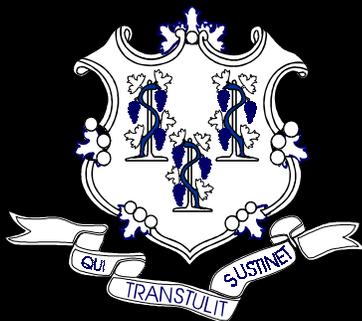


2002 FORM CT-1065

Connecticut Partnership Income Tax Return and Instructions

This booklet
contains:

- Form CT-1065
- Form CT-1065 EXT



Dear Customer:

Your business is an important part of Connecticut, helping the State maintain its reputation as a premier location for people to live, work, and play. And while no one likes paying taxes (not even me), the Connecticut Department of Revenue Services (DRS) strives to provide you with the services and information that make your tax filing as accurate and easy as possible; that is what DRS can offer to you. For example, you may be familiar with our new *Fast-File* Program that allows you to file certain business taxes via telephone or through DRS' secure Web site at: www.drs.state.ct.us

Please check Page 3 of this booklet to ensure that your partnership is registered for all of the Connecticut taxes you may be obligated to pay. Detailed information about all Connecticut taxes also is available on the DRS Web site. In addition, forms and other publications can be easily previewed and downloaded from the Web site.

If you have questions about Connecticut taxes or need assistance completing this return, contact the DRS Taxpayer Services by phone, letter, or e-mail. Assistance is always confidential and free. Use the information on the back cover to reach us.

DRS pledges to continue its focus on providing you with excellent customer service and a user-friendly approach to tax administration. I always welcome your comments and ideas on how we can improve the way we do business. Please phone, write, or e-mail me through our Web site.

Sincerely,

Gene Gavin
Commissioner of Revenue Services

Taxpayer information is available on our Web site:
www.drs.state.ct.us

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** (from 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 next to the topic of your choice shown below, or follow the prerecorded instructions.

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Extended Telephone Hours for the 2003 Filing Season (Option "0"):

Monday,	January 27	(until 7 p.m.)
Monday,	February 3	(until 7 p.m.)
Monday,	February 10	(until 7 p.m.)
Tuesday,	February 18	(until 7 p.m.)

2003 Extended Telephone Personal Assistance and Walk-in Hours at 25 Sigourney Street, Hartford

Saturday,	April 12	(8:30 a.m. - 12:00 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 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 (DRS), the partnership must complete **Form REG-1, Business Taxes Registration Application**. Visit the DRS Web site to register on-line. 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 DRS Registration Unit at: 860-297-4885.

Business Entity Tax (Form OP-424)

For taxable years beginning on or after January 1, 2002, there is an annual tax of \$250 on each:

- S Corporation;
- Limited Liability Partnership;
- Limited Partnership; **or**
- Limited Liability Company, which is, for federal income tax purposes, either treated as a partnership if it has two or more members, or disregarded as an entity separate from its owner, if it has a single member;

that is required to file an annual report with the Connecticut Secretary of the State. The tax is required to be paid to DRS on or before the 15th day of the fourth month following the close of the entity's taxable year (April 15 for calendar year filers). An entity's taxable year is its taxable year for federal income tax purposes.

Failure to pay the tax when due subjects an entity to interest and penalty charges. (See **Special Notice 2002(11), Business Entity Tax**.)

An entity that has a Connecticut tax registration number issued by DRS will automatically be registered for the Business Entity

Tax and be mailed **Form OP-424, Business Entity Tax Return**. If an entity does not have a Connecticut tax registration number, one can be obtained by completing **Form REG-1**. The failure to receive **Form OP-424** will not excuse any entity from the obligation to file it and to pay the Business Entity Tax.

Connecticut Income Tax Withholding

Any partnership (S corporation) that maintains an office or transacts business in Connecticut (regardless of the location of the payroll department) and that is considered an employer for federal income tax withholding purposes must withhold Connecticut income tax from Connecticut wages, as defined in Conn. Agencies Regs. §12-706(b)-1. (See **Circular CT**.)

Controlling Interest Transfer Tax

Connecticut imposes a tax on the transfer of a controlling interest in an entity where the entity owns an interest in Connecticut real property. This tax is reported on **Form AU-330, Controlling Interest Transfer Taxes**.

Real Estate Conveyance Taxes

If a partnership transfers real estate in Connecticut, it must complete and file **Form OP-236, Real Estate Conveyance Tax Return**, in the town in which the real estate is situated.

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**.

IMPORTANT CHANGES

Form CT-2NA

A qualified nonresident partner electing to be included in a group return, must file **Form CT-2NA, Connecticut Nonresident Income Tax Agreement/Election to be Included in a Group Return**.

Form CT-2NA is modified to provide that, for taxable years beginning on or after January 1, 2002, a **Form CT-2NA** that is filed with the partnership will be effective for that taxable year and for all succeeding taxable years, unless the qualified nonresident partner revokes the agreement by providing written notice of the revocation to the partnership.

Form CT-2NA is not required to be attached to **Form CT-1065, Connecticut Partnership Income Tax Return**. However, the partnership is required to keep and maintain **Form CT-2NA** in its permanent records, and make it available to DRS upon request.

Special Depreciation Allowance

The federal Job Creation and Worker Assistance Act of 2002 created a special 30% depreciation allowance for certain property acquired after September 10, 2001, and before September 11, 2004. The provision allows taxpayers to claim an additional first-year special depreciation allowance on new MACRS property where the recovery period is 20 years or less. For taxable years beginning on or after January 1, 2002, the additional first-year special depreciation allowance

(to the extent deductible in determining an individual's federal adjusted gross income) should be added to the individual's federal adjusted gross income in computing his or her Connecticut adjusted gross income. See **Special Notice 2002(12), 2002 Legislation Affecting the Connecticut Income Tax**, for more information on how partnerships that own property for which the special 30% depreciation allowance is deducted for federal income tax purposes are affected.

2002 Conn. Pub. Acts 1, §77 (May 9 Spec. Sess.)

Business Entity Tax

For taxable years beginning on or after January 1, 2002, there is an annual tax of \$250 on each:

- S Corporation;
- Limited Liability Partnership;
- Limited Partnership; **or**
- Limited Liability Company, which is, for federal income tax purposes, either treated as a partnership if it has two or more members, or disregarded as an entity separate from its owner, if it has a single member;

that is required to file an annual report with the Connecticut Secretary of the State. Entities report and pay the tax on **Form OP-424, Business Entity Tax Return**. See **Special Notice 2002(11), Business Entity Tax**.

GENERAL INFORMATION

How to Get Help

DRS is ready to help you and offers several resources where you can get answers to Connecticut tax questions. Visit the DRS Web site at: www.drs.state.ct.us or for personal assistance, refer to the back cover of this booklet for a list of DRS walk-in offices and telephone numbers. DRS offices are open Monday through Friday, 8:00 a.m. to 5:00 p.m. If you visit, be sure to bring your **completed** federal Form 1065.

Personal telephone assistance is available Monday through Friday, 8:00 a.m. to 5:00 p.m. Extended hours are offered, see Page 2. Automated information may answer your questions anytime. Call CONN-TAX, the DRS information line, or visit the DRS Web site for details.

How to Get Additional Forms and Publications

Download and print Connecticut tax forms and publications seven days a week from the DRS Web site at: www.drs.state.ct.us. Forms are also available during regular business hours at any of the DRS walk-in offices and the other sources listed on the back cover of this booklet. You may also photocopy the forms you need from the *2002 Connecticut Package X*, which is on file at most public libraries.

Who Must File Form CT-1065

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

- Is required to file a federal Form 1065, U.S. Partnership Return of Income; **and**
- Has any income, gain, loss, or deduction derived from or connected with Connecticut sources.

Income derived from or connected with Connecticut sources includes income, gain, loss, or deduction attributable to:

- The ownership or disposition of any interest in real property or tangible personal property located in Connecticut;
- The ownership of any intangible personal property to the extent it is used in a business, trade, profession, or occupation carried on in Connecticut; **or**
- 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 has or operates an office, shop, store, warehouse, factory, agency, desk space, 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.

When to File Form CT-1065

Form CT-1065 is due no later than the 15th day of the fourth month following the close of the taxable period (April 15 for calendar year filers). If the due date falls on a Saturday, Sunday, or legal holiday, the next business day is the due date. The return will meet the timely filed and timely payment rules if the U.S. Postal Service cancellation date, or the date recorded or marked by a 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) <ul style="list-style-type: none"> • Overnight Air Express Service • Next Afternoon Service • Second Day Service 	DHL Worldwide Express (DHL) <ul style="list-style-type: none"> • DHL "Same Day" Service • DHL USA Overnight
Federal Express (FedEx) <ul style="list-style-type: none"> • FedEx Priority Overnight • FedEx Standard Overnight • FedEx 2Day • FedEx International Priority • FedEx International First 	United Parcel Service (UPS) <ul style="list-style-type: none"> • 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

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:

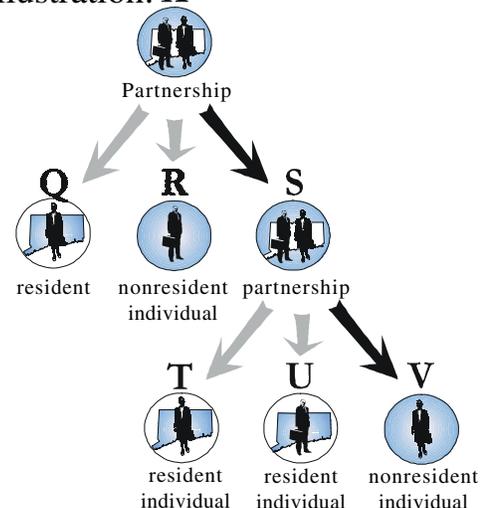
- File **Form CT-1065**.
- Provide **all** partners with **Form CT-1065, Schedule D**.
- Provide partner R with **Form CT-1065, Schedule E**.
- Provide partner S, a pass-through entity with a nonresident partner, with **Form CT-1065, Schedule E**.

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 **Form CT-1065**.
- Provide **all** partners with a schedule of their distributive shares of S's Connecticut modifications from **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 **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.

This list is subject to change. See **Policy Statement 2002(4)**, *Designated Private Delivery Services* and *Designated Types of Service*.

If a partnership is terminated, completely liquidated, or has changed its accounting method during its normal taxable year, resulting in an accounting period of less than 12 months, the return is due on or before the 15th day of the fourth month after the end of the accounting period.

How do Partners Report Their Income

Resident Partners:

If the partner is an individual, his or her distributive share of partnership income or loss is included in his or her federal adjusted gross income and is, therefore, includable in the federal adjusted gross income reported on the partner's **Form CT-1040**, *Connecticut Resident Income Tax Return*. The partnership must provide the partner with a schedule of the amounts of Connecticut modifications that the partner must include on his or her **Form CT-1040**, *Schedule 1*.

If the partner is a trust or estate, its distributive share of partnership income or loss is included in its federal taxable income and is, therefore, includable in the federal taxable income reported on the partner's **Form CT-1041**, *Connecticut Income Tax Return for Trusts and Estates*. The partnership must provide the partner with a schedule of the amounts of Connecticut modifications that the partner must include on its **Form CT-1041**, *Schedule A*.

Nonresident Partners:

If the partner is an individual, his or her distributive share of partnership income or loss is included in his or her federal adjusted gross income and is, therefore, includable in the federal adjusted gross income reported on the partner's **Form CT-1040NR/PY**, *Connecticut Nonresident or Part-Year Resident Income Tax Return*. The partnership must provide the partner with a schedule of the amounts of Connecticut modifications that the partner must include on his or her **Form CT-1040NR/PY**, *Schedule 1*. The partnership must also provide the partner with a schedule of amounts of partnership income or loss derived from or connected with sources within Connecticut for inclusion on the partner's **Form CT-1040NR/PY**, *Schedule CT-SI*.

If the partner is a trust or estate, its distributive share of partnership income or loss is included in its federal taxable income and is, therefore, includable in the federal taxable income reported on the partner's **Form CT-1041**. The partnership must provide the partner with a schedule of the amounts of Connecticut modifications that the partner must include on its **Form CT-1041**, *Schedule A*. The partnership must also provide the partner with a schedule of amounts of partnership income or loss derived from or connected with sources within Connecticut for inclusion on the partner's **Form CT-1041**, *Schedule CT-1041FA*.

Partners That Are Flow-Through Entities:

If the partner is a flow-through entity (such as another partnership, LLC treated as a partnership for federal purposes, or an S corporation), the partnership must provide the flow-through entity with a schedule of the amounts of Connecticut modifications. These amounts will be reported by the flow-through entity's members as follows:

- The flow-through entity's members who are individuals must include these amounts on their **Form CT-1040**, *Schedule 1*, or **Form CT 1040NR/PY**, *Schedule 1*.
- The flow-through entity's members which are trusts or estates must include these amounts on their **Form CT-1041**, *Schedule A*.

The partnership must also provide the flow-through entity with a schedule of amounts of partnership income or loss derived from or connected with sources within Connecticut. These amounts will be reported by the flow-through entity's nonresident members as follows:

- The flow-through entity's members who are nonresident individuals must include these amounts on their **Form CT-1040NR/PY**, *Schedule CT-SI*.
- The flow-through entity's members which are nonresident trusts or estates must include these amounts on their **Form CT-1041**, *Schedule CT-1041FA*.

Partners That Are C Corporations:

If the partner is a C corporation, the partner may be required to file **Form CT-1120**, *Corporation Business Tax Return*.

Group Returns for Nonresident Individual Partners

Partnerships with ten or more qualified electing **nonresident** individual partners may file a group return on **Form CT-G**, *Connecticut Group Income Tax Return*. 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:

- The partner was a nonresident individual for the **entire** taxable year;
- The partner did not maintain a permanent place of abode in Connecticut at any time during the taxable year;
- 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 distributive share of partnership income derived from or connected with sources within Connecticut;

- The partner waives the right to claim any Connecticut personal exemption and any Connecticut personal credit;
- The partner does not have a Connecticut alternative minimum tax liability for the taxable year; **and**
- 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 **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, an extension of time to pay Connecticut income tax.

Form CT-G and **Form CT-2NA** are available from DRS. 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-1040NR/PY**.

Where to File

Use the pre-addressed envelope enclosed with your return or mail to:

**Department of Revenue Services
PO Box 2935
Hartford CT 06104-2935**

Taxable Year and Method of Accounting

A partnership must use the same taxable year and method of accounting for Connecticut income tax purposes as it does for federal tax purposes.

If a partnership's taxable year or method of accounting is changed for federal tax purposes, the same change must be made for Connecticut income tax purposes.

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**

Amended Returns

Check the "Amended Return" box on the front of **Form CT-1065** to amend a previously filed **Form CT-1065**. Generally an amended return must be filed no later than three years after the due date of the return, or if a timely request for an extension of time to file a return was filed, three years after the extended due date of the return, or three years after the date of filing the return, whichever is earlier. If an amended return is not timely filed, a penalty may be imposed. See *Penalties*. The following circumstances require the filing of an amended **Form CT-1065**:

<p>1. The IRS or federal courts change or correct the partnership's federal income tax return, and the change or correction affects the Connecticut income tax liability of the partners.</p>	<p>File no later than 90 days after the final determination, even if the final determination reduces the partners' Connecticut income tax liability.</p>
<p>2. The partnership files a timely amended federal income tax return, and the amendment affects the Connecticut income tax liability of the partners.</p>	<p>File no later than 90 days after the date of filing the timely amended federal income tax return, even if the amendment reduces the partners' Connecticut income tax liability.</p>
<p>3. If neither of the above circumstances apply, but the partnership made a mistake or omission on its Form CT-1065, and the mistake or omission affects the Connecticut income tax liability of the partners.</p>	<p>File no later than three years after the due date of the return, or, if a timely request for an extension of time to file the return was filed, three years after the date of filing the return, or three years after the extended due date, whichever is earlier.</p>

- 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 Form 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, LLCs that are treated as partnerships for federal purposes, 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.

Extension Request

To get an extension of time to file **Form CT-1065**, the partnership must file **Form CT-1065 EXT**, *Application for Extension of Time to File Connecticut Partnership Income Tax Return*, no later than the 15th day of the fourth month following the close of the taxable period. The timely 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 (IRS). If federal Form 8736 was not filed, a six-month extension of time to file will be granted for reasonable cause.

If a taxpayer is unable to request an extension because of illness, absence, or other good cause, any person standing in a close personal or business relationship to the taxpayer (including an attorney, accountant, or enrolled agent) may file the request on the taxpayer's behalf. This person is considered a duly authorized agent for this purpose.

Penalties

Penalty for Late Filing

The Commissioner of Revenue Services may impose a \$50 penalty for the late filing of any return or report that is required by law to be filed.

Penalty for Failure to File

If the partnership does not file its return and the Commissioner of Revenue Services files a return for it, the penalty for failure to file is \$50. If the partnership was required to file an amended **Form CT-1065** and failed to do so, the partnership may be subject to a penalty.

Waiver of Penalty

You may be able to have the penalty waived if the failure to file on time was due to a reasonable cause. Before a penalty waiver can be granted, all tax must be paid. All requests must include:

- A clear and complete written explanation;
- The partnership name, Connecticut Tax Registration Number, and Federal Employer Identification Number (if applicable);
- The name of the original form filed or billing notice received;
- The taxable filing period; **and**
- Documentation supporting the explanation.

Attach the request to the **front** of the tax return or mail separately to:

**Department of Revenue Services
Penalty Review Committee
PO Box 5089
Hartford CT 06102-5089**

Recordkeeping

Keep a copy of the tax return, worksheets used, and records of all items appearing on the return until the statute of limitations expires for that return. Usually, this is three years from the date the return was due or filed, whichever is later. This information may be needed to prepare future returns or to file amended returns.

Copies of Returns

A copy of a previously filed Connecticut income tax return may be requested from DRS by completing **Form LGL-002**, *Request for Disclosure of Tax Return or Tax Return Information*. You can usually expect your copy in three weeks.

FORM CT-1065 INSTRUCTIONS

Attach a Complete Copy of Your Federal Form 1065 (Excluding K-1s)

General Instructions

Enter the complete partnership name, 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 DRS.

Rounding Off to Whole Dollars

Generally, you may round off cents to the nearest whole dollar on your return and schedules.

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. However, if you need to add two or more amounts to compute the amount to enter on a line, include cents and round off **only** the total.

<p>Example: \$1.29 becomes \$1.00 and \$3.50 becomes \$4.00.</p>

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 of the following: the number of partners that are resident individuals, trusts, or estates; the number of partners that are nonresident individuals, trusts, or estates; the number of partners that are partnerships or S corporations; and the number of partners that are neither individuals, trusts, estates, partnerships, nor S corporations.

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 Connecticut.

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 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*.

Question I - Under I.R.C. §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. Return of Partnership Income, relating to an I.R.C. §754 election.

Schedule A - Business Information

Complete *Schedule A* only if the partnership carries on business both within and outside 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, and commercial rental property).

Schedule B - Income Apportionment

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

- There are one or more nonresident partners;
- The partnership carries on business both within and outside Connecticut; **and**
- 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 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 value of all real property owned by the business, wherever located. Enter in Column B the value of real property owned by the business and located in Connecticut.

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

The 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 by the business, wherever located, and the value of all tangible personal property that is rented from others by the business, wherever located. Enter in Column B the average value of tangible personal property owned by the business and located in Connecticut, and the value of tangible personal property that is 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 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 the salesperson are to be allocated to Connecticut and included in Line 6, Column B.

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.

Signature

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. Paid preparers must also enter their Social Security Number (SSN) or Preparer Tax Identification Number (PTIN), their firm's Federal Employer Identification Number, and their firm's address and telephone number in the spaces provided.

Paid Preparer Authorization

If the partnership wishes to authorize DRS to contact the paid preparer who signed the 2002 tax return to discuss it, check the "Yes" box in the signature area of the return. This authorization applies only to the individual whose signature appears in the *Paid Preparer's Signature* section of the return. It does not apply to the firm, if any, shown in that section.

If the "Yes" box is checked, the partnership is authorizing DRS to call the paid preparer to answer any questions that may arise during the processing of the 2002 Partnership Income Tax Return. The partnership is also authorizing the paid preparer to:

- Give DRS any information that is missing from the return;
- Call DRS for information about the processing of the partnership's return or the status of the partnership's refund or payment; **and**
- Respond to certain DRS notices that the partnership may have shared with the preparer regarding math errors, offsets, and return preparation. The notices will not be sent to the preparer.

The partnership is **not** authorizing the paid preparer to receive any refund check, bind the partnership to anything (including additional tax liability), or otherwise represent the partnership before DRS. The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing the 2003 Partnership Income Tax Return. This is on or before the 15th day of the fourth month following the close of the taxable period.

Mailing the 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. 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. Number each partner sequentially. List the partners in the following order:

- Partners that are nonresident individuals, trusts, or estates;
- Partners that are resident individuals, trusts, or estates;
- Partners that are partnerships, LLCs that are treated as partnerships for federal purposes, or S corporations; **and**
- Partners that are neither individuals, trusts, estates, partnerships, nor S corporations.

Each partner must be assigned the same "Partner #" for *Schedules C, D, and E*.

Example: If Mary K. Jones is identified as Partner #1 in *Schedule C*, Mary K. Jones must also be identified as Partner #1 in *Schedules D and E*. If Mary K. Jones is a resident individual, no information is entered in *Schedule E* with respect to her. Therefore, no entry would be made in *Schedule E* with respect to a person identified as Partner #1.

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 the amount of each nonresident partner's distributive share of each modification by the apportionment fraction on **Form CT-1065, Schedule B, Line 8**.

ADDITIONS

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

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

Enter the amount of 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, or U.S. Virgin Islands.

Line 2 - Mutual Fund Exempt-Interest Dividends From State or Municipal Government Obligations Other Than Connecticut

Enter the amount of 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, or U.S. 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 the amount of 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 - Special Depreciation Allowance for Qualified Property

If the partnership filed federal Form 4562, Depreciation and Amortization (Including Information on Listed Property), and claimed a special 30% depreciation allowance for certain property placed in service after September 10, 2001, enter on Line 4 each partner's distributive share of the amounts entered on federal Form 4562, Line 14 and Line 25. See **Special Notice 2002(12)**, *2002 Legislation Affecting the Connecticut Income Tax*.

Important: A partnership whose partners include one or more C corporations must provide special 30% depreciation allowance information to the C corporation partner(s) in accordance with **Special Notice 2002(10)**, *Bonus Depreciation for Connecticut Corporation Business Tax Purposes*.

Line 5 - Other

Use Line 5 to report the amount of each partner's distributive share of modifications to income which are not listed on Lines 1, 2, 3, or 4. For example, include the amount of 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;
- 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, to the extent deductible in determining federal adjusted gross income; **or**
- Amortizable bond premium for the taxable year on any bond, the interest on which is exempt from Connecticut income tax.

SUBTRACTIONS

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

Line 6 - Interest on U.S. Government Obligations

Enter the amount of each partner's distributive share of interest income derived from U.S. government obligations (to the extent included in income on federal Form 1065) that federal law prohibits states from taxing. For example, U.S. government bond interest such as Savings Bonds Series EE and Series HH, and U.S. 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 7 - Exempt Dividends From Certain Qualifying Mutual Funds Derived From U.S. Government Obligations

Enter the amount of each partner's distributive share of exempt dividends that are received from a qualifying mutual fund and that are derived from U.S. 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 U.S. 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 **Policy Statement 92(3.1)**, *Connecticut Income Tax on Bonds or Obligations Issued by the United States Government, by State Governments or Municipalities*.

Line 8 - Certain Expenses Relating to Income Exempt From Federal Income Tax

Enter the amount of 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 9 - Reserved for Future use

Line 10 - Other

Use Line 10 to report the amount of each partner's distributive share of modifications to income which are not listed on Lines 6, 7, or 8. For example, include the amount of 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 partnership'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 of the U. S. or a political subdivision thereof, or the District of Columbia, to the extent such amount was included in federal adjusted 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); **or**
- 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 Source Income

Complete *Schedule E* for each partner that is a resident trust or estate; a nonresident individual, trust, or estate; a partnership; or an S corporation.

A partnership that maintains books and records that satisfactorily disclose the portion of its income, gain, loss, or deduction derived from or connected with Connecticut sources **must** enter the amount of each nonresident partner's distributive share of partnership items derived from or connected with Connecticut sources as determined from those books and records. The portion of the partnership's income, gain, loss, or deduction that is derived from or connected with Connecticut sources (as determined from the partnership's books and records) will be multiplied by the partner's distributive share (%) of that income, gain, loss, or deduction.

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 as reported on *Schedule B*, Line 8, and entering the result on *Schedule E*.

The amounts entered for a partner on *Schedule E* should include the Connecticut modifications reported for the partner on *Schedule D* to the extent those modifications are derived from or connected with Connecticut sources.

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 the partner's distributive share for federal income tax purposes of the taxable income or loss of the partnership as described in I.R.C. §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 the amount 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.

Line 2 and Line 3 - Net Income (Loss)

Enter the Connecticut portion of the amount of each partner's distributive share 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 the amount 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 the amount 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 amount of 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 I.R.C. §1231

Enter the Connecticut portion of the amount of each partner's distributive share of gain (loss) under I.R.C. §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 amount of the partner's distributive share of such gain (loss) under I.R.C. §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 I.R.C. §1231 is a passive activity amount.

Line 7 - Other Income (Loss)

Enter the Connecticut portion of the amount 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 amount of 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 I.R.C. §179

Enter the Connecticut portion of the amount of each partner's distributive share allowed as a deduction for federal purposes under I.R.C. §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 I.R.C. §179 deduction to be entered is calculated by multiplying the amount of 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 the amount 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 amount of 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 Web site at:
www.drs.state.ct.us
- Call CONN-TAX:
1-800-382-9463 (in-state) or
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.

Personal taxpayer assistance is available during business hours listed below. Extended hours are available. Call CONN-TAX or visit our Web site for details.

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

FORMS AND PUBLICATIONS

May be obtained 24 hours a day, seven days a week by using any of the following resources:

- **Internet**
Preview and download forms and publications 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 and select from the menu; or
- **Telephone**
From a touch-tone phone call:
1-800-382-9463 (in-state) and select **Option 2**,
or 860-297-4753 (from anywhere).

WALK-IN OFFICES

For free assistance or forms, visit our offices from Monday through Friday, 8:00 a.m. to 5:00 p.m. For pre-recorded directions to DRS offices, call CONN-TAX and press 6. If you require special accommodations, please advise the DRS representative.

BRIDGEPORT
10 Middle Street
203-336-7890

HAMDEN
3074 Whitney Avenue, Bldg. #2
203-287-8243

HARTFORD
25 Sigourney Street
860-297-5962

NORWICH
2 Cliff Street
860-889-2669

WATERBURY
Rowland State Government Center
55 West Main Street, Suite 100
203-805-6789

ELECTRONIC FILING OPTIONS

Connecticut Fast-File Program

Use our free, convenient, and secure **Fast-File** Program to file your sales and use tax, business use tax, room occupancy tax, or income tax withholding tax returns over the Internet or by telephone. No paper return or worksheet is required.

Fast-File is both an Internet-based program that enables you to use your computer to electronically file your returns and a "tefile" system that allows you to simply phone in your return using a touch-tone telephone.

To learn more about **Fast-File**, visit the Department of Revenue Services (DRS) Web site at: www.drs.state.ct.us



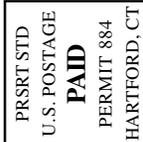
For questions about **federal taxes**, contact the Internal Revenue Service (IRS) at: 1-800-829-1040 or visit: www.irs.gov
To order **federal tax forms**, call: 1-800-829-3676.

STATEWIDE SERVICES

For information on statewide services and programs, visit the ConneCT Web site at: www.state.ct.us

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.



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