

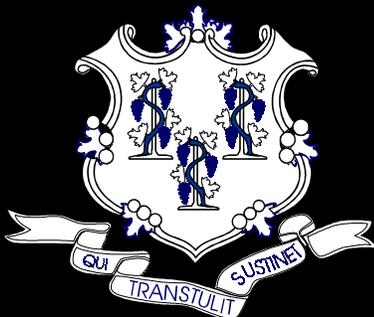
1998

FORM CT-1065

Connecticut Partnership Income Tax Return and Instructions

This booklet
contains:

- Form CT-1065
- Form CT-1065 EXT



Dear Customer:

Connecticut continues to take significant steps to reduce the tax burden on both resident and nonresidents. Individual income taxpayers and business taxpayers are reaping the benefits of lower taxes on their Connecticut-sourced income.

On Page 3 of this booklet you will find a summary of the Connecticut taxes that a partnership may be obligated to pay. Detailed information about all Connecticut taxes is available on the DRS Web site (see address at bottom of page). You may also download Connecticut forms and instructions from our Web site or obtain Connecticut income tax booklets and forms at locations described on Page 4.

If you have questions about Connecticut taxes or need help filing your return, please feel free to contact us. Our Taxpayer Services personnel are always ready to assist you. Complete information about reaching us is on the back cover of this booklet.

The award-winning Department of Revenue Services is proud of the quality of service it provides Connecticut taxpayers. As always, I welcome your comments and suggestions to help us serve you better.

Sincerely,

Gene Gavin
Commissioner

Taxpayer information is available on our Internet site:
<http://www.state.ct.us/drs>

Department of Revenue Services walk-in locations and telephone numbers are listed on the back cover.

CONN-TAX

If you have a touch-tone phone, you can obtain important income tax information 24 hours a day from CONN-TAX, the Department's information line. Call **1-800-382-9463** (in-state) or **860-297-5962** (anywhere), press "1" to be connected to "Income Tax Information Menu," then press "2" to select "Recorded Income Tax Information." Enter the three-digit number beside the topic of your choice.

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1999 Extended Telephone Hours for Personal Assistance (Option "0"):

- Tuesday **January 26** (until 7 p.m.)
- Thursday **January 28** (until 7 p.m.)
- Tuesday **February 2** (until 7 p.m.)
- Thursday **February 4** (until 7 p.m.)
- Thursday **April 1** (until 7 p.m.)
- Saturday **April 3** (8:30 a.m. - 12:00 p.m.)
- Thursday **April 8** (until 7 p.m.)
- Saturday **April 10** (8:30 a.m. - 12:00 p.m.)
- Monday **April 12** (until 7 p.m.)
- Tuesday **April 13** (until 7 p.m.)

1999 Extended Telephone Personal Assistance and Walk-in Hours:

- (25 Sigourney Street, Hartford Only)
- Wednesday **April 14** (until 8 p.m.)
- Thursday **April 15** (until 8 p.m.)

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OTHER TAXES FOR WHICH THE PARTNERSHIP MAY BE LIABLE

The information that follows is intended to be a general description of certain other Connecticut taxes for which a partnership may be liable. Failure to pay these or any other taxes may subject the partnership and its partners to civil and criminal penalties.

To register for sales and use taxes and Connecticut income tax withholding as well as most other Connecticut taxes administered by the Department of Revenue Services, the partnership must complete **REG-1, Application for Tax Registration Number**. If the partnership already has a Connecticut tax registration number, the partnership may register for any additional taxes for which it is liable by contacting the Department's Registration Unit at 860-297-4885.

SALES AND USE TAXES

A partnership may be responsible for the filing of sales and use tax returns. Sales tax is due if the company makes sales of taxable goods or services. Use tax is due on the purchase of taxable goods or services, generally from out-of-state retailers or Connecticut retailers who have failed to collect the sales tax. Both taxes are reported on **Form OS-114, Sales and Use Tax Return**.

CONNECTICUT INCOME TAX WITHHOLDING

Anyone who maintains an office or transacts business in Connecticut and who is considered an employer for federal income tax withholding purposes must withhold Connecticut income tax whether or not the payroll department is located in Connecticut.

Connecticut income tax withholding is reported on **Form CT-941, Connecticut Quarterly Reconciliation of Withholding** and **Form CT-W3, Connecticut Annual Reconciliation of Withholding**.

CONTROLLING INTEREST TRANSFER TAX

A partnership may be liable for controlling interest transfer tax if it transfers a controlling interest in an entity that owns Connecticut real property. Partners may be liable if they transfer a controlling interest in a partnership that owns Connecticut real property. This tax is reported on **Form AU-330, Controlling Interest Transfer Tax Return**.

REAL ESTATE CONVEYANCE TAXES

A partner may be liable for state and municipal real estate conveyance taxes if the partner conveys, as a contribution of partnership assets, Connecticut real property to the partnership. The partnership may be liable if it conveys Connecticut real property to a partner in consideration for the partner's withdrawal or if there is a termination of the partnership. The state tax is reported on **Form OP-236, Real Estate Conveyance Tax Return**.

GENERAL INFORMATION

WHERE CAN I GET HELP?

The Department of Revenue Services, Taxpayer Services Division, can answer questions on how to complete your Connecticut tax return. Taxpayer Services may be reached from 8:00 a.m. to 5:00 p.m., Monday through Friday, by calling 1-800-382-9463 (in-state) or 860-297-5962 (anywhere). Telecommunications Device for the Deaf (TDD/TT) users **only** may call 860-297-4911.

Assistance is also available from 8:00 a.m. to 5:00 p.m., Monday through Friday, by visiting any of the Department's offices listed on the back cover of this booklet. If you visit, be sure to bring your **COMPLETED** federal Form 1065.

WHERE CAN I GET ADDITIONAL FORMS AND PUBLICATIONS?

You may obtain forms and publications 24 hours a day from the DRS Website at <http://www.state.ct.us/drs> or through the Department's fax retrieval system by calling the DRS TAX-FAX at 860-297-5698 from the handset attached to your fax machine.

Connecticut income tax forms may be obtained at any of the Department's offices (listed on the back cover) as well as at Connecticut post offices, town halls, some banks, and public libraries.

Connecticut tax forms may also be obtained by writing to:

DRS Forms Unit
25 Sigourney Street
Hartford CT 06106-5032

or by calling the DRS Forms Unit at 1-800-382-9463 (in-state) or 860-297-4753 (anywhere) and choosing Option 2. Both numbers are accessible 24 hours a day.

WHO MUST FILE A CONNECTICUT PARTNERSHIP INCOME TAX RETURN?

A partnership (including a limited liability partnership and a limited liability company treated as a partnership for federal purposes) must file **Form CT-1065, Connecticut Partnership Income Tax Return**, if:

1. It is required to file a federal Form 1065, *U.S. Partnership Return of Income*, and
2. It has any income, gain, loss or deduction derived from or connected with Connecticut sources.

Partnerships do not have to file a **Form CT-1065** merely because they have a partner or partners who are residents of Connecticut.

For more information on how LLCs are taxed in Connecticut, see **SN 98(3), Effect of Recent Federal Tax Law Changes on the Taxation of Limited Liability Companies and S Corporations and Their Shareholders**.

Income derived from or connected with Connecticut sources includes:

- Income, gain, loss or deduction attributable to the ownership of any interest in real property or tangible personal property located in Connecticut;
- Income, gain, loss or deduction attributable to the ownership of any intangible personal property to the extent it is used in a business, trade, profession or occupation carried on in Connecticut; and
- Income, gain, loss or deduction attributable to a business, trade, profession or occupation carried on in Connecticut.

A partnership has income, gain, loss or deduction from sources in Connecticut if it is a partner in a partnership which itself has income, gain, loss or deduction derived from Connecticut sources. This flow through of income, gain, loss or deduction extends through all layers of partnerships.

A partnership carries on a business, trade, profession or occupation within Connecticut if:

- It maintains or operates desk space, an office, shop, store, warehouse, factory, agency or other place **in Connecticut** where its affairs are systematically and regularly carried on; or
- Activities in connection with the business are conducted **in Connecticut** with a fair measure of permanency and continuity for livelihood or profit, as distinguished from isolated or incidental transactions.

HOW DO PARTNERS REPORT THEIR INCOME?

Resident individual partners must include their distributive share of partnership income on **Form CT-1040, Connecticut Resident Income Tax Return**. The partnership must provide each resident partner with a schedule of the amounts of Connecticut modifications that each partner must include on Schedule 1 of his or her **Form CT-1040**. A Connecticut resident is an individual whose domicile is in this state or an individual whose domicile is not in this state but who maintained a permanent place of abode in Connecticut **and** spent more than 183 days in the state during the taxable year. Nonresident individual partners must include their distributive share of partnership items on **Form CT-1040 NR/PY, Connecticut Nonresident or Part-Year Resident Income Tax Return**. The partnership must provide each nonresident partner with a schedule of his or her distributive share of partnership income (loss) derived from or connected with sources within Connecticut for inclusion on Schedule CT-SI of each nonresident partner's **Form CT-1040 NR/PY**. Additionally, each nonresident partner must be provided with a schedule of his or her distributive share of Connecticut modifications for inclusion on Schedule 1 of his or her **Form CT-1040 NR/PY**, and a schedule of the amounts of

such modifications that relate to the distributive share of income (loss) derived from or connected with sources within Connecticut, for inclusion on Schedule CT-SI of each nonresident partner's **Form CT-1040 NR/PY**.

A partner that is a corporation may be required to file **Form CT-1120**, *Corporation Business Tax Return* or **Form CT-1120S**, *Connecticut S Corporation Business Tax Return*.

A group return, **Form CT-G**, *Connecticut Group Income Tax Return*, may be filed by a partnership with ten or more qualified electing nonresident partners. See *Group Returns for Nonresident Individual Partners*, on Page 6.

WHEN IS FORM CT-1065 DUE?

A partnership must file **Form CT-1065** by the 15th day of the fourth month following the close of its taxable year. The return will be considered timely if the date shown by the US Post Office cancellation mark is on or before the due date of the return. If the due date falls on a Saturday, Sunday, or legal holiday, the next business day is the due date. If a partnership is terminated and completely liquidated during its normal taxable year, resulting in an accounting period of fewer than 12 months for federal income tax purposes, the return is due on the 15th day of the fourth month after the end of the accounting period.

Form CT-1065 is an informational return for calendar year 1998 or for the taxable year beginning in 1998 and ending in 1998 or 1999. If the return is not for a calendar year, fill in the "other taxable year" space at the top of the form.

WHAT INFORMATION MUST BE PROVIDED TO PARTNERS?

On or before the date **Form CT-1065** is filed, the partnership must provide each partner with information concerning the amount of that partner's:

- Distributive share of income, gain, loss and deduction derived from or connected with sources within Connecticut, and derived from or connected with sources outside Connecticut, and
- Distributive share of any Connecticut modifications that relate to partnership items of income, gain, loss or deduction derived from or connected with sources within Connecticut, and derived from or connected with sources outside Connecticut.

This information may be provided in the form of a statement attached to each partner's federal K-1. If all the items of income, gain, loss or deduction are derived from or connected with sources within Connecticut, it should be so stated.

Partners that are S corporations, partnerships, trusts or estates must be provided with a schedule of the partnership's income, gain, loss or deduction derived from or connected with sources within Connecticut so that they may properly inform their own shareholders, partners, or beneficiaries who may be nonresidents of Connecticut of any amounts taxable to them for Connecticut income tax purposes. For example, a resident partner that is a partnership may have one or more nonresident partners who need to know about their distributive share of any income, gain loss or deduction derived from or connected with sources within Connecticut.

Example:

X, a partnership having items of income, gain, loss or deduction derived from Connecticut sources, has 3 partners: Q, a resident individual; R, a nonresident individual; and S, a partnership.

Partner S has two resident individual partners, T and U, and one nonresident individual partner, V.

X must do the following for Connecticut income tax purposes:

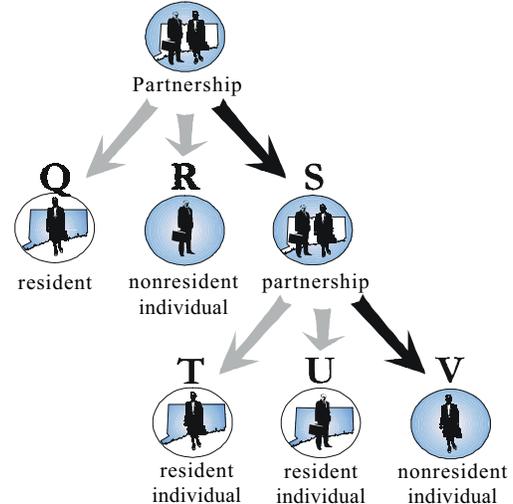
- File a **Form CT-1065**.
- Provide **all** partners with a **Form CT-1065**, Schedule D.
- Provide partner R with a **Form CT-1065**, Schedule E.
- Provide partner S, a pass-through entity with a nonresident partner, with a **Form CT-1065**, Schedule E.

Partner S has no income other than its distributive share of X's income, gain, loss or deduction.

S must do the following for Connecticut income tax purposes:

- File a **Form CT-1065**.
- Provide **all** partners with a schedule of their distributive shares of S's Connecticut modifications from the **Form CT-1065**, Schedule D, provided to S by Partnership X.
- Provide its nonresident partner, V, with a schedule of V's distributive share of S's income, gain, loss or deduction from Connecticut sources from the **Form CT-1065**, Schedule E provided to S by Partnership X.

Illustration: X



This partner needs to know what the Connecticut sourced income was from X.

HOW TO FILE FOR AN EXTENSION

If the partnership is unable to file a timely return, **Form CT-1065 EXT**, *Application for Extension of Time to File Connecticut Partnership Income Tax Return*, may be filed on or before the due date of the original return. This form is contained in this booklet. The filing of this form will automatically extend the due date for six months only if federal Form 8736, *Application for Automatic Extension of Time To File U.S. Return for a Partnership, REMIC or for Certain Trusts*, has been filed with the Internal Revenue Service. If federal Form 8736 was not filed, the partnership can apply for a six-month extension to file **Form CT-1065** provided there is reasonable cause for the request.

If a general partner is unable, by reason of illness, absence or other good cause, to request an extension, any person standing in a close personal or business relationship to the general partner (including an attorney, accountant, or enrolled agent) may sign the request on his or her behalf. This person shall be considered as a duly authorized agent for this purpose, provided the request sets forth the reasons for a signature other than the general partner's, and the relationship existing between the general partner and the signer.

HOW TO FILE AN AMENDED RETURN

If, after the partnership files its return, changes or corrections to income or deductions are made, the partnership must file an amended **Form CT-1065**. Check the *Amended Return* box on Question A on the front of **Form CT-1065**.

If the partnership files an amended federal return, the partnership must file an amended Connecticut return within 90 days after filing the amended federal return if the amendment affects the Connecticut income tax liability of its partners. Check the *Amended Return* box on Question A on the front of **Form CT-1065**.

If the partnership's federal return is changed or corrected by the Internal Revenue Service, the partnership must file an amended **Form CT-1065** within 90 days after the final determination of such change or correction. Check the *Amended Return* box on Question A on the front of **Form CT-1065**. The penalty for failure to report any change within the 90-day period is \$50.

ACCOUNTING PERIOD AND METHOD OF ACCOUNTING

A partnership's accounting period and method of accounting for Connecticut income tax purposes shall be the same as its accounting period and method of accounting for federal income tax purposes.

If a partnership's accounting period or method of accounting is changed for federal income tax purposes, it shall be similarly changed for Connecticut income tax purposes.

PENALTY FOR LATE FILING

A penalty of \$50 is imposed against the partnership if the partnership is required to file a partnership return and fails to file the return on time, including extensions.

WAIVER OF PENALTY

The partnership may be entitled to a waiver of penalty if the failure to file the return on time was due to reasonable cause. Requests for a penalty waiver must be in writing and contain a clear and complete explanation. Do not include penalty waiver requests with **Form CT-1065**. Mail separately to:

DRS Penalty Review Committee
PO Box 5089
Hartford CT 06102-5089

ROUNDING OFF TO WHOLE NUMBERS

Generally, you may round off cents to the nearest whole dollar on your return and schedules. However, if you need to add two or more amounts to compute the amount to enter on a line, you must include cents when adding and **only round off the total**.

Round down to the next lowest dollar all amounts that include 1 through 49 cents. Round up to the next highest dollar all amounts that include 50 through 99 cents. For example, \$1.20 should be rounded down to \$1.00, and \$3.50 should be rounded up to \$4.00.

INTERNAL REVENUE SERVICE EXCHANGE PROGRAM

The Department of Revenue Services and the Internal Revenue Service maintain an extensive exchange program, routinely sharing computer tapes and audit results. Discrepancies between income and deductions reported on federal returns and on this return, except those allowed under state law, are identified and may result in a state audit or further investigation.

GROUP RETURNS FOR NONRESIDENT INDIVIDUAL PARTNERS

A group return may be filed on **Form CT-G** and taxes paid on behalf of electing partners **only** by partnerships with ten or more qualified electing nonresident individual partners in a taxable year. All qualified electing nonresident individual partners must have the same taxable year. A *qualified electing nonresident partner* is one who meets **all** of the following conditions:

1. The partner was a nonresident individual for the entire taxable year;
2. The partner did not maintain a permanent place of abode in Connecticut at any time during the taxable year;
3. The partner (or his or her spouse if a joint federal income tax return is or will be filed) did not have income derived from or connected with sources within Connecticut other than the partner's pro rata share of partnership income derived from or connected with sources within Connecticut;

4. The partner waives the right to claim any Connecticut personal exemption and any Connecticut personal credit;
5. The partner does not have a Connecticut alternative minimum tax liability for the taxable year; and
6. The partner elects to be included in **Form CT-G** by completing and delivering to the partnership **Form CT-2NA, Connecticut Nonresident Income Tax Agreement/Election to be Included in a Group Return**, prior to the filing of the **Form CT-G** by the partnership. By making the election, the partner expressly consents to personal jurisdiction in Connecticut for

Connecticut income tax purposes and waives his or her right to request, on his or her own behalf or with others making such election, an extension of time to pay Connecticut income tax.

Form CT-G is available from the Department. (See *Forms and Publications* on back cover.)

Nonresident partners with Connecticut source income who do not qualify or who do not elect to be included on a group return must file **Form CT-1040 NR/PY**.

INSTRUCTIONS FOR FORM CT-1065

Attach a complete copy of your federal Form 1065 (excluding K-1s).

GENERAL INSTRUCTIONS

Enter the complete partnership name and address, Federal Employer Identification Number and Connecticut tax registration number. A Connecticut tax registration number is only necessary if the partnership is required to be registered for other taxes with the Department.

QUESTIONS A THROUGH I

Question A - Check the appropriate boxes if filing an amended return, final return (out of business in Connecticut), or both.

Question B - Enter the total number of resident partners and nonresident partners during the taxable year. The status of each partner is determined as of the end of the partnership year or at the date the partner leaves the partnership.

Question C - Enter the amount from federal Form 1065, Schedule K, Line 1, ordinary income (loss) from trade or business activities.

Question D - Enter the date the partnership began operating. Enter the date business began in Connecticut.

Question E - Check the box if any partners are corporate entities.

Question F - Indicate whether the partnership has an interest in any real property located in the state.

Question G - If this question is answered "Yes," the partnership may be liable for the controlling interest transfer tax. Enter the name of the entity in which a controlling interest was transferred and its Federal Employer Identification Number in the applicable spaces.

Question H - If this question is answered "Yes," and the partnership owned Connecticut real property, the transferor(s) is liable for the controlling interest transfer tax. Enter the name and the Social Security Number or Federal Employer Identification Number of the transferor(s).

For information on the controlling interest transfer tax, see *Other Taxes for Which the Partnership May Be Liable* on Page 3.

Question I - Under Internal Revenue Code §754, a partnership may elect to adjust the basis of partnership property when property is distributed or when a partnership interest is transferred. Attach any information included with federal Form 1065, *U.S. Partnership Return of Income*, relating to an Internal Revenue Code §754 election.

SCHEDULE A - BUSINESS INFORMATION

Complete Schedule A only if the partnership carries on business both within and outside of Connecticut. Enter the exact location of each place where the partnership carries on business, briefly describe each place of business (for example, sales office, agency, factory, warehouse), and state whether it is rented or owned by the partnership. Briefly describe the activity at the location shown (for example, storage, administration, manufacturing, wholesale sales, retail sales, commercial rental property).

SCHEDULE B - INCOME APPORTIONMENT

Complete Schedule B only if **all** of the following apply:

1. There are one or more nonresident partners; and
2. The partnership carries on business both within and outside of Connecticut; and
3. The partnership does not maintain books and records that satisfactorily disclose the portion of income, gain, loss or deduction derived from or connected with Connecticut sources.

Schedule B must be completed even if an authorized alternate allocation method is used. A detailed explanation of the authorized alternate method used to determine the Connecticut income must be attached, together with full details of any adjustments increasing or decreasing the amount of Connecticut income computed by the authorized alternate method.

Use the apportionment fraction from on Line 8 to complete Schedule D and Schedule E.

The apportionment fraction calculated on Line 8 of this schedule is not to be used by partners that are C corporations. (Schedule B need *not* be completed when all the partners are C corporations).

If the partnership does maintain books and records that satisfactorily disclose the portion of income, gain, loss or deduction derived from or connected with Connecticut sources, use those amounts to complete Schedule E.

Line 1 - Real Property Owned

Enter in Column A the average value of all real property owned by the business, wherever located. Enter in Column B the average value of real property owned by the business and located in Connecticut.

The average value of property is determined by adding its fair market value at the beginning and the end of the taxable year and dividing by two.

Line 2 - Real Property Rented from Others

Enter in Column A the average value of all real property rented from others, wherever located. Enter in Column B the average value of real property rented from others and located in Connecticut.

The average value of real property rented by the business from others and to be included on Line 2 is eight times the gross rent payable during the taxable year for which the return is filed. Gross rent includes:

- Any amount payable for the use or possession of real property, or any part of it, whether designated as a fixed sum of money or as a percentage of sales, profits or otherwise;
- Any amount payable as additional rent or in lieu of rent such as interest, taxes, insurance, repairs or any other amount required to be paid by the terms of a lease or other agreement;
- The proportion of the cost of any improvement to real property made by or on behalf of the business which reverts to the owner or lessor upon termination of a lease or other arrangement. However, if a building is erected on leased land by or on behalf of the business, the value of the building is determined in the same manner as if it were owned by the business.

Line 3 - Tangible Personal Property Owned or Rented from Others

Enter in Column A the average value of all tangible personal property that is owned or rented from others by the business, wherever located. Enter in Column B the average value of tangible personal property owned or rented from others by the business and located in Connecticut. Determine the average value of tangible personal property that is owned by adding its book value at the beginning and end of the taxable year and dividing by two.

Determine the average value of tangible personal property rented from others by multiplying by eight the gross rents payable during the taxable year for which the return is filed.

Line 4 - Property Owned or Rented

Add Lines 1, 2 and 3 in Column A and Column B and enter the result on Line 4. On Line 4, divide the Column B amount by the Column A amount. Carry the result to four decimal places and enter on Line 4, Column C.

Line 5 - Employee Wages and Salaries

Enter in Column A the total compensation paid to employees during the taxable year in connection with business operations carried on everywhere. Enter in Column B the total compensation paid to employees during the taxable year in connection with business operations carried on in Connecticut. Only enter wages, salaries and other personal service compensation paid to **employees** of the business. Do not include payments to partners, independent contractors, independent sales agents, etc. The compensation paid for services is in connection with operations carried on in Connecticut if the employee works in or travels out of an office or other place of business located in Connecticut.

Divide the Column B amount by the Column A amount. Carry the result to four decimal places and enter on Line 5, Column C.

Line 6 - Gross Income from Sales and Services

Enter in Column A the total gross sales made, or charges for services performed, by the partnership or by employees, agents, agencies or independent contractors of the business everywhere. Enter in Column B the portion of total gross sales or charges which represents sales made, or services performed, by the partnership or by employees, agents, agencies or independent contractors of the business in Connecticut. This includes sales made or services performed by employees, agents, agencies or independent contractors situated at, connected with, or sent out from offices (or its agencies) located in Connecticut.

Divide the Column B amount by the Column A amount. Carry the result to four decimal places and enter on Line 6, Column C.

Example: If a salesperson working out of a Connecticut office covers Connecticut, Massachusetts and Rhode Island, all sales made by such salesperson are to be allocated to Connecticut and included in Column B, Line 6.

Line 7 - Total

Add Lines 4, 5 and 6 in Column C and enter the total on Line 7, Column C.

Line 8 - Business Apportionment Fraction

Divide the amount on Line 7 by three (or by the actual number of fractions if fewer than three). Carry the result to four decimal places and enter the result on Line 8, Column C.

Sign Here: Form CT-1065 must be signed by a general partner and a phone number must be provided.

Paid Preparer Signature: Anyone you pay to prepare the return must sign and date it. A preparer who signs your return must sign it by hand in the space provided; signature stamps are not acceptable. The preparer's Federal Employer Identification Number, firm name and firm address must also be entered in the space provided.

Mailing your Return: Retain a copy of this return for the partnership records. Attach copies of any required schedules and forms to this return. **Attach the entire federal Form 1065. Do not include Schedules K-1.**

SCHEDULE C - PARTNER INFORMATION

Complete this part for all persons who were partners of the partnership for any part of the taxable year. **Identification Number** means either Federal Employer Identification Number or Social Security Number, whichever is applicable. In the *profit %* column, enter each partner's profit percentage from federal Form 1065, Schedule K-1. Indicate whether the partner is a resident or nonresident. The status of each partner is determined at the end of the partnership's taxable year or at the date the partner leaves the partnership.

- List all nonresident partners first, resident partners next and corporate or other partners last. Number each partner sequentially.
- The number preceding the name and address of each partner shall be used to identify such partner in Schedule D and Schedule E.
- If there are more than three partners, attach additional sheets in the same format as Schedules C, D and E of this return.

SCHEDULE D - PARTNERS' SHARE OF CONNECTICUT MODIFICATIONS

If the partnership had Connecticut modifications to federal income, complete Schedule D for all persons who were partners (other than partners that are C corporations) during any part of the taxable year.

Amounts reported on Line 1 through Line 8 for nonresident partners are calculated by multiplying each nonresident partner's distributive share of each modification by the apportionment fraction on **Form CT-1065**, Schedule B, Line 8.

ADDITIONS

Enter each partner's distributive share as a positive number.

Line 1 - Interest on State and Local Government Obligations Other Than Connecticut

Enter each partner's distributive share of interest income derived from state and municipal government obligations, other than obligations of the State of Connecticut or its municipalities, which is not taxed for federal income tax purposes. Do not enter interest income derived from government obligations of Puerto Rico, Guam, American Samoa and US Virgin Islands.

Line 2 - Exempt-Interest Dividends Received from a Mutual Fund Derived from State or Municipal Government Obligations other than Connecticut

Enter each partner's distributive share of exempt-interest dividends received from a mutual fund that are derived from state and municipal government obligations, other than obligations of the State of Connecticut or its municipalities. If the exempt-interest dividends are derived from obligations of Connecticut and other states, enter only the percentage derived from non-Connecticut obligations. Do not enter exempt-interest dividends derived from government obligations of Puerto Rico, Guam, American Samoa and US Virgin Islands.

Example: A fund invests in obligations of many states, including Connecticut. Assuming that 20% of the distribution is from Connecticut obligations, the remaining 80% would be added back on this line.

Line 3 - Certain Deductions Relating to Income Exempt from Connecticut Income Tax

Enter each partner's distributive share of the amount deducted for federal income tax purposes for interest expense on loans used to buy bonds and securities whose interest income is exempt from Connecticut income tax, expenses related to income exempt from Connecticut income tax, and the amortizable bond premium on any bond, the interest from which is exempt from Connecticut income tax.

Line 4 - Other

Use Line 4 to report each partner's distributive share of modifications to income which are not listed on Lines 1, 2 and 3. For example, include each partner's distributive share of:

- Any loss recognized on the sale or exchange of bonds or other obligations of the State of Connecticut or its municipalities;
- The partnership's share of any positive fiduciary adjustment received from a trust or estate of which the partnership is a beneficiary;
- Any interest or dividend income on federal obligations or securities the federal government does not prohibit the states from taxing;
- Income taxes paid to Connecticut, to the extent deductible in determining federal adjusted gross income;
- To the extent deductible in determining federal adjusted gross income, expenses paid for the production or collection of Connecticut tax exempt income, or paid for the management, conservation or maintenance of property held for the production of such income; and
- Amortizable bond premium for the taxable year on any bond, the interest on which is exempt from Connecticut income tax.

SUBTRACTIONS

Enter each partner's distributive share as a positive number.

Line 5 - Interest on United States Government Obligations

Enter each partner's distributive share of interest income derived from US Government obligations (to the extent included in income on federal Form 1065) that federal law prohibits states from taxing. For example, US Government bond interest such as Savings Bonds Series EE and Series HH, US Treasury bills and notes.

Do not enter the amount of income derived from Federal National Mortgage Association (Fannie Mae) Bonds, Government National Mortgage Association (Ginnie Mae) Bonds, and Federal Home Loan Mortgage Corporation (Freddie Mac) securities. Federal law does not prohibit states from taxing income derived from these obligations and this income is taxed by Connecticut.

Line 6 - Exempt Dividends from Certain Qualifying Mutual Funds Derived from United States Government Obligations

Enter each partner's distributive share of exempt dividends that are received from a qualifying mutual fund and that are derived from US Government obligations. A mutual fund is a qualifying mutual fund if, **at the close of each quarter of its taxable year**, at least 50% of the value of its assets consists of US Government obligations. The percentage of dividends that are exempt dividends should be reported to the partnership by the mutual fund.

Do not enter the amount of income derived from Federal National Mortgage Association (Fannie Mae) Bonds, Government National Mortgage Association (Ginnie Mae) Bonds, and Federal Home Loan Mortgage Corporation (Freddie Mac) securities. Federal law does not prohibit states from taxing income derived from these obligations and this income is taxed by Connecticut.

For more information including lists of exempt and taxable obligations, see **PS 92(3.1)**, *Connecticut Income Tax on Bonds or Obligations Issued by the United States Government, by State Governments or Municipalities*.

Line 7 - Certain Expenses Relating to Income Exempt from Federal Income Tax

Enter each partner's distributive share of interest expense on money borrowed to purchase or carry bonds or securities whose interest income is subject to Connecticut income tax but exempt from federal income tax, provided this interest was a business expense for the taxable year and was not deducted in determining partnership income on federal Form 1065.

Line 8 - Other

Use Line 8 to report each partner's distributive share of modifications to income which are not listed on Lines 5, 6 or 7. For example, include each partner's distributive share of:

- Any gain recognized on the sale or exchange of bonds or other obligations issued by the State of Connecticut or its municipalities;

- Interest income from federally taxable Connecticut bonds;
- The partner's share of any negative Connecticut fiduciary adjustment received from a trust or estate of which the partnership is a beneficiary;
- Any refund or credit for overpayment of income taxes imposed by any state, municipality, or province of Canada, to the extent such amount was included in federal gross income;
- Business expenses incurred in connection with the income, or property held to produce income, that is subject to Connecticut income tax but exempt from federal income tax (provided these expenses were not deducted in determining partnership income); and
- Amortization of bond premium on any bond, the interest from which is subject to Connecticut income tax but exempt from federal income tax (provided this amortization was a business expense for the taxable year and was not deducted in determining partnership income).

The partnership must provide each partner (including a partner other than an individual) with a schedule of amounts of modifications to include on the appropriate forms.

SCHEDULE E - COMPUTATION OF CONNECTICUT SOURCED INCOME OF NONRESIDENT PARTNERS AND RESIDENT PARTNERS OTHER THAN INDIVIDUALS

Complete Schedule E for any partners of the partnership that are nonresident individuals, nonresident trusts or nonresident estates, or partners that are partnerships or S corporations.

A partnership that maintains books and records that satisfactorily disclose the portion of income, gain, loss or deduction derived from or connected with Connecticut sources **must** enter each nonresident partner's distributive share of partnership items derived from Connecticut sources as determined from those books and records.

A partnership that does not maintain books and records that satisfactorily disclose the portion of income, gain, loss or deduction derived from or connected with Connecticut sources **must** use the apportionment fraction computed on Schedule B, Line 8, or an authorized alternate method, to determine the portion of each nonresident partner's distributive share of any item that is derived from or connected with Connecticut sources. This is accomplished by multiplying federal Form 1065, Schedule K-1 distributive share amounts for each partner by the apportionment fraction of Schedule B, Line 8, and entering the result on Schedule E.

The amounts included on Schedule E should include Connecticut apportioned modifications.

Special limitations on partnership agreements: If a partnership agreement provides for a special allocation among the partners of any item of partnership income, gain, loss or deduction, federal income tax law requires that such a provision be disregarded for federal income tax purposes, where its principal purpose is the avoidance or evasion of federal income tax. In such a case, each partner's distributive share of that item is determined by such partner's distributive

share for federal income tax purposes of the taxable income or loss of the partnership as described in Internal Revenue Code §702(a)(8). This treatment and distribution of the item is reflected in each partner's federal adjusted gross income and therefore, in each partner's Connecticut adjusted gross income, even though in a particular case no Connecticut income tax avoidance or evasion may be involved.

In certain cases, however, a provision for special allocation does not have as its principal purpose the avoidance or evasion of federal income tax, but has as its principal purpose the avoidance or evasion of Connecticut income tax. In such an instance, such special allocations are subject to review by the Commissioner of Revenue Services.

The character of the income (loss) for Connecticut purposes must mirror the character of such income (loss) on the federal return.

Clearly indicate a loss by using parentheses ().

Line 1 - Ordinary Income (Loss) from Trade or Business Activities

Enter the Connecticut portion of each partner's distributive share of the ordinary income (loss) from the trade or business activities of the partnership. Unless the partnership maintains books and records that satisfactorily disclose the portion of income, gain, loss or deduction derived from or connected with Connecticut sources, this amount is calculated by multiplying the partner's ordinary income (loss) from the trade or business from the partner's federal Form 1065, Schedule K-1, by the apportionment fraction on Schedule B, Line 8.

Lines 2 and 3 - Net Income (Loss)

Enter the Connecticut portion of each partner's distributive share of amounts attributable to rental activities. Amounts attributable to real property located in Connecticut are 100% taxable to a nonresident partner for Connecticut income tax purposes. Amounts attributable to real property located outside Connecticut are not taxable to a nonresident partner for Connecticut income tax purposes.

Line 4 - Portfolio Income (Loss)

Enter the Connecticut portion of each partner's distributive share of portfolio income (loss). Items of income, gain, loss and deduction derived from or connected with Connecticut sources **do not include** such items attributable to intangible personal property except to the extent such intangible property is employed in a business, trade, profession or occupation carried on in Connecticut. For example, dividends from stock used as collateral to secure a business loan for a Connecticut business would be income from intangible property employed in a Connecticut trade or business and therefore would be taxable for Connecticut income tax purposes to a nonresident partner.

Line 5 - Guaranteed Payments to Partners

Enter the Connecticut portion of each partner's distributive share of guaranteed payments made to the partner. Unless the partnership maintained books and records that satisfactorily disclose the portion of income, gain, loss or deduction derived from or connected with Connecticut

sources, this is calculated by multiplying the partner's distributive share of guaranteed payments from federal Form 1065, Schedule K-1, by the apportionment fraction on Schedule B, Line 8.

Line 6 - Net Gain (Loss) Under IRC §1231

Enter the Connecticut portion of each partner's distributive share of gain (loss) under Internal Revenue Code §1231.

If the amount relates to rental (real) property located in Connecticut, the gain (loss) is 100% sourced to Connecticut.

If the amount relates to a trade or business activity, unless the partnership maintains books and records that satisfactorily disclose the portion of income, gain, loss or deduction derived from or connected with Connecticut sources, such gain (loss) is calculated by multiplying the partner's distributive share of such gain (loss) under Internal Revenue Code §1231, from federal Form 1065, Schedule K-1, by the apportionment fraction on Schedule B, Line 8.

If the amount relates to a trade or business activity and the individual is a limited partner, the gain (loss) under Internal Revenue Code §1231 is a passive activity amount.

Line 7 - Other Income (Loss)

Enter the Connecticut portion of a partner's distributive share of other items of income, gain or loss that are not included on Lines 1 through 6.

Unless the partnership maintains books and records that satisfactorily disclose the portion of income, gain, loss or deduction derived from or connected with Connecticut sources, the amount to be entered is calculated by multiplying the partner's distributive share of such items from federal Form 1065, Schedule K-1, by the apportionment fraction on Schedule B, Line 8.

Line 8 - Expense Deduction for Property Under IRC §179

Enter the Connecticut portion of each partner's distributive share of the amount allowed as a deduction for federal purposes under Internal Revenue Code §179.

Unless the partnership maintains books and records that satisfactorily disclose the portion of income, gain, loss or deduction derived from or connected with Connecticut sources, the amount of the §179 deduction to be entered is calculated by multiplying the partner's share of such deduction from federal Form 1065, Schedule K-1, by the apportionment fraction on Schedule B, Line 8.

Line 9 - Other Deductions

Enter the Connecticut portion of each partner's distributive share of other deductions that are not deducted in arriving at ordinary income (loss) from trade or business activities and that are separately stated on the federal Schedule K-1.

Unless the partnership maintains books and records that satisfactorily disclose the portion of income, gain, loss or deduction derived from or connected with Connecticut sources, the amount to be entered is calculated by multiplying the partner's distributive share of such items from federal Form 1065, Schedule K-1, by the apportionment fraction on Schedule B, Line 8.

CONNECTICUT TAX ASSISTANCE

FOR TAX INFORMATION

- Visit the DRS Website at:
<http://www.state.ct.us/drs>
- Call CONN-TAX:
1-800-382-9463 (in-state) or
1-860-297-5962 (anywhere)

Telecommunications Device for the Deaf (TDD/TT) users only, call 860-297-4911.

Personal Taxpayer Assistance is available during business hours listed at right. Extended hours will be offered January through April, call Conn-Tax or visit the Website for details.

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

FORMS AND PUBLICATIONS

May be obtained at any hour of the day seven days a week by using any of the following resources:

- Internet
Preview and download forms from the DRS Website (<http://www.state.ct.us/drs>);
- DRS TaxFax
Call 860-297-5698 from the handset attached to your fax machine;
- Telephone
From a touch-tone phone 24 hours a day call:
1-800-382-9463 (toll-free from within Connecticut) or
1-860-297-4753 (DRS Forms Unit) and select Option 2.

WALK-IN OFFICES

For free assistance or 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 Street
203-579-6251

HAMDEN *

2105 State Street
203-789-7516

HARTFORD

25 Sigourney Street
860-297-5962

NORWICH *

2 Cliff Street
860-889-2669

WATERBURY *

91 Schraffts Drive
203-596-4310

* These offices will be moving in 1999. To verify the address, please call before you visit.

For questions about federal taxes, contact the Internal Revenue Service (IRS) at 1-800-829-1040.
To order federal tax forms, call 1-800-829-3676.

DEPARTMENT OF REVENUE SERVICES MISSION STATEMENT

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.

State of Connecticut
Department of Revenue Services
25 Sigourney Street
Hartford CT 06106-5032