PA 25-172—sSB 1558
Finance, Revenue and Bonding Committee

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

SUMMARY: This act creates an income tax credit for Connecticut residents who successfully challenge another state, another state's political subdivision, or the District of Columbia 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 other jurisdiction. Additionally, the act 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 required the person's income for working in Connecticut be sourced to his or her employer's location in that other jurisdiction. (This requirement is sometimes referred to as the "convenience of the employer rule" (see BACKGROUND).) Under the act, these provisions apply to tax years that began on or after January 1, 2020.

The act also requires the attorney general to study specific steps his office, the governor's office, or 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.
EFFECTIVE DATE: Upon passage

INCOME TAX CREDIT AND EXEMPTION FOR LATE PAYMENT PENALTIES AND INTEREST

The act 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 another state, another state's political subdivision, or the District of Columbia. 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 one of those other jurisdictions,
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,
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 other jurisdiction refunding the

resident taxes paid to it on income derived from services rendered while the resident was in Connecticut.

By law, Connecticut taxpayers must file an amended income tax return if they claimed a credit for income tax paid to another state, another state's political subdivision, or the District of Columbia on their original return and the tax officials or courts of those jurisdictions 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) (CGS § 12-704). Under the act, 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 one of those other jurisdictions that was directly caused by a refund that a Connecticut resident received from the other 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.