

Plan Series – Mandatory Connecticut Withholding on Pensions, 401-k's, IRA's and Annuities

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January 1, 2018 Effective Date

Connecticut just passed a new law mandating automatic withholding of Connecticut income tax from taxable retirement plan distribution. Conn. Gen. Stat. §12-705 as amended by 2017 Conn. Pub Acts 147 §6 Special Notice 2017(5) was recently issued from the State of Connecticut Department of Revenue Services. Taxable pension or annuity distributions subject to the withholding include distributions from the following:

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

These payments are referred to as “nonpayroll” amounts.

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

Most companies will not have to be concerned, since the insurance company, investment company, bank or other financial institution will have to comply. However, we assume that it is the Connecticut based company or plan that is ultimately responsible, so contact should be made if distributions are being taken from any of the sources above.

If you are not currently registered, you must complete Form Reg-1 Business Taxes Registration Application by January 1, 2018.

The tough part: The new law requires you to calculate the amount of the withholding using the same method as you use to determine the withholding from wages. You should use the current Income Tax Withholding Tables or TPG-211 Withholding Calculation Rules along with the recipients most recently completed Form CT-W4P, Withholding Certificate for Pension or Annuity Payments. The form has been revised with the new law. 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 1/1/18.

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

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.

This can be a big headache with such a short window of time. If you are a sponsor of any of the plans listed earlier in this Client/Advisor Newsletter and have distributions paid out as “nonpayroll” amounts, you should contact your providers immediately for the best course of action.

About Edu4Retirement, Inc.

For the individual, Edu4Retirement, Inc. specializes in providing retirement education and advice to our clients along with appropriate investment products to assist in mitigating retirement risk.

For the business, Edu4Retirement, Inc. specializes in plan design, investment selection and monitoring and fiduciary risk mitigation for retirement plans. Please think of us when it comes to retirement plans and retirement planning. We appreciate your business and your referrals.