

Connecticut Tax News quarterly

Volume 14, Issue 1
March 2002

A PUBLICATION OF THE CONNECTICUT DEPARTMENT OF REVENUE SERVICES

From the Commissioner *Gene Gavin*

Comments on the 2002 Filing Season and Outlook for the 2002 Legislative Session

DRS has reached its busiest time of year when both the income tax season and our involvement at the General Assembly are at their height. This year has



brought some interesting challenges on both fronts and I am pleased to update you on the progress we have made.

We are more than half-way through the income tax filing season and taxpayers are already raving about WebFile, DRS' pilot program for Internet filing. The addition of WebFile to our electronic filing roster, allows taxpayers to file their personal income tax return from a secure web page on the DRS web site. The process is fast, easy, and filers are given immediate confirmation that their return has been received. Also, WebFile refunds are generally processed within four business days or less. A survey of WebFilers told us that the speed and ease of the program have made it a winner with taxpayers. Many said WebFile is now the only way they will file their taxes, and they are

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2002 Filing Season Update

Due Date for Connecticut Income Tax Returns

Connecticut income tax returns (including applications for extension of time to file) are due **on or before April 15, 2002**. Non calendar year returns are due on or before the fifteenth day of the fourth month following the close of the taxable year. If the due date falls on a Saturday, Sunday, or legal holiday, the next business day is the due date.

Prior to this filing season, Connecticut taxpayers were required to send their individual income tax returns to the IRS processing center in Andover, Massachusetts and received an extra day to file when "Tax Day" fell on a day that coincided with Patriots' Day, a state holiday in Massachusetts. However, the IRS reorganized its processing centers, and beginning with this filing season, Connecticut taxpayers are required to send their federal income tax returns to Philadelphia, Pennsylvania, where Patriots' Day is not a state holiday. Therefore, the due date for Connecticut taxpayers to file their 2001 Connecticut income tax returns is April 15, 2002.

Returns meet the timely filed and timely payment rules if the U.S. Postal Service cancellation date, or the date recorded or marked by a

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Tax Rate on Cigarettes Increases

On April 3, 2002, the tax on cigarettes sold in Connecticut increases \$.61 to \$1.11. The increase was passed by the Connecticut General Assembly on February 27, 2002, and signed into law by Governor John G. Rowland on February 28, 2002.

An increase of \$.61 for packages of 20 cigarettes and \$.7625 for packages of 25 cigarettes becomes effective for sales made after 11:59 p.m. on April 2, 2002. The total tax on a pack of 20 cigarettes will be \$1.11, and on a pack of 25, the total tax will be \$1.3875.

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The Mission of the Connecticut Department of Revenue Services is to administer the tax laws of the State of Connecticut and collect the tax revenues in the most cost effective manner; achieve the highest level of voluntary compliance through accurate, efficient, and courteous customer services; and perform in a manner which instills public confidence in the integrity and fairness of the State's tax programs.

Commissioner
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encouraging friends and family to take advantage of the program.

Since introducing WebFile on January 21, 2002, more than 7,000 resident taxpayers have used the program to file their returns. Those who use the program and are owed a refund can elect to have the money direct deposited into a bank account. Payments can also be made directly from a bank account.

WebFile isn't the only success of the 2002 filing season. Overall electronic filing by individuals and through tax preparers continues to increase. Electronic filing, excluding WebFile and Telefile, has increased by nearly 24% over last year for the same period. In fact, more than 60% of Connecticut personal income tax returns this year have been filed

using WebFile, Telefile, an on-line program, or electronically through a tax preparer.

Electronic filing saves the state and taxpayers money by reducing processing costs and cutting down on the number of errors made on returns. Eventually, DRS would like to see 80% of the 1.5 million returns filed electronically each year.

Turning to legislative matters, taxes have already been a hot issue at the Capitol with the post-midnight passage of a \$.61 hike in the state's cigarette tax. The measure has already been signed by Governor John G. Rowland and will take effect on April 3, 2002.

The rate increase set the tone early for this year's General Assembly. Unlike recent years when the "short" session meant minor adjustments to the budget, the 2002 session will be about

reducing the state's deficit, not spending a surplus. The increase in the cigarette tax is hoped to raise \$40 million for the current fiscal year.

DRS is preparing for the tax increase by stocking supplemental floor tax stamps for cigarettes not sold before the April 3 increase, creating educational materials for cigarette retailers and distributors, and acquiring new tax stamps to be used on cigarette packs after the April 3 increase.

In addition, DRS will present the General Assembly with its own proposals for the session. As I discussed in the last issue of *Connecticut Tax News*, the Department has proposed legislation in response to the Connecticut Supreme Court's decision in the Carpenter Technology Corporation v.

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Asistencia en Español

Para asistencia en español, marque el numero seis.

For the 2002 tax filing season DRS taxpayer assistors are providing income tax assistance to our Spanish-speaking population. DRS has launched this new service by adding an option to CONN-TAX.

After choosing **Option 0** from the CONN-TAX main menu, Spanish-speaking taxpayers are directed to choose **Option 6** from the Taxpayer Services main menu, directly connecting to a Spanish-speaking assistor. These assistors are DRS employees volunteering to help during the filing season. This program operates only during the income tax filing season. Tax assistance in Spanish and other languages is available at other times of the year by special arrangement. T_N

Social Security Number(s) Provided by Taxpayers

Last year, in response to taxpayer concerns about preprinting Social Security Numbers (SSN) in Connecticut income tax return booklets, the SSN was removed from the label on the back cover.

Therefore, you must write the SSN(s) in the spaces provided next to the name(s) on the return. All returns MUST have the proper SSN(s) to be successfully processed.

To receive refunds as quick as possible, make sure you or your clients clearly print the Social Security Number(s) in the spaces provided next to the name(s) on the Connecticut income tax return.

Extended Hours for Connecticut Income Tax Assistance

DRS Taxpayer Services Division will again provide expanded hours to Connecticut income tax filers for telephone and walk-in assistance or to drop off Connecticut income tax returns. **Additional telephone personal assistance and walk-in hours (25 Sigourney Street, Hartford Only) for the 2002 Filing Season are:**

Saturday, April 13
(8:30 a.m. - 12:00 p.m.)

Monday, April 15
(until 8 p.m.)

Walk-in service and tax booklets are available during regular business hours (Monday through Friday, 8:00 a.m. - 5:00 p.m.) at DRS Regional Offices (see back page) located in Bridgeport, Hamden, Hartford, Norwich, and Waterbury. Connecticut tax booklets are also available in most Connecticut libraries, post offices, town halls, and many banks.

REMINDER: State offices in Connecticut will be closed Friday, March 29, 2002, in observance of Good Friday. T_N

Filing Season Update

Electronic Filing Now Includes Internet

For the 2002 filing season, DRS has added an Internet filing option for individuals to use to file their Connecticut income tax returns. **WebFile** allows taxpayers to file their Connecticut income tax returns through the Internet at DRS' secure Web site. Using WebFile, most state residents will be able to electronically file their 2001 Connecticut income tax return quickly, easily, and accurately.

Electronic filing methods are faster and more convenient, allow taxpayers to complete returns with fewer errors, offer electronic refund and payment options, and issue refunds quicker. In addition, electronic filing saves the State money by reducing the costs of processing returns and tax administration.

Connecticut individual income tax filers may file by telephone or through the DRS Web site at: **www.drs.state.ct.us** Their 2002 filing options include:

- **WebFile** (new for 2001 returns) – Complete and submit the Connecticut resident income tax return or request an extension of time to file directly from the DRS Web site! No special software is needed!
- **Telefile** – Filing by telephone is the fastest and simplest method available and, if a refund is due, it will be issued in four days; and
- **Income tax and property tax credit calculators** are also available on the DRS Web site to assist taxpayers in identifying the correct amounts to enter on their returns.

For more information about Connecticut electronic filing options, visit the DRS Web site at: **www.drs.state.ct.us** or contact the Taxpayer Services Division at: 1-800-382-9463 (toll-free from within Connecticut) or 860-297-5962 (from anywhere).

The Expanding World of Electronic Filing

For tax year 2001, the number of electronically filed returns is up 15%, including a 28% increase in on-line filings. As of March 5, 2002, DRS has received more than 190,000 returns filed on-line.

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Due Date
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designated private delivery service (PDS) using a designated type of service, is on or before the due date. Not all services provided by these designated PDSs qualify. The following are the designated PDSs and designated types of service at the time of publication:

Airborne Express (Airborne):

- Overnight Air Express Service
- Next Afternoon Service
- Second Day Service

Federal Express (FedEx):

- FedEx Priority Overnight
- FedEx Standard Overnight
- FedEx 2Day

DHL Worldwide Express (DHL):

- DHL "Same Day" Service
- DHL USA Overnight

United Parcel Service (UPS):

- UPS Next Day Air
- UPS Next Day Air Saver
- UPS 2nd Day Air
- UPS 2nd Day Air A.M.
- UPS Worldwide Express Plus
- UPS Worldwide Express

This list is subject to change. To verify the names of designated PDSs and qualifying types of service, check the DRS Web site or call DRS (see back page). See **Special Notice 99(14)**, *Designated Private Delivery Services* and **Announcement 2001(9)**, *Designated Private Delivery Services and Designated Types of Service*.

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Third Party Designee

For taxable years beginning on or after January 1, 2001, taxpayers may check a box on their Connecticut income tax return to authorize DRS to contact another person whom they have chosen (such as a friend, family member, tax preparer, or any other person) to correct return-processing problems.

If the taxpayer checks the "Yes" box, the taxpayer and his or her spouse, if filing a joint return, are authorizing DRS to call the third party designee to answer any questions that may arise during the processing of the return. The taxpayer is also authorizing the third party designee to:

- Give DRS any information that is missing from the return;
- Call DRS for information about the processing of the return or the status of a refund or payment; and
- Respond to certain DRS notices about math errors, offsets, and return preparation. The notices will not be sent to the designee.

Once DRS completes processing the return, the authorization ends. The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing the 2002 tax return. This is April 15, 2003 for most taxpayers. Checking the box does **not** replace a power of attorney and will **not** authorize the designee to receive refund checks, bind the taxpayer to anything (including additional tax liabilities), or represent the taxpayer before DRS. Form **LGL-001**, *Power of Attorney* must be completed and filed to authorize another individual to represent or act on the taxpayer's behalf.

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Filing Season Update

Electronic Payment Options

Taxpayers who find that they owe Connecticut income tax can use either of the following electronic payment methods to pay the amount due:

Direct Payment – Taxpayers who WebFile or Telefile their Connecticut income tax returns may use the **direct payment** electronic payment option and authorize DRS to deduct their tax liability directly from their savings or checking account. Taxpayers authorize DRS to transfer funds from a bank account by entering their bank account number and bank routing transit number. The taxpayer may file the return at any time before the due date and designate the amount of payment and the date of transmission. The direct payment option is available through April 15, 2002.

Credit Card – All taxpayers (including electronic and paper filers) who have filed a 2000 Connecticut income tax return may pay their 2001 Connecticut income tax liability by credit card. To make a payment by credit card, the taxpayer must:

- Call **Official Payments Corporation** toll-free at: **1-800-2PAY-TAX** (1-800-272-9829) and follow the instructions. The taxpayer will be asked to enter his or her ZIP code. At the end of the call, the taxpayer will be given a confirmation number for your records; or
- Visit: **www.officialpayments.com** and select Payment Center. The taxpayer will be asked to enter his or her ZIP code. At the completion of the transaction the taxpayer will be given a confirmation number for his or her records.

The credit card service provider will charge a convenience fee. The taxpayer will be informed of the amount of the convenience fee during the transaction, and may elect to cancel at that time.

The payment will be effective on the date the charge is made. ^{TN}

2001 Connecticut Property Tax Credit

Connecticut residents who paid property taxes on their primary residence and/or privately owned or leased motor vehicle to a Connecticut political subdivision are eligible for a credit of up to \$500 against their 2001 Connecticut income tax liability.

Each year a large number of Connecticut taxpayers must amend their returns because they forget to take the property tax credit. Don't forget to take the credit if your client qualifies.

The credit is available to Connecticut taxpayers who have paid property tax bills that were due and were paid during 2001. This includes any installment payments made during 2001 for installments due in 2001 and any installments that were prepaid during 2001 for installments due in 2002. For example, if the second installment of a 2000 property tax bill was due January 1, 2001, and was paid during 2001, that payment may be included with any payments of 2001 property tax bills that were due during 2001 when calculating the property tax credit for 2001.

Taxpayers who paid more than \$100 in qualifying property tax payments may be subject to a limitation based on Connecticut adjusted gross income.

For more information on the property tax credit, see the instructions to **Form CT-1040**, **Form CT-1040EZ**, or *Connecticut Telefile Tax Return*. For help in calculating your property tax credit, visit the **Property Tax Calculator** on the DRS Web site at: **www.drs.state.ct.us** ^{TN}

Personal Identification Number (PIN) for Connecticut Telefile

Each taxpayer who receives a Connecticut income tax booklet has been assigned a Personal Identification Number (PIN). Taxpayers who qualify to use Connecticut Telefile may access the Telefile system, whether or not they received a 2001 Connecticut Telefile tax booklet in the mail.

The PIN is located on the label on the back of the tax booklet. If a PIN is lost or forgotten, it can be verified or a new one issued by calling the Telefile system or contacting DRS.

Last year over 172,000 taxpayers filed Connecticut income tax returns using Telefile. That was a 17% increase over the previous year. This year, DRS expects that many taxpayers will continue to successfully file their Connecticut income tax returns using Telefile and hopes that tax practitioners will encourage their clients to take advantage of this fast and easy way to file their returns.

Telefile booklets can be obtained at local post offices, libraries, or by contacting DRS. All Telefile booklets obtained from these locations contain **Form CT-1040EZ**, the paper return for taxpayers to use to check their figures or to use if they choose to file a paper return.

The Telefile system is active 24 hours a day, 7 days a week during the filing season (ending April 15, 2002). This system allows DRS to quickly process large quantities of returns in an extremely cost effective way, as it eliminates the expense of manually processing paper returns. Most refunds are issued in four days. ^{TN}

Filing Season Update

Federal/State Electronic Filing Program (*e-file*)

The Federal/State Electronic Filing program (*e-file*) is a “one-stop” filing program between the Internal Revenue Service (IRS) and the Connecticut DRS. *e-file* enables a taxpayer to electronically file both federal and state income tax returns in one single transmission using a computer instead of having to manually prepare the paper returns and send them through the mail. Both returns are transmitted to the IRS, which in turn, acknowledges acceptance of the federal return and receipt of the state data. DRS then retrieves the state return data from the IRS and creates a separate state acknowledgment record.

A taxpayer can choose to have a tax professional electronically file a return or may file from a personal computer using commercially available software packages or by visiting a developer’s Internet site.

Paying Tax Due

If the taxpayer owes money, there are now three payment options. The latest addition to *e-file* allows the taxpayer to authorize DRS to automatically withdraw the amount owed, from their checking or savings account on the date they specify. (This option must be selected **prior** to the return transmission.) Payments may be made by mail (submitted with **Form CT-1040V**, supplied by the software or tax professional) or by credit card (see, *Electronic Payment Options*, on Page 4). All payments must be submitted by April 15, 2002, to avoid penalty and interest charges.

Is Electronic Filing New?

No. Electronic Filing has been proven and tested by millions of taxpayers. Entering our eighth filing season, DRS has found that once taxpayers try *e-file* they continue to use it. ^{TN}

Benefits of e-file

Fast Refunds

Most refunds are issued within four days of acknowledgment.

Direct Deposit

Optional direct deposit of refunds is available.

Return Acknowledgment

Confirmation that returns have been received is by electronic acknowledgment system. When DRS receives the electronic return, an additional confirmation is sent.

Accuracy

Electronically filed tax returns are received virtually error-free (12% of all paper returns have some sort of error).

Convenience

The “one stop shop” tax filing allows taxpayers to file both their Federal and Connecticut tax returns in one transmission.

How to Avoid Refund Delays

FILING TIPS

TIPS for Successfully Filing a Connecticut Income Tax Return

Errors or incomplete information on a Connecticut income tax return may cause refunds to be delayed or result in bills for additional tax, penalty, and interest. These tips will help DRS process the return faster:

1. **Use the pre-printed label** that was affixed to the back of the Connecticut income tax booklet. Make sure the name and address are correct. If there is an error, draw a line through the error and clearly print the correct information. For taxpayer confidentiality purposes, the Social Security Number (SSN) is NOT on the preprinted label. All taxpayers **MUST** clearly print their SSN in the spaces provided. For the fastest refund for clients, tax practitioners and preparers are reminded to use the taxpayer’s label when completing a return.
2. **Attach legible state copies of W-2 forms.** Also attach state copies of W-2G forms (gambling winnings), 1099-R forms (pensions), and any other forms showing Connecticut income tax withheld.
3. **Check the correct filing status.** Usually the same as shown on the federal return.
4. **Check your math and copy all figures carefully,** especially when copying figures from one place to another.
5. **Sign the return.** If filing a joint return, both spouses must sign the return. When using a paid preparer, the paid preparer must also sign the return.

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Filing Season Update

6. **Attach the correct mailing label to the return envelope.** One label is for refund requests and all other tax forms without payment. The other is for tax forms with payment. Refunds will be processed quicker if the mailing label for refund requests is used.
7. **Use forms that conform to the DRS Reproduction Guidelines.** Photocopied or computer generated forms must:
 - Be a facsimile of the original form;
 - Be on paper of substantially the same weight and texture, and of a quality at least as good as that used for the original form;
 - Be of the same size as the original form both as to the overall dimensions of the paper and the image reproduced; and
 - Have a high standard of legibility, both as to the original form and as to the filled-in matter.

ERRORS

Processing Errors Identified

The DRS Processing Unit identified the following common errors that delay Connecticut income tax refunds and increase the cost of processing Connecticut returns.

- **No filing status checked**

All filers are required to check a filing status. The filing status is usually the same filing status checked on the federal return. If the filing status is not checked, DRS attempts to identify the correct filing status from the information included on the return or contacts the taxpayer to obtain the information.

- **Not properly stapling forms and statements together**

All W-2 forms and any 1099 forms showing Connecticut income tax withheld should be stapled to the left edge of the front of the return and should not block the name and address section. If the return is more than one page, all pages should be stapled together in the top left corner.

- **Not including all amounts of income and Connecticut withholding from W-2 and 1099 forms**

Returns are checked to determine if all Connecticut withholding was reported. Those not properly calculated are rechecked and, if possible, corrected.

- **Social Security Number(s) not provided or illegible**

DRS attempts to identify the correct Social Security Number(s) from information included on the return or contacts the taxpayer (or preparer) to obtain the information.

- **Not including any W-2 with the return.**

Returns without W-2s cannot be processed and DRS must contact the taxpayer or third party to resolve the problem.

- **Payment amounts do not match the check or money order**

Returns are checked to determine if payment amounts match the amount reported on the return. Those not properly identified are rechecked and, if possible, corrected, otherwise DRS must contact the taxpayer or third party to resolve the problem.

Cigarette Tax from Page 1

All Connecticut cigarette retailers and distributors must apply the tax increase to the cigarettes in their possession as of 11:59 p.m. on April 2, 2002. A “floor tax stamp” will become available on or about March 20, 2002, which may be purchased from a participating licensed cigarette distributor or from the DRS. Cigarette retailers and distributors are to apply the new stamps to cigarette inventory already stamped at the lower rate.

The “floor tax stamp” is an **additional stamp** that cigarette distributors or dealers must apply to packages of cigarettes in their existing inventory (previously stamped at the lower rate) prior to April 3, 2002, to prove that a new, additional tax was paid on cigarettes purchased before a tax increase. The additional tax is paid when the floor tax stamps are purchased. The stamps are self-adhesive and must be applied to each package. Cartons of cigarettes must be opened and the stamps applied to each package within the carton.

Licensed cigarette distributors may store untaxed cigarettes until the product is sold or ready for sale. The distributor must then stamp the cigarettes with the appropriate tax stamp(s) to identify that the new amount of tax has been paid.

Distributors may also want floor tax stamps to sell to their customers. Licensed dealers cannot legally store untaxed cigarettes for more than 24 hours (Conn. Gen. Stat. §12-303). This includes cigarettes that do not have the additional floor tax stamp on and after April 3. Dealers may also purchase the

required stamps from any DRS office.

Distributors and dealers must complete an “Inventory of Cigarettes on Hand”, (**Forms AU-930-61, AU-930-62, or AU-930-63**). The inventory should be completed prior to opening their business on April 3, **at the same time** that they affix the floor tax stamps. The inventory return must be filed or postmarked by May 1, 2002. No payment is required with the filing of this return, because all stamps are paid for at the time of purchase.

Distributors must also report their floor tax stamp **sales** on their inventory return. Dealers must report their floor tax stamp **purchases** on their inventory return.

Cigarettes that do not have the additional floor tax stamp or the new rate stamp will become “contraband goods” and may be seized by DRS on or after April 3, 2002 (Conn. Gen. Stat. §12-305). DRS Agents will conduct field inspections starting April 3, 2002.

For more information about the cigarette tax rate increase, visit the DRS Web site and click on “Cigarette Tax Increase”. Also, see **Special Notice 2002(1)**, *2002 Legislation Increasing the Cigarette Tax and Affecting Licensed Cigarette Dealers*, **Special Notice 2002(2)**, *2002 Legislation Increasing the Cigarette Tax and Affecting Licensed Cigarette Distributors that are Stampers*, and **Special Notice 2002(3)**, *2002 Legislation Increasing the Cigarette Tax and Affecting Licensed Cigarette Distributors that are not Stampers*.

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Amending an Electronic Return

Although electronically filed returns are statistically less likely to contain errors, there still may be circumstances where corrections are needed. Some helpful hints to minimize the need to amend an electronically filed return are:

TeleFile

Taxpayers may make corrections when entering information into the keypad from Items 3 through 10 of the Connecticut Telefile Tax Return by hanging up the receiver to disconnect the call. The taxpayer may call back and start with Item 1 again.

Taxpayers who realize that a mistake was made after entering their PIN signature on Item 18 into the keypad must file the paper return (**Form CT-1040X**).

Webfile

If an error is made while filing a Connecticut income tax return using WebFile, taxpayers may correct their errors by re-entering information on the return before the incorrect information is validated and the confirmation number is given. If the return has already been successfully submitted, corrections may be made only by completing and filing **Form CT-1040X**.

e-file

Errors may be identified on “e-filed” returns during the tax return processing cycle at DRS. Most errors are handled through the DRS error resolution process and all returns received are processed. DRS resolves most *e-file* errors by communicating directly with the preparer. In some cases, DRS will request that a taxpayer correct a return by completing an amended return (**Form CT-1040X**).

Failure to amend a return, if required to do so, may result in penalty assessments. Interest will also be assessed on any Connecticut income tax not paid on or before the due date.

Form CT-1040X is year specific. Use the correct version for the taxable year that you are amending.

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Special Tax Product Error Alert for Practitioners and Software Companies

The following DRS forms have been corrected since their original release.

Form CT-1120

2001 Form CT-1120, *Connecticut Corporation Business Tax Return and Instructions (12/01)*

There is an error in the **2001 Form CT-1120K Instructions**, Part II, Line 17 on Page 26. Line 17 reads, "Add Lines 1 through 16 in Column A and Column B. Add Lines 1 through 7, Line 13, and Line 16 in Column C...." The instructions should read, "Add Lines 1 through 16 in Column A and Column B. Add Lines 1 through 7, Line 13, and Line **15** in Column C...."

Form CT-1120K

2001 Form CT-1120K Flat Instructions (12/01)

There is an error in the instructions for Part II, Line 17 on Page 5. Line 17 reads, "Add Lines 1 through 16 in Column A and Column B. Add Lines 1 through 7, Line 13, and Line 16 in Column C...." The instructions should read, "Add Lines 1 through 16 in Column A and Column B. Add Lines 1 through 7, Line 13, and Line **15** in Column C...."

Form CT-1120 EXT

2001 Form CT-1120 EXT, Application for Extension of Time to File Corporation Business Tax Return (12/01)

There is an error in the **2001 Form CT-1120 EXT** instructions on Page 2, in the section entitled, "When to File Form CT-1120 EXT." The instructions currently read, "File Form CT-1120 EXT on or before the first day of the fourth month next succeeding the date of the company's corresponding federal income tax return...." The instructions should read, "File Form CT-1120 EXT on or before the first day of the month next succeeding the date of the company's corresponding federal income tax return...."

Who Must Make Estimated Connecticut Income Tax Payments For 2002

A taxpayer must make estimated income tax payments for the 2002 taxable year if the Connecticut income tax reported on the return (after tax credits), minus Connecticut tax withheld, is more than \$500, and the taxpayer expects the amount of Connecticut income tax withheld to be less than the required annual payment.

A taxpayer's required annual payment is the lesser of 90% of the income tax shown on the 2002 Connecticut income tax return or 100% of the income tax shown on the 2001 Connecticut income tax return, if the taxpayer filed a 2001 Connecticut income tax return that covered a 12-month period.

Some examples of income that may require a taxpayer to make estimated payments include:

- Self-employment;
- Pension and annuity;
- Capital gains;
- Interest and dividends;
- Gambling winnings;

- Rental income;
- Unemployment compensation;
- Federally taxable Social Security; and
- Any other taxable income from which no Connecticut tax was withheld.

See **Informational Publication 99(35)**, *Estimated Connecticut Income Taxes*, for more information.

Use **Form CT-1040ES**, *2002 Estimated Connecticut Income Tax Payment Coupon for Individuals*, to make quarterly estimated payments of Connecticut income tax for the 2002 taxable year.

Form CT-1040ES is mailed to any taxpayer who made Connecticut estimated tax payments in 2001. If the taxpayer did not make estimated payments previously, use **Form CT-1040ES**, included in the Connecticut income tax booklet. Taxpayers who file this form will be sent additional coupons from DRS.

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How to Review and Change Connecticut Income Tax Withholding

If a taxpayer's income tax return shows tax due, DRS suggests that the taxpayer review the latest **Form CT-W4**, *Employees Withholding or Exemption Certificate*, on file with the employer. It may be necessary for the taxpayer to correct the filing status selected or request an additional amount of Connecticut withholding. If the taxpayer owes additional tax because of another source of income, the taxpayer may request additional Connecticut withholding by completing a new **Form CT-W4**. The taxpayer should check to make sure that the additional amount will cover the tax on the other income.

A taxpayer who is a resident and receives a pension or annuity may use **Form CT-W4P**, *2002 Withholding Certificate for Pension or Annuity Payments*, to request Connecticut withholding from such payments. Retired Civil Service employees should contact the United States Office of Personnel Management to request or change Connecticut withholding.

See **Informational Publication 2002(1)**, *Is My Connecticut Withholding Correct?*, for more information on changing the amount of Connecticut withholding.

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Sales and Use Taxes

What Services Are Taxable to All Property Owners Including Homeowners?

Since the repeal of the seven taxable renovation services to owner-occupied residential real property took effect on July 1, 2001, some questions have been raised as to what services are still taxable to homeowners. The following list contains some of the common services that remain subject to 6% sales and use taxes when rendered to all types of real property, including owner-occupied residential real property:

- **Landscaping and horticulture services*** (including, but not limited to cutting lawns, raking leaves, weeding, seeding, fertilizing; cutting, pruning, trimming, spraying trees; installing sprinkler systems, installing patios and walkways – other than poured concrete or asphalt);
- **Maintenance services*** (including, but not limited to snow removal, chimney sweeping, cleaning gutters, driveway sealing, power washing the house, pond dredging, resurfacing clay tennis courts);
- **Window cleaning services***;
- **Swimming pool cleaning and maintenance services**;
- **Maid services** (janitorial services);

- **Exterminating services**;
- **Repairs and maintenance services to household appliances** (including, but not limited to ovens, microwave ovens, washing machines, clothes dryers, refrigerators, dishwashers, exhaust fans); and
- **Repairs and maintenance services to furnaces, hot water heaters, well pumps, air conditioning units, and electrical garage door openers.**

* Landscaping and horticultural services, maintenance services, and window cleaning services rendered at the residence of a person eligible for and currently receiving total disability payments under Social Security are not subject to tax. The purchaser must complete **CERT-121, Exemption for Landscaping and Horticultural Services, Window Cleaning Services and Maintenance Services Rendered to Recipients of Total Disability Benefits**, and issue it to the seller.

REMINDER: As of July 1, 2001, paving, painting, staining, wallpapering, roofing, siding and exterior sheet metal services are no longer subject to sales tax when rendered to owner-occupied residential real property. However, these seven services remain subject to 6% sales and use taxes when rendered to existing commercial, industrial, and income-producing real property.

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Two Common Questions Regarding the Sales and Use Taxes

The DRS Taxpayer Services Division annually answers many questions about the application of sales and use taxes. Normally, the topics of these inquiries vary greatly. However, recently a large number of questions have involved two issues: whether sales and use taxes apply to the sale or purchase of **United States and State of Connecticut flags**; and whether sales and use taxes apply to **fuel used for residential heating or cooking**.

United States and Connecticut Flags

Purchases of current United States and Connecticut flags are exempt from sales and use taxes. However, the exemption applies only to the flag. Therefore, if the flag is sold in a kit together with other items such as mounting hardware, halyard, or pole then the entire kit, including the flag, is taxable, unless the price of the other items is separately stated from the price of the flag.



Goods that are not flags themselves, such as stickers and decals with a flag image, are taxable.

Conn. Gen. Stat. §12-412(23)

Fuel for Heating and Cooking Purposes

Purchases of fuel for the purposes of heating a residential dwelling or domestic cooking are exempt from sales and use taxes.

Heating Fuel

The sale of fuel used for home heating is exempt under Conn. Gen. Stat. §12-412(16). The purchase of firewood is included under this exemption if it is purchased for residential heating purposes.



Cooking Fuel

The exemption of fuel for the purposes of domestic cooking includes the sale of charcoal, propane, and firewood. As long as these fuels are used for domestic cooking, they are not subject to sales and use taxes. However, lighter fluid remains subject to sales and use taxes.



TN

Connecticut Tax Calendar

If the due date falls on a Saturday, Sunday or legal holiday, the next business day is the due date.

MARCH

- 1** Corporation Business Tax for year ending November 2001
- 15** Cigarette Vending Machine Tax
 - Estimated Corporation Business Tax Payments
 - Form CT-1120 ESA for year ending December 2002
 - Form CT-1120 ESB for year ending September 2002
 - Form CT-1120 ESC for year ending June 2002
 - Form CT-1120 ESD for year ending March 2002
 - Estimated Health Care Centers Tax Payment, 1st Installment 2002
 - Estimated Insurance Companies Tax Payment, 1st Installment 2002
 - Estimated Unrelated Business Income Tax
 - Fiduciary Income Tax for year ending November 2001
 - Group Income Tax for year ending November 2001
 - Individual Income Tax for year ending November 2001
 - Health Care Centers Tax for year ending November 2001
 - Insurance Companies Tax for year ending November 2001
 - Partnership Income Tax for year ending November 2001
 - S Corporation Business Tax for year ending November 2001
 - S Corporation Information and Composite Income Tax for year ending November 2001
 - Unrelated Business Income Tax (Foreign Trusts)
- 25** Motor Vehicle Fuels Tax
 - Tobacco Products
- 31** Admissions and Dues Tax, Monthly Filers
 - Beverage Tax
 - Room Occupancy Tax, Monthly Filers
 - Sales and Use Taxes, Monthly Filers
 - Tourism and Rental Surcharge, Monthly Filers

APRIL

- 1** Community Antenna TV Systems
 - Corporation Business Tax for year ending December 2001
 - Telegraph and Cable Companies
- 15** Application for Extension of Time to File Connecticut Income Tax Return for Individuals
 - Cigarette Vending Machine Tax
 - Estimated Composite Income Tax Payment
 - 1st Installment 2002
 - Estimated Corporation Business Tax Payment
 - Form CT-1120 ESA for year ending January 2003
 - Form CT-1120 ESB for year ending October 2002
 - Form CT-1120 ESC for year ending July 2002
 - Form CT-1120 ESD for year ending April 2002
 - Estimated Group Income Tax Payment
 - 1st Installment 2002
 - Estimated Income Tax Payment for Individuals, Trusts, and Estates, 1st Installment 2002
 - Estimated Unrelated Business Income Tax
 - Fiduciary Income Tax for year ending December 2001

- Gift Tax
- Group Income Tax for year ending December 2001
- Health Care Centers Tax for year ending December 2001
- Insurance Companies Tax for year ending December 2001
- Individual Income Tax for year ending December 2001
- Individual Use Tax
- Partnership Income Tax for year ending December 2001
- S Corporation Business Tax for year ending December 2001
- S Corporation Information and Composite Income Tax for year ending December 2001
- Unrelated Business Income Tax (Domestic Trusts)
- 25** Motor Vehicle Fuels Tax
 - Tobacco Products
- 30** Admissions and Dues Tax, Monthly and Quarterly Filers
 - Beverage Tax
 - Dry Cleaning Surcharge
 - Gas, Electric & Steam Companies Gross Earnings Tax
 - Hospital Gross Earnings Tax
 - Motor Carrier Road Tax
 - Petroleum Companies Gross Earnings Tax
 - Quarterly Reconciliation of Withholding
 - Room Occupancy Tax, Monthly and Quarterly Filers
 - Sales and Use Taxes, Monthly and Quarterly Filers
 - Seed Oyster Tax
 - Solid Waste Tax
 - Tourism and Rental Surcharge, Monthly and Quarterly Filers

MAY

- 1** Corporation Business Tax for year ending January 2002
- 15** Cigarette Vending Machine Tax
 - Estimated Corporation Business Tax Payment
 - Form CT-1120 ESA for year ending February 2003
 - Form CT-1120 ESB for year ending November 2002
 - Form CT-1120 ESC for year ending August 2002
 - Form CT-1120 ESD for year ending May 2002
 - Estimated Unrelated Business Income Tax
 - Fiduciary Income Tax for year ending January 2002
 - Group Income Tax for year ending January 2002
 - Health Care Centers Tax for year ending January 2002
 - Insurance Companies Tax for year ending January 2002
 - Partnership Income Tax for year ending January 2002
 - S Corporation Information and Composite Income Tax for year ending January 2002
 - Unrelated Business Income Tax (Domestic Trusts)
- 25** Motor Vehicle Fuels Tax
 - Tobacco Products
- 31** Admissions and Dues Tax, Monthly Filers
 - Beverage Tax
 - Room Occupancy Tax, Monthly Filers
 - Sales and Use Taxes, Monthly Filers
 - Tourism and Rental Surcharge, Monthly Filers

DRS Tax Product Update

DRS recently issued the following tax products. DRS forms and publications are available 24-hours a day, 7-days a week, by visiting the **DRS Web site** at www.drs.state.ct.us or by calling **DRS TaxFax** at **860-297-5698** from the handset attached to your fax machine.

Forms and publications can be ordered by **e-mail** at ctforms.drs@po.state.ct.us, or by calling **CONN-TAX**, the DRS information line. Call **1-800-382-9463** (toll-free from within Connecticut) and select **Option 2**, or **860-297-4753** (from anywhere) 24 hours a day, to order forms and publications.

Announcements

AN 2002 (2), List of Registered Natural Gas Suppliers

AN 2001(11), Implementation of Roll-Your-Own Tobacco Legislation Delayed

Informational Publications

IP 2002(6), Topical Index to Rulings and Administrative Pronouncements Covering Miscellaneous Taxes and Administrative Topics

IP 2002(5), Topical Index to Rulings and Administrative Pronouncements Covering Sales and Use Taxes

IP 2002(4), Numerical Index to Rulings and Administrative Pronouncements as Affected if at all by Later-Issued Rulings and Pronouncements

IP 2002(3), Topical Index to Rulings and Administrative Pronouncements Covering Corporation Business Tax

IP 2002(2), Topical Index to Rulings and Administrative Pronouncements Covering Income Tax

IP 2002(1), Is My Withholding Correct?

IP 2001(32), International Fuel Tax Information

IP 2001(31), Connecticut Income Tax Withholding Tables Effective January 1, 2002

IP 2001(25), Q & A: Income Tax Credit for Property Taxes Paid to a Connecticut Political Subdivision

IP 2001(24), Connecticut Income Tax Information for Armed Forces Personnel and Veterans

Policy Statements

PS 2002 (2), Sales and Use Taxes on Meals

PS 2001 (1), Procedure for Retailers Claiming Credit for Sales Tax Previously Paid on Worthless Accounts Receivable

Special Notices

SN 2001 (4), Exemptions from Admissions Tax

SN 2001(10), More 2001 Legislation Affecting the Succession Tax

Certificates

CERT-100, Materials, Tools and Fuel Certificate

CERT-101, Machinery, Component Parts and Replacement and Repair Parts of Machinery Used Directly in a Manufacturing Process

CERT-102, Certified Rehabilitation Certificate for Certified Historic Structures

CERT-105, Commercial Motor Vehicle Purchased Within Connecticut to be Used Exclusively in the Carriage of Freight in Interstate Commerce

CERT-108, Certificate of Partial Exemption Materials, Tools and Fuels

CERT-111, Certificate for Machinery, Equipment, Materials, Tools and Fuel Used by an Aircraft Manufacturer Operating an Aircraft Manufacturing Facility

CERT-113, Certificate for Purchases of Tangible Personal Property and Services by a Nonprofit Nursing Home, Nonprofit Rest Home or Nonprofit Home for the Aged

CERT-114, Commercial Motor Vehicle or Motor Bus Purchased Within Connecticut to be Used in Interstate Commerce as an Interstate Motor Bus

CERT-104, Services Certificate for New Construction

CERT-115, Certificate for Exempt Purchases of Gas, Electricity and Heating Fuel

CERT-129, Exemptions For Items Used Directly in the Biotechnology Industry

Commissioner of Revenue Services case. In the Carpenter case, Carpenter made capital contributions to a subsidiary and immediately borrowed back those funds, generating a substantial interest expense deduction and reducing its Connecticut corporation business tax.

The Department and private sector have worked together diligently over the last several months to develop legislation to prevent avoidance of the corporation business tax in Carpenter-type situations. Although the legislation is not yet finalized, both groups are striving to develop language that will prevent revolving loans that serve no other purpose than to reduce state taxes. This proposed legislation will incorporate the traditional principles of valid business purpose and economic substance regarding both the entities and loans involved.

Commissioner from Page 2

Another proposal DRS will present is a change to the sales and use tax. The proposed language makes the sale of meals, either directly or through a third party service provider, to nursing home patients exempt from the sales tax.

DRS is also proposing to allow taxpayers to subtract certain insurance and medical reimbursements from their Connecticut adjusted gross income. In order to qualify, the reimbursements must be related to medical expenses that were deducted for federal income tax purposes the prior year.

Everyone has a personal and professional stake in tax policy, and I welcome your comments. You can contact my office at (860) 297-4900, or email me at gene.gavin@po.state.ct.us. I will personally respond to all comments and questions.

For Tax Forms, Publications or Personal Assistance

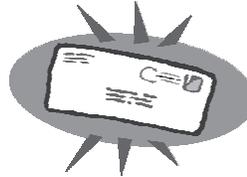
- Visit the **DRS Web site:** www.drs.state.ct.us



- Call **CONN-TAX** at 1-800-382-9463 (toll-free from within Connecticut) or 1-860-297-5962 (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries 24 hours a day, seven days a week by calling 860-297-4911.

- **Write to:** Department of Revenue Services
Taxpayer Services Division
25 Sigourney Street
Hartford CT 06106-5032

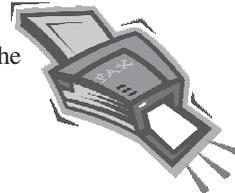


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Internet: Preview and download forms from the DRS Web site at www.drs.state.ct.us

DRS TaxFax: Call 860-297-5698 from the handset attached to your fax machine



E-mail: E-mail your request for forms to:
ctforms.drs@po.state.ct.us

Telephone: From a touch-tone phone 24 hours a day call 1-800-382-9463 (toll-free from within Connecticut) and select Option 2 or 860-297-4753 (from anywhere).



For free assistance on forms, visit our offices from 8:00 a.m. to 5:00 p.m. (Monday through Friday). For pre-recorded directions to DRS offices, call CONN-TAX. If you require special accommodations, please advise the Department representative.

BRIDGEPORT

10 Middle St.
203-579-6251

HAMDEN

3074 Whitney Ave., Bldg 2
203-287-8243

HARTFORD

25 Sigourney St.
860-297-5962

NORWICH

2 Cliff St.
860-889-2669

WATERBURY

55 West Main St.
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203-805-6789



CONNECTICUT Tax News, from the Connecticut Department of Revenue Services, is published five times a year.

This newsletter is designed to provide general information to taxpayers and tax practitioners. It is not designed to explain in depth a current Department policy affecting the liability of taxpayers. Nothing in this publication supersedes, alters, or otherwise changes the provisions of the Connecticut General Statutes, regulations, Department rulings or tax informational publications.

**Gene Gavin,
Commissioner**

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