## 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)