicare that are set to be triggered by the deficit increase from the bill.

Hospitals, physician offices, and other healthcare providers will see lower revenue and higher uncompensated care as a result of fewer Connecticut residents having health insurance. As healthcare is the top industry in terms of jobs in the state, lower healthcare expenditures could translate to significant job losses that will ripple throughout the economy. Yale New Haven Health System just announced voluntary retirement packages for senior employees, in perhaps a sign of the restructuring to come.

The law does include a 5-year, $50 billion "Rural Hospital Transformation Fund," in acknowledgement that Medicaid cuts will threaten many hospitals' financial viability, but it's not clear how much of that funding will flow to Connecticut providers. Since half of the funding will be distributed amongst all states that apply, Connecticut should receive at least some funding, which would be distributed over five years.

Indirect Medicare Cuts. OBBBA is expected to trigger sequestration under the Statutory Pay-As-You-Go Act of 2010 (S-PAYGO) for Medicare, the federal health insurance program for people who are disabled or over age 65. If Congress does not act to waive it (as it has in the past), S-PAYGO would require automatic cuts to offset the bill's deficit impact. That includes a 4% cut to Medicare, which CBO projects at $45 billion for fiscal year 2026 and roughly $490 billion over the 2027 to 2034 period. Those cuts to Medicare would likely take the form of lower reimbursements and payments to providers rather than cuts experienced by beneficiaries. There is already a 2.0% sequestration cut for providers currently in place.

Higher health insurance costs for everyone else. With pressure on their margins from Medicaid and potentially Medicare spending cuts, doctors, hospitals, and other healthcare providers are likely to seek higher reimbursements from other payers to make up for lost revenue. Their success will depend on their market power, with major health systems having more leverage. If providers succeed in offsetting lost revenue through higher commercial rates, that means businesses and families in Connecticut with employer-based coverage will pay higher prices for health insurance premiums.

Immigrants that paid into Medicare will lose coverage.

Effective immediately, certain types of lawfully present immigrants who would have qualified for Medicare (a program that you can only access after having paid into it for a certain number of years) will now be barred. This includes individuals with Temporary Protected Status (TPS), refugees, asylees, trafficking survivors, domestic violence survivors, and other statuses under which many immigrants live, work, and contribute to Social Security and Medicare for decades.

Those from these groups currently enrolled in Medicare will have an 18-month transition period until their coverage is terminated. As commercial insurance for these elderly and disabled legal immigrants is likely to be cost-prohibitive, these residents are likely to become uninsured, putting necessary care for chronic and acute health issues out of reach.

Wider Impacts on Connecticut's Healthcare Industry

Other State Impacts. The law could also put pressure on the State's costs for the state employee and retiree health plans, which cover over 200,000 Connecticut residents. 0BBBA makes it more challenging for Comptroller Scanlon to negotiate savings for the health plans based on provider reimbursements, as recent legislation set out for him to do.

The State's **John Dempsey Hospital**, part of UConn Health, will be one of the many hospitals impacted. Aside from a potentially large increase in charity care and bad debt, one concern is that decreases in the Medicaid population could put additional strain on 340B certification thresholds, potentially disqualifying UConn Health from continuing to purchase covered outpatient drugs at significantly discounted 340B prices. According to the Office of Fiscal Analysis, UConn Health saved $13 million in fiscal year 2022 through the program. Financial difficulties for UConn Health could require additional public funding.

SNAP: *Stricter Eligibility and Shifting Costs to the States*

Another place the OBBBA makes cuts to federal spending is for the Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamps. It does this both by restricting benefits in the near term and by shifting some costs to the states starting in a few years. Currently, the states administer assistance on behalf of the federal government, covering half of the administrative costs.

Benefit restrictions: The bill would require more of the State's nearly 400,000 SNAP participants (11% of the population) to meet work requirements. Currently, adults up to age 55 and not living with a dependent child must work an average of 20 hours per week or can only receive 3 months of SNAP in 3 years. The bill would raise the cutoff to age 64 and define "dependents" more narrowly: only children under age 14 would exempt an adult from the time limit. In other words, a 63-year-old or a parent of a 15-year-old child would now face the general work requirement for "able-bodied adults without dependents" to receive food aid. The law limits states' ability to waive eligibility rules in high-unemployment areas and removes work requirement exemptions for veterans, the homeless, and young adults who aged out of foster care, adding work requirements for those vulnerable groups.

OBBBA also mandates that any future increases to SNAP benefit formulas be cost-neutral (preventing expansions like the recent Thrifty Food Plan update), and prevents an internet expenses deduction from going into effect that would have increased benefits for some recipients.

Limited access to SNAP-LIHEAP "Heat & Eat" connection. The Connecticut Energy Assistance Program (LIHEAP) provides financial assistance with heating costs for low-income households during Connecticut's cold winters. Certain SNAP recipients can receive larger amounts of assistance when receiving this heat-related financial aid (Heat & Eat). The law limits that type of extra benefit to only households with elderly or disabled members, meaning many Connecticut families will lose it. President Trump's FY 2026 budget proposal would eliminate funding for LIHEAP entirely, so even those left to benefit under OBBBA could see less help if Trump's federal appropriations proposal becomes law.

Non-citizen eligibility changes. OBBBA limits SNAP eligibility to U.S. citizens, U.S. nationals (e.g., from American Samoa), lawful permanent residents (with specified exceptions), certain Cuban nationals, and individuals lawfully residing from certain Pacific Islands—that means other types of legal immigrants that currently receive SNAP, such as refugees, asylees, trafficking victims,

SNAP-Ed

The law also eliminates the SNAP Nutrition Education and Obesity Prevention Grant Program (known as SNAP-Ed) after FY 2025. UConn and other grantees in Connecticut have used that funding to provide education around healthy eating and movement to SNAP recipients since 1994.

SNAP: *Stricter Eligibility and Shifting Costs to the States*

humanitarian parolees, and more will no longer be eligible due to their immigration status. The timing of this change is currently unclear, according to DSS.

New state costs. For the first time ever, states will have to cover part of SNAP benefit costs beginning in 2028 if their past payment error rates exceed certain thresholds. Payment error rates measure the accuracy of a state's eligibility and benefit determinations, including both underpayments and overpayments. Most states' rates are currently above OBBBA's new 6% threshold that requires state cost-sharing. By 2028, states must chip in at least 5% of benefit costs if their payment error rate exceeds 6%. That benefit cost-share rises to 10% for states with an error rate of 8% but less than 10%, and to 15% cost-sharing for a 10% or greater error rate. For fiscal year 2028, a state may elect either the fiscal year 2025 or 2026 error rate; starting in fiscal year 2029, they must use the payment error rate that is three fiscal years prior.

Based on Connecticut's 2023 error rate of 8.9%, Connecticut's cost-share would be 10%. The State's error rate was a little over 10% in 2024, meaning the 15% share would apply if that were the base year.

The policy change is significant as SNAP benefits have always been 100% federally funded since the program began. In 2024, the State distributed an average of $73.7 million per month ($884.9 million annually). **Using the 2023 error rate share, that would put Connecticut on the hook for about $88.5 million annually** toward benefits to maintain current eligibility and benefit levels. DSS preliminarily estimates that the cost to the State for benefits would range between $44 million and $133 million annually.

Starting in federal fiscal year 2027, the law also increases states' share of the administrative costs for the program from 50% to 75%. **That would add another $39.4 million annual cost to the State's budget** based on fiscal year 2024 amounts. In total, using the $88.5 million benefit cost figure above, those new costs would amount to $127.9 million annually for the State to fund based on 2024 spending and 2023 error rate; however, the actual amounts will depend on both the error rate and enrollment. Connecticut's obligation could be lower if the State lowers its payment error rate or if enrollment falls. It could also be considerably higher. Costs could rise sharply if either enrollment surged (for example, due to a recession increasing the number of people eligible) or if the error rate increased to put the state into a higher cost-sharing tier.

Because SNAP is an entitlement program, **costs generally rise during recessions** when more people are out of work and qualify for benefits. That's a problem for states, including Connecticut, that must balance their budgets, since the State would have to pay more for SNAP when revenues are falling at the same time.

Economic Effects. Reduced food assistance benefits for Connecticut families will also impact the State's economy through lower spending. Since families with incomes low enough to qualify for SNAP typically spend nearly all their income each month on necessities, removing those benefit payments will likely translate directly to fewer dollars spent at Connecticut stores, with knock-on effects for industries that serve low-income households.

Tax Changes: *Continuation of 2017 Tax Cuts and Some New Ones*

Now to the centerpiece of the bill: tax cuts. During President Trump's first term in office, his signature piece of legislation was the **2017 Tax Cuts and Jobs Act (TCJA)**, which lowered corporate tax rates and provided personal income tax relief for most taxpayers as part of a major tax overhaul. But much of that relief, especially for individuals, was temporary, lasting only through 2025. As a result, much of the cost of the OBBBA is to either restore or continue temporary policies from TCJA that were set to end, such as the higher standard deduction and lower income tax rates, as well as business provisions like the 20% qualified business income (QBI) deduction for pass-throughs. Before OBBBA became law on July 4th of this year, those policies would have soon expired.

While Connecticut residents will be glad their taxes aren't going up, it does mean that **many people won't see much of an impact on their federal income taxes under OBBBA compared to what they paid last year.** But there are a few exceptions to that.

Key Change for Connecticut: Higher SALT Cap. One big exception is the increase in the State and Local Tax (SALT) deduction cap to $40,000 (starting to phase down towards $10,000 for joint filers with incomes above $500,000), which will result in many comfortable-to-affluent Connecticut households saving thousands on their federal income taxes compared to the current $10,000 cap.[4] Some of those savings will be spent or invested in Connecticut, contributing to the State's economic growth.

The SALT deduction allows taxpayers to deduct taxes paid to state and local governments, lowering their income subject to federal income tax. SALT can include property, income, and/or sales taxes paid to states or municipalities.

[4]Technically, this provision yields federal savings in 2026 and beyond compared to a "current law" baseline, because the $10,000 cap was set to expire after 2025. That would have allowed taxpayers to deduct an unlimited amount of state and local taxes in 2026 and beyond.

Key Individual Tax Changes

- Makes permanent the 2017 TCJA individual tax rates (10%, 12%, 22%, 24%, 32%, 35% and 37%)
- Makes permanent the near doubling of the standard deduction. For 2025, the standard deduction increases to $15,750 for single filers, $23,625 for heads of households and $31,500 for joint filers, indexed for inflation
- Makes permanent the elimination of personal exemptions
- Permanently increases the child tax credit to $2,200, indexed for inflation
- Temporarily increases the limit on the deduction for state and local taxes (the SALT cap) to $40,000, with a 1% increase each year through 2029, after which the $10,000 limit will return
- Makes permanent the TCJA's increased individual alternative minimum tax (AMT) exemption amounts
- Permanently increases the federal gift and estate tax exemption amount to $15 million for individuals and $30 million for married couples beginning in 2026, indexed for inflation
- Permanently lowers the mortgage debt limit to $750,000 ($375,000 separate filers) and reinstates deduction of mortgage insurance premiums
- Expands the allowable expenses that can be paid with tax-free Section 529 plan distributions
- Establishes tax-favored "Trump Accounts," which will provide eligible newborns with $1,000 in seed money, beginning in 2026
- Makes the adoption tax credit partially refundable up to $5,000, indexed for inflation (no carryforwards allowed)
- Creates new temporary deductions for tip income, overtime income, seniors, and auto loan interest on new U.S. assembled vehicles, for 2025-2028
- Creates a permanent charitable contribution deduction for non-itemizers of up to $1,000 for single filers and $2,000 for joint filers, beginning in 2026
- Imposes a 0.5% floor on charitable contributions for itemizers, beginning in 2026
- Replaces the Pease limitation with a 35% maximum for itemized deductions for those in the highest income tax bracket (37%)

Tax Changes: *Continuation of 2017 Tax Cuts and Some New Ones*

Connecticut will be one of the most impacted states from changes to SALT. In 2017, before the new $10,000 cap from TCJA went into effect, 41.7% of Connecticut returns claimed the SALT deduction, in an average amount of $20,905, according to IRS data compiled by USA Facts.

Along with creating the $10,000 cap on a previously unlimited deduction, the TCJA doubled the standard deduction, so that it no longer made sense for most people to itemize. (You cannot take both the standard deduction and the SALT deduction.) In 2022, only 11.4% of Connecticut returns claimed the SALT deduction, in an average amount of $9,309.

While the share of taxpayers itemizing and claiming the SALT deduction has fallen dramatically, the average amount of $9,309 suggests that many of those who do claim it are maxing out the $10,000 limit—and therefore itemizing taxpayers in Connecticut stand to gain a lot from the cap increasing. OBBBA raises the cap to $40,000 for 2025 (and 1% more each year through 2029), returning it to $10,000 again in 2030 and on. The higher cap is reduced (but not below $10,000) by 30% for the amount that a couple's modified AGI exceeds $500,000 on joint returns, so the extra cap room is fully phased out for AGI of $600,000 and above.

Niche Savings based on Campaign Promises. Middle-income households in groups targeted by the President's campaign promises, like "no tax on tips," "no tax on overtime," and "no tax on Social Security," could also see noticeable relief for the four years of 2025 through 2028. The law introduces several temporary federal income tax deductions available regardless of whether you claim the standard deduction or not, which reduce a tax filer's income subject to the federal income tax.

Selection of New Individual Tax Deductions for 2025-2028

New Deduction	Amount	Phase Out Begins
Reported Tip Income in Traditionally Tipped Industries	Up to $25,000	$150,000 single, $300,000 joint
Qualified Overtime Income	Up to $12,500 (single) or $25,000 (joint)	$150,000 single, $300,000 joint
Qualified passenger vehicle loan interest on the purchase of certain new U.S.-assembled vehicles	Up to $10,000	$100,000 single, $200,000 joint
Senior Bonus (in lieu of "no tax on Social Security")	$6,000 per 65 or older taxpayer	$75,000 single, $150,000 joint (with full phase out at $250,000 for joint returns)

As a result of these new deductions, people with substantial tip income in traditionally tipped occupations (e.g. servers, bar tenders and hairdressers), those with significant overtime earnings (e.g., police, nurses, retail and manufacturing workers), and those with car payments on new domestic vehicles purchased in 2025 or later could see a significant tax cut through 2028 under the law. The senior bonus deduction will be a boon for a small slice of older taxpayers with moderate incomes, with a couple both eligible for it reducing their taxable income by $12,000.

However, **these deductions only benefit taxpayers who earn enough to owe federal taxes.** A tax deduction reduces your taxable income, not your tax bill directly—and it only helps if you owe taxes. The new policies won't benefit low-

Car Loan Interest Tax Break

If you buy a car in 2025 through 2028 that was assembled in the U.S., you can likely deduct the interest paid on your car loan (up to $10,000) from your income taxes, even if you take the standard deduction. The benefit phases out above $100,000 AGI ($200,000 joint). The deduction is limited to loan interest on new vehicles, skewing the benefit towards families that can afford to buy something new. The typical tax savings would be a **few hundred dollars.**

Tax Changes: *Continuation of 2017 Tax Cuts and Some New Ones*

income households that earn less than the standard deduction (for 2025: $15,750 single/$23,625 head of household/$31,500 joint).

Since they phase out for higher incomes and don't benefit those with too little tax liability to offset, these temporary provisions will benefit select middle-income households.

Connecticut tax implications. While the first three new deductions in the table above are referred to as "above-the-line" deductions, including in the official bill summary, whether or not they reduce filers' federal adjusted gross income (AGI) is an important question in Connecticut. That's because the State's personal income tax uses federal AGI as its starting point. If the new deductions are codified by the IRS as "above-the-line," they will effectively reduce those taxpayers' Connecticut income tax liabilities as well, increasing the savings for taxpayers and reducing tax revenue for the State.

However, certain State tax analysts expect the new deductions to be codified as **"between-the-lines" deductions,** which will reduce federal taxable income but not federal AGI. If that is the case, taxpayers claiming the deductions for tips, overtime income, and auto loan interest will not benefit from those deductions on their state income taxes, and the State will not see a sizeable annual revenue loss related to them.

Child tax credit. The law increases the non-refundable portion of the child tax credit by $200 to $2,200 per qualifying child for 2025, with that amount indexed for inflation going forward. The law limits eligibility for the child tax credit to households where all parents and qualifying children on the tax return have work-eligible Social Security numbers. This will exclude mixed-status families (if filing jointly) and U.S. citizen children of undocumented immigrants from receiving the partially refundable tax credit.

Estate Tax. OBBBA permanently increases the estate and lifetime gift tax exemption to an inflation-indexed $15 million for single filers and $30 million for joint filers beginning in 2026. Without OBBBA, the exemption threshold would have reverted to $5 million adjusted to inflation in 2026 (so around $7 million in 2026). This change impacts the wealthiest Americans, allowing them to pass on more of their wealth tax-free.

Connecticut revenue impact. For the estates of decedents dying and any gifts made on or after January 1, 2023, the Connecticut estate and gift tax is based on the federal basic exclusion amount. As a result, the change to the federal thresholds also changes the amounts subject to Connecticut's tax. As a result, the change to

"Pay me in tips, please!"

No tax on tips will benefit a small slice of the State. The Budget Lab at Yale estimates that only about 2.5% of national employment fell into tipped occupations in 2023, and of that group, **about 37% had too little in earnings to pay any federal income taxes**. If those same proportions held for Connecticut, that would mean about 27,000 Connecticut tipped workers would be able to benefit (from the deduction of up to $25,000 in reported tip income from their taxable wages); however, about 16,000 tipped workers in the state would make too little to see a benefit from the tax cut. Under the bill, **tipped workers still owe payroll taxes for Medicare and Social Security** (FICA) on their tips—the bill's exemption only applies to income tax liability. Only employees and contractors earning less than $160,000 annually and working in traditionally tipped occupations, as defined by the Treasury Department, will be eligible.

Despite its narrow benefit, the impact on higher-earning tipped workers will be substantial and will likely impact competition for labor between industries. A New York Times article recently demonstrated how a bartender earning $40,000 per year, with $22,000 coming from tips, could see his annual federal income tax liability fall from about $2,600 to $200—saving him about $2,400 per year (6% of gross income). This would create a huge incentive for people to be paid in tips, with restaurants and other tip-industry businesses finding it easier to hire. Conversely, businesses in retail, childcare, human services, or other non-tipped occupations with similar wages could find it harder to hire and retain staff, as those earning the same total wages in tipped occupations will get to keep more of their income.

Tax Changes: *Continuation of 2017 Tax Cuts and Some New Ones*

No Tax on Overtime

The OBBBA creates a federal income tax deduction, available for both itemizers and those taking the standard deduction, for wages earned as overtime compensation under the Fair Labor Standards Act (FLSA). This applies to non-exempt workers—**people who work hourly or non-professional jobs, or people who make less than $35,568 a year,** and applies to earnings above the usual 40 hours per week.

Eligible taxpayers include individuals with adjusted gross income up to $150,000 (or $300,000 if filing jointly), who receive FLSA-mandated time-and-a-half pay for hours worked in excess of 40 per week. While the House-passed version did not cap the overtime earnings that can be deducted, the final version caps them at $12,500 for single filers ($25,000 for married filing jointly). Again, it only applies to income taxes on those earnings—payroll taxes would continue to be owed.

The groups most likely to benefit from "no tax on overtime" include medium-income hourly workers and non-exempt salaried employees in occupations with frequent overtime demands, such as manufacturing, retail, healthcare support, construction, and public safety. Local police officers, fire fighters, and unionized State employees could see a significant tax savings. This provision incentivizes eligible workers to do more overtime.

the federal thresholds also changes the amounts subject to Connecticut's tax. This means wealthy Connecticut households will get a double benefit from the federal change (through a lower State tax liability) and the State will experience a revenue loss compared to current revenue projections, which expected the higher threshold to end after 2025. Preliminary estimates from the legislature's Office of Fiscal Analysis put the **annual State revenue loss at $57 million**, compared to the estimates assumed in the latest State budget.

Business Tax Changes. The lower corporate tax rate (21%) from the 2017 TCJA is left unchanged by OBBBA, but businesses get sweeteners like full expensing of equipment, 100% immediate write-offs for new machinery and factories, and permanent reinstatement of the EBITDA limitation for the business interest deduction. Domestic R&D expenses can again be immediately deducted rather than amortized, which should help Connecticut's research-intensive biotech and life sciences sectors. These provisions and others are intended to spur investment, though they also add to the deficit. To the extent they boost economic growth in Connecticut industries, they could lead to higher tax revenue for the State.

The final version makes permanent the 20% deduction for pass-through business income (Section 199A) for small businesses (also referred to as the qualified business income deduction) that would otherwise expire at the end of 2025. A pass-through entity is a business structure—such as a sole proprietorship, partnership, S corporation, or LLC—where the business's income is not taxed at the corporate level. Instead, the income "passes through" to the owners' individual tax returns and is taxed at personal income tax rates. The bill continues the 20% deduction of qualified business income, a significant advantage for those owners, and introduces a minimum deduction of $400 to ensure all small businesses can claim something. It also expands the phase-in range of the limitations on the deduction to $150,000 (vs. $100,000 before) for joint filers.

The pass-through deduction is widely used in Connecticut for businesses of a wide range of sizes, including hedge funds, doctor groups, and law practices, as well as lower-grossing small businesses. After the 2017 TCJA was enacted, Connecticut created its pass-through entity tax to help pass-through business owners continue to deduct their full state and local taxes (SALT), which TCJA capped at $10,000 on personal income tax returns. The tax proved popular and is expected to bring in about $2.3 billion for the State for fiscal year 2025—more than the Corporation Tax at $1.4 billion. Unlike earlier versions, the final law does not limit states' workarounds like the PET.

Tax Changes: *Continuation of 2017 Tax Cuts and Some New Ones*

Key Business Tax Changes

- Domestic R&D expensing: Immediate expensing for U.S. research-and-development costs becomes permanent. Small firms with ≤ $31 million in gross receipts may retroactively expense R&D incurred after 12/31/21, while other domestic R&D incurred between 12/31/21 and 1/1/25 may be written off over the next one or two years.
- Interest-deduction cap: The EBITDA-based limit on net business-interest deductions is reinstated on a permanent basis.
- Bonus depreciation: Full (100%) bonus depreciation for short-lived assets is permanently restored.
- Structure expensing: Qualifying buildings started after Jan 19, 2025, and before Jan 19, 2029, and placed in service before Jan 1, 2031, are eligible for 100% expensing on a temporary basis.
- Section 199A deduction: The 20% pass-through deduction is made permanent; the phase-in range for its limitation rises by $50,000 for single filers and $100,000 for joint filers; material participants with at least $1,000 of qualified business income are guaranteed a minimum $400 deduction.
- Corporate charitable gifts: A 1% floor is imposed on corporations' deductions for charitable contributions.
- Section 179 expensing: permanently increases the cap to an inflation-indexed $2.5 million and starts phasing it out once the cost of eligible property exceeds an inflation-indexed $4 million, effective for property placed in service after December 31, 2024.
- This list is not exhaustive. OBBBA also makes other changes, including for global corporations.

State revenue impact. For state taxes, Connecticut business owners with certain business structures have the option to pay taxes at the entity level via the pass-through entity tax (PET) or via their personal income tax return. **The State currently receives about $50 million more in revenue due to pass-through entities currently choosing to file under PET**, because the credit on their Connecticut personal income tax returns is not revenue-neutral. Since OBBBA raises the SALT cap to $40,000 (though phasing down above $500,000 in income for joint filers), some pass-throughs may opt to pay Connecticut income tax rather than PET starting in 2025. If some do, Connecticut will lose out on the corresponding portion of that $50 million wedge that is currently built into State revenue estimates for fiscal year 2026 and the years ahead.

Tax Changes Overall

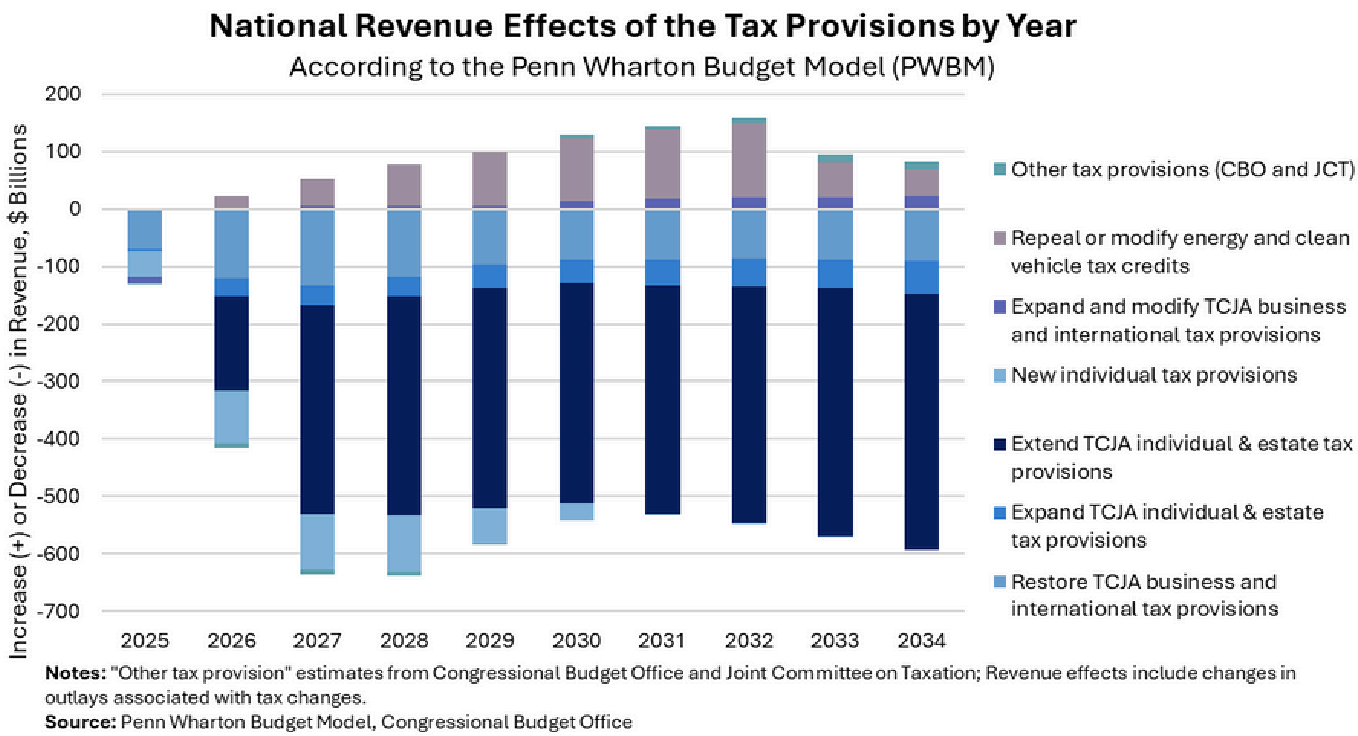
Taking the tax provisions as a whole over the budget window (2025-2034), the individual and estate tax provisions account for the largest share of the cost to the federal government (in lost revenue). For a sense of the provisions' relative impact, the revenue change according to the Penn Wharton Budget Model for each group of tax changes is shown on the next page, with the total impact over 10 years in the table.

Connecticut was one of 19 "donor" states in 2023, paying about $72.1 billion in federal taxes but receiving only $66.8 billion back in federal spending (e.g., for Medicaid, Social Security), according to USA Facts.

Connecticut will likely benefit more than most states, per taxpayer, from the higher SALT cap, possibly shrinking that gap in 2025.

The state's donor status going forward will also depend on federal spending changes. **Medicaid cuts are expected to be larger here** (-18% over 10 years) than in most states, according to KFF, though the State's older population will likely mean increasing federal spending on Social Security and Medicare.

Tax Changes: *Continuation of 2017 Tax Cuts and Some New Ones*



Total Revenue Impacts of OBBBA Tax Provisions (PWBM)

Provision	Total 2025-34 in $ Billions	As a Percent of Total Change
Extend TCJA individual & estate tax provisions	-3,369	78%
Expand TCJA individual & estate tax provisions	-381	9%
New individual tax provisions	-420	10%
Restore TCJA business and international tax provisions	-977	23%
Expand and modify TCJA business and international tax provisions	103	-2%
Repeal or modify energy and clean vehicle tax credits	699	-16%
Other tax provisions (CBO and JCT)	24	-1%
Total change in revenues	-4,321	100%
Source: University of Pennsylvania Penn Wharton Budget Model		

Slowing the Clean Energy Transition

Congress enacted significant legislation to address climate change during the Biden Administration in the Inflation Reduction Act (IRA) of 2022. That has made it cheaper for residents, businesses, and the government to invest in clean energy, with incentives slated to phase out in the 2030s. It has also supported growth in clean energy jobs. There were nearly 46,000 in Connecticut (2.7% of total state jobs) as of the last accounting in 2023, up 1,700 jobs from 2022.

Tax Changes: *Continuation of 2017 Tax Cuts and Some New Ones*

To help pay for the bill's new spending and tax cuts, OBBBA would fully phase out tax credits for new solar and wind projects within three years, with credits for individuals phasing out within a year. It also claws back unobligated federal funding for various clean energy initiatives. The final Senate version keeps the phase out for other clean energy types (i.e., hydropower, geothermal, and nuclear) closer to existing law and keeps in place transferability of tax credits (which is important for commercial projects' financing). Overall, the law effectively repeals most core clean energy tax credits and funding that was enacted in the prior administration. It comes at a time when demand for electricity is increasing (due to data centers for AI) after years of falling consumption (thanks to improvements in energy efficiency).

Reducing investment in new energy capacity now will likely mean higher electricity prices for Connecticut down the road.

As of July 2025, individuals can currently receive residential clean energy credits that cover 30% of the cost of residential solar panels and battery storage. Other credits support energy efficiency upgrades to homes—like new windows, insulation, furnaces, and heat pumps (also a 30% credit in 2025)—and the purchase of electric vehicles (up to $7,500). IRS data from 2022 show 43,290 Connecticut households claimed the residential energy tax credit that year, saving $86.8 million. In 2023, 52,570 households took advantage of residential energy credits worth $131.5 million, with 4,160 households claiming the new and used electric vehicle tax credits to the tune of $27.6 million. The incentives for businesses have been driving major investments across the country.

Selection of Changes to Clean Energy Tax Credits

Terminates or Repeals	Effective Date
Clean Vehicle Credit (30D)	September 30, 2025
Previously Owned Clean Vehicle Credit (25E)	September 30, 2025
Commercial Clean Vehicle Credit (45W)	September 30, 2025
Energy Efficient Home Improvement Credit (25C)	Placed in service after December 31, 2025
Residential Clean Energy Credit (25D)	Expenditures made after December 31, 2025
New Energy Efficient Home Credit (45L)	Homes acquired after June 30, 2026
Energy Efficient Commercial Buildings Deduction (179D)	Commence construction after June 30, 2026
Technology-Neutral Production (45Y) & Investment (48E) Credits for solar and wind energy projects	Unless construction is begun by July 4, 2026, projects placed in service after December 31, 2027
Clean Hydrogen Production Credit (45V)	Commence construction after December 31, 2027
Advanced Manufacturing Production Credit (45X) for wind components	Produced and sold after December 31, 2027

The quick phase-out of solar and wind incentives could deal a severe blow to those industries in Connecticut and around the country, with project cancellations, job losses, and business closures likely. There were about 3,300 solar jobs and 350 wind jobs in Connecticut as of 2023, with many more workers doing energy efficiency work that qualified for tax credits. The impact on those companies will be significant.

The law also adds "foreign entity of concern" restrictions to limit the use of Chinese parts and Chinese ownership in electricity production and investment projects, which will make some projects more expensive since China is the lowest-cost supplier in many cases.

Tax Changes: *Continuation of 2017 Tax Cuts and Some New Ones*

One positive for Connecticut companies like FuelCell Energy Inc. is that the law reinstates the 30% investment tax credit for fuel cell projects, which had phased out in 2024. It also extends the availability of the clean hydrogen production credit.

While federal support for solar and wind is ending, state support for the clean energy transition will continue, as recently affirmed in Public Act 25-125. As of June 30th, the Connecticut Department of Energy and Environmental Protection (DEEP) was optimistic that funds already obligated by the federal government for the New England Heat Pump Accelerator and Home Energy Rebate programs will not be impacted.

The bill repeals statutory authority and rescinds all unobligated balances for the $27 billion Greenhouse Gas Reduction Fund, from which Connecticut has received a large grant under the Solar for All program, as part of a multi-state coalition ($62.5 million). It's unclear if the Environmental Protection Agency (EPA) will be able to cancel that funding for expanding access to rooftop solar and community solar for low-income renters and homeowners in Connecticut at this stage.

Changes to Higher Education

The law has major implications for Connecticut families sending kids to college after this year, residents pursuing workforce preparation or graduate and professional degrees, as well as the State's colleges and universities. OBBBA will cut back federal spending on student loans by roughly $300 billion over the 2025-2034 budget window, according to the CBO.

The law includes changes to borrowing limits and repayment options that will change how families pay for college, graduate school, and professional degrees.

Borrowing caps. While undergraduate limits on Stafford Loans will not change, families are limited by new caps on ParentPlus loans of $20,000 per year and $65,000 in total per undergraduate child. Graduate loans are capped at $20,500 per year and $100,000 total, while the GradPlus program is eliminated. Professional students like those in law or medical school will face federal loan caps of $50,000 per year and $200,000 in total. The law sets the maximum borrowing limit at $257,500 for all students beginning July 1, 2026.

Depending on the expense of a student's chosen school and program, the limits on federal borrowing could push students to take out more expensive, private loans or, alternatively, prevent some students from accessing expensive programs altogether. UConn's medical school does not expect the new limits on professional degree loans to reduce enrollment, since there is greater demand than spots available; however, it could reduce the quality of the student body if strong applicants from lower-income backgrounds now cannot finance the cost to attend. Other institutions among Connecticut's 37 or so colleges and universities may face enrollment pressures from the new loan limits.

Repayment changes. The law overhauls federal student loan repayment with new plans that are overall less generous to borrowers. However, they will likely result in lower monthly payments for certain groups. Access to the Public Service Loan Forgiveness (PSLF) program, which forgives student loan debt after 10 years of payments for those working in public sector and non-profit jobs, is preserved by choosing the new income-driven repayment plan.

Changes to Higher Education

Starting for loans taken out after July 1, 2026, new borrowers will have to choose between (1) a **new standard loan repayment program with fixed payments** from 10-25 years based on the total amount borrowed and (2) a new income-based **Repayment Assistance Program** (RAP). The RAP is the new single income-driven option that bases payments on a sliding 1%-10% of monthly adjusted gross income (AGI) (rather than "discretionary" income as under the current version) and requires a $10 monthly minimum payment. The law will end unemployment and economic hardship deferments, harming some students in difficult situations, but will allow the government to forgive certain interest (preventing it from ballooning) if borrowers are making minimum on-time payments. RAP grants income-based loan forgiveness after 30 years instead of 20 to 25 years available currently, so borrowers will be paying off loans for more years of their lives.

By July 1, 2028, existing borrowers in the SAVE, Pay as You Earn (PAYE) and Income Contingent Repayment (I.C.R.) plans will have to switch into the remaining existing plans or one of the law's new plans—which will generally be less advantageous for borrowers. This is significant for Connecticut's nearly 550,000 borrowers (equal to 15% of Connecticut's population), who carry student debt of about $20.6 billion, or approximately $37,600 per borrower.[5] Existing borrowers in the SAVE plan especially will see their monthly payments rise.

Accountability for Institutions. A new school accountability measure puts continued eligibility for federal student loans at risk for certain programs. Undergraduate programs whose alumni earn below the state's median high-school graduate (and graduate programs below the median bachelor's wage) for two of three years will lose loan eligibility beginning in 2028. That would make it difficult for Connecticut schools to attract students to those programs if they will not have access to federal borrowing.

Of borrowers enrolled nationally, based on existing data, about 12% getting associate's degrees, 1% getting bachelor's degrees, 3% getting master's degrees and 1% getting doctoral or professional degrees are enrolled in programs likely to fail the law's earnings test, according to an analysis by Jason Cohn of the Urban Institute. Master's degree programs in mental health and social health services are particularly likely to fail. Institutions will face new pressures to ensure graduates see an earnings bump, including in traditionally low-wage fields like human services, childcare, and social work.

Workforce Pell Grants. One positive provision for addressing the State's workforce shortages in key sectors like manufacturing and healthcare is the extension of federal financial aid to students enrolling in high-quality, short-term credential programs. To be eligible, the program must be 150 to 600 hours long, offered by an eligible institution over an 8-to-14-week period, and approved by the Governor and Education Secretary as meeting certain additional rules. The new funding provides an opportunity for Connecticut's community college system, CT State, and other institutions to offer these credential programs to more students, who previously were held back by cost. Employers stand to benefit from a more highly skilled workforce.

New and Delayed Regulations. OBBBA also makes important regulatory changes, delaying Biden-era regulations on closed school discharge and borrower defense to repayment ,which would have helped students. It also bans any future Education Secretary from issuing new regulations that would increase the cost of the student loan programs, ensuring no new debt relief, loan cancellation, or repayment plans.

[5]*Federal Reserve Bank of New York Consumer Credit Panel based on Equifax data.*

Changes to Higher Education

Endowment Tax. The 2017 TCJA imposed a 1.4% excise tax on the net investment income of private colleges and universities that enroll at least 500 students and hold endowments and other non-educational assets valued at $500,000 or more per full-time student. Institutions that exceed this threshold are subject to the tax on all net investment income; those below it are exempt. In 2023, 56 institutions paid approximately $380 million under this tax nationwide, according to the Bipartisan Policy Center.

Under OBBBA, beginning with the 2026 tax year, the endowment excise tax becomes a graduated levy (ranging from 1.4% – 8%), applies only to large private schools with 3,000 or more tuition-paying students whose assets exceed $500,000 per student, and reaches a top rate of 8% once assets surpass $2 million per student. For a handful of elite universities, like Yale, the federal bite on investment earnings will rise more than 5-fold. In Connecticut, Wesleyan University may also be affected, depending on current student and asset amounts.

Tax and Other Education-related Changes. One positive for employers looking to attract employees with student loans, OBBBA includes a permanent tax exemption for employer-paid educational expenses (up to $5,250 annual tax-free exemption on student loan payments). Additionally, the law expands the type of expenses that can be covered by 529 savings plans. “Trump Accounts,” seeded with $1,000 for new babies, can be used toward college and other educational expenses. Additionally, family farm and family-owned commercial fishing assets are excluded when determining financial aid, starting with the 2026-2027 award year.

Defense Spending

The law also provides about $150 billion over the budget window for defense spending, with a focus on shipbuilding and the creation of a “Golden Dome” missile defense system that could potentially benefit Connecticut’s defense contractors. New funding for the U.S. Coast Guard could benefit the Coast Guard Academy in New London, CT.

According to the U.S. Department of Defense (DoD) for federal fiscal year 2023, Connecticut ranked sixth among states overall in total defense spending, third in defense spending as a percentage of state gross domestic product, and second in defense spending per capita. Contracts awarded to Connecticut defense manufacturers reached a new all-time high in fiscal year 2023, totaling $24.3 billion. Electric Boat was the largest recipient of DoD obligations in the state at $10.5 billion, followed by RTX Corporation, which makes the F135 engines for F-35 Joint Strike Fighter jets, at $8.5 billion. Electric Boat is the prime contractor and lead shipyard for all Navy nuclear-powered submarine programs, including the Virginia-class attack submarine and Columbia-class ballistic-missile submarine.

OBBBA explicitly provides funding for a Virginia-class attack submarine, which combined with regular appropriations proposed for fiscal year 2026 provides for a two-per-year funding cadence for those submarines. It also includes funding for maritime industrial-workforce development and supplier development that will support the industry’s workforce. Those investments should support continued manufacturing job growth in Eastern Connecticut.

Immigration Funding & Remittance Tax

OBBBA provides about $170 billion in new federal funding for immigration and border enforcement over fiscal years 2025-2034 to support the Trump Administration's plans to dramatically ramp up mass deportation efforts. The money is earmarked chiefly for (1) physical border barriers—$46.5 billion to extend and maintain the southwest-border wall; (2) detention capacity, with $45 billion to add 100,000 beds and expand removal operations; (3) manpower surges, including $29.9 billion to hire 10,000 additional ICE officers and $7.8 billion for 3,000 new Border Patrol agents; (4) a grant pool for state and local "border-security reinforcement" efforts; (5) technology and infrastructure, such as $6.2 billion for sensors, drones and surveillance systems plus $10 billion to reimburse DHS for related costs; and (6) immigration-court capacity, with $3.3 billion to hire more judges and support staff—all aimed at accelerating apprehension, detention, and removal, while expanding states' role in enforcement.

Connecticut is unlikely to benefit from most, if not all, new Department of Homeland Security funding for states, as Connecticut's Trust Act prevents local law enforcement from carrying out federal law enforcement's immigration duties. Instead, the impact will be more Immigration and Customs Enforcement (ICE) activity in Connecticut in the years ahead.

Connecticut's immigrant community is large by national standards. The 2023 American Community Survey shows about 15.4% of the state's 3.7 million people are foreign-born. That share is well above the U.S. average of 14.3%. According to Pew Research Center, about 23% of the U.S. foreign-born population in 2022 was unauthorized immigrants, while naturalized citizens accounted for 49%, green card holders accounted for 24%, and temporary lawful immigrants accounted for the remaining 4%. Immigrants make up large proportions of Connecticut's construction and healthcare industries—jobs needed to address the State's housing crisis and aging population.

The law also increases fees for immigrants legally coming and working in the U.S. and creates a 1% tax on remittances that immigrants send to their families overseas.

Affordable Housing Funding

The State is short about 92,000 units of housing that is affordable to extremely low-income renters, according to the Connecticut Housing Finance Authority's (CHFA) 2023 Housing Needs Assessment. OBBBA makes two changes that mean CHFA will have a little more public funds and flexibility to subsidize the creation of new, affordable rental housing in Connecticut.

In the Low-Income Housing Tax Credit (LIHTC) program, OBBBA permanently increases the state allocation ceiling (for 9% credits) by 12% and lowers the bond-financing threshold from 50% to 25% for projects financed by bonds (i.e., 4% credits) starting in 2026. The State's allocation for 9% LIHTC was about $11 million in 2025. Based on that, about $12.3 million, $1.3 million more, would be expected in 2026. The bond-financing threshold change gives CHFA flexibility to provide the 4% LIHTC awards to more projects.

Making a Bad Fiscal Situation Worse

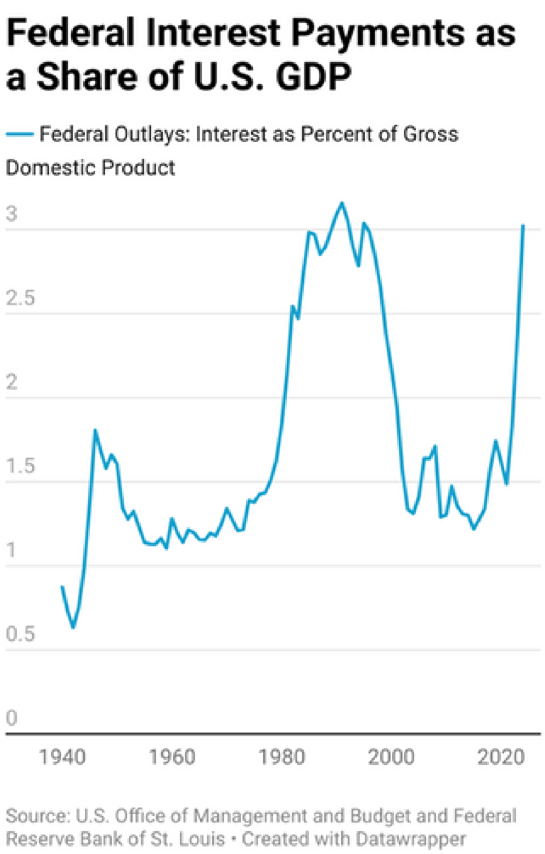
While there are some provisions in OBBBA that will benefit Connecticut and its businesses, the cost of the tax cuts and new spending is enormous. Cuts to the social safety net and student aid do not nearly offset the law's cost. Its increase to federal deficits as projected by the Congressional Budget Office (CBO) is significantly greater than past reconciliation bills including, the Inflation Reduction Act of 2022, American Rescue Plan Act of 2021, and Tax Cuts and Jobs Act of 2017.

Making a Bad Fiscal Situation Worse

Since it reduces revenue by more than it reduces spending, the CBO estimates the law will increase federal deficits by $3.4 trillion over the next decade, relative to CBO's January 2025 baseline budget projections. The Treasury Department has to borrow money to make up the difference between revenues and spending, paying interest to those who hold the debt. Because of OBBBA, Yale Budget Lab (YBL) estimates the government would pay about $579 billion in additional net interest costs over the ten years through 2034 to maintain the country's growing debt if interest rates did not rise (which the CBO and most forecasters expect they will). The cost gets much worse over time. Even if interest rates remain flat, YBL projects the extra interest spending from the law will increase nearly 10-fold, to $5.3 trillion, for the decade 2045 to 2054.

The law **increases the national debt ceiling by $5 trillion**, ensuring the U.S. does not default on its obligations later this summer. It also pushes future negotiations over the statutory debt limit past the next elections.
Raising the debt limit is important for financial markets, which are increasingly nervous about the United States' commitment to fiscal responsibility. With OBBBA, the country **continues to increase its national debt in a time of economic expansion,** giving the country **less room to maneuver in recessions** that may come in the years ahead.

The national debt currently stands at $36.6 trillion. Debt held by the public, the portion of federal debt sold on capital markets, is close to $30 trillion and about equal to 100% of the nation's GDP. The less expensive House bill would have raised that to 124% of GDP in 2024 (versus the 117% for that year projected by the CBO without the bill's passage). That version of the bill would have added $1.07 trillion in interest costs, according to the CBO, over the 2025-2034 period, accounting for the CBO's projected increase to interest rates.



According to the Treasury Department as of June 2025, it cost $921 billion annually to maintain the debt before the law, which is 17% of total federal spending in fiscal year 2025. That's more than the government spends on national defense. The growing debt is more of an immediate problem now because interest rates have risen from the ultra-low rates in the 2010s. If long-term interest rates rise further due to this bill, as assumed by the CBO, servicing the growing debt will become even more expensive.

Tariff revenue. Republicans point to offsetting revenue from the President's tariffs, which the CBO recently estimated could reduce deficits by $2.8 trillion over ten years (if tariffs equivalent to those in place as of May 15th remain for the full decade). Offsetting revenue could be used to limit some of the bill's deficit impacts. However, it's unclear how long and at which rates the tariffs will be sustained, given ongoing trade negotiations, recent court rulings (now being challenged) that many of those tariffs are illegal, and the fact that the next administration could roll them back. Additionally, reduced trade (due to tariffs) could reduce foreigners' demand for U.S. debt, exacerbating debt issues rather than fixing them.

Tariffs are also expected to slow U.S. economic growth and fall disproportionately on low-income Americans, who spend more of their incomes on goods subject to tariffs.

Making a Bad Fiscal Situation Worse

Rising Debt Costs and Crowding Out. The CBO projects that growing federal deficits will push up long-term interest rates, increasing the government's cost to service the national debt. Interest outlays as a share of GDP have already exceeded 3% in 2025 and were projected to reach 4% by 2034 and 5% by 2050. OBBBA accelerates this trend, with interest costs projected to hit 4.25% of GDP in 2034 and 5.6% in 2050, according to the Yale Budget Lab.

Interest Payments as a Percentage of GDP Across Fiscal Scenarios

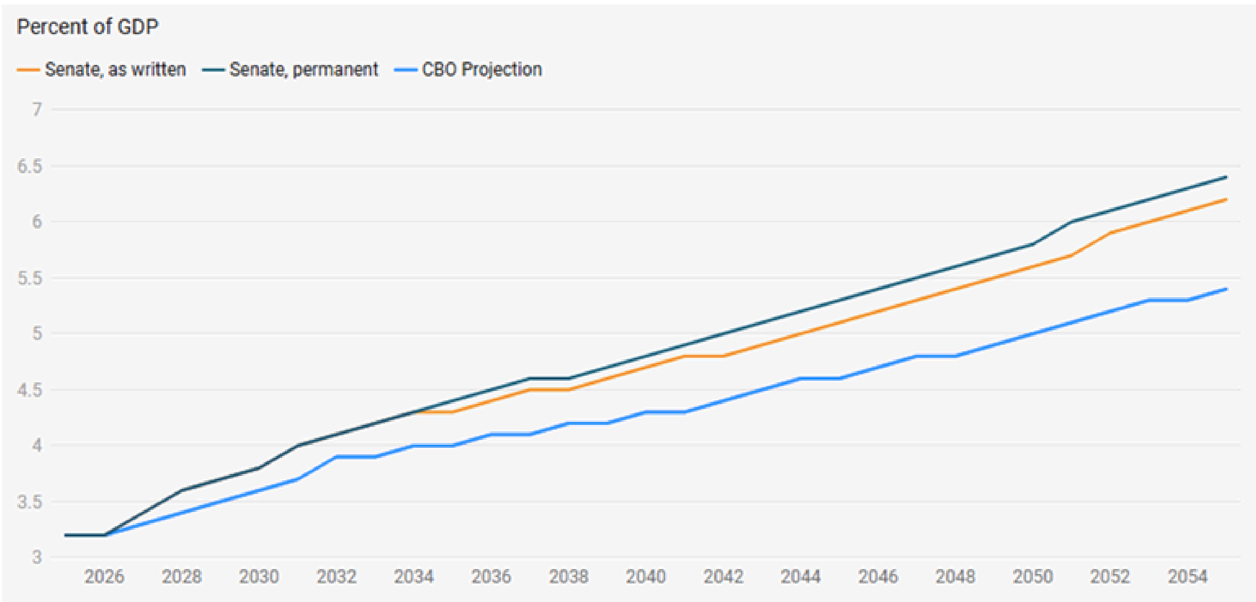


Chart Source: The Budget Lab at Yale, note: "Senate, as written" is the final OBBBA version enacted, "permanent" is if temporary provisions are extended.

The U.S. government is able to pay very low interest rates on its debt because financial markets view U.S. Treasury bonds as one of the safest and most liquid assets in the world. However, recent bond market activity suggests investors are beginning to view U.S. Treasury bonds as less of a safe haven. If the perceived risk of U.S. debt continues to rise due to unchecked deficits, the Treasury will need to offer higher yields to attract investors. The CBO estimated the earlier House version of the bill would raise the average yield on 10-year Treasury notes by about 14 basis points (0.14 percentage points) over the 2025–2034 period.

How does increasing 10-year Treasury yields impact Connecticut residents, businesses, and the State?
When the federal government significantly increases its borrowing, economists warn of a phenomenon known as "crowding out." In this scenario, the government absorbs a larger share of available capital in the economy, reducing the pool of funds available for private sector borrowing. As a result, businesses and households face higher interest rates, since they must compete more with the federal government—which offers attractive, low-risk returns—to access credit.

Benchmark Treasury yields strongly influence the cost of mortgages, car loans, student loans, and business loans—often more than the short-term Federal Funds interest rate controlled by the Federal Reserve. **Higher long-term yields will mean more expensive borrowing costs for people and companies, which reduces economic activity**. Homes, which are already very unaffordable for new buyers compared to past generations, would require mortgages at higher interest rates. Businesses purchasing new machinery would pay more to finance it, or a commercial real estate deal may no longer pencil out. Depending on other economic conditions, this "crowding out" effect of the government issuing more debt to finance growing deficits can be more or less severe.

Making a Bad Fiscal Situation Worse

Possible Impacts to State Finances. Overall, rising 10-and 20-year Treasury bond yields—which the CBO projects would occur under the OBBBA—would slowly increase the State's costs of borrowing.

In fiscal year 2024, the State Treasurer (OTT) was managing a $25.7 billion debt portfolio (separate from the State's pension systems) and paid total debt service costs of $3.5 billion on outstanding debt. To give a sense of scale, that equals about 15% of State expenditures from budgeted appropriations that year. The State takes on debt to continue funding its capital programs, like local school construction, economic development initiatives, and transportation infrastructure.

The State typically issues 10 or 20-year bonds, with only a fraction of the total debt needing to be refinanced at current rates each year. Thus, rising long-term interest rates would increase the State's cost of borrowing only for the new debt issued each year ($2.2 billion in fiscal year 2024, for example), not the entire debt at once, making the transition to higher borrowing costs gradual. While gradual is better—giving policymakers time to react—higher debt service costs mean less spending for other priorities like education, human services, or growth-promoting investments.

This is another way that the OBBBA could indirectly increase costs for states, which ultimately fall on residents and businesses.

CONCLUSION

Taken as a whole, the One Big Beautiful Bill Act (OBBBA) will have a meaningful impact on Connecticut. Many tax provisions provide relief—such as the increased SALT deduction cap, the continuation of TCJA-era tax cuts, and temporary breaks for tips, overtime, and car loan interest—but will increase federal deficits. At the same time, the bill's cuts to Medicaid, SNAP, and ACA subsidies fall hardest on low-income and immigrant communities, while also placing new cost burdens on the State of Connecticut. The resulting fiscal strain could have implications for all Connecticut residents and businesses by delaying critical investments in areas like education and infrastructure.

For Connecticut's economy, the picture is equally varied. Businesses will benefit from accelerated depreciation and R&D expensing, and the defense sector stands to gain from new federal procurement dollars. On the other hand, the elimination of many clean energy incentives and cuts to health insurance threaten jobs in growing sectors. Rising federal deficits and higher long-term interest rates are likely to raise borrowing costs across the board—from homeowners and students to state and municipal governments—creating headwinds for growth. Experts disagree on the economic growth impact, with different states likely to experience different impacts. The macroeconomic effects, though harder to quantify in the short term, may ultimately prove more consequential than any single policy change in the bill.

This report does not cover all OBBBA's provisions, which include other changes important to farmers, gamblers, multinational corporations, soldiers, nonprofits, federal workers, the Federal Aviation Administration, and NASA, among others. While some Connecticut families and industries will benefit, others will lose key government support. Connecticut's policymakers and residents will face difficult choices in the years ahead as they respond to the consequences of this sweeping legislation.