



Connecticut law provides 15-day tax relief to nonresident employees starting in 2016

As we previously reported (*EY Payroll NewsFlash*, Vol. 16, 326, 12-14-2015), under legislation signed into law on December 29, 2015, and effective January 1, 2016, the compensation of Connecticut nonresident employees is exempt from state income tax and income tax withholding if they provide personal services in the state for 15 or fewer days in the calendar year. ([Act No. 15-1 \[pdf\]](#).)

In [Policy Statement No. 2015\(6\)](#) the Connecticut Department of Revenue provides guidance explaining the implementation of this new 15-day rule.

Background

Prior to January 1, 2016, a Connecticut nonresident employee was subject to income tax on all compensation earned within the state; however, the employer was not required to withhold state income tax if the employee was present in the state 14 or fewer days in the calendar year. (Connecticut [AN 2010\(3\)](#).)

New York continues to impose a similar rule. (New York [TSB-M-12\(5\)](#).)

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Ernst & Young LLP insights

Businesses with employees that occasionally travel to Connecticut for work should consider how this law change will affect policies concerning reporting and withholding compliance as well as state income tax equalization (i.e., gross up).

Further, affected employees should be notified of the state's change in tax policy starting this year.

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Guidance on the new 15-day rule

- **When the 15-day rule applies.** The “15-Day” rule does not apply to income from a business, trade, profession, or occupation carried on in Connecticut. It only applies to compensation for personal services performed within the state by a nonresident employee.
- **How a day of service is defined.** For purposes of the new “15-day” rule, presence in Connecticut for any part of a day constitutes presence for that entire day unless the employee is in the state purely for purposes of transit through Connecticut.

Presence in the state for reasons other than performing services as a nonresident employee are not relevant for purposes of the 15-day limitation.

- **Withholding is required if 15 days of personal services are anticipated.** If an employer expects that a nonresident employee will work in Connecticut more than 15 days in the calendar year, all the compensation paid for services performed in the state is subject to Connecticut income tax and Connecticut income tax withholding.
- **Withholding is required on all compensation for employees working more than 15 days.** If a nonresident employee who was reasonably expected to work 15 or fewer days in the state during the calendar year actually works more than 15 days in that calendar year, the employer must withhold on all the compensation paid to that nonresident employee for services performed in Connecticut, including the compensation paid for the first 15 days.

Note that if the employer fails to withhold Connecticut income tax in this circumstance, the employee may be required to make estimated tax payments for the compensation received for the first 15 days of employment in the state.

- **The 15-day rule does not apply to athletes, entertainers or performing artists.** The “15-day” rule does not apply to payments made to entertainers, performing artists, or athletes, including members of athletic teams.

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