



Senate

General Assembly

File No. 882

January Session, 2025

Substitute Senate Bill No. 1558

Senate, May 12, 2025

The Committee on Finance, Revenue and Bonding reported through SEN. FONFARA of the 1st Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING INCOME TAXES IMPOSED BY OTHER JURISDICTIONS ON RESIDENTS OF THE STATE.

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

1 Section 1. Subsection (a) of section 12-704 of the general statutes is
2 repealed and the following is substituted in lieu thereof (*Effective January*
3 *1, 2026, and applicable to taxable years commencing on or after January 1,*
4 *2026*):

5 (a) (1) Any resident or part-year resident of this state shall be allowed
6 a credit, subject to the provisions of subdivision (6) of this subsection,
7 against the tax otherwise due under this chapter in the amount of any
8 income tax imposed on such resident or part-year resident for the
9 taxable year by another state of the United States or a political
10 subdivision thereof or the District of Columbia on income derived from
11 sources therein and [which] that is also subject to tax under this chapter.

12 (2) In the case of a resident, the credit provided under this section

13 shall not exceed the proportion of the tax otherwise due under this
14 chapter that the amount of the taxpayer's Connecticut adjusted gross
15 income derived from or connected with sources in the other taxing
16 jurisdiction bears to such taxpayer's Connecticut adjusted gross income
17 under this chapter. The provisions of this section shall also apply to
18 resident trusts and estates and, wherever reference is made in this
19 section to residents of this state, such reference shall be construed to
20 include resident trusts and estates.

21 (3) In the case of a part-year resident, the credit provided under this
22 section shall not exceed the proportion of the tax otherwise due during
23 the period of residency under this chapter that the amount of the
24 taxpayer's Connecticut adjusted gross income derived from or
25 connected with sources in the other jurisdiction during the period of
26 residency bears to such taxpayer's Connecticut adjusted gross income
27 during the period of residency under this chapter. The provisions of this
28 section shall also apply to part-year resident trusts and, wherever
29 reference is made in this section to part-year residents of this state, such
30 reference shall be construed to include part-year resident trusts.

31 (4) The allowance of the credit provided under this section shall not
32 reduce the tax otherwise due under this chapter to an amount less than
33 what would have been due if the income subject to taxation by such
34 other jurisdiction were excluded from Connecticut adjusted gross
35 income.

36 (5) For purposes of this subsection, a tax on wages that is paid to
37 another state of the United States or a political subdivision thereof or the
38 District of Columbia by an employer on behalf of an employee and for
39 which a credit is allowed by such other jurisdiction shall be considered
40 an income tax and a comparable credit may be claimed by the resident
41 or part-year resident, subject to the limitations set forth in this
42 subsection, in the form and manner prescribed by the commissioner.

43 (6) Notwithstanding the provisions of subdivisions (2) and (3) of this
44 subsection, the portion of the amount of any credit allowed pursuant to
45 this section that is attributable to income derived from services rendered

46 while such resident or part-year resident was within this state shall be
47 multiplied by ninety-nine-hundredths.

48 Sec. 2. (*Effective from passage*) The Attorney General shall study
49 specific steps the office of the Attorney General may take to defend
50 residents of this state from having taxes imposed by another state of the
51 United States or a political subdivision thereof or the District of
52 Columbia on income derived from services rendered while such
53 resident was within this state. Not later than January 1, 2026, the
54 Attorney General shall submit a report, in accordance with the
55 provisions of section 11-4a of the general statutes, of the findings of such
56 study and any recommendations of said office to the joint standing
57 committee of the General Assembly having cognizance of matters
58 relating to finance, revenue and bonding.

59 Sec. 3. (NEW) (*Effective from passage*) For taxable years commencing
60 on or after January 1, 2020:

61 (1) A resident of this state who satisfies the provisions of
62 subparagraphs (A) to (D), inclusive, of this subdivision shall be allowed
63 a credit against the tax otherwise due for the applicable taxable year
64 under chapter 229 of the general statutes, other than the liability
65 imposed by section 12-707 of the general statutes, in an amount equal to
66 fifty per cent of the amount of taxes owed to this state as a result of the
67 readjustment of the credit for taxes paid to another state of the United
68 States or a political subdivision thereof or the District of Columbia,
69 pursuant to section 12-704 of the general statutes, as amended by this
70 act. To be eligible for the credit under this section, such resident shall
71 have:

72 (A) Paid any income tax or wage tax imposed for the taxable year by
73 another state of the United States or a political subdivision thereof or the
74 District of Columbia;

75 (B) Applied for and been denied a refund from such other jurisdiction
76 for taxes paid to such other jurisdiction on income derived from services
77 rendered while such resident was within this state;

78 (C) Filed an appeal with a court or tribunal through which such
79 resident formally protested such denial; and

80 (D) Obtained a final decision that resulted in such resident being
81 refunded taxes paid to such other jurisdiction on income derived from
82 services rendered while such resident was within this state.

83 (2) No penalty or interest shall be imposed on any late payment of
84 the tax due under chapter 229 of the general statutes, other than the
85 liability imposed by section 12-707 of the general statutes, if (A) such
86 late payment is attributable to a reduction in the credit for taxes paid
87 under section 12-704 of the general statutes, as amended by this act, (B)
88 such reduction in the credit for taxes paid is the direct result of a refund
89 that a resident of this state received from another state of the United
90 States or a political subdivision thereof or the District of Columbia, (C)
91 such refund relates to income derived from services rendered while
92 such resident was not within such other jurisdiction, and (D) such other
93 jurisdiction requires employee income to be sourced to an employer's
94 location if a nonresident renders services from an out-of-state location.

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

Section 1	<i>January 1, 2026, and applicable to taxable years commencing on or after January 1, 2026</i>	12-704(a)
Sec. 2	<i>from passage</i>	New section
Sec. 3	<i>from passage</i>	New section

FIN 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 \$
Revenue Serv., Dept.	GF - Revenue Gain	None	3.5 million
Revenue Serv., Dept.	GF - Revenue Impact	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill makes several changes to the personal income tax credit for taxes paid to other jurisdictions which results in the impacts described below.

Section 1 reduces, by 1%, the credit for income taxes paid to qualifying jurisdictions on income derived from services rendered in Connecticut which results in a revenue gain of approximately \$3.5 million annually beginning in FY 27.

Section 2 requires the Office of the Attorney General (OAG) to study the steps it may take to defend residents from having income taxes imposed on them by other states resulting in no fiscal impact to the state because the OAG has the expertise to meet the requirements of the bill.

Section 3 creates a 50% state personal income tax credit for any state resident that successfully challenges another state's convenience of the employer rule. This potentially precludes a revenue gain, the magnitude of which is dependent on the successful challenger's amount of Connecticut taxes that would otherwise be owed.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis**sSB 1558*****AN ACT CONCERNING INCOME TAXES IMPOSED BY OTHER JURISDICTIONS ON RESIDENTS OF THE STATE.*****SUMMARY**

This bill makes several changes impacting Connecticut residents who pay income taxes to another state, political subdivision, or the District of Columbia on income that is also subject to Connecticut income taxes.

Existing law allows these taxpayers to take a credit against their Connecticut income taxes if the income tax payments made to those other jurisdictions are (1) derived from or connected with sources within the jurisdiction and (2) subject to tax there. Under current law, the total credit amount is limited to the lesser of the (1) amount of income tax paid to the qualifying jurisdiction; (2) portion of Connecticut income tax due on the Connecticut adjusted gross income (AGI) sourced in the qualifying jurisdiction (or, for part-time residents, the amount of Connecticut income tax due on the portion of Connecticut AGI sourced in the qualifying jurisdiction and earned during the taxpayer's residency portion of the tax year); or (3) taxpayer's Connecticut income tax liability. The bill reduces the amount of this credit that is attributable to income derived from services rendered in Connecticut by multiplying it by 99%.

The bill also creates another, related income tax credit for residents who successfully challenge another jurisdiction for taxing their income earned in Connecticut and denying them a refund. Generally, the credit equals 50% of the amount of their Connecticut taxes owed after applying the above existing credit. Additionally, the bill prohibits penalizing the late payment of Connecticut income taxes if, among other things, another jurisdiction requires the person's income for working in Connecticut be sourced to his or her employer in that other jurisdiction.

(This requirement is sometimes referred to as the “convenience of the employer rule” (see BACKGROUND).) Both the new credit and prohibition apply to taxable years that began on or after January 1, 2020.

Lastly, the bill requires the attorney general to study specific steps his office may take to defend Connecticut residents from having taxes imposed by another state, political subdivision, or the District of Columbia on income derived from services rendered while they were within Connecticut. By January 1, 2026, he must submit a report with findings and recommendations to the Finance, Revenue and Bonding Committee.

EFFECTIVE DATE: Upon passage, except the changes to the existing credit are effective January 1, 2026, and applicable to taxable years that begin on or after that date.

NEW INCOME TAX CREDIT AND PROHIBITION ON PENALIZING LATE PAYMENTS

The bill allows Connecticut residents who satisfy certain conditions to have a credit against their income taxes (but not the withholding tax) in an amount equal to 50% of the amount of taxes owed to Connecticut after applying the above existing credit. To be eligible for this new credit, a resident must have:

1. paid any income tax or wage tax imposed for the taxable year by another state, political subdivision, or the District of Columbia;
2. applied for and been denied a refund from the other jurisdiction for taxes paid to it on income derived from services rendered while the resident was within Connecticut;
3. filed an appeal with a court or tribunal through which the resident formally protested the denial; and
4. obtained a final decision that resulted in the resident being refunded taxes paid to the other jurisdiction on his or her Connecticut-derived income.

The bill also prohibits any penalty or interest being imposed on any late payment of Connecticut income taxes (but not the withholding tax) if:

1. the late payment is attributable to a reduction in the above existing credit that was directly caused by a refund that a Connecticut resident received from another state, political subdivision, or the District of Columbia;
2. the refund relates to income derived from services rendered while the resident was not within the other jurisdiction; and
3. the other jurisdiction requires employee income to be sourced to an employer's location if a nonresident renders services from an out-of-state location.

BACKGROUND

Convenience of the Employer Rule

Most states that impose an income tax require nonresidents who work there to source their wage income to the state based on the number of days they worked there. Some states, however, use a convenience of the employer rule to source nonresident wage income. Under this rule, the income from days the nonresident taxpayer was working from a location outside the state (e.g., in their home state) is sourced based on whether he or she was working remotely for convenience or the employer's necessity. At least seven states (Alabama, Connecticut, Delaware, Nebraska, New Jersey, New York, and Pennsylvania) apply the convenience of the employer rule. Connecticut and New Jersey apply a reciprocal convenience rule, meaning that it applies only if the taxpayer's resident state applies a similar rule.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 52 Nay 0 (04/24/2025)