

**Robinson+Cole**

## Employee Benefits and Compensation

EMPLOYEE  
HANDBOOK

December 2017

### New Connecticut Mandatory Income Tax Withholding Requirements for Pension and Annuity Payments

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New legislation, effective January 1, 2018, will require certain payors of pensions and annuities to withhold Connecticut state income tax from distributions made from an employer pension, annuity, profit-sharing plan, stock bonus, deferred compensation plan, individual retirement arrangement, endowment, or life insurance contract. The withholding requirement applies to payors, public or private, that (1) maintain an office or transact business in Connecticut and (2) make taxable payments to resident individuals. No change in the law is made for nonresidents.

#### **FORM CT-W4P**

Historically, recipients of these payments could elect to have income taxes withheld by completing Form CT-W4P and providing it to the payor. Entities sponsoring these plans now have the obligation to make these withholdings. Administrative guidance issued by the Connecticut Department of Revenue Services states that payors must provide all Connecticut residents receiving these payments with the Form CT-W4P for their completion prior to January 1, 2018. **Prior CT-W4P forms will no longer be valid.**

The Form CT-W4P has been updated to reflect the changes in law and includes the withholding codes necessary to calculate the correct amount of withholding.

#### **REGISTRATION STATEMENT (FORM REG-1)**

Entities required to withhold income tax under this new law are to register with the Connecticut Department of Revenue Services for nonpayroll withholding prior to January 1, 2018. Registration with the Connecticut Department of Revenue Services is accomplished by completing Form REG-1, Business Taxes Registration Application. Registered payors may add nonpayroll withholding by logging into the Taxpayer Service Center and adding this withholding to the existing registration. If you are currently withholding income tax at the request of the recipient, you should already be registered.

#### **CALCULATING THE WITHHOLDING**

The regulations indicate that entities must calculate the amount of withholding from these payments using the same method employers use when determining the amount to withhold from wages. The current Income Tax Withholding Tables or TPG-211 and CT-W4P are necessary to calculate the withholding.

Additionally, the regulations require that the highest marginal rate (currently 6.99 percent) be used if recipients do not provide a new, properly completed CT-W4P or receive a lump sum distribution equal to their entire account balance unless (1) any portion of the distribution was previously taxed or (2) it is a rollover in the form of a direct trustee-to-trustee transfer.

Beginning in 2019, resident individuals earning \$75,000 or less or married couples earning \$100,000 or less may be permitted to claim an exemption of a certain percentage of pension or annuity income when filing their taxes. The percentage of exempt pension and annuity income is scheduled to increase annually and be "phased in" over a seven-year period, with any pension or annuity income being completely exempt for the taxable year commencing January 1, 2025. Under the current legislation, this exemption does not affect a payor's duty to withhold. Residents will claim the exemption (and any related refund) upon filing their income tax returns.

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For more information or if you have questions about how the issues raised in this legal update affect your policies, practices, or other compliance efforts, please contact one of the lawyers listed below:

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