



# Senate

General Assembly

**File No. 698**

February Session, 2026

Substitute Senate Bill No. 513

*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 CONCERNING A PAYROLL TAX AND STRUCTURAL EFFICIENCY IN THE COLLECTION OF SUCH TAX AND ESTABLISHING AN ADMINISTRATIVE EFFICIENCY ACCOUNT FOR THE REDUCTION OF CERTAIN CONSUMER CHARGES.***

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

1 Section 1. (NEW) (*Effective from passage*) (a) As used in this section:

2 (1) "Employer" means an employer required to deduct and withhold  
3 tax from wages pursuant to subparagraph (A) of subdivision (1) of  
4 subsection (a) of section 12-705 of the general statutes, as amended by  
5 this act. "Employer" does not include the federal government or any  
6 tribal government;

7 (2) "Payroll expense" means (A) wages, as defined in Section 3121 of  
8 the Internal Revenue Code of 1986, or any subsequent corresponding  
9 internal revenue code of the United States, as amended from time to  
10 time, without regard to Section 3121(a)(1) of said code, and (B)  
11 compensation, as defined in Section 3231 of said code, without regard  
12 to Section 3231(e)(2)(A)(i) of said code, that are paid to all covered  
13 employees;

14 (3) "Covered employee" means an employee of an employer, who is  
15 employed in the state, required to have amounts withheld from wages  
16 pursuant to subparagraph (A) of subdivision (1) of subsection (a) of  
17 section 12-705 of the general statutes, as amended by this act, and  
18 receives an annual gross income from wages and compensation of more  
19 than (A) fifty thousand dollars for a person who files a return under the  
20 federal income tax for the taxable year as other than a head of  
21 household, or (B) eighty thousand dollars for a person who files a return  
22 under the federal income tax for the taxable year as a head of household.  
23 "Covered employee" includes an employee who is a member of an  
24 employee organization who has provided certification from a  
25 representative of such employee organization that nothing in the  
26 applicable collective bargaining agreement prohibits such employee  
27 from electing to receive a reduction in payroll expense in accordance  
28 with the provisions of this section;

29 (4) "Electing covered employee" means a covered employee who  
30 elects to participate in the payroll tax program pursuant to this section;  
31 and

32 (5) "Employee organization" means any lawful association, labor  
33 organization, federation or council having as a primary purpose the  
34 improvement of wages, hours and other conditions of employment  
35 among employees.

36 (b) There is established, for taxable years commencing on or after  
37 January 1, 2027, a payroll tax program under which (1) any covered  
38 employee may elect to participate in such program by agreeing to a  
39 payroll expense reduction calculated in accordance with the provisions  
40 of subsection (c) of this section, and who shall be allowed a credit against  
41 the tax imposed under chapter 229 of the general statutes, and (2) the  
42 employer of the electing covered employee shall pay (A) a payroll tax in  
43 accordance with the provisions of subsection (d) of this section, and (B)  
44 the additional amount set forth in subsection (f) of this section for each  
45 electing covered employee.

46 (c) (1) For the purposes of this subsection, "E" means the Social

47 Security tax rate of the employee contribution, "O" means the electing  
 48 covered employee's payroll expense amount prior to application of the  
 49 calculation under this subsection, "P" means the applicable payroll tax  
 50 rate and "S" means the maximum taxable earnings threshold for the  
 51 Social Security tax.

52 (2) The amount to which an electing covered employee's payroll  
 53 expense shall be reduced shall be equal to the product of (A) one  
 54 hundred per cent minus P, (B) multiplied by the sum of (i) the product  
 55 of O multiplied by P (ii) plus the product of E multiplied by the  
 56 maximum of zero and the minimum of (I) the sum of S plus negative O  
 57 plus the product of O multiplied by P, and (II) the product of O times P,  
 58 provided if the amount calculated under subparagraph (B)(ii) of this  
 59 subdivision is less than zero, such amount shall be disregarded for  
 60 purposes of determining the reduction under this subdivision.

61 (3) Such reduction shall apply only once at the time of an electing  
 62 covered employee's initial participation in the payroll tax program. A  
 63 reelection to participate in the program by a covered employee, who  
 64 was previously a participant in the program but stopped such  
 65 participation, shall be treated as an initial participation for purposes of  
 66 the payroll expense reduction.

67 (d) For taxable years commencing on or after January 1, 2027, the  
 68 payroll tax rates on the payroll expense of an electing covered employee  
 69 after application of the calculation under subsection (c) of this section  
 70 shall be in accordance with the following schedule:

71 (1) For any person who files a return under the federal income tax for  
 72 such taxable year as an unmarried individual:

T1	Electing Covered Employee's	Rate of Payroll Tax
T2	Payroll Expense	
T3	Over \$50,000 but not over \$100,000	5.0%
T4	Over \$100,000 but not over \$200,000	5.75%
T5	Over \$200,000 but not over \$250,000	6.34%
T6	Over \$250,000 but not over \$510,050	7.47%

T7 Over \$510,050 10.50%

73 (2) For any person who files a return under the federal income tax for  
74 such taxable year as a head of household, as defined in Section 2(b) of  
75 the Internal Revenue Code:

T8	Electing Covered Employee's	Rate of Payroll Tax
T9	Payroll Expense	
T10	Over \$80,000 but not over \$160,000	5.0%
T11	Over \$160,000 but not over \$320,000	5.75%
T12	Over \$320,000 but not over \$400,000	6.34%
T13	Over \$400,000 but not over \$510,050	7.47%
T14	Over \$510,050	10.50%

76 (3) For any person who files a return under the federal income tax for  
77 such taxable year as married individuals filing jointly or any person who  
78 files a return under the federal income tax for such taxable year as a  
79 surviving spouse, as defined in Section 2(a) of the Internal Revenue  
80 Code:

T15	Electing Covered Employee's	Rate of Payroll Tax
T16	Payroll Expense	
T17	Over \$50,000 but not over \$100,000	5.0%
T18	Over \$100,000 but not over \$200,000	5.75%
T19	Over \$200,000 but not over \$250,000	6.34%
T20	Over \$250,000 but not over \$510,050	7.47%
T21	Over \$510,050	10.50%

81 (4) For any person who files a return under the federal income tax for  
82 such taxable year as a married individual filing separately:

T22	Electing Covered Employee's	Rate of Payroll Tax
T23	Payroll Expense	
T24	Over \$50,000 but not over \$100,000	5.0%
T25	Over \$100,000 but not over \$200,000	5.75%
T26	Over \$200,000 but not over \$250,000	6.34%

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T27	Over \$250,000 but not over \$255,025	7.47%
T28	Over \$255,025	10.50%

83 (e) Each employer employing an electing covered employee shall pay  
84 the payroll tax for such employee to the Commissioner of Revenue  
85 Services at the same time and in the same manner the employer would  
86 be required to pay the tax under subparagraph (A) of subdivision (1) of  
87 subsection (a) of section 12-705 of the general statutes, as amended by  
88 this act, and shall file a return in such form and manner as the  
89 commissioner prescribes.

90 (f) (1) In addition to the payroll tax under this section, an employer  
91 employing an electing covered employee shall pay, for each taxable year  
92 for each such employee, an amount equal to the lesser of:

93 (A) The maximum taxable earnings threshold for the Social Security  
94 tax minus the payroll expense of the electing covered employee after  
95 application of the calculation under subsection (c) of this section,  
96 multiplied by the Social Security tax rate inclusive of both the employer  
97 and the employee contributions; or

98 (B) The amount of the payroll expense reduction under subsection (c)  
99 of this section multiplied by the Social Security tax rate inclusive of both  
100 the employer and the employee contributions.

101 (2) If the amount calculated under this subsection for an electing  
102 covered employee is less than zero, the amount such employer shall be  
103 required to pay under this subsection is zero.

104 (3) Each such employer shall deposit, at the time the employer pays  
105 the payroll tax to the Commissioner of Revenue Services, a pro rata  
106 amount of the amount calculated pursuant to this subsection in a  
107 qualifying retirement plan selected by the electing covered employee,  
108 including, but not limited to, an individual retirement account, a  
109 retirement plan offered by the electing employer or an individual  
110 retirement account established under the Connecticut Retirement  
111 Security Program pursuant to chapter 574 of the general statutes. Any

112 amounts deposited pursuant to this subsection in any such retirement  
113 plan shall not constitute property of the state and the state shall have no  
114 claim to or against, or interest in, such amounts.

115 (g) (1) For taxable years commencing on or after January 1, 2027, each  
116 electing covered employee shall be allowed a credit against the tax  
117 imposed under section 12-700 of the general statutes, other than the  
118 liability imposed by section 12-707 of the general statutes, in an amount  
119 equal to a portion of the payroll tax paid by the employer on such  
120 employee's payroll expense for the taxable year pursuant to this section.  
121 If the amount of the credit allowed pursuant to this subsection exceeds  
122 the electing employee's liability for the tax imposed under chapter 229  
123 of the general statutes, the Commissioner of Revenue Services shall treat  
124 such excess as an overpayment and, except as provided under section  
125 12-739 or 12-742 of the general statutes, shall refund the amount of such  
126 excess, without interest, to such electing covered employee.

127 (2) The rate of the credit an electing covered employee may claim  
128 shall be as follows:

129 (A) For a person who files a return under the federal income tax as a  
130 married individual filing separately, ninety-two per cent if such  
131 person's federal adjusted gross income is not more than the threshold  
132 amount set forth for the applicable taxable year and sixty-five per cent  
133 if such person's federal adjusted gross income is more than the threshold  
134 amount:

T29	For the taxable year commencing January 1, 2027	\$255,025
T30	For the taxable year commencing January 1, 2028	\$257,575
T31	For the taxable year commencing	
T32	on or after January 1, 2029	\$260,151

135 (B) For a person who files a return under the federal income tax as an  
136 unmarried individual, a head of household, married individuals filing  
137 jointly or a surviving spouse, ninety-two per cent if such person's  
138 federal adjusted gross income is not more than the threshold amount set  
139 forth for the applicable taxable year and sixty-five per cent if such

140 person's federal adjusted gross income is more than the threshold  
141 amount:

T33	For the taxable year commencing January 1, 2027	\$510,050
T34	For the taxable year commencing January 1, 2028	\$515,151
T35	For the taxable year commencing	
T36	on or after January 1, 2029	\$520,302

142 (h) (1) The Comptroller shall develop educational materials about the  
143 payroll tax program and distribute such materials, together with  
144 materials about the Connecticut Retirement Security Program  
145 established under chapter 574 of the general statutes, to employers and  
146 employees in the state prior to January 1, 2027.

147 (2) Each employer shall inform its employees of the payroll tax  
148 program and provide information about the program to each covered  
149 employee, including, but not limited to, (A) the employer's and covered  
150 employee's obligations under the program, (B) the anticipated amount  
151 of the payroll expense reduction under subsection (c) of this section and  
152 information about the refundable credit against the tax imposed under  
153 chapter 229 of the general statutes, (C) the requirements for an employee  
154 to elect to participate in the program, including the submission by the  
155 covered employee of a revised withholding form for the tax imposed  
156 under chapter 229 of the general statutes, (D) the requirements for an  
157 employee to stop participating in the program and a timeframe for the  
158 employer's reversal of the payroll expense reduction of the covered  
159 employee, (E) the minimum amount of time, if any, that a covered  
160 employee is required to remain a participant in the program, and (F) any  
161 additional information relevant or helpful in assisting covered  
162 employees to decide whether to elect to participate in the program. An  
163 employer may establish a reasonable minimum amount of time an  
164 electing covered employee is required to maintain participation in the  
165 program.

166 (i) The provisions of sections 12-550 to 12-554, inclusive, and section  
167 12-555a of the general statutes shall apply to the provisions of this

168 section in the same manner and with the same force and effect as if the  
169 language of said sections had been incorporated in full into this section  
170 and had expressly referred to the payroll tax and additional payment  
171 set forth in this section, except to the extent any such provision is  
172 inconsistent with a provision of this section.

173 (j) Employers and employee organizations may negotiate provisions  
174 in a collective bargaining agreement calling for participation in the  
175 payroll tax program under this section and the payroll expense  
176 reduction for covered employees who elect to participate.

177 (k) (1) There is established an account to be known as the  
178 "administrative efficiency account", which shall be a separate,  
179 nonlapsing account. The account shall contain any moneys required by  
180 law to be deposited in the account. Moneys in the account shall be  
181 expended by the Treasurer for the purpose of reducing the public  
182 benefits charge on electric bills.

183 (2) The Commissioner of Revenue Services shall calculate a structural  
184 efficiency dividend amount annually, which shall be the amount by  
185 which the amount determined under subparagraph (A) of this  
186 subdivision is over the amount determined under subparagraph (B) of  
187 this subdivision:

188 (A) The revenue generated by the payroll tax (i) plus the amount of  
189 tax due under chapter 229 of the general statutes on electing covered  
190 employees' payroll expense after application of the calculation under  
191 subsection (c) of this section, (ii) minus the amount of the credits claimed  
192 by electing covered employees under subdivision (2) of subsection (g)  
193 of this section; and

194 (B) The amount of revenue that would have been generated if  
195 amounts were being withheld pursuant to subparagraph (A) of  
196 subdivision (1) of subsection (a) of section 12-705 of the general statutes,  
197 as amended by this act, from electing covered employees' wages. The  
198 structural efficiency dividend amount calculated under this subdivision  
199 shall be deposited each fiscal year in the account.

200 (3) Amounts deposited in the account shall not be commingled with  
201 state funds and the state shall have no claim to or against, or interest in,  
202 such amounts.

203 (4) The Comptroller shall monitor the cumulative balance in the  
204 account and shall certify when the balance in the account is sufficient to  
205 provide a sustainable and predictable annual reduction of the public  
206 benefits charge on the electric bills of residential customers in this state  
207 for a period of not less than two consecutive years. Upon certification  
208 by the Comptroller, the Treasurer shall transfer available funds to  
209 electric distribution companies, allocated proportionally to the total  
210 residential public benefits charges assessed by each electric distribution  
211 company during the preceding fiscal year. No such transfer shall be  
212 made until the Comptroller has issued the certification under this  
213 subdivision.

214 (5) (A) Each electric distribution company that receives a transfer  
215 pursuant to subdivision (4) of this subsection shall apply the full amount  
216 of the transfer to first satisfy the residential public benefits charges for  
217 the current billing period, then sequentially until the residential public  
218 benefits charges are retired in full. Upon such retirement, the electric  
219 distribution company may apply any remaining amount of the transfer  
220 to the public benefits charge assessed on other customer classes.

221 (B) The transfers under this subsection shall be reflected on the  
222 electric bills of residential customers as a credit or reduction and shall  
223 result in a net reduction of the total amount due. No electric distribution  
224 company shall implement or seek to implement new assessments,  
225 administrative fees or supplemental charges to offset the amounts  
226 transferred from the administrative efficiency account.

227 Sec. 2. Section 12-705 of the 2026 supplement to the general statutes  
228 is repealed and the following is substituted in lieu thereof (*Effective*  
229 *January 1, 2027*):

230 (a) (1) (A) Each employer, as defined in section 12-707, maintaining  
231 an office or transacting business within this state and making payment

232 of any wages taxable under this chapter to a resident or nonresident  
233 individual shall deduct and withhold from such wages for each payroll  
234 period a tax computed in such manner as to result, so far as practicable,  
235 in withholding from the employee's wages during each calendar year  
236 an amount substantially equivalent to the tax reasonably estimated to  
237 be due from the employee under this chapter with respect to the amount  
238 of such wages during the calendar year. The method of determining the  
239 amount to be withheld shall be prescribed by regulations of the  
240 Commissioner of Revenue Services adopted in accordance with chapter  
241 54.

242 (B) An employer shall not be required to deduct and withhold the tax  
243 as set forth in subparagraph (A) of this subdivision from the wages of  
244 an employee who elects to participate in the payroll tax program under  
245 section 1 of this act, unless such employee has requested an amount to  
246 be withheld from such employee's wages for purposes of the tax under  
247 this chapter.

248 (2) (A) Except as provided in subparagraph (B) of this subdivision,  
249 each payer, as defined in section 12-707, of distributions from a profit-  
250 sharing plan, a stock bonus, a deferred compensation plan, an  
251 individual retirement arrangement, an endowment or a life insurance  
252 contract, or of pension payments or annuity distributions, that  
253 maintains an office or transacts business within this state and makes  
254 payment of any amounts taxable under this chapter to a resident  
255 individual, shall, upon request by such individual, deduct and withhold  
256 an amount from the taxable portion of any such distribution. Such  
257 request and the determination of the amount to be withheld shall be  
258 made in accordance with regulations promulgated by the commissioner  
259 for pension payments and annuity distributions.

260 (B) (i) For the period commencing July 1, 2025, and ending December  
261 31, 2026, the withholding requirement for a lump sum payment under  
262 clause (ii) of this subparagraph shall not apply, except that if a payee has  
263 requested an amount to be withheld from such distribution, the payer  
264 shall withhold such amount.

265 (ii) With respect to a lump sum distribution, if a payee does not make  
266 a request to have an amount withheld from such distribution, the payer  
267 shall withhold from the taxable portion of the distribution at the highest  
268 marginal rate, except that no withholding shall be required if (I) any  
269 portion of the lump sum distribution was previously subject to tax, or  
270 (II) the lump sum distribution is a rollover that is effected as a direct  
271 trustee-to-trustee transfer or as a direct rollover in the form of a check  
272 made payable to another qualified account.

273 (iii) For purposes of this subparagraph, "lump sum distribution"  
274 means a payment from a payer to a resident payee of an amount  
275 exceeding fifty per cent of such resident payee's entire account balance  
276 or more than five thousand dollars, whichever is less, exclusive of any  
277 other tax withholding and any administrative charges and fees.

278 (3) In no event shall the requirements of this subsection result in  
279 nonpayment of any distribution to a resident individual. For the  
280 calendar year ending December 31, 2018, no taxpayer shall be assessed  
281 interest by the commissioner pursuant to section 12-722 solely on the  
282 basis of a payer's failure to comply with the provisions of this  
283 subsection.

284 (b) The commissioner may, if such action is deemed necessary for the  
285 protection of the revenue and under such regulations as the  
286 commissioner may adopt in accordance with the provisions of chapter  
287 54, require persons other than employers and payers (1) to deduct and  
288 withhold taxes from payments made by such persons to residents of this  
289 state, nonresidents and part-year residents, (2) to file a withholding  
290 return as prescribed by the commissioner, and (3) to pay over to the  
291 commissioner, or to a depositary designated by the commissioner, the  
292 taxes so required to be deducted and withheld, in accordance with a  
293 schedule established in such regulations.

294 (c) The commissioner may adopt regulations providing for  
295 withholding from (1) remuneration for services performed by an  
296 employee for his or her employer that does not constitute wages, (2)  
297 wages paid to an employee by an employer not maintaining an office or

298 transacting business within this state, or (3) any other type of payment  
 299 with respect to which the commissioner finds that withholding would  
 300 be appropriate under the provisions of this chapter if the employer and  
 301 the employee, or, in the case of any other type of payment, the person  
 302 making and the person receiving such payment, agree to such  
 303 withholding. Such agreement shall be made in such form and manner  
 304 as the commissioner may prescribe by regulations adopted in  
 305 accordance with the provisions of chapter 54. For purposes of this  
 306 chapter, remuneration, wages or other payments with respect to which  
 307 such an agreement is made shall be regarded as if they were wages paid  
 308 to an employee by an employer maintaining an office or transacting  
 309 business within this state to the extent that such remuneration or wages  
 310 are paid or other payments are made during the period for which the  
 311 agreement is in effect.

312 Sec. 3. Section 3-114h of the general statutes is repealed and the  
 313 following is substituted in lieu thereof (*Effective June 30, 2027*):

314 At the end of each fiscal year commencing with the fiscal year ending  
 315 on June 30, [1992] 2027, the Comptroller is authorized to record as  
 316 revenue for such fiscal year the amount of tax that is required to be paid  
 317 to the Commissioner of Revenue Services under chapter 229 and section  
 318 1 of this act and that is received by the Commissioner of Revenue  
 319 Services not later than five business days after the last day of July  
 320 immediately following the end of such fiscal year.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage</i>	New section
Sec. 2	<i>January 1, 2027</i>	12-705
Sec. 3	<i>June 30, 2027</i>	3-114h

**Statement of Legislative Commissioners:**

The title was changed.

**FIN** Joint Favorable Subst. -LCO

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	AEA - Potential Revenue Gain	None	See Below
Department of Revenue Services	GF - Cost	Up to 16.4 million	1.3 million
State Comptroller - Fringe Benefits <sup>1</sup>	GF - Cost	543,660	543,660

Note: AEA=Administrative Efficiency Account; GF=General Fund

**Municipal Impact:** None

**Explanation**

The bill, which establishes a voluntary payroll tax program, results in a potential revenue gain and significant costs as outlined below.

**Revenue Impact**

Establishment of a payroll tax and associated personal income tax credit for payroll taxes paid results in a potential revenue gain to the "administrative efficiency account" to the extent employees elect to participate in the voluntary program. The magnitude of the revenue gain is dependent on (1) the number of electing employees, (2) electing employees' wage income, and (3) continued participation in the program.

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<sup>1</sup>The 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.

The table below provides an illustration of the revenue gain per filer at select wage levels:

Revenue Impact per Electing Employee (Single/Joint)			
<u>Wage</u>	<u>Payroll Tax</u>	<u>Credit</u>	<u>Revenue Gain</u>
75,000	3,750	3,450	300
150,000	8,625	7,935	690
225,000	14,265	13,124	1,141
400,000	29,880	27,490	2,390
600,000	63,000	40,950	22,050

### **Cost Impact: One-Time**

This bill would require the development of a unique tax type within the CTax and myconneCT systems by an outside vendor which results in a one-time cost of up to \$15 million in FY 27.<sup>2</sup> Additionally, there would be a one-time cost of up to \$100,000 in FY 27 for form and written guidance development, as well as outreach to businesses and taxpayers regarding the new program.

### **Cost Impact: Ongoing**

The bill results in an annual ongoing cost of approximately \$1.8 million beginning in FY 27 for salary (\$65,000 each) and fringe costs (\$27,183 each) associated with 20 new positions as follows:

- 11 Auditor positions for audit/enforcement;
- three Taxpayer Assistant positions for taxpayer education and compliance;
- two Collections and Enforcement Division positions;
- two positions in the Operations Division to handle return

<sup>2</sup> The estimate is based on vendor costs to implement similar taxes in other states.

filings;

- one Appellate Division position for increased caseload; and
- one Revenue Accountant to calculate the "structural efficiency dividend amount" to be deposited in the "administrative efficiency account" annually.

***The Out Years***

The annualized ongoing fiscal impact identified above would continue into the future subject to program participation levels and inflation.

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**OLR Bill Analysis****sSB 513*****AN ACT CONCERNING A PAYROLL TAX AND STRUCTURAL EFFICIENCY IN THE COLLECTION OF SUCH TAX AND ESTABLISHING AN ADMINISTRATIVE EFFICIENCY ACCOUNT FOR THE REDUCTION OF CERTAIN CONSUMER CHARGES.*****SUMMARY**

Starting with the 2027 tax year, this bill establishes a voluntary payroll tax program that covered employees can participate in if they earn more than \$50,000 (or \$80,000 for head of household tax filers) in wages and compensation in Connecticut.

Under this program, covered employees can elect to participate in the program by agreeing to a reduction in their wages and compensation, as calculated under the bill. In turn, they receive a refundable credit against their personal income tax liability for a portion of the payroll tax paid by their employer. The employers of these electing covered employees must (1) pay a payroll tax and (2) deposit an additional amount in a qualifying retirement plan the employee selects.

The bill also exempts employers from withholding state income taxes on the wages of participating employees unless the employee requests that a specific amount be withheld from his or her wages.

**EFFECTIVE DATE:** Upon passage, except the income tax credit provisions are effective January 1, 2027, and tax revenue accrual provision is effective June 30, 2027.

**COVERED EMPLOYEES AND EMPLOYERS**

Under the bill, only covered employees can elect to participate in the program. A “covered employee” is generally someone who (1) is employed in Connecticut for an “employer” and subject to state income tax withholding and (2) receives annual gross income from wages and

compensation of more than \$50,000 (or \$80,000 for head of household tax filers). It includes someone who is a union member, so long as a union representative has certified that nothing in the applicable collective bargaining agreement prohibits the employee from electing to receive a pay reduction.

The bill specifies that employers and labor unions may negotiate provisions in collective bargaining agreements on participating in the bill’s payroll tax program and the payroll expense reduction for participating employees.

Covered “employers” are those who are required to deduct and withhold Connecticut state income tax from wages, other than the federal government or any tribal government. This includes anyone who is considered an employer for federal withholding purposes and who maintains an office or transacts business in Connecticut and pays taxable wages.

**PAYROLL EXPENSE REDUCTION**

Under the bill, electing covered employees are subject to a one-time reduction in their covered wages and compensation (payroll expense reduction) when they first opt into the payroll tax program. (Covered employees who previously participated in the program but stopped are subject to this same reduction when they reelect to participate.)

This reduction is calculated according to the formula in Figure 1.

**Figure 1: Payroll Expense Reduction Formula**

$$\left( 100\% - \frac{\text{Applicable payroll tax rate}}{\text{Applicable payroll tax rate}} \right) \times \left( \text{Employee's original payroll expense} \times \text{Applicable payroll tax rate} + \text{Employee's Social Security tax adjustment (as calculated under the bill)} \right)$$

The employee’s Social Security tax adjustment is calculated based on the employee’s original payroll expense, the maximum taxable earnings threshold for the Social Security tax (\$184,500 for 2026), and the

applicable payroll tax rate.

## **PAYROLL TAX**

### ***Covered Wages and Compensation***

Under the bill, “payroll expense” means the following wages and compensation paid to covered employees:

1. wages subject to the federal Social Security tax and Hospital Insurance (Medicare) tax, but disregarding the cap on the amount of wages subject to the tax; and
2. compensation subject to the federal Railroad Retirement tax.

### ***Tax Rate***

The bill’s payroll tax rates, shown in the following table, are based on the electing covered employee’s payroll expense and federal income tax filing status.

**Table: Payroll Tax Rates**

<b>Payroll Expense</b>	<b>Single Filers and Married Filing Jointly</b>
\$50,001 to \$100,000	5.0%
\$100,001 to \$200,000	5.75
\$200,001 to \$250,000	6.34
\$250,001 to \$510,050	7.47
\$510,051+	10.50
<b>Payroll Expense</b>	<b>Married Filing Separately</b>
\$50,001 to \$100,000	5.0%
\$100,001 to \$200,000	5.75
\$200,001 to \$250,000	6.34
\$250,001 to \$255,025	7.47
\$255,026+	10.50
<b>Payroll Expense</b>	<b>Head of Household</b>
\$80,001 to \$160,000	5.0%
\$160,001 to \$320,000	5.75
\$320,001 to \$400,000	6.34
\$400,001 to \$510,050	7.47
\$510,051+	10.50

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**Tax Payments**

Employers must pay the payroll tax for electing covered employees to the Department of Revenue Services (DRS) commissioner on the same dates, and in the same way, as withholding tax payments.

**Tax Revenue Accrual**

The bill authorizes the state comptroller to record payroll tax revenue received within five business days after July 31 as revenue for the preceding fiscal year. By law, the same revenue accrual rules apply to payments from other state taxes.

**ADDITIONAL RETIREMENT CONTRIBUTIONS**

In addition to paying the payroll tax, the bill also requires employers of electing covered employees to make an additional payment each tax year to a qualifying retirement plan for these employees. The required payment equals the lesser of the:

1. maximum taxable earnings threshold for the Social Security tax minus the electing covered employee's payroll expense after applying the payroll expense reduction, multiplied by the Social Security tax rate for both the employer and employee (6.2% for each or 12.4% total); or
2. payroll expense reduction amount multiplied by the Social Security tax rate for both the employer and employee.

If this amount is less than zero, the employer is not required to make an additional payment.

Employers must, at the same time they pay the payroll tax, deposit a proportional amount of this payment in a qualifying retirement plan selected by the electing covered employee. Under the bill, this may include an individual retirement account (IRA), retirement plan offered by the employer, or an IRA established under the Connecticut Retirement Security Program. These deposits are not state property, and the state has no claim to, or interest in, them.

## INCOME TAX CREDIT

Starting with the 2027 tax year, each electing covered employee is allowed a refundable income tax credit equal to a portion of the payroll tax paid by their employer for that year. The credit rate is 92% for employees whose federal adjusted gross income (AGI) is at or below the threshold amount, and 65% for those with AGIs over that amount. The threshold amount depends on the taxpayer's filing status, and the applicable tax year, as shown in the following table.

**Table: AGI Threshold Amount for Determining Income Tax Credit Rate**

<i>Filing Status</i>	<i>Federal AGI (\$)</i>		
	<i>2027</i>	<i>2028</i>	<i>2029+</i>
Married Filing Separately	255,025	257,575	260,151
Single, Married Filing Jointly, or Head of Household	510,050	515,151	520,302

## EDUCATIONAL MATERIALS

The bill requires the comptroller to develop educational materials about the payroll tax program and distribute them, as well as materials about the Connecticut Retirement Security Program, to employers and employees by January 1, 2027.

It also requires covered employers to inform their employees about the payroll tax program and give them specified information about it, including the anticipated amount of their payroll expense reduction and information about the refundable income tax credit. It also allows employers to set a reasonable minimum amount of time that an electing covered employee is required to maintain their participation in the program.

## TAX ENFORCEMENT

The bill applies the same collection, enforcement, and appeal process requirements established in statute for the admissions and dues taxes to the payroll tax, except for 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.

### **ADMINISTRATIVE EFFICIENCY ACCOUNT**

The bill establishes the administrative efficiency account as a separate, nonlapsing account that contains any moneys required to be deposited in it. It requires the state treasurer to use the funds in the account to reduce the public benefits charge on electric bills.

Under the bill, the DRS commissioner must annually calculate a “structural efficiency dividend amount” that must be deposited in this account each fiscal year. The amount is calculated as the difference between the following:

1. payroll tax revenue (a) plus the amount of income tax due on electing covered employees’ payroll expense after calculating the payroll expense reduction and (b) minus the amount of payroll tax credits against the income tax claimed by electing covered employees; and
2. the amount of revenue that would have been generated from income tax withholding on electing covered employees’ wages.

The account’s funds must be held separate from other state funds and the state has no claim to, or interest in, these amounts.

The state comptroller must monitor the account’s cumulative balance and certify when it is enough to provide a sustainable and predictable annual reduction in the public benefits charge for at least two consecutive years. Once certified, the state treasurer must transfer the available funds to electric distribution companies (EDC) and distribute them proportionally according to the total amount of the residential public benefits charges they assessed during the preceding fiscal year.

Each EDC that receives these funds must apply them to first satisfy the residential public benefits charges for the current billing period and

then sequentially until they are retired in full. Once they are retired, the EDC may apply any remaining amount to the public benefits charge assessed on other customer classes.

These amounts must be reflected on residential customer electric bills as a credit or reduction and must result in a net reduction of the total amount due. The bill prohibits EDCs from implementing, or seeking to implement, new assessments, administrative fees, or supplemental charges to offset these amounts.

**COMMITTEE ACTION**

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 40 Nay 14 (03/30/2026)