House of Representatives

General Assembly

File No. 546

February Session, 2024

House Bill No. 5513

House of Representatives, April 17, 2024

The Committee on Finance, Revenue and Bonding reported through REP. HORN of the 64th Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

AN ACT CONCERNING THE DEDUCTION AND WITHHOLDING OF PERSONAL INCOME TAX FROM CERTAIN PAYMENTS AND DISTRIBUTIONS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Section 12-705 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective January 1, 2025, and applicable to taxable years commencing on or after January 1, 2025*):

(a) (1) Each employer, as defined in section 12-707, maintaining an office or transacting business within this state and making payment of any wages taxable under this chapter to a resident or nonresident individual shall deduct and withhold from such wages for each payroll period a tax computed in such manner as to result, so far as practicable, in withholding from the employee's wages during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee under this chapter with respect to the amount of such wages during the calendar year. The method of determining the amount to be withheld shall be prescribed by regulations of the

Commissioner of Revenue Services adopted in accordance with chapter 54.

(2) [Each] (A) Except as provided in subparagraph (B) of this subdivision, each payer, as defined in section 12-707, of distributions from a profit-sharing plan, a stock bonus, a deferred compensation plan, an individual retirement arrangement, an endowment or a life insurance contract, or of pension payments or annuity distributions, that [(A)] maintains an office or transacts business within this state [,] and [(B)] makes payment of any amounts taxable under this chapter to a resident individual, shall, upon request by such individual, deduct and withhold an amount from the taxable portion of any such distribution. [a tax computed in such manner as to result, so far as practicable, in withholding from the distributions paid during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the payee, as defined in section 12-707, under this chapter with respect to such distributions during the calendar year. The method of determining the amount to be withheld from taxable payments, other than lump sum distributions, shall be determined in accordance with instructions provided by the commissioner. The amount to be withheld from] Such request and the determination of the amount to be withheld shall be made in accordance with regulations promulgated by the commissioner for pension payments and annuity distributions.

(B) With respect to a lump sum distribution, [shall be equal to] if a payee does not make a request to have an amount withheld from such distribution, the payer shall withhold from the taxable portion of the distribution [multiplied by] at the highest marginal rate, except that no withholding shall be required if (i) any portion of the lump sum distribution was previously subject to tax, or (ii) the lump sum distribution is a rollover that is effected as a direct trustee-to-trustee transfer or as a direct rollover in the form of a check made payable to another qualified account. For purposes of this [section] subdivision, "lump sum distribution" means a payment from a payer to a resident payee of an amount exceeding fifty per cent of such resident payee's entire account balance <u>or more than five thousand dollars, whichever is less</u>, exclusive of any other tax withholding and any administrative charges and fees.

(3) In no event shall the requirements of this subsection result in nonpayment of any distribution to a resident individual. For the calendar year ending December 31, 2018, no taxpayer shall be assessed interest by the commissioner pursuant to section 12-722 solely on the basis of a payer's failure to comply with the provisions of this subsection.

(b) The commissioner may, if such action is deemed necessary for the protection of the revenue and under such regulations as the commissioner may adopt in accordance with the provisions of chapter 54, require persons other than employers and payers (1) to deduct and withhold taxes from payments made by such persons to residents of this state, nonresidents and part-year residents, (2) to file a withholding return as prescribed by the commissioner, and (3) to pay over to the commissioner, or to a depositary designated by the commissioner, the taxes so required to be deducted and withheld, in accordance with a schedule established in such regulations.

(c) The commissioner may adopt regulations providing for withholding from (1) remuneration for services performed by an employee for his or her employer that does not constitute wages, (2) wages paid to an employee by an employer not maintaining an office or transacting business within this state, or (3) any other type of payment with respect to which the commissioner finds that withholding would be appropriate under the provisions of this chapter if the employer and the employee, or, in the case of any other type of payment, the person making and the person receiving such payment, agree to such withholding. Such agreement shall be made in such form and manner as the commissioner may prescribe by regulations adopted in accordance with the provisions of chapter 54. For purposes of this chapter, remuneration, wages or other payments with respect to which such an agreement is made shall be regarded as if they were wages paid to an employee by an employer maintaining an office or transacting business within this state to the extent that such remuneration or wages are paid or other payments are made during the period for which the agreement is in effect.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*January 1, 2025, and applicable to taxable years commencing on or after January 1, 2025*	12-705

FIN *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact: None

Municipal Impact: None

Explanation

The bill, which changes income tax withholding requirements for certain retirement income distributions, does not result in any fiscal impact to the state or municipalities. The bill shifts the timing of receipt of certain personal income tax revenue but not the overall amount due.

The Out Years

State Impact: None

Municipal Impact: None

OLR Bill Analysis

HB 5513

AN ACT CONCERNING THE DEDUCTION AND WITHHOLDING OF PERSONAL INCOME TAX FROM CERTAIN PAYMENTS AND DISTRIBUTIONS.

SUMMARY

This bill allows, rather than requires, income tax withholding for certain retirement income distributions and changes the methods for determining the amount of tax withheld from these distributions.

Under current law, payers that have an office in Connecticut or do business here and make distributions from pensions, annuities, or other specified sources must withhold income tax when making taxable payments to Connecticut residents. (These other sources include a profit-sharing plan, stock bonus, deferred compensation plan, individual retirement arrangement, endowment, or life insurance contract.)

The bill instead requires payers to withhold tax from these distributions only if the payee requests it, unless they are "lump sum distributions." Under the bill, a "lump sum distribution" is any distribution greater than $5,000 or more than 50% of the payee's entire account balance, whichever is less, excluding any other tax withholding and any administrative charges and fees. The bill retains the mandatory withholding requirement for these lump sum distributions.

EFFECTIVE DATE: January 1, 2025, and applicable to tax years starting on or after that date.

WITHHOLDING AMOUNTS

Distributions Other Than Lump Sum Distributions

Under the bill, for distributions of $5,000 or less or 50% or less of the payee's entire account balance (whichever is less), the payee's request for tax to be withheld and the determination of the withheld amount must be made according to Department of Revenue Services (DRS) regulations for pension payments and annuity distributions (see BACKGROUND).

This requirement applies instead of the current one that payers deduct and withhold from these distributions, as far as practicable, an amount substantially equal to the tax reasonably estimated to be due from the payee for those distributions during the calendar year. Under current law, the method of determining the withheld amount is according to instructions the DRS commissioner provides, except as described below for distributions of a payee's entire account balance.

Lump Sum Distributions

Under the bill, if a payee does not ask for an amount withheld from a lump sum distribution, the payer must withhold from its taxable portion at the highest marginal rate. Current law requires payers to withhold at the highest marginal rate only for any payments of a payee's entire retirement account balance, excluding any other tax withholding and administrative charges and fees (i.e., "lump sum distributions" as defined under current law).

As under current law, a lump sum distribution is exempt from withholding if (1) any portion of it was previously taxed, (2) it is a rollover trustee-to-trustee transfer, or (3) it is a direct rollover by a check made payable to another qualified account.

BACKGROUND

DRS Regulations on Tax Withholding for Pension Payments and Annuity Distributions

DRS regulations require any payer of pensions and annuities that has an office in Connecticut or does business here to withhold state income tax from pension or annuity payments that are distributed to a state resident if the resident requests it. (The statutes, however, have required tax withholding for these distributions since 2018.)

Under the regulations, payers must give resident individuals who receive these payments a Form CT-W4P (Withholding Certificate for Pension or Annuity Payments), and payees must use this form to request the withholding. Their request to deduct and withhold state income tax must be made in a specific whole dollar amount of at least $10 per payment (Conn. Agencies Regs., § 12-705(b)-3).

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable
Yea 49 Nay 2 (04/02/2024)