



Senate

General Assembly

File No. 293

January Session, 2025

Substitute Senate Bill No. 1401

Senate, March 27, 2025

The Committee on Banking reported through SEN. MILLER of the 27th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT ESTABLISHING DISASTER SAVINGS ACCOUNTS AND A RELATED TAX DEDUCTION AND CREDIT.

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

1 Section 1. (NEW) (*Effective from passage*) (a) For the purposes of this
2 section:

3 (1) "Account holder" means an individual who, either individually or
4 jointly with another individual, establishes a disaster savings account;

5 (2) "Commissioner" means the Commissioner of Revenue Services;

6 (3) "Disaster savings account" means an account established by one
7 or more account holders with a financial institution that the account
8 holders designate as an account exclusively containing funds to pay or
9 reimburse eligible costs incurred by the qualified beneficiary of the
10 account;

11 (4) "Eligible costs" means costs incurred by a qualified beneficiary for
12 payment (A) of an insurance deductible under a homeowners insurance

13 policy that insures against loss or damage by wildfire, flood, rain,
14 hurricane, tornado or other severe storm, which was incurred because
15 of a claim made for such loss or damage, and (B) for loss or damage to
16 such qualified beneficiary's single-family residence caused by wildfire,
17 flood, rain, hurricane, tornado or other severe storm;

18 (5) "Financial institution" means a bank, out-of-state bank,
19 Connecticut credit union, federal credit union or out-of-state credit
20 union, as those terms are defined in section 36a-2 of the general statutes,
21 and any affiliate or third-party provider of such entities;

22 (6) "Qualified beneficiary" means a homeowner who (A) is
23 designated as the qualified beneficiary of a disaster savings account, and
24 (B) resides in a single-family residence in this state that is owned by the
25 homeowner; and

26 (7) "Single-family residence" means a single-family residential
27 dwelling, including, but not limited to, a mobile manufactured home, as
28 defined in section 21-64 of the general statutes, or a residential unit in a
29 cooperative, common interest community or condominium, as such
30 terms are defined in section 47-202 of the general statutes.

31 (b) For purposes of implementing the deductions allowed under
32 subparagraphs (B)(xxxvi) and (B)(xxxvii) of subdivision (20) of
33 subsection (a) of section 12-701 of the general statutes, as amended by
34 this act, and the credit allowed under section 3 of this act, the
35 commissioner shall prepare forms for (1) the designation of accounts as
36 disaster savings accounts, (2) the designation of qualified beneficiaries,
37 and (3) account holders to submit to the commissioner the information
38 described in subparagraph (B) of subdivision (1) of subsection (d) of this
39 section and any additional information that the commissioner
40 reasonably requires pursuant to the provisions of this section.

41 (c) An individual may establish not more than one disaster savings
42 account with a financial institution. Two individuals may jointly
43 establish and serve as the account holders of a disaster savings account,
44 provided such account holders shall file a joint return for the tax

45 imposed under chapter 229 of the general statutes for each taxable year
46 during which such account exists. The account holder or account
47 holders shall, not later than April fifteenth of the taxable year
48 immediately following the taxable year during which such account
49 holder or account holders established a disaster savings account,
50 designate the qualified beneficiary of such account. The account holder
51 or account holders of a disaster savings account may designate a new
52 qualified beneficiary of the account at any time, provided there shall not
53 be more than one qualified beneficiary of such account at any time. No
54 individual may establish or serve as an account holder of multiple
55 disaster savings accounts that have the same qualified beneficiary.
56 Disaster savings accounts shall exclusively contain cash and there shall
57 be no limit on the amount of contributions made to, or contained in, such
58 accounts. Any person may contribute to a disaster savings account,
59 including, but not limited to, the employers of the qualified beneficiary,
60 account holder or account holders of such account. If a qualified
61 beneficiary or account holder of a disaster savings account leaves
62 employment with an employer that contributed to such account while
63 such qualified beneficiary or account holder was employed by such
64 employer, such employer shall not seek reimbursement of any
65 contribution to such account. The account holder or account holders
66 may invest funds deposited in a disaster savings account in money
67 market funds.

68 (d) (1) Each account holder shall:

69 (A) Not use any portion of the funds deposited in a disaster savings
70 account to pay any administrative fees or expenses, other than service
71 fees imposed by the depository financial institution, for such account;
72 and

73 (B) Submit to the commissioner such account holder's tax return for
74 each taxable year beginning on or after January 1, 2025, during which a
75 disaster savings account established by such account holder exists,
76 along with:

77 (i) Any information required by the commissioner concerning such

78 disaster savings account for purposes of implementing the deductions
79 allowed under subparagraphs (B)(xxxvi) and (B)(xxxvii) of subdivision
80 (20) of subsection (a) of section 12-701 of the general statutes, as
81 amended by this act, and the credit allowed under section 3 of this act;

82 (ii) The Internal Revenue Service Form 1099 issued by the depository
83 financial institution for such disaster savings account; and

84 (iii) If such account holder withdrew funds from such disaster
85 savings account during the taxable year that is the subject of such return,
86 a detailed accounting of all eligible costs and ineligible costs paid or
87 reimbursed using such funds during such taxable year and the balance
88 of funds remaining in such account.

89 (2) Each account holder may withdraw all, or any portion of, the
90 funds contributed to and deposited in a disaster savings account and
91 deposit such funds in another disaster savings account established by
92 such account holder at any financial institution.

93 (e) (1) The commissioner may require that financial institutions
94 furnish certain information about each disaster savings account.

95 (2) A financial institution shall designate an account as a disaster
96 savings account when the account is opened by an account holder.

97 (3) No financial institution shall be required to (A) track the use of
98 any funds withdrawn from a disaster savings account, or (B) allocate
99 funds in a disaster savings account among account holders.

100 (4) No financial institution shall be liable or responsible for (A)
101 determining whether, or ensuring that, an account satisfies the
102 requirements established in this section concerning disaster savings
103 accounts or the funds in disaster savings accounts are used to pay or
104 reimburse eligible costs, or (B) disclosing or remitting taxes or penalties
105 concerning disaster savings accounts unless such disclosure or
106 remittance is required by applicable law.

107 (5) Upon receiving proof of the death of an account holder and all

108 other information required by any contract governing a disaster savings
109 account established by the account holder, the depository financial
110 institution shall distribute the funds in the disaster savings account in
111 accordance with the terms of such contract.

112 (f) (1) Except as provided in subdivision (2) of this subsection, each
113 account holder who withdraws funds from a disaster savings account
114 for any reason other than paying or reimbursing the qualified
115 beneficiary of such account for eligible costs incurred by such qualified
116 beneficiary shall be liable to this state for a civil penalty in an amount
117 equal to ten per cent of the withdrawn amount. Such civil penalty shall
118 be collectible by the commissioner. If such funds were deducted by an
119 account holder in accordance with subparagraph (B)(xxxvi) or
120 (B)(xxxvii) of subdivision (20) of subsection (a) of section 12-701 of the
121 general statutes, as amended by this act, then such withdrawn funds
122 shall be considered income.

123 (2) No account holder shall be liable for a penalty under subdivision
124 (1) of this subsection, nor shall funds withdrawn from a disaster savings
125 account be considered income, if the funds withdrawn from the disaster
126 savings account:

127 (A) Are deposited in another disaster savings account pursuant to
128 subdivision (2) of subsection (d) of this section;

129 (B) Are withdrawn due to the death or disability of an account holder
130 who established such account;

131 (C) Constitute a disbursement of the assets of such account pursuant
132 to a filing for protection under the United States Bankruptcy Code, as
133 amended from time to time; or

134 (D) Are not claimed as a deduction pursuant to subparagraph
135 (B)(xxxvi) or (B)(xxxvii) of subdivision (20) of subsection (a) of section
136 12-701 of the general statutes, as amended by this act, by the account
137 holder on a return for the tax imposed under chapter 229 of the general
138 statutes.

139 (g) The commissioner may adopt regulations, in accordance with the
140 provisions of chapter 54 of the general statutes, to implement the
141 provisions of this section.

142 Sec. 2. Subparagraph (B) of subdivision (20) of subsection (a) of
143 section 12-701 of the general statutes is repealed and the following is
144 substituted in lieu thereof (*Effective from passage and applicable to taxable*
145 *years commencing on or after January 1, 2025*):

146 (B) There shall be subtracted therefrom:

147 (i) To the extent properly includable in gross income for federal
148 income tax purposes, any income with respect to which taxation by any
149 state is prohibited by federal law;

150 (ii) To the extent allowable under section 12-718, exempt dividends
151 paid by a regulated investment company;

152 (iii) To the extent properly includable in gross income for federal
153 income tax purposes, the amount of any refund or credit for
154 overpayment of income taxes imposed by this state, or any other state
155 of the United States or a political subdivision thereof, or the District of
156 Columbia;

157 (iv) To the extent properly includable in gross income for federal
158 income tax purposes and not otherwise subtracted from federal
159 adjusted gross income pursuant to clause (x) of this subparagraph in
160 computing Connecticut adjusted gross income, any tier 1 railroad
161 retirement benefits;

162 (v) To the extent any additional allowance for depreciation under
163 Section 168(k) of the Internal Revenue Code for property placed in
164 service after September 27, 2017, was added to federal adjusted gross
165 income pursuant to subparagraph (A)(ix) of this subdivision in
166 computing Connecticut adjusted gross income, twenty-five per cent of
167 such additional allowance for depreciation in each of the four
168 succeeding taxable years;

169 (vi) To the extent properly includable in gross income for federal
170 income tax purposes, any interest income from obligations issued by or
171 on behalf of the state of Connecticut, any political subdivision thereof,
172 or public instrumentality, state or local authority, district or similar
173 public entity created under the laws of the state of Connecticut;

174 (vii) To the extent properly includable in determining the net gain or
175 loss from the sale or other disposition of capital assets for federal income
176 tax purposes, any gain from the sale or exchange of obligations issued
177 by or on behalf of the state of Connecticut, any political subdivision
178 thereof, or public instrumentality, state or local authority, district or
179 similar public entity created under the laws of the state of Connecticut,
180 in the income year such gain was recognized;

181 (viii) Any interest on indebtedness incurred or continued to purchase
182 or carry obligations or securities the interest on which is subject to tax
183 under this chapter but exempt from federal income tax, to the extent that
184 such interest on indebtedness is not deductible in determining federal
185 adjusted gross income and is attributable to a trade or business carried
186 on by such individual;

187 (ix) Ordinary and necessary expenses paid or incurred during the
188 taxable year for the production or collection of income which is subject
189 to taxation under this chapter but exempt from federal income tax, or
190 the management, conservation or maintenance of property held for the
191 production of such income, and the amortizable bond premium for the
192 taxable year on any bond the interest on which is subject to tax under
193 this chapter but exempt from federal income tax, to the extent that such
194 expenses and premiums are not deductible in determining federal
195 adjusted gross income and are attributable to a trade or business carried
196 on by such individual;

197 (x) (I) For taxable years commencing prior to January 1, 2019, for a
198 person who files a return under the federal income tax as an unmarried
199 individual whose federal adjusted gross income for such taxable year is
200 less than fifty thousand dollars, or as a married individual filing
201 separately whose federal adjusted gross income for such taxable year is

202 less than fifty thousand dollars, or for a husband and wife who file a
203 return under the federal income tax as married individuals filing jointly
204 whose federal adjusted gross income for such taxable year is less than
205 sixty thousand dollars or a person who files a return under the federal
206 income tax as a head of household whose federal adjusted gross income
207 for such taxable year is less than sixty thousand dollars, an amount
208 equal to the Social Security benefits includable for federal income tax
209 purposes;

210 (II) For taxable years commencing prior to January 1, 2019, for a
211 person who files a return under the federal income tax as an unmarried
212 individual whose federal adjusted gross income for such taxable year is
213 fifty thousand dollars or more, or as a married individual filing
214 separately whose federal adjusted gross income for such taxable year is
215 fifty thousand dollars or more, or for a husband and wife who file a
216 return under the federal income tax as married individuals filing jointly
217 whose federal adjusted gross income from such taxable year is sixty
218 thousand dollars or more or for a person who files a return under the
219 federal income tax as a head of household whose federal adjusted gross
220 income for such taxable year is sixty thousand dollars or more, an
221 amount equal to the difference between the amount of Social Security
222 benefits includable for federal income tax purposes and the lesser of
223 twenty-five per cent of the Social Security benefits received during the
224 taxable year, or twenty-five per cent of the excess described in Section
225 86(b)(1) of the Internal Revenue Code;

226 (III) For the taxable year commencing January 1, 2019, and each
227 taxable year thereafter, for a person who files a return under the federal
228 income tax as an unmarried individual whose federal adjusted gross
229 income for such taxable year is less than seventy-five thousand dollars,
230 or as a married individual filing separately whose federal adjusted gross
231 income for such taxable year is less than seventy-five thousand dollars,
232 or for a husband and wife who file a return under the federal income tax
233 as married individuals filing jointly whose federal adjusted gross
234 income for such taxable year is less than one hundred thousand dollars
235 or a person who files a return under the federal income tax as a head of

236 household whose federal adjusted gross income for such taxable year is
237 less than one hundred thousand dollars, an amount equal to the Social
238 Security benefits includable for federal income tax purposes; and

239 (IV) For the taxable year commencing January 1, 2019, and each
240 taxable year thereafter, for a person who files a return under the federal
241 income tax as an unmarried individual whose federal adjusted gross
242 income for such taxable year is seventy-five thousand dollars or more,
243 or as a married individual filing separately whose federal adjusted gross
244 income for such taxable year is seventy-five thousand dollars or more,
245 or for a husband and wife who file a return under the federal income tax
246 as married individuals filing jointly whose federal adjusted gross
247 income from such taxable year is one hundred thousand dollars or more
248 or for a person who files a return under the federal income tax as a head
249 of household whose federal adjusted gross income for such taxable year
250 is one hundred thousand dollars or more, an amount equal to the
251 difference between the amount of Social Security benefits includable for
252 federal income tax purposes and the lesser of twenty-five per cent of the
253 Social Security benefits received during the taxable year, or twenty-five
254 per cent of the excess described in Section 86(b)(1) of the Internal
255 Revenue Code;

256 (xi) To the extent properly includable in gross income for federal
257 income tax purposes, any amount rebated to a taxpayer pursuant to
258 section 12-746;

259 (xii) To the extent properly includable in the gross income for federal
260 income tax purposes of a designated beneficiary, any distribution to
261 such beneficiary from any qualified state tuition program, as defined in
262 Section 529(b) of the Internal Revenue Code, established and
263 maintained by this state or any official, agency or instrumentality of the
264 state;

265 (xiii) To the extent allowable under section 12-701a, contributions to
266 accounts established pursuant to any qualified state tuition program, as
267 defined in Section 529(b) of the Internal Revenue Code, established and
268 maintained by this state or any official, agency or instrumentality of the

269 state;

270 (xiv) To the extent properly includable in gross income for federal
271 income tax purposes, the amount of any Holocaust victims' settlement
272 payment received in the taxable year by a Holocaust victim;

273 (xv) To the extent properly includable in the gross income for federal
274 income tax purposes of a designated beneficiary, as defined in section
275 3-123aa, interest, dividends or capital gains earned on contributions to
276 accounts established for the designated beneficiary pursuant to the
277 Connecticut Homecare Option Program for the Elderly established by
278 sections 3-123aa to 3-123ff, inclusive;

279 (xvi) To the extent properly includable in gross income for federal
280 income tax purposes, any income received from the United States
281 government as retirement pay for a retired member of (I) the Armed
282 Forces of the United States, as defined in Section 101 of Title 10 of the
283 United States Code, or (II) the National Guard, as defined in Section 101
284 of Title 10 of the United States Code;

285 (xvii) To the extent properly includable in gross income for federal
286 income tax purposes for the taxable year, any income from the discharge
287 of indebtedness in connection with any reacquisition, after December
288 31, 2008, and before January 1, 2011, of an applicable debt instrument or
289 instruments, as those terms are defined in Section 108 of the Internal
290 Revenue Code, as amended by Section 1231 of the American Recovery
291 and Reinvestment Act of 2009, to the extent any such income was added
292 to federal adjusted gross income pursuant to subparagraph (A)(xi) of
293 this subdivision in computing Connecticut adjusted gross income for a
294 preceding taxable year;

295 (xviii) To the extent not deductible in determining federal adjusted
296 gross income, the amount of any contribution to a manufacturing
297 reinvestment account established pursuant to section 32-9zz in the
298 taxable year that such contribution is made;

299 (xix) To the extent properly includable in gross income for federal

300 income tax purposes, (I) for the taxable year commencing January 1,
301 2015, ten per cent of the income received from the state teachers'
302 retirement system, (II) for the taxable years commencing January 1,
303 2016, to January 1, 2020, inclusive, twenty-five per cent of the income
304 received from the state teachers' retirement system, and (III) for the
305 taxable year commencing January 1, 2021, and each taxable year
306 thereafter, fifty per cent of the income received from the state teachers'
307 retirement system or, for a taxpayer whose federal adjusted gross
308 income does not exceed the applicable threshold under clause (xx) of
309 this subparagraph, the percentage pursuant to said clause of the income
310 received from the state teachers' retirement system, whichever
311 deduction is greater;

312 (xx) To the extent properly includable in gross income for federal
313 income tax purposes, except for retirement benefits under clause (iv) of
314 this subparagraph and retirement pay under clause (xvi) of this
315 subparagraph, for a person who files a return under the federal income
316 tax as an unmarried individual whose federal adjusted gross income for
317 such taxable year is less than seventy-five thousand dollars, or as a
318 married individual filing separately whose federal adjusted gross
319 income for such taxable year is less than seventy-five thousand dollars,
320 or as a head of household whose federal adjusted gross income for such
321 taxable year is less than seventy-five thousand dollars, or for a husband
322 and wife who file a return under the federal income tax as married
323 individuals filing jointly whose federal adjusted gross income for such
324 taxable year is less than one hundred thousand dollars, (I) for the taxable
325 year commencing January 1, 2019, fourteen per cent of any pension or
326 annuity income, (II) for the taxable year commencing January 1, 2020,
327 twenty-eight per cent of any pension or annuity income, (III) for the
328 taxable year commencing January 1, 2021, forty-two per cent of any
329 pension or annuity income, and (IV) for the taxable years commencing
330 January 1, 2022, and January 1, 2023, one hundred per cent of any
331 pension or annuity income;

332 (xxi) To the extent properly includable in gross income for federal
333 income tax purposes, except for retirement benefits under clause (iv) of

334 this subparagraph and retirement pay under clause (xvi) of this
 335 subparagraph, any pension or annuity income for the taxable year
 336 commencing on or after January 1, 2024, and each taxable year
 337 thereafter, in accordance with the following schedule, for a person who
 338 files a return under the federal income tax as an unmarried individual
 339 whose federal adjusted gross income for such taxable year is less than
 340 one hundred thousand dollars, or as a married individual filing
 341 separately whose federal adjusted gross income for such taxable year is
 342 less than one hundred thousand dollars, or as a head of household
 343 whose federal adjusted gross income for such taxable year is less than
 344 one hundred thousand dollars:

T1	Federal Adjusted Gross Income	Deduction
T2	Less than \$75,000	100.0%
T3	\$75,000 but not over \$77,499	85.0%
T4	\$77,500 but not over \$79,999	70.0%
T5	\$80,000 but not over \$82,499	55.0%
T6	\$82,500 but not over \$84,999	40.0%
T7	\$85,000 but not over \$87,499	25.0%
T8	\$87,500 but not over \$89,999	10.0%
T9	\$90,000 but not over \$94,999	5.0%
T10	\$95,000 but not over \$99,999	2.5%
T11	\$100,000 and over	0.0%

345 (xxii) To the extent properly includable in gross income for federal
 346 income tax purposes, except for retirement benefits under clause (iv) of
 347 this subparagraph and retirement pay under clause (xvi) of this
 348 subparagraph, any pension or annuity income for the taxable year
 349 commencing on or after January 1, 2024, and each taxable year
 350 thereafter, in accordance with the following schedule for married
 351 individuals who file a return under the federal income tax as married
 352 individuals filing jointly whose federal adjusted gross income for such
 353 taxable year is less than one hundred fifty thousand dollars:

T12	Federal Adjusted Gross Income	Deduction
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T13	Less than \$100,000	100.0%
T14	\$100,000 but not over \$104,999	85.0%
T15	\$105,000 but not over \$109,999	70.0%
T16	\$110,000 but not over \$114,999	55.0%
T17	\$115,000 but not over \$119,999	40.0%
T18	\$120,000 but not over \$124,999	25.0%
T19	\$125,000 but not over \$129,999	10.0%
T20	\$130,000 but not over \$139,999	5.0%
T21	\$140,000 but not over \$149,999	2.5%
T22	\$150,000 and over	0.0%

354 (xxiii) The amount of lost wages and medical, travel and housing
 355 expenses, not to exceed ten thousand dollars in the aggregate, incurred
 356 by a taxpayer during the taxable year in connection with the donation
 357 to another person of an organ for organ transplantation occurring on or
 358 after January 1, 2017;

359 (xxiv) To the extent properly includable in gross income for federal
 360 income tax purposes, the amount of any financial assistance received
 361 from the Crumbling Foundations Assistance Fund or paid to or on
 362 behalf of the owner of a residential building pursuant to sections 8-442
 363 and 8-443;

364 (xxv) To the extent properly includable in gross income for federal
 365 income tax purposes, the amount calculated pursuant to subsection (b)
 366 of section 12-704g for income received by a general partner of a venture
 367 capital fund, as defined in 17 CFR 275.203(l)-1, as amended from time to
 368 time;

369 (xxvi) To the extent any portion of a deduction under Section 179 of
 370 the Internal Revenue Code was added to federal adjusted gross income
 371 pursuant to subparagraph (A)(xiv) of this subdivision in computing
 372 Connecticut adjusted gross income, twenty-five per cent of such
 373 disallowed portion of the deduction in each of the four succeeding
 374 taxable years;

375 (xxvii) To the extent properly includable in gross income for federal

376 income tax purposes, for a person who files a return under the federal
 377 income tax as an unmarried individual whose federal adjusted gross
 378 income for such taxable year is less than seventy-five thousand dollars,
 379 or as a married individual filing separately whose federal adjusted gross
 380 income for such taxable year is less than seventy-five thousand dollars,
 381 or as a head of household whose federal adjusted gross income for such
 382 taxable year is less than seventy-five thousand dollars, or for a husband
 383 and wife who file a return under the federal income tax as married
 384 individuals filing jointly whose federal adjusted gross income for such
 385 taxable year is less than one hundred thousand dollars, for the taxable
 386 year commencing January 1, 2023, twenty-five per cent of any
 387 distribution from an individual retirement account other than a Roth
 388 individual retirement account;

389 (xxviii) To the extent properly includable in gross income for federal
 390 income tax purposes, for a person who files a return under the federal
 391 income tax as an unmarried individual whose federal adjusted gross
 392 income for such taxable year is less than one hundred thousand dollars,
 393 or as a married individual filing separately whose federal adjusted gross
 394 income for such taxable year is less than one hundred thousand dollars,
 395 or as a head of household whose federal adjusted gross income for such
 396 taxable year is less than one hundred thousand dollars, (I) for the taxable
 397 year commencing January 1, 2024, fifty per cent of any distribution from
 398 an individual retirement account other than a Roth individual
 399 retirement account, (II) for the taxable year commencing January 1, 2025,
 400 seventy-five per cent of any distribution from an individual retirement
 401 account other than a Roth individual retirement account, and (III) for
 402 the taxable year commencing January 1, 2026, and each taxable year
 403 thereafter, any distribution from an individual retirement account other
 404 than a Roth individual retirement account. The subtraction under this
 405 clause shall be made in accordance with the following schedule:

T23	Federal Adjusted Gross Income	Deduction
T24	Less than \$75,000	100.0%
T25	\$75,000 but not over \$77,499	85.0%

T26	\$77,500 but not over \$79,999	70.0%
T27	\$80,000 but not over \$82,499	55.0%
T28	\$82,500 but not over \$84,999	40.0%
T29	\$85,000 but not over \$87,499	25.0%
T30	\$87,500 but not over \$89,999	10.0%
T31	\$90,000 but not over \$94,999	5.0%
T32	\$95,000 but not over \$99,999	2.5%
T33	\$100,000 and over	0.0%

406 (xxix) To the extent properly includable in gross income for federal
 407 income tax purposes, for married individuals who file a return under
 408 the federal income tax as married individuals filing jointly whose
 409 federal adjusted gross income for such taxable year is less than one
 410 hundred fifty thousand dollars, (I) for the taxable year commencing
 411 January 1, 2024, fifty per cent of any distribution from an individual
 412 retirement account other than a Roth individual retirement account, (II)
 413 for the taxable year commencing January 1, 2025, seventy-five per cent
 414 of any distribution from an individual retirement account other than a
 415 Roth individual retirement account, and (III) for the taxable year
 416 commencing January 1, 2026, and each taxable year thereafter, any
 417 distribution from an individual retirement account other than a Roth
 418 individual retirement account. The subtraction under this clause shall
 419 be made in accordance with the following schedule:

T34	Federal Adjusted Gross Income	Deduction
T35	Less than \$100,000	100.0%
T36	\$100,000 but not over \$104,999	85.0%
T37	\$105,000 but not over \$109,999	70.0%
T38	\$110,000 but not over \$114,999	55.0%
T39	\$115,000 but not over \$119,999	40.0%
T40	\$120,000 but not over \$124,999	25.0%
T41	\$125,000 but not over \$129,999	10.0%
T42	\$130,000 but not over \$139,999	5.0%
T43	\$140,000 but not over \$149,999	2.5%
T44	\$150,000 and over	0.0%

420 (xxx) To the extent properly includable in gross income for federal
421 income tax purposes, for the taxable year commencing January 1, 2022,
422 the amount or amounts paid or otherwise credited to any eligible
423 resident of this state under (I) the 2020 Earned Income Tax Credit
424 enhancement program from funding allocated to the state through the
425 Coronavirus Relief Fund established under the Coronavirus Aid, Relief,
426 and Economic Security Act, P.L. 116-136, and (II) the 2021 Earned
427 Income Tax Credit enhancement program from funding allocated to the
428 state pursuant to Section 9901 of Subtitle M of Title IX of the American
429 Rescue Plan Act of 2021, P.L. 117-2;

430 (xxxi) For the taxable year commencing January 1, 2023, and each
431 taxable year thereafter, for a taxpayer licensed under the provisions of
432 chapter 420f or 420h, the amount of ordinary and necessary expenses
433 that would be eligible to be claimed as a deduction for federal income
434 tax purposes under Section 162(a) of the Internal Revenue Code but that
435 are disallowed under Section 280E of the Internal Revenue Code
436 because marijuana is a controlled substance under the federal
437 Controlled Substance Act;

438 (xxxii) To the extent properly includable in gross income for federal
439 income tax purposes, for the taxable year commencing on or after
440 January 1, 2025, and each taxable year thereafter, any common stock
441 received by the taxpayer during the taxable year under a share plan, as
442 defined in section 12-217ss;

443 (xxxiii) To the extent properly includable in gross income for federal
444 income tax purposes, the amount of any student loan reimbursement
445 payment received by a taxpayer pursuant to section 10a-19m;

446 (xxxiv) Contributions to an ABLE account established pursuant to
447 sections 3-39k to 3-39q, inclusive, not to exceed five thousand dollars for
448 each individual taxpayer or ten thousand dollars for taxpayers filing a
449 joint return; [and]

450 (xxxv) To the extent properly includable in gross income for federal

451 income tax purposes, the amount of any payment received pursuant to
452 subsection (c) of section 3-122a;

453 (xxxvi) For an account holder, as defined in section 1 of this act, who
454 files a return under the federal income tax as an unmarried individual,
455 a married individual filing separately or a head of household and whose
456 federal adjusted gross income for the taxable year is less than one
457 hundred thousand dollars, or for an account holder, as defined in
458 section 1 of this act, who files a return under the federal income tax as a
459 married individual filing jointly and whose federal adjusted gross
460 income for the taxable year is less than two hundred thousand dollars:

461 (I) To the extent not deductible in determining federal adjusted gross
462 income, an amount equal to the contributions deposited during the
463 taxable year in a disaster savings account established pursuant to
464 subsection (c) of section 1 of this act, less any amounts withdrawn
465 during the taxable year by the account holder from such account
466 pursuant to subparagraph (D) of subdivision (2) of subsection (f) of
467 section 1 of this act. The amount allowed to be claimed under this
468 subclause for the taxable year shall not exceed two thousand five
469 hundred dollars for an unmarried individual, a married individual
470 filing separately or a head of household and five thousand dollars for
471 married individuals filing jointly; and

472 (II) To the extent properly includable in gross income for federal
473 income tax purposes, an amount equal to the sum of all interest accrued
474 on a disaster savings account, established pursuant to subsection (c) of
475 section 1 of this act, during the taxable year; and

476 (xxxvii) To the extent properly includable in gross income for federal
477 income tax purposes, for an account holder who is a qualified
478 beneficiary of a disaster savings account, as those terms are defined in
479 section 1 of this act, who files a return under the federal income tax as
480 an unmarried individual, a married individual filing separately or a
481 head of household and whose federal adjusted gross income for the
482 taxable year is less than one hundred thousand dollars, or for an account
483 holder who is a qualified beneficiary of a disaster savings account, as

484 those terms are defined in section 1 of this act, who files a return under
485 the federal income tax as a married individual filing jointly and whose
486 federal adjusted gross income for the taxable year is less than two
487 hundred thousand dollars, an amount equal to any withdrawal from
488 such account that is used to pay or reimburse such qualified beneficiary
489 for eligible costs, as defined in section 1 of this act, incurred by the
490 qualified beneficiary.

491 Sec. 3. (NEW) (*Effective January 1, 2026*) (a) (1) For the taxable or
492 income year commencing on or after January 1, 2026, but prior to
493 January 1, 2027, there shall be allowed a credit against the tax imposed
494 under chapter 208 or 229 of the general statutes, other than the liability
495 imposed by section 12-707 of the general statutes, for contributions
496 deposited by the employer of an account holder in a disaster savings
497 account, established pursuant to subsection (c) of section 1 of this act,
498 during the taxable or income years commencing on or after January 1,
499 2025, but prior to January 1, 2027, provided such account holder was
500 employed by such employer at the time such contributions were made.

501 (2) For the taxable or income years commencing on or after January
502 1, 2027, there shall be allowed a credit against the tax imposed under
503 chapter 208 or 229 of the general statutes, other than the liability
504 imposed by section 12-707 of the general statutes, for contributions
505 deposited by the employer of an account holder in a disaster savings
506 account, established pursuant to subsection (c) of section 1 of this act,
507 during the taxable or income year, provided such account holder was
508 employed by such employer at the time such contributions were made.

509 (3) The amount of the credit allowed under subdivisions (1) and (2)
510 of this subsection shall be equal to ten per cent of the amount of the
511 contributions made by the employer into the disaster savings accounts
512 of account holders of such accounts during the income or taxable year,
513 provided the amount of the credit allowed for any income or taxable
514 year with respect to a specific account holder shall not exceed two
515 thousand five hundred dollars.

516 (b) If the employer is an S corporation or an entity treated as a

517 partnership for federal income tax purposes, the credit may be claimed
 518 by the shareholders or partners of the employer. If the employer is a
 519 single member limited liability company that is disregarded as an entity
 520 separate from its owner, the credit may be claimed by such limited
 521 liability company's owner, provided such owner is a person subject to
 522 the tax imposed under chapter 208 or 229 of the general statutes. Any
 523 employer claiming the credit shall provide to the Department of
 524 Revenue Services documentation supporting such claim in the form and
 525 manner prescribed by the Commissioner of Revenue Services.

This act shall take effect as follows and shall amend the following sections:

Section 1	<i>from passage</i>	New section
Sec. 2	<i>from passage and applicable to taxable years commencing on or after January 1, 2025</i>	12-701(a)(20)(B)
Sec. 3	<i>January 1, 2026</i>	New section

Statement of Legislative Commissioners:

In Section 1(c), "employers of the qualified" was changed to "the employers of the qualified" for clarity; in Section 1(d)(1)(B)(i), "the deduction allowed under subparagraph (B) of subdivision (20)" was changed to "the deductions allowed under subparagraphs (B)(xxxvi) and (B)(xxxvii) of subdivision (20)" for accuracy; and in Sections 1(f)(1) and 1(f)(2)(D), "subparagraph (B) of subdivision (20)" was changed to "subparagraph (B)(xxxvi) or (B)(xxxvii) of subdivision (20)" for accuracy.

BA *Joint Favorable Subst.*

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:

Agency Affected	Fund-Effect	FY 26 \$	FY 27 \$
Department of Revenue Services	GF - Revenue Loss	Up to 40,000	Up to 210,000
Department of Revenue Services	GF - Cost Impact	Up to 175,000	None

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill, which establishes a disaster savings program and associated personal income tax deduction and business tax credit, results in a (1) General Fund revenue loss of up to \$40,000 in FY 26 and up to \$210,000 in FY 27, and (2) one-time General Fund cost of up to \$175,000 in FY 26 only.

Personal Income Tax Deduction

The personal income tax deduction for qualifying account contributions, accrued interest, and withdrawals is estimated to result in an annual General Fund revenue loss of up to \$40,000 beginning in FY 26. This assumes approximately 260 accounts annually based on data from Alabama and Mississippi indicating that, on average, 0.03% of taxpayers establish disaster savings accounts with an average contribution of approximately \$3,300 each.

Business Tax Credit

The credit for employer contributions is estimated to result in a

General Fund revenue loss of up to \$170,000 in FY 27 and up to \$90,000 annually thereafter.¹ This estimate assumes the same level of qualifying accounts as the estimate for the personal income tax deduction.

Department of Revenue Services (DRS) Cost

The bill also results in a one-time cost of up to \$175,000 to the DRS in FY 26 associated with programming updates to the CTax tax administration system and myconneCT online portal, form modification, and printing/ mailing costs.

The Out Years

The bill results in an ongoing revenue loss estimated at up to \$130,000 annually beginning in FY 28.

*Sources: Alabama Department of Revenue
Mississippi Department of Revenue*

¹ The estimated revenue loss is larger in FY 27 as the bill specifies that, for the 2026 tax year only, the credit may be claimed for contributions made in both the 2025 and 2026 tax years.

OLR Bill Analysis**sSB 1401*****AN ACT ESTABLISHING DISASTER SAVINGS ACCOUNTS AND A RELATED TAX DEDUCTION AND CREDIT.*****SUMMARY**

This bill creates a disaster savings program, generally allowing individuals and employers to contribute into specialized accounts to be used for eligible costs after a disaster and receive tax benefits for doing so.

Specifically, the bill creates (1) personal income tax deductions for certain individuals who contribute to, or are the qualified beneficiaries of, funds deposited into a disaster savings account and (2) a tax credit for employers who similarly contribute to employees' accounts. It requires the Department of Revenue Services (DRS) commissioner to implement the tax deduction and credit, including by preparing associated forms, and allows him to adopt implementing regulations.

Under the bill, individuals may open at financial institutions (i.e. banks, credit unions, out-of-state banks or credit unions, or their affiliates or third-party providers) savings accounts dedicated to paying for or reimbursing the insurance deductible and costs for damage or loss to its qualified beneficiary's single-family home in Connecticut from certain disasters. It applies to single-family residential dwellings, including mobile manufactured homes or units in a cooperative, common interest community, or condominium.

To qualify for the bill's tax deductions, account holders must have a federal adjusted gross income (AGI) below \$100,000 for single filers or \$200,000 for joint filers. They may deduct (1) the contributions deposited in the account, capped at \$2,500 for single filers and \$5,000 for joint filers annually; (2) accrued interest; and (3) for an account holder who is also

the account's qualified beneficiary, the amount withdrawn that is used to pay or reimburse him or her for program eligible costs. For the bill's tax credit, employers may annually claim 10% of their contributions to employees' accounts against the corporation business or personal income tax, but the amount is capped at \$2,500 for any specific employee.

If funds are withdrawn from a disaster savings account for a reason other than an allowed purpose, the bill generally imposes a civil penalty of 10% of the withdrawn amount.

EFFECTIVE DATE: Upon passage, except the (1) tax deduction is effective January 1, 2025, and applicable to tax years starting on or after that date, and (2) tax credit is effective January 1, 2026.

ACCOUNT CONTRIBUTIONS

The bill allows anyone to contribute to a disaster savings account with no limit on contributions made to, or contained in, an account. Accounts must only contain cash, but account holders may invest the funds in money market funds.

It prohibits employers of account holders from seeking reimbursement for contributions they make to an employee's account if his or her employment is terminated.

USE OF ACCOUNT FUNDS

The bill limits the use of account funds to paying for (1) a qualified beneficiary's insurance deductible from a claim made under a homeowner's insurance policy that insures against certain disasters (i.e. wildfire, flood, rain, hurricane, tornado, or other severe storm) and damage or loss to the beneficiary's home from those disasters (i.e. "eligible costs") and (2) the financial institution's account service fees. It allows an account holder to withdraw funds from an account to be deposited into another account established for the same purpose without penalty (see below).

ACCOUNT HOLDER POWERS AND RESPONSIBILITIES***Establishing the Account***

Under the bill, an individual may establish only one account with a financial institution. Individuals who file a joint tax return may jointly establish and hold accounts, so long as they jointly file tax returns for each taxable year that the account exists.

The bill prohibits an account holder from using any funds deposited into an account for administrative fees or expenses, other than the financial institution's service fees.

Designating the Beneficiary

The bill requires individual or joint account holders to designate the account's qualified beneficiary. They must do so by April 15 of the year immediately after the taxable year during which the account was established.

Under the bill, account holders may designate a new qualified beneficiary at any time, but there may be only one qualified beneficiary associated with an account at a time. In addition, the bill prohibits anyone from establishing or holding more than one account with the same qualified beneficiary.

Tax Reporting

The bill requires an account holder to submit to the DRS commissioner the following information for each tax year during which the holder has a disaster savings account:

1. his or her tax return;
2. any information the commissioner requires about the account to implement the tax deduction and credit;
3. the IRS Form 1099 issued by the financial institution for the account; and
4. if the account holder withdrew funds from the account during

the taxable year, (a) a detailed accounting of the eligible and ineligible costs paid or reimbursed with account funds and (b) the remaining account balance.

Withdrawing Funds

The bill establishes a civil penalty, collectible by the DRS commissioner, of 10% of the withdrawn amount for an account holder who withdraws account funds for a reason other than paying or reimbursing the qualified beneficiary for an insurance deductible or costs from home loss or damage. If the account holder deducted these withdrawn funds for state income tax purposes, the withdrawn funds are considered income.

The bill waives the withdrawal penalty and does not consider the withdrawn funds as income under the following circumstances:

1. the account holder did not claim the funds for a state income tax deduction,
2. the withdrawn funds were subsequently deposited in another account under the disaster savings program,
3. the withdrawal was due to the death or disability of an account holder who established the account, or
4. the withdrawal is considered an asset disbursement as part of a bankruptcy proceeding.

Commissioner Responsibilities

To implement the deduction and credit, the bill requires the DRS commissioner to prepare forms to:

1. designate (a) accounts as disaster savings accounts and (b) qualified beneficiaries and
2. collect from account holders information for tax purposes and any other information the commissioner needs to perform his program duties.

Financial Institution Responsibilities

The bill requires financial institutions to designate accounts as disaster savings accounts when they are opened and authorizes the DRS commissioner to require them to provide certain unspecified information about the accounts. However, it limits the role of financial institutions by specifying that they are not required to (1) track the use of funds withdrawn from an account or (2) allocate account funds among account holders.

Additionally, under the bill, a financial institution is not liable or responsible for:

1. determining if, or ensuring that, an account meets the bill's requirements;
2. determining if account funds are used to pay for or reimburse eligible costs; or
3. disclosing or remitting taxes or penalties unless applicable law requires it.

However, the bill requires a financial institution to distribute funds in a disaster savings account in keeping with the contract governing the account when it receives proof of an account holder's death and all other information the contract requires.

TAX BENEFIT — INDIVIDUAL DEDUCTION

Beginning with the 2025 tax year, the bill establishes three tax deductions for disaster savings account holders for (1) qualifying contributions, (2) accrued interest, and (3) withdrawals. The deductions apply only to the extent the income is included in the taxpayer's federal AGI.

Income Thresholds

To qualify for the deductions, account holders must meet the following income thresholds:

1. for single filers (i.e. unmarried individuals, married individuals filing separately, and heads of household), a federal AGI of less than \$100,000 and
2. for joint filers, a federal AGI of less than \$200,000.

Deduction Amounts

Contributions. The bill establishes a deduction for contributions that generally equals the amount contributed to an account during the applicable tax year, minus any funds withdrawn during the tax year that were not already claimed for a deduction, up to \$2,500 for single filers and \$5,000 for joint filers for each such tax year.

Accrued Interest. The bill allows account holders to deduct the total interest accrued on their accounts during each tax year.

Qualified Beneficiary Deduction. For an account holder who is a qualified beneficiary, the bill establishes a tax deduction in the amount of any withdrawal from an account that is used to pay, or reimburse for, the eligible costs he or she incurs (i.e. the income from a withdrawal used to pay eligible expenses is offset by this tax deduction).

TAX BENEFIT — EMPLOYER CREDIT

Beginning with the 2026 tax or income year, as applicable, the bill establishes a tax credit for employers that contribute to a current employee's disaster savings account, which they may claim against the corporation business tax or personal income tax (but not the withholding tax). The bill sets the annual credit amount at 10% of the employer's contributions to the employees' accounts, capped at \$2,500 for any specific employee. For the 2026 tax or income year, the credit may include contributions made during the 2025 and 2026 tax or income years.)

Under the bill, if the employer is an S corporation or a partnership for federal income tax purposes, the employer's shareholders or partners may claim the credit. For a single-member limited liability company that is disregarded as an entity separate from its owner (i.e. a disregarded

entity), the owner may claim the credit if he or she is subject to business corporation or income tax. Taxpayers claiming the credit must give DRS documentation that supports their claim, as the commissioner requires.

COMMITTEE ACTION

Banking Committee

Joint Favorable Substitute

Yea 13 Nay 0 (03/11/2025)