



STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

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INFORMATIONAL PUBLICATION

2009 Connecticut Income Tax Changes Affecting Withholding Requirements and the 2009 Fourth Quarter Estimated Payment

Purpose: This Informational Publication discusses the requirement for employers to adjust the withholding amounts of employees who are subject to the increase in the highest marginal rate of 6.5% for 2009. The publication also discusses the requirement that taxpayers subject to the 6.5% rate adjust the 2009 fourth quarter estimated tax payment.

Effective Date: Effective October 5, 2009.

Statutory Authority: Conn. Gen. Stat. §12-700 as amended by 2009 Conn. Pub. Acts 3, §119 (June Spec. Sess.) and 2009 Conn. Pub. Act 8, §§14 and 15 (Sept. Spec. Sess.).

Income Tax Rate Increase for Certain Taxable Income Brackets: For taxable years beginning on or after January 1, 2009, individuals pay tax at the following rates if their filing status is:

- **Single:** At a 3% rate on the first \$10,000 of Connecticut taxable income; at a rate of 5% on the excess over \$10,000, but not over \$500,000; and at a rate of 6.5% on the excess over \$500,000.
- **Filing separately:** At a 3% rate on the first \$10,000 of Connecticut taxable income; at a rate of 5% on the excess over \$10,000, but not over \$500,000; and at a rate of 6.5% on the excess over \$500,000.
- **Head of household:** At a 3% rate on the first \$16,000 of Connecticut taxable income; at a rate of 5% on the excess over \$16,000, but not over \$800,000; and at a rate of 6.5% on the excess over \$800,000.
- **Filing jointly or qualifying widow(er):** At a 3% rate on the first \$20,000 of Connecticut taxable income; at a rate of 5% on the excess over \$20,000, but not over \$1,000,000; and at a rate of 6.5% on the excess over \$1,000,000.

As required, the withholding calculation rules have been adjusted to reflect the increase in the highest marginal rate. The new rules have been posted on the Department of Revenue Services (DRS) website. Employers are required to adjust the withholding amount for the remainder of 2009 taxable year to reflect the 6.5% rate.

Taxpayers affected by the increase in the highest marginal rate and required to make an estimated income tax payment on January 15, 2010, for the 2009 taxable year are required to calculate their fourth quarter payment using the 6.5% rate.

Employer

1. What are the changes to the employer withholding calculation rules?

The withholding calculation rules were adjusted to reflect the increase in the highest marginal rate under each withholding code. It instructs employers how to calculate the amount of tax that should be withheld for the remainder of the year from employees who are affected by the increase in the highest marginal rate.

2. What are employers' responsibilities as a result of the new 2009 withholding calculation rules?

Employers with employees who are subject to the increase in the highest marginal rate are required to use the updated withholding calculation rules posted on the DRS website. Employers are required to determine the catch-up withholding amount for any employee subject to the highest marginal rate. The employer must calculate the employee's annualized taxable income; calculate the 2009 Connecticut income tax on the annualized taxable income applying the highest marginal rate; subtract the year to date withholding amount from the calculated 2009 Connecticut income tax; and divide the difference by the remaining pay periods for 2009. The example that follows illustrates this requirement.

Example: An employee paid on a weekly basis expects to have an annualized salary of \$880,000. This amount is determined by taking the employees' wages per pay period and multiplying it by the number of pay periods in a year (Steps 1, 2, and 3 on the Withholding Calculation Rules*).

Line 1 of the employee's Form CT-W4 most recently submitted to the employer shows withholding code F.

Because the employee's annualized salary is above the exemptions threshold, the employee's annualized salary will not be reduced by any exemption amount (Step 5 on the Withholding Calculation Rules*).

The annualized taxable income is \$880,000 (Step 6 on the Withholding Calculation Rules).

Assume there are eight weekly payroll periods remaining in 2009.

The catch-up withholding is calculated as follows:

Determine the tax for 2009:

- 1: The first \$10,000 is taxed at 3%.
 $\$10,000 \times .03 = \300
- 2: The excess over \$10,000 but less than or equal to \$500,000 is taxed at 5%.
 $\$500,000 - 10,000 = \$490,000$
 $\$490,000 \times .05 = \$24,500$
- 3: The excess over \$500,000 but less than or equal to \$880,000 is taxed at 6.5%.
 $\$880,000 - \$500,000 = \$380,000$
 $\$380,000 \times .065 = \$24,700$

The estimated tax for 2009 is \$49,500 (\$300 + \$24,500 + \$24,700).

The employer determines that the year to date withholding is \$34,084.

Subtract the year to date withholding amount from the estimated 2009 income tax: $\$49,500 - \$34,084 = \$15,416$.

Divide the difference by the remaining pay periods in 2009: $\$15,416 / 8 = \$1,927$.

The employer is required to withhold \$1,927 for each of the remaining pay periods in 2009.

* For employees with fluctuating pay, an average of year to date earnings per pay period projected to year end may more accurately determine the annualized salary. For employees with supplemental earnings, see Question 3.

3. An employee expects to receive a bonus at the end of the year. Should this amount be included when calculating the additional amount of withholding?

Yes. Supplemental compensation already received or expected to be received on or before December 31, 2009, must be included in the annualized taxable income calculation.

4. My employee received a large bonus at the beginning of the year. He will not make enough money for the rest of the 2009 taxable year to withhold the catch-up withholding amount. What is the maximum amount I am allowed to withhold and will I be liable for not withholding the correct amount?

An employer is required to deduct catch-up withholding from an employee's wages even if it reduces the employee's net pay amount to zero. If the employee's net pay has been reduced to zero, the employer will not be liable under Conn. Agencies Regs. §12-707-2 for withholding less than the correct amount of tax. However, you should inform the employee that he or she is required to make a fourth quarter estimated payment using the 6.5% rate. The fourth quarter estimated payment is due January 15, 2010.

5. What if an employer does not implement the catch-up withholding rules?

An employer is required to use the adjusted withholding calculation rules posted on the DRS website on October 1, 2009, to determine the additional amount to withhold for the remainder of the taxable year for employees affected by the increase in the highest marginal rate. Except for situations such as that addressed in Question 4, an employer who does not implement the catch-up withholding rules will be liable for the amount of the Connecticut income tax required to be withheld. For purposes of assessment and collection, amounts required to be withheld and paid over to DRS (and any penalties and interest) are the liability of the employer under the law. The employer remains liable for the tax even if a third party is withholding on the employer's behalf.

6. An employee has informed me that she will not have enough money to pay her daily expenses if I withhold additional amounts for Connecticut income tax. Can I continue withholding at the 5% rate and let the employee pay any additional tax with her tax return?

No. Employers must use the adjusted withholding calculation rules to determine the amount of catch-up withholding based on an employee's annual Connecticut taxable income and the withholding code on the employee's Form CT-W4.

7. Must an employer recalculate catch-up withholding when an employee issues a new Form CT-W4?

Yes.

8. One of my employees never submitted Form CT-W4 and he is not affected by the increase in the highest marginal rate. Do I continue withholding at the 5% rate?

Yes. If an employee fails to complete a CT-W4 Employee's Withholding Certificate for their employer, the employer must withhold Connecticut tax at the 5% tax rate, not the new 6.5% tax rate (unless the employee's annual earnings exceed the high income thresholds listed above).

9. How should I calculate withholding for employees who claim letter "D" on the CT-W4?

In general, claiming letter "D" will not trigger the new 6.5% rate. However, this rate will apply if the employee's annual earnings exceed the income thresholds established in the recent legislation. These thresholds are set forth in the section of this publication entitled *Income Tax Rate Increase for Certain Taxable Income Tax Brackets*.

10. Does the withholding rate for athletes and entertainers remain at 5%?

No. Under Conn. Agencies Regs. §12-705(b)-1(b), the withholding from compensation of professional athletes and entertainers is required to be at the highest marginal rate, which has increased to 6.5% for taxable years beginning on or after January 1, 2009.

11. May I instruct my employees to provide me with a new Form CT-W4 in lieu of implementing the catch-up withholding rules?

The newly enacted legislation requires you to use the adjusted withholding calculation rules posted on the DRS website to calculate the additional amount of withholding for employees affected by the increase in the highest marginal rate. However, you may inform your employee that he or she has a right to request a reduced amount of withholding or an increased amount of withholding by providing you with a new Form CT-W4. The decision whether or not to provide a new Form CT-W4, however, is the employee's, not the employer's.

12. Are employers required to take into consideration tax withholding for other states when calculating catch-up withholding?

Yes. Employers withholding from wages paid to resident employees who work solely in one qualifying jurisdiction but not in Connecticut, who work in more than one qualifying jurisdiction but not in Connecticut, or who work in one or more qualifying jurisdictions and in Connecticut should refer to Conn. Agencies Regs. §12-705(a)-2. Employers withholding from wages paid to nonresident employees who perform services partly

within and partly without Connecticut should refer to Conn. Agencies Regs. §12-705(a)-6.

13. Are employers required to take into consideration changes to filing status during the year?

Employers are required to use the withholding code reported by the employee on the most recently submitted Form CT-W4 to the employer. If the most recently submitted Form CT-W4 contains a change in filing status, then the change must be considered.

Employee or Individual

14. How do I know if I should adjust my fourth quarter estimated payment?

Complete Lines 1 through 17 on the *2009 Estimated Connecticut Income Tax Worksheet* using the updated Tax Calculation Schedule provided on the DRS website. Subtract from Line 17 any estimated income tax payments made which were due on April 15, 2009, June 15, 2009, and September 15, 2009. The difference is the amount of your January 15, 2010, estimated payment.

15. I am not required to make estimated payments and I will be subject to the increase in the highest marginal rate. What do I do if my employer does not withhold enough Connecticut income tax?

You should use your last pay-stub to do the calculation under Question 14 to determine whether you should send a fourth quarter estimated payment.

16. I am not subject to catch-up withholding but income from other sources will subject me to the 6.5% rate. What should I do?

You can submit a new Form CT-W4 to your employer requesting an additional amount of withholding, or you can go to the DRS website and calculate your January 15, 2010, estimated payment amount.

17. If I am subject to catch-up withholding, may I request that my employer not withhold additional amounts from my paycheck?

If you are affected by the increase in the highest marginal rate, your employer is required to apply the adjusted withholding calculation rules to determine the additional amount of Connecticut income tax to withhold from your wages.

However, you may submit a new Form CT-W4 requesting an additional withholding amount per pay period (Line 2 on Form CT-W4) or a reduced withholding amount per pay period (Line 3 on Form CT-W4).

Additionally, you may be required to make an estimated payment on or before January 15, 2010. You may be charged interest if you do not pay enough tax through withholding or estimated payments, or both, by any installment due date. This is true even if you are due a refund when you file your tax return.

18. How do I know if I have paid enough Connecticut income tax for 2009?

Using your expected 2009 annual income from all sources, calculate your Connecticut income tax using **Form CT-1040TCS**, *Tax Calculation Schedule*, (Rev. 09/09) available on the DRS website.

19. What is the withholding rate for gambling winnings?

Gambling winnings are subject to the highest marginal rate of 6.5%.

Trusts and Estates

20. How are trusts and estates affected by the increase in the highest marginal rate?

The flat income tax rate for trusts and estates was increased to 6.5%. A trust or estate required to make estimated payments should use the 6.5% rate to calculate the 2009 taxable year fourth quarter estimated payment due January 15, 2010.

Effect on Other Documents: None affected.

Effect of This Document: An Informational Publication issued by DRS addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

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 to download and print Connecticut tax forms and publications.

Paperless Filing/Payment Methods (fast, easy, free, and confidential):

Business and individual taxpayers can use the **Taxpayer Service Center (TSC)** at 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. Designate a payment date up to the due date of the tax and mail a paper return to complete the filing process.

DRS E-Alerts Service: Get connected to the latest news from DRS. Receive notification by email of changes to legislation, policies, and procedures. **DRS E-Alerts** provide information for employer's withholding tax, News – Press Releases, and Top 100 Delinquency List. Visit the DRS website at www.ct.gov/DRS and select *e-alerts* from the left navigation bar.
