



Senate

General Assembly

File No. 697

February Session, 2026

Substitute Senate Bill No. 510

Senate, April 20, 2026

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 ESTABLISHING A CAPITAL GAINS SURCHARGE.

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

1 Section 1. (NEW) (*Effective from passage*) (a) For taxable years
2 commencing on or after January 1, 2027, there is imposed a surcharge
3 on a taxpayer, excluding trusts or estates, whose Connecticut adjusted
4 gross income is equal to or greater than (1) one million dollars for an
5 individual who files a return under the federal income tax as an
6 unmarried individual or a married individual filing separately, (2) one
7 million six hundred thousand dollars for an individual who files a
8 return under the federal income tax as a head of household, and (3) two
9 million dollars for individuals who file a return under the federal
10 income tax as married individuals filing jointly. Such surcharge shall be
11 at the rate of one and seventy-five-hundredths per cent of the net gain
12 from the sale or exchange of capital assets, as determined for federal
13 income tax purposes. The surcharge shall be in addition to any other tax,
14 fee or surcharge for which the taxpayer is liable, except that any such

15 taxpayer shall be allowed a one-time exclusion for the net gain from the
16 sale of the taxpayer's primary residence in the state or from the sale of
17 the taxpayer's ownership interest in a business.

18 (b) Each taxpayer subject to the surcharge shall file a report with the
19 Commissioner of Revenue Services, in such form and containing such
20 information as the commissioner prescribes, on or before the fifteenth
21 day of the fourth month following the close of the taxpayer's taxable
22 year. Such report shall accurately set forth the amount of the net gain
23 calculated pursuant to subsection (a) of this section for the preceding
24 taxable year and the amount of the taxpayer's surcharge liability for
25 such year. A taxpayer required to file a report shall, without assessment,
26 notice or demand, pay any surcharge due thereon to the commissioner
27 on or before the date specified in this subsection, determined without
28 regard to any extension of time for filing the report.

29 (c) If any person fails to pay the amount of the surcharge reported
30 due on a report within the time specified, there shall be imposed a
31 penalty equal to ten per cent of such amount due and unpaid, or fifty
32 dollars, whichever is greater. Such amount shall bear interest at the rate
33 of one per cent per month or fraction thereof, from the due date of such
34 surcharge until the date of payment. Subject to the provisions of section
35 12-3a of the general statutes, the commissioner may waive all or part of
36 the penalties provided under this section when it is proven to the
37 commissioner's satisfaction that the failure to pay any surcharge was
38 due to reasonable cause and was not intentional or due to neglect.

39 (d) The provisions of sections 12-550 to 12-554, inclusive, and section
40 12-555a of the general statutes shall apply to the provisions of this
41 section in the same manner and with the same force and effect as if the
42 language of said sections had been incorporated in full into this section
43 and had expressly referred to the surcharge under this section, except to
44 the extent that any provision is inconsistent with a provision in this
45 section.

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| This act shall take effect as follows and shall amend the following sections: | | |
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|-----------|---------------------|-------------|
| Section 1 | <i>from passage</i> | New section |
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Statement of Legislative Commissioners:

In Section 1(b), "such return" was changed to "such report" for consistency.

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 27 \$ | FY 28 \$ |
|--|-------------------|----------|--------------|
| Department of Revenue Services | GF - Revenue Gain | None | 260 million |
| Department of Revenue Services | GF - Cost | None | 1.75 million |
| State Comptroller - Fringe Benefits ¹ | GF - Cost | None | 271,830 |

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill, which establishes a capital gains surcharge for certain filers, results in (1) an annual General Fund revenue gain of approximately \$260 million beginning in FY 28, (2) a one-time cost of \$1.1 million² to DRS in FY 28 for programming and technology updates and form development to implement the tax, and (3) ongoing costs of \$921,830 for ten Revenue Examiners (\$65,000 each for salary and \$27,183 each for fringe benefits) beginning in FY 28 to administer, audit, and enforce the tax.

The Out Years

The annualized ongoing fiscal impact identified above would

¹The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 41.82% of payroll in FY 27.

² This estimate is based on the development and implementation costs of the pass-through entity tax.

continue into the future subject to inflation.

Sources: Internal Revenue Service Statistics of Income

OLR Bill Analysis**sSB 510*****AN ACT ESTABLISHING A CAPITAL GAINS SURCHARGE.*****SUMMARY**

Starting with the 2027 tax year, this bill imposes a 1.75% surcharge on the net gain from the sale or exchange of capital assets (net capital gains) for taxpayers, other than trusts or estates, with incomes that exceed specified thresholds. The surcharge (1) applies to net capital gains, as determined under federal income tax rules (see BACKGROUND), and (2) is in addition to any other tax, fee, or surcharge for which the taxpayer is liable. It allows taxpayers to claim a one-time exclusion for capital gains from the sale of their (1) primary residence in Connecticut or (2) ownership interest in a business.

Under the bill, the surcharge applies to taxpayers with Connecticut adjusted gross income equal to or more than (1) \$1 million for single filers and married individuals filing separately, (2) \$1.6 million for heads of households, and (3) \$2 million for joint filers. (The bill does not define “taxpayer” or “Connecticut adjusted gross income.”)

EFFECTIVE DATE: Upon passage

FILING AND REMITTING RETURNS

The bill requires taxpayers subject to the surcharge to file a report with the Department of Revenue Services by April 15 in the form, and containing the information, the commissioner prescribes. The report must accurately list the taxpayer’s capital gains for the preceding tax year and the amount of the taxpayer’s surcharge liability for that year. Any taxpayer who is required to file a report must pay the surcharge by April 15 without receiving an assessment, notice, or demand.

PENALTIES AND INTEREST FOR LATE PAYMENTS

The bill imposes a penalty of 10% of the tax due or \$50, whichever is greater, on taxpayers who fail to pay the surcharge. The penalty gathers interest at the rate of 1% per month or partial month from the surcharge's due date until it is paid. The commissioner may waive all or part of any penalty, subject to the law's provisions on the Penalty Review Committee, when the taxpayer proves to the commissioner's satisfaction that the failure to pay the surcharge was due to reasonable cause and not intentional or due to neglect.

COLLECTION AND ENFORCEMENT PROCEDURES

The bill applies several collection, enforcement, and appeal process requirements established in statute for the admissions and dues taxes to the surcharge, except those provisions that are inconsistent with the bill. Among other things, these provisions cover (1) refunds for tax overpayments; (2) hearing and appeals processes; (3) penalties for certain willful violations or fraud; (4) record retention and examination requirements; and (5) methods for collecting delinquent taxes, penalties, and interest through tax warrants and liens.

BACKGROUND

Federal Tax Treatment of Capital Gains

Capital gains are the profits from the sale of capital assets, which generally include property, such as homes and furniture, and investments, such as stocks and bonds, held for personal or investment purposes. A capital gain occurs when a capital asset is sold or exchanged at a price higher than its basis (generally its purchase price), while a capital loss occurs when an asset is sold for less than its basis. (Special rules apply to certain assets, including assets received as a gift or an inheritance.)

Under federal income tax law, capital gains and losses are classified as either long- or short-term, generally depending on whether the taxpayer held the asset for more or less than a year. Taxpayers may use their capital losses to offset capital gains. If a taxpayer has a "net capital gain," that gain is usually taxed at a lower (preferential) tax rate than ordinary income. A net capital gain is the amount, in a given year, by

which a taxpayer’s net long-term capital gain is more than their net short-term capital loss (subject to certain limits on the deduction and carryover of losses). The term “net long-term capital gain” means the amount by which long-term capital gains exceed long-term capital losses (including any unused long-term capital losses carried over from previous years). A “net short-term capital loss” is the amount by which short-term capital losses exceed short-term capital gains (IRS, Topic no. 409, *Capital Gains and Losses*).

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 35 Nay 18 (04/01/2026)