

# EMPLOYEE BENEFITS & EXECUTIVE COMPENSATION ALERT

November 2017

## New Connecticut Withholding Rules Applicable to Retirement Plan Distributions

A new Connecticut law goes into effect on January 1, 2018, which will require automatic withholding of Connecticut income taxes from taxable retirement plan distributions. Effective January 1, 2018, the new law requires that payers of retirement plan distributions to Connecticut residents withhold Connecticut income taxes at the highest marginal rate of 6.99% unless the recipient has submitted a properly completed Form CT-W4P. If the recipient submits Form CT-W4P, the payer will determine the proper rate of withholding based on the status of the recipient. A payer is not permitted to withhold a dollar amount that the recipient designated on a Form CT-W4P for a year prior to 2018.

These new withholding rules apply to taxable distributions from 401(k) plans, profit sharing plans, pension plans, and other retirement plans. Withholding is not required in the case of a direct trustee-to-trustee rollover. We recommend consulting with the vendor that processes your retirement plan distributions about implementation of the new withholding rules.

Attached is a copy of Notice SN 2017(5) that announces the change in the withholding rules.

If you have any questions regarding the new withholding rules, please do not hesitate to contact us.

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SPECIAL NOTICE

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

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**Purpose:** This Special Notice explains the legislative changes that are effective January 1, 2018, to the Connecticut income tax withholding requirements applicable to payers of pensions, annuities and other deferred compensation.

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### New Income Tax Withholding Requirements:

Effective January 1, 2018, payers that maintain an office or transact business in Connecticut and make distributions of taxable pensions or annuities to a resident individual are required to deduct and withhold income tax from such distributions.

Taxable pension or annuity distributions subject to withholding include distributions from the following:

- an employer pension;
- an annuity;
- a profit sharing plan;
- a stock bonus;
- a deferred compensation plan;
- an individual retirement arrangement;
- an endowment; **and**
- a life insurance contract.

These distributions are referred to as “nonpayroll” amounts.

Prior to January 1, 2018, a payer of pension or annuity distributions was required to deduct and withhold Connecticut income tax from pension and annuity distributions only when the resident individual recipient requested that income tax be deducted and withheld. If the recipient did not make such request, the payer had no obligation to withhold income tax from such payments.

Conn. Gen. Stat. §12-705, as amended by 2017 Conn. Pub. Acts 147, §6.

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**Registration Requirement:** If you are required to withhold Connecticut income tax from payments of nonpayroll amounts, you must register with the Department of Revenue Services for nonpayroll withholding.

If your business has a valid Connecticut tax registration number from the Department, but is not registered for nonpayroll withholding, you may add nonpayroll withholding to the existing registration by logging into

the Taxpayer Service Center (TSC-BUS), using your existing Connecticut Tax Registration number and selecting “Register for Additional Tax Types” on the left toolbar. You must register for nonpayroll withholding before January 1, 2018.

If your business is not registered with the Department, you must complete **Form REG-1, Business Taxes Registration Application**, electronically, and register for nonpayroll withholding before January 1, 2018. Visit [www.ct.gov/register](http://www.ct.gov/register).

If you currently make payments of pension and annuity distributions, and are withholding Connecticut income tax at the request of the recipient, then you should already be registered for nonpayroll withholding with the Department.

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**Calculating the Withholding Amount:** The new law requires you to calculate the amount to withhold from most taxable pension and annuity distributions using the same method that employers use to determine the amount to withhold from wages. Therefore, you must use the current *Income Tax Withholding Tables* or **TPG-211, Withholding Calculation Rules**, along with the recipient’s most recently completed **Form CT-W4P, Withholding Certificate for Pension or Annuity Payments**. Please note that Form CT-W4P has been revised based upon this new legislation.

The Income Tax Withholding Tables and **TPG-211** are included in the current edition for the taxable year of the Connecticut Employer’s Tax Guide, Circular CT, which is available on the Department’s website. However, if the Department issues Income Tax Withholding Tables subsequent to the publication of the current edition of the Connecticut Employer’s Tax Guide, Circular CT, then you must use those Income Tax Withholding Tables to determine how much Connecticut income tax to deduct and withhold from taxable pensions and annuity distributions.

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**Revised Form CT-W4P Must be Completed by the Recipient of a Pension or Annuity:** Form CT-W4P has been revised for 2018 to include the withholding codes necessary for you to calculate the correct amount of

withholding. You are required to provide to all Connecticut resident individual recipients of pension or annuity payments the 2018 Form CT-W4P for their completion before January 1, 2018.

You may not continue to withhold a specific dollar amount that the recipient had requested on a prior Form CT-W4P.

Do not send to the Department a copy of any Form CT-W4P you receive from recipients. You are required to keep them on file and provide them to the Department only upon the Department's request.

You may collect and store Form CT-W4P electronically provided the following conditions are met:

- The electronic version of Form CT-W4P must include the perjury statement, and the same information that the paper form provides.
- The electronic storage of Forms CT-W4P must comply with the provisions of Conn. Agencies Regs. §12-2-12, Recordkeeping and record retention.
- The electronic storage of Forms CT-W4P should comply with the provisions of Chapter 229 of the Connecticut General Statutes, and Connecticut income tax withholding publications of the Department, including, but not limited to, **Informational Publication 2017(8)**, *Connecticut Tax Guide for Payers of Nonpayroll Amounts*, in the same manner as the collection and storage of paper Forms CT-W4P.

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**Withholding at the Highest Marginal Rate:** You must withhold at the highest marginal rate of 6.99% without allowances for exemption in the following circumstances:

- If the recipient does not provide a properly completed new Form CT-W4P; **or**
- If you make a lump sum distribution of the entire account balance, unless any portion of the lump sum distribution was previously subject to tax, or the lump sum distribution is a rollover as a trustee-to-trustee transfer.

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**Remitting Taxes Withheld:** Once you are registered with the Department for Connecticut income tax withholding for nonpayroll amounts, you must file all withholding returns electronically and remit all associated withholding payments by electronic funds transfer (EFT). You must remit the

Connecticut income tax withholding to the Department according to your remitter classification.

If you are already withholding income tax from payments of nonpayroll amounts, you are already registered with the Department. Your remitter classification will remain the same unless you receive a notice from the Department changing your remitter classification.

If you are registering for nonpayroll withholding for the first time, you will be classified as a monthly remitter. This means that you must make the payments to the Department on or before the fifteenth day of the month following the month during which the distribution was made.

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**Reconciliation and Reporting of Taxes Withheld:**

Use **Form CT-945**, *Connecticut Annual Reconciliation of Withholding for Nonpayroll Amounts*, to reconcile your annual Connecticut income tax withholding from nonpayroll amounts. Use **Form CT-1096**, *Connecticut Annual Summary and Transmittal of Information Returns*, to file the state copies of federal Form 1099-R. The due date of Form CT-945 and CT-1096 is on or before January 31 of the next succeeding year.

See **IP 2017(8)**, *Connecticut Tax Guide for Payers of Nonpayroll Amounts*.

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**Effective Date:** January 1, 2018.

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**Statutory Authority:** Conn. Gen. Stat. § 12-707, as amended by 2017 Conn. Pub. Acts 147, § 8; Conn. Gen. Stat. § 12-705, as amended by 2017 Conn. Pub. Acts 147, § 6.

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**Effect on Other Documents:** None

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**Effect of This Document:** A Special Notice announces a new policy or practice in response to changes in state or federal laws or regulations or to judicial decisions. A Special Notice indicates an informal interpretation of Connecticut tax law by the Department of Revenue Services (DRS).

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**For Further Information:** Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); or
- **860-297-5962** (from anywhere).

**TTY, TDD, and Text Telephone users only** may transmit inquiries anytime by calling 860-297-4911.

**Forms and Publications:** Visit the DRS website at [www.ct.gov/DRS](http://www.ct.gov/DRS) to download and print Connecticut tax forms and publications.

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**Paperless Filing/Payment Methods (fast, easy, free, and confidential):** Business and individual taxpayers can use the *TSC* at [www.ct.gov/TSC](http://www.ct.gov/TSC) to file a variety of tax returns, update account information, and make payments online.

**File Electronically:** You can choose first-time filer information and filing assistance or log directly into the *TSC* to file returns and pay taxes.

**Pay Electronically:** You can pay taxes for tax returns that cannot be filed through the *TSC*. Log in and select the *Make Payment Only* option. Choose a payment date up to the due date of the tax and mail a paper return to complete the filing process.

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**DRS E-alerts Email Service:** Get connected to the latest DRS news including new legislation, policies, press releases, and more. Visit the DRS website at [www.ct.gov/DRS](http://www.ct.gov/DRS) and select *Sign up for e-alerts* under *How Do I?* on the gold navigation bar

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New Income Tax Withholding Requirements for Pension and  
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