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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><i>Payroll Expense</i></b>	<b><i>Single Filers and Married Filing Jointly</i></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><i>Payroll Expense</i></b>	<b><i>Married Filing Separately</i></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><i>Payroll Expense</i></b>	<b><i>Head of Household</i></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

### ***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)