
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)