OLR Bill Analysis

HB 5513

AN ACT CONCERNING THE DEDUCTION AND WITHHOLDING OF PERSONAL INCOME TAX FROM CERTAIN PAYMENTS AND DISTRIBUTIONS.

SUMMARY

This bill allows, rather than requires, income tax withholding for certain retirement income distributions and changes the methods for determining the amount of tax withheld from these distributions.

Under current law, payers that have an office in Connecticut or do business here and make distributions from pensions, annuities, or other specified sources must withhold income tax when making taxable payments to Connecticut residents. (These other sources include a profit-sharing plan, stock bonus, deferred compensation plan, individual retirement arrangement, endowment, or life insurance contract.)

The bill instead requires payers to withhold tax from these distributions only if the payee requests it, unless they are "lump sum distributions." Under the bill, a "lump sum distribution" is any distribution greater than $5,000 or more than 50% of the payee's entire account balance, whichever is less, excluding any other tax withholding and any administrative charges and fees. The bill retains the mandatory withholding requirement for these lump sum distributions.

EFFECTIVE DATE: January 1, 2025, and applicable to tax years starting on or after that date.

WITHHOLDING AMOUNTS

Distributions Other Than Lump Sum Distributions

Under the bill, for distributions of $5,000 or less or 50% or less of the payee's entire account balance (whichever is less), the payee's request for tax to be withheld and the determination of the withheld amount must be made according to Department of Revenue Services (DRS) regulations for pension payments and annuity distributions (see BACKGROUND).

This requirement applies instead of the current one that payers deduct and withhold from these distributions, as far as practicable, an amount substantially equal to the tax reasonably estimated to be due from the payee for those distributions during the calendar year. Under current law, the method of determining the withheld amount is according to instructions the DRS commissioner provides, except as described below for distributions of a payee’s entire account balance.

Lump Sum Distributions

Under the bill, if a payee does not ask for an amount withheld from a lump sum distribution, the payer must withhold from its taxable portion at the highest marginal rate. Current law requires payers to withhold at the highest marginal rate only for any payments of a payee’s entire retirement account balance, excluding any other tax withholding and administrative charges and fees (i.e., “lump sum distributions” as defined under current law).

As under current law, a lump sum distribution is exempt from withholding if (1) any portion of it was previously taxed, (2) it is a rollover trustee-to-trustee transfer, or (3) it is a direct rollover by a check made payable to another qualified account.

BACKGROUND

DRS Regulations on Tax Withholding for Pension Payments and Annuity Distributions

DRS regulations require any payer of pensions and annuities that has an office in Connecticut or does business here to withhold state income tax from pension or annuity payments that are distributed to a state resident if the resident requests it. (The statutes, however, have required tax withholding for these distributions since 2018.)

Under the regulations, payers must give resident individuals who receive these payments a Form CT-W4P (Withholding Certificate for Pension or Annuity Payments), and payees must use this form to request the withholding. Their request to deduct and withhold state income tax must be made in a specific whole dollar amount of at least $10 per payment (Conn. Agencies Regs., § 12-705(b)-3).

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable
Yea 49 Nay 2 (04/02/2024)