

OFFICE OF FISCAL ANALYSIS

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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.

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 ¹	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

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.

gain is dependent on (1) the number of electing employees, (2) electing employees' wage income, and (3) continued participation in the program.

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 27.² 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;

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

- two Collections and Enforcement Division positions;
- two positions in the Operations Division to handle return 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.