



CONNECTICUT MODIFIES RETIREMENT INCOME WITHHOLDING REQUIREMENTS AND OTHER TAX LAW CHANGES

July 29, 2024

Governor Ned Lamont recently signed legislation which modifies a number of important Connecticut tax provisions. Most modifications become effective for tax years beginning on or after January 1, 2025 and include:

Withholding on Retirement Income Distributions: Effective for taxable years beginning on or after January 1, 2025, the legislation permits, rather than requires, income tax withholding on certain retirement income distributions (e.g., pensions, annuities, deferred compensation plans, IRAs and stock bonuses). Going forward, withholding will generally be required only if the payee requests the withholding. Withholding at the highest marginal tax rate will still be required, however, if the payee does not request to have an amount withheld from the distribution and distribution is of a “lump sum” (defined as a distribution of more than \$5,000 or 50% of the payee’s entire account balance, whichever is less).

Net Operating Losses: The legislation extends the net operating loss (NOL) carryforward period for corporation business taxpayers from 20 years to 30 years, effective for NOLs generated in tax years beginning on or after January 1, 2025. This extended carryforward period is significantly more generous than the 20-year carryforward period in Massachusetts and New York and may help Connecticut attract startup businesses which typically incur losses in the early years of operations. These may include businesses in life science, biotechnology, pharmaceutical and other research and development fields.

JobsCT Tax Rebate Program: The legislation decreases the number of new full-time jobs that corporations and pass-through entities must create or maintain to be eligible for JobsCT rebate program tax credits from 25 to 15, if three or more of the full-time employees live in an area of Connecticut with concentrated poverty. Effective beginning with the January 1, 2025 tax year, an additional credit for 50% of the income tax withholding is available for each new full-time employee who lives in one of these areas.

If you have any questions regarding this alert, please contact your Cummings & Lockwood private clients attorney.