

March 26, 2026

Esteemed Chairs Fonfara and Horn,
Members of the Finance, Revenue and Bonding Committee:

The Western Connecticut Council of Governments (WestCOG) appreciates the opportunity to comment on Raised Bill No. 513, *An Act Concerning Structural Efficiency in the Collection of State Revenue*. This bill would create a payroll tax program intended to improve the structural efficiency of state revenue collection and enhance the federal deductibility of certain state tax payments.

WestCOG recognizes the underlying objective of the bill: to convert certain employee-paid income taxes into employer-paid payroll taxes that may be deductible at the federal level, thereby reducing the effective tax burden on Connecticut residents while generating a modest “structural efficiency dividend” for the state. This approach may function as intended in the private sector, where employers are subject to federal income taxation and such payments can provide a corresponding federal tax deduction.

However, the proposed structure raises concerns when applied to public employers and other tax-exempt entities, including municipalities and nonprofit organizations. These entities do not have federal income tax liability and therefore cannot realize any benefit from the deductibility of employer-paid payroll taxes. As a result, the central premise of the program does not hold for this class of employers.

Under current law, employees may deduct state income taxes on their federal returns, subject to applicable limitations. The proposed program, when applied to tax-exempt employers, may replace this partly deductible form of taxation with one that is not deductible at all. In such cases, the aggregate level of federal deductibility is reduced, which may increase total federal tax liability and result in a net outflow of resources from Connecticut to the federal government. In effect, for these employers and their employees, the program may diminish the extent to which state tax payments are offset at the federal level.

In addition, for municipalities, any employer-side payroll tax obligation represents a direct cost to local budgets. Without a corresponding federal offset, this structure may shift costs onto the property tax and local taxpayers, while providing limited or uncertain net benefit in return.

To better align the program with its purpose and avoid unintended federal tax consequences, WestCOG suggests that your Committee consider limiting participation in the payroll tax program to employers for whom such payments are deductible for federal income tax purposes.

Thank you for your consideration of these comments. WestCOG would be pleased to provide any additional information or technical assistance that may be helpful as you evaluate this proposal.

Sincerely,

A handwritten signature in black ink that reads "Francis R. Pickering". The signature is written in a cursive style with a prominent horizontal line underlining the name.

Francis R. Pickering
Executive Director

