



General Assembly

February Session, 2026

Substitute Bill No. 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.

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%
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*