

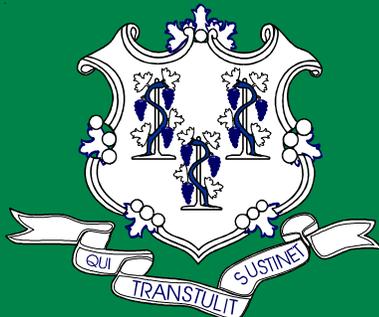
2003

FORM CT-1120SI

Connecticut S Corporation Information and Composite Income Tax Return and Instructions

This booklet
contains:

- Form CT-1120SI
- Form CT-1120SI EXT
- Form CT-1NA
- Form CT-2NA
- Form CT-1120SI ES



Dear Customer:

The Connecticut Department of Revenue Services (DRS) strives to provide you with the most comprehensive source of Connecticut business tax information to help you meet your state tax obligations. This booklet contains important facts about 2003 legislative changes that may impact your business. It also contains information about electronic methods that can make it easier for you to file and pay some Connecticut taxes. Please read it carefully.

If you need assistance, DRS Taxpayer Services personnel can answer your questions by phone, letter, or e-mail. The DRS Web site is also a valuable resource available anytime for you to download Connecticut tax forms, DRS publications, and other information you may need. The back cover of this booklet lists all the ways you can access this Agency.

DRS values its partnerships with Connecticut businesses and continues to focus on providing excellent customer service and a user-friendly approach to tax administration. Comments and ideas on how we can improve the way we do business are always welcomed. Please phone, write, or e-mail us through our web site.

Sincerely,

Pam Law
Commissioner of Revenue Services

Taxpayer information is available on our Web site:
www.ct.gov/DRS

CONN-TAX

If you have a touch-tone phone, you can obtain important income tax information anytime from CONN-TAX, the Department of Revenue Services information line. Call **1-800-382-9463** (in-state) or **860-297-5962** (from anywhere), press **4** to be connected to the recorded tax information menu, then press **1** 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:

Monday, **February 2** (until 7 p.m.)
Monday, **February 9** (until 7 p.m.)

Extended Telephone Assistance and Walk-in Hours:

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

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OTHER TAXES FOR WHICH THE S CORPORATION MAY BE LIABLE

The information that follows is intended to be a general description of certain other Connecticut taxes for which an S corporation may be liable. For further information about these taxes, contact the Department of Revenue Services (DRS), Taxpayer Services Division. See the back cover for a list of DRS walk-in offices and telephone numbers.

To register for sales and use taxes and Connecticut income tax withholding, as well as most other Connecticut taxes administered by DRS, the S corporation must complete **Form REG-1, Business Taxes Registration Application**. Visit the DRS Web site to register on-line. If the S corporation already has a Connecticut Tax Registration Number, additional taxes for which the S corporation is liable may be added to the registration by contacting the DRS Registration Unit at 860-297-4885.

Business Entity Tax

For taxable years beginning on or after January 1, 2002, there is an annual Business Entity Tax (BET) of \$250. For taxable years beginning on or after January 1, 2003, and prior to January 1, 2004, there is a 20% (.20) surtax on the BET. The sum of the BET and the surtax is \$300. The BET applies to each of the following entities, if required to file an annual report with the Connecticut Secretary of the State:

- 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.

See **Special Notice 2002(11)**, *Business Entity Tax*, and **Informational Publication 2003(15)**, *Q & A on the Business Entity Tax*, for more information.

Connecticut Sales and Use Taxes

An S corporation may be responsible for the filing of sales and use tax returns. Sales taxes are due if the company sells taxable goods or services. Use taxes are due on the purchase of taxable goods or services 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

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

Controlling Interest Transfer Taxes

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

CONNECTICUT FAST-FILE PROGRAM

Don't worry about stamps. Did you know businesses can use **Fast-File** to file and pay some Connecticut tax obligations no postage required?

Forget the pencil and paper. DRS **Fast-File** is a quick, easy, and secure way for businesses to use the Internet to file and pay certain business taxes. For more information about the Connecticut **Fast-File** Program, visit the DRS Web site at www.ct.gov/DRS or call 1-800-382-9463 (in-state) or 860-297-5962 (from anywhere).



WHAT'S NEW

Increased Tax Rate

Beginning with income tax returns filed for the 2003 taxable year, the **highest marginal income tax rate** for individuals is increased from 4.5% (.045) to 5% (.05).

Bonus Depreciation Subtraction Modification

For its taxable year beginning during 2003, every S corporation, in computing each shareholder's pro rata share of special bonus depreciation to enter on Line 4 of the **2003 Form CT-1120SI, Part V**, must subtract 25% of the shareholder's pro rata share of the bonus depreciation previously entered on Line 4 of the **2002 Form CT-1120SI, Part V**. The S corporation will enter the remaining 75% of the pro rata share (in three equal 25% installments) on Line 9 of the 2004, 2005, and 2006 **Form CT-1120SI, Part V**.

If an S corporation filed federal Form 4562 and claimed a special bonus depreciation allowance for qualified property placed in service during 2003, and, was required to enter the shareholder's pro rata share of the bonus depreciation on Line 4 of the **2003 Form CT-1120SI, Part V**, the S corporation will enter 25% of that amount on Line 9 of the 2004, 2005, 2006, and 2007 **Form CT-1120SI, Part V**.

Rounding

When entering amounts on Connecticut tax returns and schedules, taxpayers are now required to round off cents to the nearest whole dollar. See Page 12 for more information.

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.ct.gov/DRS or for personal assistance, see the back cover 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 1120S, U.S. Income Tax Return for an S Corporation.

Personal telephone assistance is available Monday through Friday, 8:30 a.m. to 4:30 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 anytime from the DRS Web site at www.ct.gov/DRS. 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 *2003 Connecticut Package X*, which is on file at most public libraries.

Who Must File Form CT-1120SI

Every S corporation doing business in Connecticut, or having income derived from or connected with sources within Connecticut, must file a return on **Form CT-1120SI**, regardless of the amount of its income (or loss).

The S corporation must first complete the federal Form 1120S, U.S. Income Tax Return for an S Corporation. Information on the federal return is needed to complete **Form CT-1120SI**.

A shareholder's pro rata share of S corporation income is reported on **Form CT-1120SI** and, unless the shareholder's income tax is remitted with **Form CT-1120SI** or with **Form CT-G**, *Connecticut Group Income Tax Return*, the shareholder's income tax is remitted with the shareholder's income tax return

(**Form CT-1040**, *Connecticut Resident Income Tax Return*, **Form CT-1040NR/PY**, *Connecticut Nonresident or Part-Year Resident Income Tax Return*, if the shareholder is an individual, or **Form CT-1041**, *Connecticut Income Tax Return for Trusts and Estates*, if the shareholder is a trust or estate).

How Do Shareholders Report Income Resident Shareholders

If the shareholder is an individual, his or her pro rata share of S corporation income is included in his or her federal adjusted gross income and is, therefore, includable in the federal adjusted gross income reported on the shareholder's **Form CT-1040**. The S corporation must provide the shareholder with a schedule of the amounts of Connecticut modifications that the shareholder must include on his or her **Form CT-1040**, *Schedule 1*.

If the shareholder is a trust or estate, its pro rata share of S corporation income is included in its federal taxable income and is, therefore, includable in the federal taxable income reported on the shareholder's **Form CT-1041**. The S corporation must provide the shareholder with a schedule of the amounts of Connecticut modifications that the shareholder must include on its **Form CT-1041**, *Schedule A*.

Nonresident Shareholders

If the shareholder is an individual, his or her pro rata share of S corporation income is included in his or her federal adjusted gross income and is, therefore, includable in the federal adjusted gross income reported on the shareholder's **Form CT-1040NR/PY**. The S corporation must provide the shareholder with a schedule of the amounts of Connecticut modifications that the shareholder must include on his or her **Form CT-1040NR/PY**, *Schedule 1*. The S corporation must also provide the shareholder with a schedule of amounts of S corporation income or loss derived from or connected with sources within Connecticut for inclusion on the shareholder's **Form CT-1040NR/PY**, *Schedule CT-SI*.

If the shareholder is a trust or estate, its pro rata share of S corporation income is included in its federal taxable income and is, therefore, includable in the federal taxable income reported on the shareholder's **Form CT-1041**. The S corporation must provide the shareholder with a schedule of the amounts of

Connecticut modifications that the shareholder must include on its **Form CT-1041**, *Schedule A*. The S corporation must also provide the shareholder with a schedule of amounts of S corporation income or loss derived from or connected with sources within Connecticut for inclusion on the shareholder's **Form CT-1041**, *Schedule CT-1041FA*.

For further information on whether a shareholder is a resident or nonresident, see the instructions for **Form CT-1040**, *Connecticut Resident Income Tax Return*, or **Form CT-1041**, *Connecticut Income Tax Return for Trusts and Estates*.

Composite Payment of Tax

An S corporation must make a composite payment of Connecticut income tax on behalf of each nonresident shareholder (whether an individual, trust, or estate) **unless** one of the following conditions is met:

- The nonresident shareholder agrees to file a Connecticut income return (**Form CT-1040NR/PY** or **Form CT-1041**) and to make timely payment of the Connecticut income tax shown on the return. The shareholder evidences the agreement to file a Connecticut income tax return and to make timely payment of the Connecticut income tax shown on the return by filing **Form CT-1NA**, *Connecticut Nonresident Income Tax Agreement*, with the S corporation.
- The nonresident shareholder is a nonresident individual who elects with nine or more other shareholders who are also nonresident individuals and who have the same taxable year and no income *other than their pro rata share of the S corporation's income* that is derived from or connected with Connecticut sources to file **Form CT-G**, *Connecticut Group Income Tax Return*, and to make timely payment of the Connecticut income tax shown on **Form CT-G**. Each qualified electing nonresident shareholder evidences his or her election to be included on **Form CT-G** by filing **Form CT-2NA**, *Connecticut Nonresident Income Tax Agreement/Election to be Included in a Group Return*, with the S corporation. (See *Group Returns for Nonresident Shareholders Who Are Individuals*.)

A nonresident shareholder agreeing to file a Connecticut income tax return and to make timely payment of the Connecticut income tax shown on the return must complete and file **Form CT-1NA** with the S corporation prior to the filing of **Form CT-1120SI**, *Connecticut S Corporation Information and Composite Income Tax Return*, by the S corporation. The S corporation shall

keep and maintain such forms in its permanent records, and shall make them available to DRS upon request. **Form CT-1NA** filed by a nonresident shareholder for a taxable year of the shareholder beginning on or after January 1, 2001, will be effective for that taxable year and for all following taxable years, unless the shareholder revokes the agreement by providing written notice of the revocation to the S corporation. No such revocation shall be effective prior to the taxable year of the shareholder following the taxable year of the shareholder during which written notice of the revocation was provided to the S corporation. The S corporation must keep and maintain such written notices in its permanent records, and make them available to DRS upon request.

By filing **Form CT-1NA**, a nonresident shareholder is agreeing to be subject to personal jurisdiction in Connecticut for purposes of the collection of Connecticut income tax, together with any additions to tax, interest, and penalties. The agreement is binding upon the nonresident shareholder's heirs, representatives, assigns, successors, executors, and administrators.

Group Returns for Nonresident Shareholders Who Are Individuals

Ten or more qualified electing nonresident shareholders may elect to file **Form CT-G** for a taxable year in lieu of having an S corporation make composite Connecticut income tax payments on their behalf or having to file their own **Form CT-1040NR/PY**. A qualified electing nonresident shareholder **must** meet **all** of the following conditions:

- The shareholder was a nonresident individual for the **entire** taxable year;
- The shareholder did not maintain a permanent place of abode in Connecticut at any time during the taxable year;
- The shareholder has the same taxable year as the other qualified electing nonresident shareholders;
- The shareholder (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 shareholder's pro rata share of S corporation income derived from or connected with sources within Connecticut;
- The shareholder waives the right to claim any Connecticut personal exemption (under Conn. Gen. Stat. §12-701) and any Connecticut personal credit (under Conn. Gen. Stat. §12-703);

- The shareholder does not have a Connecticut alternative minimum tax liability for the taxable year; **and**
- The shareholder has completed and filed **Form CT-2NA** with the S corporation prior to the filing of **Form CT-G**.

By filing **Form CT-2NA**, the shareholder is agreeing to be subject to personal jurisdiction in Connecticut for purposes of the collection of Connecticut income tax, together with any additions to tax, interest, and penalties, and waiving his or her right to request, on his or her own behalf, an extension of time to pay Connecticut income tax. **Form CT-2NA** filed by a nonresident shareholder for a taxable year of the shareholder beginning on or after January 1, 2002, will be effective for that taxable year and for all following taxable years, unless the shareholder revokes the agreement by providing written notice of the revocation to the S corporation. No such revocation shall be effective prior to the taxable year of the shareholder following the taxable year of the shareholder during which written notice of the revocation was provided to the S corporation. The S corporation shall keep and maintain such written notices in its permanent records, and make them available to DRS upon request.

The agreement is binding upon the nonresident shareholder's heirs, representatives, assigns, successors, executors, and administrators.

Accounting Period and Method of Accounting

An S corporation's accounting period and method of accounting for Connecticut income tax purposes must be the same as the S corporation's accounting period and method of accounting for federal income tax purposes.

If an S corporation's accounting period or method of accounting is changed for federal income tax purposes, the same change must be made for Connecticut income tax purposes.

When to File Form CT-1120SI

Form CT-1120SI is due on or before the fifteenth 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

This list is subject to change. To verify the names of designated PDSs and designated types of service, check the DRS Web site, or call DRS. See **Policy Statement 2002(4)**, *Designated Private Delivery Services and Designated Types of Service*.

If **Form CT-1120SI** is filed late or all the tax due is not paid with the return, see *Interest and Penalties* to determine if interest and penalty must be reported with this return.

Extension Request

To get an extension of time to file the annual return, the S corporation must file **Form CT-1120SI EXT**, *Application for Extension of Time to File Connecticut S Corporation Information and Composite Income Tax Return*, no later than the fifteenth day of the fourth month following the close of the taxable period, together with payment of the total tax due. The timely filing of this form will automatically extend the due date for six months only if federal Form 7004, *Application for Automatic Extension of Time to File Corporation Income Tax Return*, has been filed with the Internal Revenue Service (IRS). If federal Form 7004 was not filed, the S corporation can apply for a six-month extension to file **Form CT-1120SI**, provided there is reasonable cause for the request.

Form CT-1120SI EXT extends only the time to file a return. It does not extend the time to pay the amount of income tax due. See *Interest and Penalties*.

If an officer 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 (including attorneys, accountants, and enrolled agents)

to the officer may sign the request on his or her behalf, and shall be considered as a duly authorized agent for this purpose, provided the request states the reasons for a signature other than that of an officer, and the relationship existing between the officer and the signer.

Extension of Time to Pay the Tax

An S corporation making a composite income tax payment for its nonresident shareholders may be eligible for a six-month extension of time to pay the tax due if the S corporation can show that paying the tax by the due date will cause undue hardship. The S corporation may request an extension by filing **Form CT-1127, Application for Extension of Time for Payment of Income Tax**, on or before the due date of the original return.

Attach **Form CT-1127** to the front of **Form CT-1120SI** or **Form CT-1120SI EXT** and send it on or before the due date. As evidence of the need for extension, the S corporation **must** attach:

- A statement of its assets and liabilities;
- An itemized list of its receipts and disbursements for the preceding three months; **and**
- An explanation of why it could not borrow money to pay the tax due.

Shareholders who elect to be included on **Form CT-G** waive their right to request an extension of time to pay.

Amended Returns

Check the "Amended Return" box on the front of **Form CT-1120SI** to amend a previously filed **Form CT-1120SI**. If an amended return is filed to have an overpayment of Connecticut income tax refunded or credited, the amended return must be filed before the Connecticut statute of limitations expires. (Generally, the Connecticut statute of limitations for refunding or crediting any Connecticut income tax overpayment expires three years after the due date of the return, but if a timely request for an extension of time to file a return was filed, the statute of limitations expires 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. If additional tax is due, interest will apply. See *Interest and Penalties*. The following circumstances require the filing of an amended **Form CT-1120SI**:

<p>1. The IRS or federal courts change or correct the S corporation's federal income tax return, and the change or correction results in the Connecticut income tax liability of the S corporation's shareholders being overpaid or underpaid.</p>	<p>File no later than 90 days after the final determination. If an amended Form CT-1120SI is filed no later than 90 days after the final determination, any Connecticut income tax overpayment resulting from the final determination will be refunded or credited, even if the Connecticut statute of limitations has otherwise expired.</p>
<p>2. The S corporation files a timely amended federal income tax return, and the amendment results in the Connecticut income tax of the S corporation's shareholders being overpaid or underpaid.</p>	<p>File no later than 90 days after the date of filing the timely amended federal income tax return. If an amended Form CT-1120SI is filed no later than 90 days after the date of filing the timely amended federal income tax return, any Connecticut income tax overpayment resulting from filing the timely amended Form CT-1120SI will be refunded or credited, even if the Connecticut statute of limitations has otherwise expired.</p>
<p>3. If neither of the above circumstances apply, but the S corporation made a mistake or omission on its Form CT-1120SI, and the mistake or omission results in the Connecticut income tax of the S corporation's shareholders being overpaid or underpaid.</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>

If an election was made on **Form CT-1120SI** to have an overpayment applied to next year's estimated tax instead of being refunded, or to have an overpayment refunded instead of being applied to next year's estimated tax, this election is irrevocable and may not be changed by filing an amended **Form CT-1120SI**.

If an extension of time to pay is granted and the S corporation pays all the tax due in full by the end of the extension period, a penalty will not be imposed. However, interest will accrue on any unpaid tax from the original due date. The S corporation should make payments as soon as possible to reduce the interest that it would otherwise owe. Write the S corporation's Federal Employer Identification Number and “**2003 Form CT-1120SI**” on its check or money order. Mail payments to:

**Department of Revenue Services
Accounts Receivable Unit
PO Box 5088
Hartford CT 06102-5088**

Where to File

Use the pre-addressed envelope enclosed with **Form CT-1120SI** or mail to:

**Department of Revenue Services
PO Box 2967
Hartford CT 06104-2967**

Interest and Penalties

In general, interest and penalty apply to any portion of the tax that is not paid on or before the original due date of the return.

Interest

If the S corporation does not pay the tax when due, it will owe interest of 1% (.01) per month or fraction of a month until the tax is paid in full.

Interest on underpayment or late payment of tax **cannot** be waived.

Penalty for Late Payment or Late Filing

The penalty for late payment or underpayment of tax is 10% (.10) of the tax due. The S corporation can avoid a penalty for failure to pay the full amount due by the original due date if it:

- Files **Form CT-1120SI EXT** on or before the due date;
- Pays at least 90% of the tax shown to be due on the return on or before the original due date of the return; **and**
- Pays the balance due with the return on or before the extended due date.

If no tax is due, 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 S corporation does not file its return and the Commissioner of Revenue Services files a return for it, the penalty for failure to file is 10% (.10) of the balance due or \$50, whichever is greater.

If the S corporation is required to file an amended **Form CT-1120SI** and fails to timely do so, a penalty may be imposed.

Penalty for Willful Failure to File or Pay

If you willfully fail to pay the tax or file a return, you may be fined up to \$1,000 or imprisoned up to one year, or both, in addition to any other penalty.

Penalty for Willful Filing of a Fraudulent or Materially False Return

If you willfully file a tax return you know to be fraudulent or false in any material matter, you may be fined up to \$5,000 or imprisoned from one to five years, or both.

Waiver of Penalty

An S corporation may be able to have its penalty waived if the failure to file or pay tax on time was due to a reasonable cause and was not intentional or due to neglect. Interest cannot be waived. Before a penalty waiver can be granted, all tax and interest must be paid. All requests **must** contain:

- A clear and complete written explanation;
- The corporation 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 your explanation.

Attach the request to the **front** of **Form CT-1120SI** or mail separately to:

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

Estimated Tax Payments

Estimated income tax payments must be made if a shareholder's Connecticut income tax (after credits), minus Connecticut tax withheld, is more than \$500, and the shareholder expects his or her Connecticut income tax withheld to be less than his or her required annual

payment. For each installment, the nonresident shareholders' aggregate estimated tax payments may be reported by filing one **Form CT-1120SI ES**, *Estimated Connecticut Composite Income Tax Payment*.

A shareholder's required annual payment is the lesser of:

- **90%** of the tax shown on the shareholder's 2004 Connecticut income tax return; **or**
- **100%** of the tax shown on the shareholder's 2003 Connecticut income tax return, if the shareholder filed a 2003 income tax return that covered a 12-month period.

A shareholder does **not** have to make estimated income tax payments if he or she was a:

- Connecticut resident during the 2003 taxable year and did not file a 2003 income tax return because he or she had no Connecticut income tax liability; **or**
- Nonresident or part-year resident with Connecticut source income during the 2003 taxable year and did not file a 2003 income tax return because he or she had no Connecticut income tax liability.

If the shareholder was a nonresident or part-year resident and he or she did not have Connecticut source income during the 2003 taxable year, then the shareholder must use 90% of the income tax shown on his or her 2004 Connecticut income tax return as the required annual payment.

Installment Amounts and Due Dates

For estimated tax purposes there are four required installments for each taxable year. The amount of any required installment is 25% of the required annual payment. See chart below.

Annualized Income Installment Method

If a shareholder does not receive income evenly throughout the year, the shareholder may be able to lower or eliminate the interest otherwise due for not making estimated payments in four equal installments by calculating his or her underpayments using the **annualized income method**. The required estimated tax payment using the annualized income method for one or more periods may be less than the amount figured using the equal installment method. If the shareholder establishes that the annualized income installment is less than the equal installment method, the shareholder may use the annualized income method to determine the amount of the estimated tax payments. See **Informational Publication 99(33)**, *A Guide to Calculating Your Annualized Estimated Income Tax Installments and Worksheet CT-1040ES*, and **Form CT-2210**, *Underpayment of Estimated Income Tax by Individuals, Trusts, and Estates*.

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.

2004 Estimated Tax Due Dates		Due dates of installments and the amount of required payments for 2004 calendar year taxpayers are:
April 15, 2004	25% of your required annual payment	
June 15, 2004	25% of your required annual payment (A total of 50% of your required annual payment should be paid by this date.)	
September 15, 2004	25% of your required annual payment (A total of 75% of your required annual payment should be paid by this date.)	
January 15, 2005	25% of your required annual payment (A total of 100% of your required annual payment should be paid by this date.)	
An estimate will be considered timely filed if received on or before the due date, or if the date shown by the U.S. Postal Service cancellation mark is on or before the due date. Taxpayers who report on other than a calendar year basis should use their federal estimated tax installment due dates. If the due date falls on a Saturday, Sunday, or legal holiday, the next business day is the due date.		

FORM CT-1120SI INSTRUCTIONS

Attach a completed copy of the S corporation's federal income tax return, including all schedules and attachments as filed with the IRS, to Form CT-1120SI.

General Instructions

Enter the S corporation's name, address, Federal Employer Identification Number, and Connecticut Tax Registration Number.

Check the appropriate box(es) for an amended return, final return, or both.

Enter the total number of shareholders, whether resident or nonresident, during the taxable year. The number of shareholders is determined as of the end of the S corporation's taxable year.

Check the Change of Address box and file **Form CT-8822, *Change of Address***, to indicate a change in the S corporation's physical or mailing address. If the Change of Address box is checked, a completed **Form CT-8822** must be attached to **Form CT-1120SI**.

Rounding Off to Whole Dollars

You must 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.

Example: Add two amounts (\$1.29 + \$3.21) to compute the total (\$4.50) to enter on a line. \$4.50 is rounded to \$5.00 and entered on the line.

Part I - Schedule A – S Corporation Shareholder Information and Composite Return

This part must be completed for all S corporations that have any nonresident shareholders who have not submitted a completed **Form CT-1NA** or **Form CT-2NA** to the S corporation.

- **Form CT-1NA** is an agreement that the nonresident shareholder will file **Form CT-1040NR/PY** or **Form CT-1041**.

- **Form CT-2NA** is the election of the shareholder to be included on **Form CT-G**.

Column A - Nonresident Shareholder's Name and Identification Number

Enter the names and Federal Employer Identification Numbers or Social Security Numbers of the shareholders who must be included in the composite return.

Column B - Connecticut Source Income

For each nonresident who is a shareholder and who is included in the composite return, enter the shareholder's Connecticut source income. This amount is the total of the amounts entered on **Form CT-1120SI**, Part VI, Lines 1 through 8. Enter the total Connecticut source income on Line 8. **The federal rules apply regarding restrictions in netting only similar characters of income.**

Column C - Tax

Multiply the income derived from or connected with sources within Connecticut in Column B by 5% (.05) to compute the tax liability for each nonresident individual shareholder included in the composite return. Enter the total for all such shareholders on Line 9.

Column D - Estimated Tax Paid

If any estimated composite tax was paid by the S corporation, use this column to allocate the amount paid among the nonresident individual shareholders included in the composite return. Enter the total estimated tax paid on Line 10.

Column E - Interest

Enter the amount of each shareholder's interest due. Use **Form CT-2210** to calculate the interest on underpayment. Enter the total interest due on Line 11.

If there are more than six nonresident shareholders, use the **Supplemental Attachment** to **Form CT-1120SI**, Part I, *Schedule A*, and Parts IV, V, and VI. The **Supplemental Attachment** is included in this booklet.

Part I - Schedule B – Computation of Composite Return Tax Due

Line 1 - Connecticut Source Income of Shareholders Included in Composite Return

Enter the total income derived from or connected with sources within Connecticut of all shareholders for whom the S corporation is filing the composite income tax return as entered on Part I, *Schedule A*, Line 8, Column B.

Line 2 - Tax Liability

Multiply the amount entered on Line 1 by 5% (.05) to compute the amount of tax liability. The amount computed should equal the amount entered on Part I, *Schedule A*, Line 9, Column C.

Line 3 - Payments of Estimated Tax

Enter the total payments of estimated tax made by the S corporation on behalf of the shareholders as entered on Part I, *Schedule A*, Line 10, Column D.

Line 4 - Payment Made With Extension Request

If **Form CT-1120SI EXT**, *Application for Extension of Time to File S Corporation Information and Composite Income Tax Return*, was filed, enter on Line 4 the amount of tax paid with **Form CT-1120SI EXT**.

Line 5 - Total Payments

Add Line 3 and Line 4. Enter the total on Line 5.

Line 6 - Overpayment

If Line 5 is greater than Line 2, subtract Line 2 from Line 5, and enter the result on Line 6. This is the amount of overpayment.

Line 7 - Amount of Line 6 to be Applied to 2004 Estimated Tax

Enter the amount of the 2003 overpayment to be applied to the 2004 estimated composite income tax.

Line 8 - Refund Amount

Subtract Line 7 from Line 6, and enter the result on Line 8. This is the amount of refund due.

Line 9 - Amount of Tax Owed

If Line 2 is greater than Line 5, subtract Line 5 from Line 2, and enter the result on Line 9. This is the amount of tax owed.

Line 10 - Late Payment or Filing Penalty

The penalty for late payment of the tax due is 10% (.10) of the amount due. In the event that no tax is due, 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. However, if a request for extension of time to file a tax return has been granted, no late payment penalty will be imposed if:

- The amount of tax shown to be due on the return minus the amount of tax paid on or before the original due date of the return equals an amount not greater than 10% of the amount of tax shown to be due on the return; **and**
- The balance due is remitted with the return on or before the extended due date of the return.

Line 11 - Late Payment Interest

If the tax is not paid by the due date, interest is charged at the rate of 1% (.01) per month or fraction of a month from the due date until payment is made.

Line 12 - Underpayment of Estimated Tax

Enter the amount from Part I, *Schedule A*, Line 11. This is the total interest due on the underpayment of estimated income tax for all shareholders.

Line 13 - Balance Due With This Return

Add Lines 9 through 12 and enter the total on Line 13. Pay the balance due with this return. Make check or money order payable to the **Commissioner of Revenue Services**. Write the S corporation's Federal Employer Identification Number and **2003 Form CT-1120SI** on the front of the check or money order. Do not send cash. Paper clip (do not staple) the check to the front of the return. Be sure to sign the check.

Signature

Form CT-1120SI must be signed by a corporate officer. 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 S corporation wishes to authorize DRS to contact the paid preparer who signed the 2003 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 S corporation is authorizing DRS to call the paid preparer to answer any questions that may arise during the processing of the 2003 **Form CT-1120SI**. The S corporation 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 S corporation's return or the status of the S corporation's refund or payment; **and**
- Respond to certain DRS notices that the S corporation may have shared with the preparer regarding math errors, offsets, and return preparation. The notices will not be sent to the preparer.

The S corporation is **not** authorizing the paid preparer to receive any refund check, bind the S corporation to anything (including additional tax liability), or otherwise represent the S corporation 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 2004 S Corporation Information and Composite Income Tax Return. This is on or before the fifteenth day of the fourth month following the close of the taxable period.

Attach to the return a copy of all applicable schedules and forms including Form CT-2210, for each shareholder, if applicable. Keep a copy of this return for the S corporation's records.

Part II - Income Apportionment

Complete Part II only if **all** of the following apply. The S corporation:

- Has at least one shareholder who is a nonresident individual, trust or estate, or a part-year resident individual or trust;
- Carries on business both within and outside Connecticut; **and**
- Does not maintain books and records that satisfactorily disclose the portion of income, gain, loss, or deduction derived from or connected with Connecticut sources.

The apportionment fraction calculated on Line 8 is used to complete Part VI for the S corporation's nonresident shareholders, unless the S corporation maintains books and records that satisfactorily disclose

the portion of income, gain, loss, or deduction derived from or connected with Connecticut sources, in which case those amounts must be used to complete Part VI.

Part II must still be completed even if an authorized alternate allocation method under Conn. Agencies Regs. §§12-711(b)-15 and 12-712(d)-1 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.

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 Connecticut real property owned by the business.

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

Line 2 - Real Property Rented From Others

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

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; **and**
- The yearly amortization applicable to 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 owned by the business wherever located, and the value of all tangible personal property 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 rented from others by the business and located in Connecticut.

The average value of tangible personal property owned by the business is determined by adding its book value at the beginning and at the end of the taxable year and dividing the sum by two.

The value of tangible personal property rented from others is determined 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. Enter the result on Line 4 in Column A and Column B. 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 in 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 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 in Column C.

Line 6 - Gross Income From Sales and Services

Enter in Column A total gross sales made and charges for services performed by the S corporation or by its employees, agents, agencies, or independent contractors of the business everywhere. Enter in Column B the portion of total gross sales or charges that represents the sales made, or services performed, by the

S corporation or by its 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 of the business (or its agencies) located in Connecticut.

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

Divide the Column B amount by the Column A amount. Carry the result to four decimal places and enter in Column C.

Line 7 - Total of Percentages

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

Line 8 - Apportionment Fraction

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

Part III - Business Information

Attach a schedule that lists the exact location of each place where the S corporation carries on business. Briefly describe each place (such as sales office, agency, factory). Briefly describe the activity at the location shown (such as storage, administration, manufacturing).

Part IV - Shareholder Information

Complete Part IV for all shareholders.

Assign each shareholder a number, and list in sequential order. **Each shareholder must be assigned the same "Shareholder #" for Parts IV, V, and VI. List nonresident individuals, trusts, and estates first; resident individuals, trusts, and estates next; and other shareholders last.**

Enter the name, address, Federal Employer Identification Number or Social Security Number (whichever is applicable), percentage of stock ownership (enter as a decimal and carry to four places), and residence status of **all** shareholders. Every shareholder, whether an individual, trust, or estate, and whether resident or nonresident must be listed.

Example: If Mary L. Smith is identified as Shareholder #1 in Part IV, Mary L. Smith must also be identified as Shareholder #1 in Parts V and VI. If Mary L. Smith is a resident individual, no information is entered in Part VI with respect to her. Therefore, no entry would be made in Part VI with respect to a person identified as Shareholder #1.

If there are more than three shareholders, use the **Supplemental Attachment to Form CT-1120SI**, Part I, *Schedule A*, and Parts IV, V, and VI. The **Supplemental Attachment** is included in this booklet.

Part V - Shareholders' Share of Connecticut Modifications

Complete Part V for all shareholders.

Each shareholder must be assigned the same number for Parts IV, V, and VI.

Enter each shareholder's pro rata share of Lines 1 through 10.

ADDITIONS

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

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

Enter the amount of each shareholder's pro rata share of interest income derived from state and municipal government obligations, other than obligations of the State of Connecticut or its municipalities, which interest income 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 - Exempt-Interest Dividends Received From a Mutual Fund Derived From State or Municipal Government Obligations Other Than Connecticut

Enter the amount of each shareholder's pro rata 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 shareholder's pro rata share of the amount deducted for federal income tax purposes for:

- Interest expense on loans used to buy bonds and securities whose interest is exempt from Connecticut income tax;
- Expenses related to income exempt from Connecticut income tax; **and**
- Amortizable bond premium on any bond, the interest from which is exempt from Connecticut income tax.

Line 4 - Special Depreciation Allowance for Qualified Property Placed in Service During This Year

If the S corporation filed federal Form 4562, Depreciation and Amortization (Including Information on Listed Property), enter on Line 4 each shareholder's pro rata share of the sum of the following:

- For qualified property placed in service on or before May 5, 2003, for which an additional 30% special depreciation allowance applies, the sum of the amounts entered for that property on federal Form 4562, Line 14 and Line 25.
- For qualified property placed in service after May 5, 2003, for which an additional 50% special depreciation allowance applies, 60% of the sum of the amounts entered for that property on federal Form 4562, Line 14 and Line 25.
- For qualified property placed in service after May 5, 2003, for which an additional 30% special depreciation allowance applies (because the S corporation elected to deduct the 30% special depreciation allowance instead of the 50% special depreciation allowance), the sum of the amounts entered for that property on federal Form 4562, Line 14 and Line 25.

See **Special Notice 2003(21)**, *2003 Legislation Affecting the Connecticut Income Tax*.

Line 5 - Other

Use Line 5 to report the amount of each shareholder's pro rata share of additions to income which are not listed on Lines 1 through 4. For example, include the amount of each shareholder's pro rata share of:

- Any loss recognized on the sale of bonds or other obligations of the State of Connecticut or its municipalities;
- The S corporation's share of any positive Connecticut fiduciary adjustment received from a trust or estate of which the S corporation is a beneficiary;
- Any interest or dividend income on federal obligations or securities the federal government does not prohibit states from taxing;
- Income taxes imposed under Chapter 229 of the Connecticut General Statutes, and paid to Connecticut by the S corporation with a composite return on behalf of nonresident shareholders, to the extent deductible by such nonresident shareholders in determining their federal adjusted gross income; **and**
- 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 the 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 shareholder's share as a positive number.

Line 6 - Interest on U.S. Government Obligations

Enter the amount of each shareholder's pro rata share of interest income (to the extent included in federal adjusted gross income) that federal law prohibits states from taxing; for example all 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 interest earned on 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 interest is taxed by Connecticut. For further information, including lists of exempt and taxable obligations, see **Policy Statement 2003(6)**, *Connecticut Income Tax on Bonds or Obligations Issued*

by the United States Government, by State Governments or Municipalities.

Line 7 - Exempt Dividends From Certain Qualifying Mutual Funds Derived From U.S. Government Obligations

Enter the amount of each shareholder's pro rata 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 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 you 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 taxable for Connecticut income tax purposes.

Example: A qualifying mutual fund pays a dividend of \$100. Of the \$100 distribution, 55% is attributable to U.S. Treasury bills and 45% to other investments. The amount that should be reported on Line 7 is \$55.

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

Enter the amount of each shareholder's pro rata 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 federal taxable year and was not deducted in determining the S corporation income.

Line 9 - Special Depreciation Allowance for Qualified Property Placed in Service During the Preceding Year

Enter on Line 9 for each shareholder 25% of the pro rata share entered for the shareholder on Line 4 of the **2002 Form CT-1120SI**, Part V. The remaining 75% of the pro rata share will be entered (in three equal 25% installments) on the comparable line of the 2004, 2005, and 2006 **Form CT-1120SI**.

Line 10 - Other

Use Line 10 to report the amount of each shareholder's pro rata share of subtractions not listed on Lines 6 through 9. For example, include the amount of each

shareholder's pro rata 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 S corporation's share of any negative Connecticut fiduciary adjustment received from a trust or estate of which the S corporation is a beneficiary;
- Any refund or credit for the overpayment of income taxes imposed by any state of the United States 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 S corporation 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 business expense for the taxable year and was not deductible in determining S corporation income.

The S corporation must provide each shareholder with the amounts of Connecticut modifications (as reported in Part V) for inclusion by the shareholder on **Form CT-1040, Schedule 1, Form CT-1040NR/PY, Schedule CT-SI, or Form CT-1041, Schedule CT-1041FA.**

Part VI - Computation of Connecticut Source Income of Nonresident Shareholders

Complete Part VI for all shareholders who are nonresident individuals, trusts, or estates, whether or not included on the composite return.

Each shareholder must be assigned the same number for Parts IV, V, and VI.

S corporations carrying on business both within and outside Connecticut must apportion the amount of each nonresident shareholder's pro rata share of items of income, gain, loss, or deduction and the related Connecticut modifications to arrive at the Connecticut source income reported in Part VI.

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

The amounts entered on Lines 1 through 8 should also reflect the amount of the shareholder's pro rata share of Connecticut modifications (as reported on Part V, Lines 1 through 10) to the extent the modifications are derived from or connected with Connecticut sources.

Line 1 - Enter the Connecticut portion of each nonresident shareholder's pro rata share of nonseparately stated income or loss.

An S corporation that maintains books and records that satisfactorily disclose the portion of its nonseparately stated income or loss that is derived from or connected with Connecticut sources must enter (on Line 1 in the appropriate column) the amount of each nonresident shareholder's pro rata share of that nonseparately stated income or that nonseparately stated loss, as determined from those books and records. The portion of the S corporation's nonseparately stated income or loss that is derived from or connected with Connecticut sources (as determined from the S corporation's books and records) will be multiplied by the shareholder's pro rata share (%) of that income or loss.

An S corporation that does not maintain books and records that satisfactorily disclose the portion of its nonseparately stated income or loss that is derived from or connected with Connecticut sources must use the apportionment fraction computed on Part II, Line 8, or an authorized alternate method, to determine the portion of any item that is derived from or connected with Connecticut sources. This is accomplished by multiplying the amount of each shareholder's pro rata share of nonseparately stated income or nonseparately stated loss by the S corporation's apportionment fraction as reported on Part II, Line 8, and entering the result on Part VI.

Example 1: Assume that an S corporation, whose nonseparately stated income is entirely derived from its retail business, maintains books and records that satisfactorily disclose the portion of such income that is derived from or connected with each of its retail stores (including its stores in Connecticut). Assume that the S corporation has nonseparately stated income of \$500,000; Shareholder #1's pro rata share of the S corporation's nonseparately stated income is 10%; and the S corporation's books and records disclose that the portion of its nonseparately stated income that is derived from or connected with Connecticut sources is \$150,000. The S corporation must enter \$15,000 ($\$150,000 \times 10\%$) on Line 1 as the amount of Shareholder #1's pro rata share of the S corporation's nonseparately stated income that is derived from or connected with Connecticut sources.

Example 2: The facts are the same as in Example 1, except that the S corporation does not maintain books and records that satisfactorily disclose the portion of its nonseparately stated income that is derived from or connected with each of its retail stores. Assume that the S corporation's apportionment fraction as reported on Part II, Line 8, is 25% (.25). The S corporation must enter \$12,500 ($(\$500,000 \times 10\%) \times .25 = \$12,500$) on Line 1 as the amount of Shareholder #1's pro rata share of the S corporation's nonseparately stated income that is derived from or connected with Connecticut sources.

Line 2 and Line 3 - Enter the Connecticut portion of the amount of the shareholder's pro rata share attributable to rental activities (gain or loss). Amounts attributable to real property located in Connecticut are 100% taxable for Connecticut income tax purposes to a nonresident shareholder. Amounts attributable to real property located outside Connecticut are not taxable for Connecticut income tax purposes to a nonresident shareholder.

Line 4 - Enter the Connecticut portion of the amount of the shareholder's pro rata share of portfolio income (loss). Items of income, gain, loss, and deduction derived from or connected with sources within Connecticut 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 subject to Connecticut income tax.

Enter the Connecticut portion of the amount of the shareholder's pro rata share of capital gain. If the amount relates to the sale of rental property located in Connecticut, the capital gain (loss) is 100% sourced to Connecticut.

Items of capital gain (loss) attributable to intangible personal property (such as the sale of stock) are not sourced to Connecticut except to the extent such capital gain is attributable to an intangible asset employed in a trade, business, profession, or occupation carried on in Connecticut.

Example 3: Assume that Shareholder #3 has portfolio income sourced to Connecticut of \$5,000, and that \$1,000 of the \$5,000 is from interest on U.S. government obligations, and is reported on Part V, Line 6. The Connecticut portion of the amount of this shareholder's pro rata share of portfolio income to be entered on Part VI, Line 4 is \$4,000. $\$5,000 - \$1,000 = \$4,000$.

Line 5 - Enter the Connecticut portion of the amount of the shareholder's pro rata share allowed as a deduction for federal purposes under I.R.C. §179.

Unless the S corporation maintains books and records that satisfactorily disclose the portion of income, gain, loss, or deduction derived from or connected with Connecticut sources, the Connecticut portion is calculated by multiplying the amount of the shareholder's share of such deduction from federal Schedule K-1 by the apportionment fraction on Part II, Line 8 of this return.

Line 6 - Enter the Connecticut portion of the amount of the shareholder's pro rata 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 S corporation maintains books and records that satisfactorily disclose the portion of income, gain, loss, or deduction derived from or connected with Connecticut sources, the Connecticut portion is calculated by multiplying the amount of the shareholder's pro rata share of such items from federal Form 1120S, Schedule K-1 by the apportionment fraction on Part II, Line 8 of this return.

Line 7 - Enter the Connecticut portion of the amount of the shareholder's pro rata share of gain (loss) under I.R.C. §1231.

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

If the amount relates to a trade or business activity, unless the S corporation maintains books and records that satisfactorily disclose the portion of income, gain, loss, or deduction derived from or connected with Connecticut sources, the Connecticut portion of such gain (loss) is calculated by multiplying the amount of the shareholder's pro rata share of such gain (loss) under I.R.C. §1231 from federal Form 1120S, Schedule K-1, by the apportionment fraction on Part II, Line 8 of this return.

Line 8 - Enter the Connecticut portion of the amount of the shareholder's pro rata share of other items of income, gain, loss, or deduction not included on Lines 1 through 7 above.

The S corporation must provide each nonresident shareholder with a schedule of amounts of income derived from or connected with sources within Connecticut for inclusion by the shareholder on the appropriate lines of **Form CT-1040NR/PY**, *Schedule CT-SI* or **Form CT-1041**, *Schedule CT-1041FA*.

CONNECTICUT TAX ASSISTANCE

FOR TAX INFORMATION

- Visit the DRS Web site at:
www.ct.gov/DRS
- Call CONN-TAX:
1-800-382-9463 (in-state) or
860-297-5962 (from anywhere)

TTY, TDD, and Text Telephone users only may transmit anytime 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 anytime by using any of the following resources:

- **Internet**
Preview and download forms and publications from the DRS Web site at www.ct.gov/DRS
- **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 3. If you require special accommodations, please advise the DRS representative.

BRIDGEPORT
10 Middle Street
203-336-7890

HARTFORD
25 Sigourney Street
860-297-5962

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

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

NORWICH
2 Cliff Street
860-889-2669

ELECTRONIC FILING OPTIONS

Connecticut Fast-File Program

Businesses can use our **free**, convenient, and secure **Fast-File** Program to file sales and use tax, business use tax, room occupancy tax, or income tax withholding tax returns electronically.

Fast-File completes most calculations for you, increasing the accuracy of returns. It also provides immediate confirmation that the Connecticut Department of Revenue Services (DRS) has received your return.

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



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.ct.gov

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

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