

## Payroll Commission

[PA 19-117](#) (§ 385)

### § 385 — PAYROLL TAX INFORMATION RETURN AND ANALYSIS

*Requires DRS to collect data necessary to evaluate the implementation of an employer payroll tax; establishes a payroll commission to (1) hold informational forums on the tax, (2) analyze the data DRS collects, and (3) report its findings, recommendations, and estimates to the Finance Committee*

#### **Information Return Form**

The bill requires DRS to collect data necessary to evaluate the implementation of an employer payroll tax beginning January 1, 2021. Under the bill, DRS must develop and produce an information return form and, by August 15, 2019, mail the form to employers, excluding the federal government, state, municipalities, local or regional boards of education, tribal nations, and self-employed individuals. DRS must send the form electronically or by first class mail. Employers must return it by October 1, 2019.

#### **Payroll Commission Analysis**

The bill (1) establishes a payroll commission composed of the DRS commissioner, OPM secretary, and Finance, Revenue and Bonding chairpersons and ranking members and (2) requires the commission to analyze the data DRS collects from the information return forms. The Finance, Revenue and Bonding Committee's administrative staff must serve as the commission's staff; DRS and OPM must provide additional support as necessary. The commission may also consult with and solicit advice from tax experts and business leaders.

The bill explicitly authorizes the DRS commissioner to disclose the data collected from the information return forms to the commission's members and staff, and DRS or OPM staff supporting the commission, but prohibits the members (other than the commissioner) and staff from disclosing any return or return information that they are not otherwise authorized to disclose under state law. The law establishes narrow conditions under which return information may be disclosed and sets penalties for unauthorized disclosures (a fine of up to \$1,000, up to one year in prison, or both (CGS § 12-15(g))).

The bill also requires the commission to (1) hold informational forums to educate its members and the public about the payroll tax proposal; (2) request and receive comments, written testimony, and information from the public; and (3) consider such comments and testimony in its analysis.

**Wage Base Assumptions and Other Recommendations.** The commission must analyze the data collected from the information return forms to establish the wage base on which to impose a payroll tax. It must use the wage base it establishes for any of the estimates or calculations described below that require a wage base.

The analysis must also (1) give an opinion on whether the tax may be imposed on the federal government or on tribal nations for wages paid to Connecticut employees and (2) recommend whether the tax should be levied on the state, municipalities, local or regional boards of education, or certain federally tax-exempt organizations for wages paid to Connecticut employees.

The analysis must also recommend how to treat minimum wage employers and employees under a payroll tax by examining the costs and impacts of the following:

1. redefining “minimum fair wage” to include the portion of the payroll tax imposed on the employer that is attributed to an employee’s wages,
2. exempting wages of less than a threshold amount (the commission must specify a recommended threshold for this option),
3. providing a credit for employers for the amount of payroll tax paid on behalf of minimum wage employees,
4. leaving the minimum wage unadjusted, or
5. any other option the commission deems reasonable.

**Tax Credit for Low-Income Taxpayers.** Based on the above wage base assumptions and other recommendations, and various other estimates described below, the commission must recommend a tax credit for low-income taxpayers that results in the net income of all taxpayers being equal to or greater than the projected net income of all personal income taxpayers under the current state personal income tax.

The credit must be (1) refundable, (2) structured in a way that does not result in taxpayers with greater adjusted gross incomes (AGI) having a lower net income than those with lower AGIs, and (3) structured to minimize the revenue decrease. It may also do the following:

1. cap or limit total income or unearned income,
2. be phased out,
3. depend on the payroll tax paid on an employee’s wages, or
4. include eligibility requirements (e.g., filing status).

The commission must specify the threshold used for determining a low-income taxpayer and any limits or requirements it deems desirable or necessary to achieve the credit’s purposes.

**Revenue Estimates.** Based on its wage base assumptions and other recommendations, the commission must provide estimates of the total revenue an employer payroll tax would generate. In doing so, it must provide separate estimates based on the assumption that (1) a 5% payroll tax is imposed beginning January 1, 2021, and (2) a payroll tax is phased in over three years at the rate of 1.5% in year one, 3% in year two, and 5% in year three. For the phase-in estimate, the commission must assume the reductions in income tax rates (described below) are phased in proportionately.

The commission must also estimate the total revenue decrease as a result of reducing personal income tax rates as shown in the table below. In calculating this estimate, it must assume that the current income tax rates continue to apply to nonwage income.

Current Income Tax Rates & Proposed Rate Reductions

<i>Current Rate</i>	<i>Proposed Rate</i>
3.0%	0%
5.0	0
5.5	0.5
6.0	1.0
6.5	2.5
6.9	2.9
6.99	2.99

It must also estimate the (1) total personal income tax revenue generated from individuals who work in other states and apply a credit against the tax (presumably, the credit for taxes paid to other jurisdictions) and (2) revenue from such individuals under the reduced income tax rates.

**Federal Government and Tribal Nation Employees.** Assuming that the state cannot levy a payroll tax on federal or tribal nation employees in Connecticut, the commission must calculate the decrease in state personal income tax liability for such employees that would result from the reduced income tax rates shown above.

**Federal Income, Social Security, and Medicare Taxes.** Based on (1) its wage base assumptions and other recommendations and (2) the assumption that employers will reduce or forego wage increases in response to a payroll tax, the commission must provide estimates of the decreased federal income, Social Security, and Medicare taxes that employees would pay. It must provide the estimates by income decile and tax type, for both of the payroll tax rate options described above. It must also specify the number or percentage of employees it assumed for these purposes.

**Income and Payroll Tax Estimates by Income Decile.** Based on its wage base assumptions and other recommendations and the income tax rate reductions described above, the commission must estimate the annual total state income and payroll tax that would be paid by, or on behalf of, an employee for each income decile. It must do so for both of the payroll tax rate options.

For each income decile, the commission must compare the estimated amounts with the amount of state income tax that would be paid by an employee who receives a wage increase equal to the increase in average hourly earnings of all private employees, as reported by the U.S. Department of Labor's Bureau of Labor Statistics in its most recent year-over-year reporting.

**Estimated Property Tax Deductions Against the Federal Income Tax.** Based on its wage base assumptions and other recommendations and the income tax rate reductions described above, the commission must estimate the total additional amount of property tax deductions that taxpayers may claim under an itemized federal tax return as a result of the income tax rate reductions. In doing so, the commission must exclude any other applicable deduction that taxpayers can claim.

**Technological Capabilities.** The commission must examine DRS's computer and other technological capabilities to implement a payroll tax.

**Report**

By January 15, 2020, the commission must report to the Finance, Revenue and Bonding Committee its recommendations, findings, and estimates, including any not required by the bill it deems appropriate and desirable to accomplish the bill's goals.

The report must also include:

1. withholding schedules the commission develops for both of the payroll tax options based on its wage base analysis and the proposed income tax rate reductions and
2. ways to publicize and educate taxpayers about the payroll tax proposals, including recommendations for funding to support such efforts.

The commission terminates on the later of the date it submits the report or January 15, 2020.

EFFECTIVE DATE: Upon passage