

NEWS ALERT

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Connecticut Enacts State Tax Relief For Resident Commuters

By Marc T. Finer | March 8, 2021

On March 4, 2021, Connecticut Governor Ned Lamont signed into law *An Act Mitigating Adverse Tax Consequences from Employees Working Remotely During COVID-19, and Concerning the Removal of Liens on the Property of Public Assistance Beneficiaries and a Three-Tiered Grants in Lieu of Taxes Program* which will temporarily prevent double taxation to Connecticut residents with pre-pandemic daily commutes to neighboring states. Prior to the coronavirus pandemic, approximately 110,000 Connecticut residents routinely commuted to their employers' offices in neighboring states, such as New York and Massachusetts, for work. Under income sourcing rules that subject compensation to a state's personal income tax based on where the individual physically works, these Connecticut commuters are required to pay income tax to the neighboring states on their compensation. To eliminate double taxation on this income, Connecticut gives its residents a credit against their Connecticut personal income tax for the income taxes paid to another state.

Many Connecticut residents have now been forced to work remotely from their Connecticut homes as a result of the pandemic. However, New York and Massachusetts have taken the position that personal income taxes should continue to be collected from these individuals as though their work location had not changed. New York bases its position on the "convenience of the employer" rule which sources the income of an employee to the employer's location if the employee is working remotely for his own convenience rather than his employer's necessity. Massachusetts enacted emergency legislation that continues to impose Massachusetts personal income tax on taxpayers who currently work remotely from another state but who worked in Massachusetts prior to the pandemic. The result of the New York and Massachusetts laws is that Connecticut residents who worked and paid income tax in these states pre-pandemic are potentially exposed to double taxation if Connecticut takes the position that no Connecticut tax credit should be given for these taxes since the compensation is actually sourced to the individual's Connecticut location.

To address New York's "convenience of the employer" rule, the legislation makes it clear that Connecticut residents who work remotely from Connecticut but pay income tax to another state that applies the "convenience of the employer" rule will continue to receive the benefit of the credit against their Connecticut personal income taxes. To address the "working in Massachusetts pre-pandemic" law, the legislation provides that Connecticut residents who regularly worked in another state prior to March 11, 2020, paid income tax to that other state and now work remotely from Connecticut will continue to receive the benefit of the credit against their Connecticut personal income tax.

In addition to providing tax relief to Connecticut residents, the legislation makes it clear that Connecticut will not treat an employer as having nexus with the state for purposes of the imposition of Connecticut tax based solely on the activities of an employee who works remotely in Connecticut solely due to COVID-19.

It is important to note that the legislation applies only with respect to the taxable year commencing between January 1, 2020 and December 31, 2020. It is currently unclear whether the legislation will be revised to include 2021 and future taxable years as well.

If you have any questions regarding the Connecticut telecommuting legislation or how this legislation might affect your business or you individually, please contact Marc T. Finer, Tax Partner, at 860-240-6096 or mfiner@murthalaw.com.