OLR Bill Analysis

sSB 1558 (File 882, as amended by Senate "A")*

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

SUMMARY

This bill creates an income tax credit for Connecticut residents who successfully challenge another state, political subdivision, or the District of Columbia (qualifying jurisdictions) for taxing their income earned in Connecticut and denying them a refund on those taxes. Generally, the credit equals 60% of the amount of the Connecticut taxes owed because of the resulting adjustment to the credit the taxpayer received for taxes paid to the qualifying jurisdiction. Additionally, the bill exempts late income tax payments from penalties and interest if, among other things, they result from the taxpayer receiving a refund from another jurisdiction that (1) imposes a "convenience of the employer rule" (see BACKGROUND) and (2) issued the taxpayer a refund for taxes imposed under that rule. Under the bill, these provisions apply to tax years that began on or after January 1, 2020.

The bill also requires the attorney general to study specific steps his office, the governor's office, and the General Assembly can take to defend Connecticut residents from having taxes imposed by another jurisdiction on income derived from services rendered while they were in Connecticut. By January 1, 2026, he must submit a report with findings and recommendations to the Finance, Revenue and Bonding Committee.

*Senate Amendment "A" (1) increases the value of the credit established under the bill from 50% to 60%; (2) eliminates provisions in the underlying bill reducing the income tax credit for taxes paid to qualifying jurisdictions; and (3) requires the attorney general to additionally study the steps the governor's office or General Assembly can take to defend Connecticut residents from having taxes imposed by

other jurisdictions while they are in Connecticut.

EFFECTIVE DATE: Upon passage

INCOME TAX CREDIT AND EXEMPTION FOR LATE PAYMENT PENALTIES AND INTEREST

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 60% of the amount of taxes owed to Connecticut after applying the credit for taxes paid to qualifying jurisdictions. To be eligible for this new credit, a resident must have:

1. paid any income or wage tax imposed for the tax year (2020 and after) by a qualifying jurisdiction;

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 in Connecticut (e.g., while working from their home office);

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 Connecticut refunding the resident taxes paid to the other jurisdiction from services rendered while the resident was in Connecticut. (However, this refund would be issued by the other jurisdiction, not Connecticut.)

By law, taxpayers must file an amended income tax return if they claimed a credit for income tax paid to a qualifying jurisdiction on their original return and the tax officials or courts of the qualifying jurisdiction made a change to, or a correction that changes, the amount of the taxpayer's allowable credit (and thus changes the amount of Connecticut income tax due). Under the bill, penalties or interest do not apply to any late payment of Connecticut income taxes (but still apply to the withholding tax) if:

1. the late payment is attributable to a reduction in the credit for

taxes paid to qualifying jurisdictions that was directly caused by a refund that a Connecticut resident received from another jurisdiction,

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)