

Connecticut Tax News

quarterly

Volume 13, Issue 1
March 2001

A PUBLICATION OF THE CONNECTICUT DEPARTMENT OF REVENUE SERVICES

From the Commissioner Gene Gavin

A New Filing Era for DRS

We are now at the height of the income tax filing season and our data is demonstrating that in Connecticut, non-paper filing methods are growing tremendously in popularity. Each year, we have expanded the paperless options for filing and payment of taxes, thereby streamlining the process and saving time and money for both taxpayers and for DRS. In our last issue of



Connecticut Tax News, I announced that DRS would soon launch Internet filing and Telefiling for business taxes. With this edition,

we are pleased to provide more details about the pilot phase of the *Fast-File* program and extend an invitation for participation.

We are now accepting inquiries from taxpayers who wish to use electronic filing for their *Sales and Use Tax Returns*, *Room Occupancy Tax Returns*, *Withholding Tax Payment Forms*, or *Connecticut Quarterly Reconciliation of Withholding Forms*. A taxpayer may use the Internet or touch-tone phone to file any one or more of these tax returns. The pilot *Fast-File* program will begin with the May reporting period (June 30 filing due date). Filing can be completed



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Due Date Extended for Connecticut Income Tax Returns

Connecticut income tax returns are due on or before April 17, 2001. This is unique in 2001 because April 15 is a Sunday and April 16 is observed as the Patriots' Day holiday in Massachusetts where the IRS Service Center is located. For fiscal year filers, returns are due on or before the fifteenth day of the fourth month following the close of the taxable year. If the due date falls on a Saturday, Sunday or legal holiday, the next business day is the due date.



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New Payment Options Available

Two new payment options are available to Connecticut taxpayers. Taxpayers can now pay their Connecticut income tax through direct payment or by credit card.

Under the **direct payment** option, taxpayers authorize DRS to deduct their tax liability directly from their savings or checking account. Taxpayers who file their Connecticut income tax return using Telefile and find that they owe tax may elect to pay the tax by selecting the direct payment option. The direct payment option is valid through April 17, 2001.

Also available is payment by **credit card**. If a taxpayer filed a 1999 Connecticut income tax return, he or she can pay his or her 2000

Connecticut income tax liability by credit card. To pay by credit card, taxpayers must call *Official Payments Corporation* at 1-800-272-9829 and follow the voice prompts or visit www.officialpayments.com and select Payment Center. Callers and internet users will be asked to enter the *jurisdiction code* for Connecticut. The Connecticut code is **1777**. A fee of 2.5% will be charged by the service provider. T_N

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

24 hours a day, seven days a week.

Taxpayers will be issued an initial password from DRS, but will then choose their own Personal Identification Number (PIN) the first time they file electronically. Filing the return may be completed at any time before the due date, with several payment choices available.

Fast-File works best when you also pay any tax due electronically. Direct payment may be made through your bank account. If you file the return electronically prior to the due date, you can designate the amount of the payment and date you wish the transfer of the payment to take place. You can also use your existing Electronic Funds Transfer (EFT) option. A paper check will also be accepted by DRS.

When you use the Internet to *Fast-File*, your confidential information is protected by the 128-bit industry

Commissioner

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standard of encryption and the latest firewalls to prevent corruption of data. The *Fast-File* custom web applications will support both Microsoft Internet Explorer 4.0 and above, and Netscape 4.0 and above. At this time, Mac browsers and Web TV are not supported.

If you are interested in participating in the pilot *Fast-File* program, e-mail us at:

DRS.Fastfile@po.state.ct.us

See Page 4 for highlights of the *Fast-File* program. All eligible taxpayers will be receiving information in the mail soon, but don't wait to join this fast, accurate, efficient program!

I also want to call your attention to the Reader's Survey that we have included in this edition. As DRS moves ahead with new technologies

to streamline tax administration, we cannot ignore our communications with taxpayers and tax practitioners. We want to ensure that you are getting the information you need in the format you are able to use most efficiently. It is important for us to hear from you with your ideas and suggestions. Please return the paper copy of the survey to us as soon as possible, or e-mail us at ***drs@po.state.ct.us*** with your comments so we can integrate your opinions in our strategy for future issues.

Finally, I want to remind you that the DRS E-News is an essential tool that we provide to stay on top of new and revised releases of DRS documents and other tax updates. You can log on to the DRS Web site: ***www.drs.state.ct.us***, and click on E-News on the home page for information about a free subscription. Do it today!

T_N

Individual Income Tax

Social Security Number(s) Provided by Taxpayers

To protect taxpayer confidentiality, the Social Security Number is not preprinted on the label on the back cover of the Connecticut income tax return booklets.

Make sure you or your clients clearly print the Social Security Number(s) in the spaces provided next to the name(s) on the Connecticut income tax return. T_N

Asistencia en Español

Para asistencia en español, marque el numero siete.

For the 2001 tax filing season DRS taxpayer assistants are providing income tax assistance to our Spanish-speaking population. DRS has launched this new service by adding an option to CONN-TAX.

After choosing **Option 0** from the CONN-TAX main menu, Spanish-speaking taxpayers are directed to choose **Option 7** from the Taxpayer Services main menu, directly connecting to a Spanish-speaking assistant. These assistants are DRS employees volunteering to help during the filing season. This program operates only during the income tax filing season. Tax assistance in Spanish and other languages is available at other times of the year by special arrangement. T_N

Limited Power of Attorney

For taxable years beginning on or after January 1, 2000, taxpayers may check a box on their Connecticut income tax return to authorize DRS to contact the paid preparer who signed the return to correct return processing problems.

If the taxpayer checks the "Yes" box, the taxpayer and his or her spouse, if

May DRS contact the preparer shown below about this return? (see Page 16) Yes No

filing a joint return, are authorizing DRS to call the preparer to answer any questions that may arise during the processing of the return. The taxpayer is also authorizing the preparer to:

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

Once DRS completes processing the return, the authorization ends. Checking the box does **not** replace a power of attorney and will **not** authorize paid preparers to receive refund checks, bind you to anything (including additional tax liabilities), or represent you before DRS. To authorize another individual to represent you or act on your behalf, you must complete **Form LGL-001, Power of Attorney.** T_N

Individual Income Tax, continued

How to Avoid Refund Delays

Processing Errors Identified

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

- **No filing status checked**

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

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

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

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

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

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

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

Amending a 2000 Connecticut Income Tax Return

Use Form CT-1040X, *Connecticut Amended Income Tax Return*, to amend a previously filed Connecticut income tax return. If the taxpayer files Form CT-1040X to have an overpayment of Connecticut income tax refunded or credited, the taxpayer must file before the Connecticut statute of limitations expires. Generally, the statute of limitations expires three years after the due date of the taxpayer's return; but if the taxpayer timely requested an extension of time to file the return, the expiration date is the earlier of three years after the extended due date or three years after the date the return was filed.



2000 Amended, Page 6

TIPS for Successfully Filing a Connecticut Income Tax Return

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

1. **Use the pre-printed label** that was affixed to the back of the Connecticut income tax booklet. Make sure the name and address are correct. If there is an error, draw a line through the error and clearly print the correct information. This year, for taxpayer confidentiality purposes, the Social Security Number (SSN) is **NOT** on the preprinted label. All taxpayers **MUST** clearly print their SSN in the spaces provided (see *Processing Errors Identified*, at left and *SSN Provided by Taxpayer*, on Page 2).
2. **Attach legible state copies of W-2 forms.** Also attach state copies of W-2G forms (gambling winnings), 1099-R forms (pensions), and any other forms showing Connecticut income tax withheld.
3. **Check the correct filing status.** Usually the same as the federal return (see *Processing Errors Identified*, at left).
4. **Check your math and copy all figures accurately,** especially when copying figures from one place to another.
5. **Sign the return.** If filing a joint return, both spouses must sign the return. The paid preparer must also sign the return.
6. **Attach the correct mailing label to the return envelope.** One label is for refund requests or no additional tax due. The other is for payments. Refunds will be processed quicker if the label for refund requests is used.
7. **Use forms that conform to the DRS Reproduction Guidelines.** Photocopied or computer generated forms must:
 - Be a facsimile of the original form;
 - Be on paper of substantially the same weight and texture, and of quality at least as good as that used for the original form;
 - Be of the same size as the original form both as to the overall dimensions of the paper and the image reproduced; and
 - Have a high standard of legibility, both as to the original form and as to the filled-in matter. ^{T_N}

Individual Income Tax, continued

Who Must Make Estimated Connecticut Income Tax Payments For 2001

A taxpayer must make estimated income tax payments for the 2001 taxable year if the Connecticut income tax reported on the return (after tax credits), minus Connecticut tax withheld, is more than \$500, and the taxpayer expects the amount of Connecticut income tax withheld to be less than the required annual payment.

A taxpayer's required annual payment is the lesser of 90% of the income tax shown on the 2001 Connecticut income tax return or 100% of the income tax shown on the 2000 Connecticut income tax return, if the taxpayer filed a 2000 Connecticut income tax return that covered a 12-month period.

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

- Self-employment;
- Pension and annuity;
- Capital gains;
- Interest and dividends;
- Gambling winnings;
- Rental income;
- Unemployment compensation;
- Federally taxable Social Security; and
- Any other taxable income from which no Connecticut tax was withheld.

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

Estimated Income Tax Form

Use **Form CT-1040ES**, 2001 *Estimated Connecticut Income Tax Payment Coupon for Individuals*, to make quarterly estimated payments of Connecticut income tax for the 2001 taxable year.

Form CT-1040ES will be mailed to any taxpayer who made Connecticut estimated tax payments in 2000. If the taxpayer did not make estimated payments previously, use **Form CT-1040ES**, included in the 2000 Connecticut income tax booklet. Taxpayers who file this form will be sent additional coupons from DRS. ^{T_N}

2000 Connecticut Property Tax Credit

Connecticut residents who paid property taxes on their primary residence and/or privately owned or leased motor vehicle to a Connecticut political subdivision are eligible for a credit of up to \$500 against their 2000 Connecticut income tax liability.

The credit is available to Connecticut taxpayers who have paid property tax bills that were due and were paid during 2000. This includes any installment payments made during 2000 for installments due in 2000 and any installments that were prepaid during 2000 for installments due in 2001. For example, if the second installment of a 1999 property tax bill was due January 1, 2000, and was paid during 2000, that payment may be included with any payments of 2000 property tax bills that were due during 2000 when calculating the property tax credit for 2000.

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

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

2001 Extended Telephone Personal Assistance and Walk-in Hours (25 Sigourney Street, Hartford Only):

Saturday, April 14	(8:30 a.m. - 12:00 p.m.)
Monday, April 16	(until 8 p.m.)
Tuesday, April 17	(until 8 p.m.)

DRS Announces *Fast-File* - A New Program to Streamline Tax Filing

The Connecticut *Fast-File* program is a convenient, secure, and paperless way to file and pay business taxes electronically over the Internet or by telephone. Any business registered with the DRS for sales and use tax, business use tax, room occupancy tax, or withholding tax may be able to *Fast-File* its business tax returns.

A pilot *Fast-File* program will begin in the spring of 2001, updates are available on the DRS Web site at: www.drs.state.ct.us

If you are interested in participating in the pilot program you may contact DRS by e-mail at: drs.fastfile@po.state.ct.us

The benefits of the *Fast-File* program are:

- It's **fast** — a few minutes on the telephone or computer and the return is filed.
- It's **accurate** — errors are caught immediately.
- It's **always accessible** — the taxpayer can file over the Internet or by telephone 24 hours a day.
- New **fast payment methods** are available.
- It's **easy** — the taxpayer chooses the best filing method for the business.
- The taxpayer will get **immediate confirmation** of filing.
- No need for stamps; no mail delays. ^{T_N}

Individual Income Tax, continued

Personal Identification Number (PIN) for Connecticut Telefile

Each taxpayer who receives a Telefile tax booklet has been assigned a Personal Identification Number (PIN). The PIN is located on the label on the back of the Telefile tax booklet. If a Telefile PIN is lost or forgotten, it can be verified or a new one issued by calling the Telefile system or contacting DRS.

Last year over 148,000 taxpayers filed Connecticut income tax returns using Telefile. That was a 50% increase over the previous year. DRS expects even more significant growth this year and hopes that tax practitioners encourage their clients to take advantage of this fast and easy way to file their returns.

Telefile booklets can be obtained at local post offices, libraries, or by contacting DRS. All Telefile booklets obtained from these locations contain **Form CT-1040EZ**, the paper return for taxpayers to use to check their figures or to use if they choose to file a paper return. Taxpayers who did not receive a Telefile booklet in the mail may still file using Telefile, but must first obtain a PIN by calling the Telefile system or contacting DRS.

The Telefile system is active 24 hours a day, 7 days a week during the filing season (ending April 17, 2001). This system allows DRS to quickly process large quantities of returns in an extremely cost effective way, as it eliminates the expense of manually processing paper returns. Most refunds are issued in four days. ^{T_N}

DRS Issues Guidance on Electronic Filing and Storing of Forms CT-W4

Recently, DRS has received questions from employers asking if employees may electronically file **Forms CT-W4**, *Employee's Withholding or Exemption Certificate*, and if those forms may be electronically collected and stored by the employer. DRS is advising employers that they may accept electronically filed **Forms CT-W4** from their employees and may subsequently electronically collect and store such **Forms CT-W4** provided the following conditions are met:

- The employer's electronic storage of **Forms CT-W4** complies with the provisions of Conn. Agencies Regs. §12-2-12, *Recordkeeping and record retention*; and
- The employer complies with the provisions of Chapter 229 of the Connecticut General Statutes, Connecticut income tax regulations, including, but not limited to, Conn. Agencies Regs. §12-705(a)-4, and Connecticut income tax withholding publications including, but not limited to, **IP 2000(11)**, *Employer's Tax Guide*, *Connecticut Circular CT*, in the same manner as an employer collecting and storing paper **Forms CT-W4**.

An employer who meets the above conditions may also permit any employee whom the employer is required to report to the Connecticut Department of Labor (DOL) according to Conn. Gen. Stat. §31-254(b) (generally, newly hired employees) to file his or her **Form CT-W4** electronically, and the employer may store the **Form CT-W4** electronically. However, if the employee chooses not to file a paper **Form CT-W4** with the employer, the employer must file a paper document, specifying the employee's name, address, Social Security Number, and date of hire, and the employer's name, address, and Federal Employer Identification Number, with DOL, unless the employer is otherwise required to report such information magnetically or electronically to DOL.

On the other hand, an employer may not permit any employee to file his or her **Form CT-4** electronically if the employee:

1. Claims exemption from the Connecticut income tax; and
2. Is employed by the employer on the last day of the quarter, and the employer reasonably expects that for the 2001 taxable year the wages of an employee filing as a:
 - Married individual filing separately will exceed \$36,000;
 - Single individual will exceed \$36,750;
 - Head of household will exceed \$57,000; or
 - Married individual filing jointly will exceed \$72,000.

Any employee who is not permitted to file electronically must file a paper **Form CT-W4** with the employer so that the employer may forward a copy to DRS. Once a copy of the employee's **Form CT-W4** is forwarded to DRS, the employer may store the **Form CT-W4** electronically. ^{T_N}



Amending a Telefiled Return

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

Taxpayers realizing that a mistake was made **after** entering their PIN signature from Item 18 into the keypad must file the paper return, **Form CT-1040X**, *Amended Connecticut Income Tax Return*. ^{T_N}

Individual Income Tax, continued

2000 Amended
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Form CT-1040X must be filed if:

1. **The IRS changes or corrects a taxpayer's federal income tax return, and the change or correction affects the taxpayer's Connecticut income tax liability.**

Form CT-1040X must be filed no later than 90 days after the final determination of the federal income tax liability by the IRS or the federal courts.

2. **A taxpayer files a timely amended federal income tax return, and the amendment affects the Connecticut income tax liability.**

Form CT-1040X must be filed no later than 90 days after the date of filing the amended federal income tax return.

3. **A taxpayer claimed a credit on the Connecticut income tax return for income tax paid to a qualifying jurisdiction, and the qualifying jurisdiction makes a change or correction to the income tax return that affects the Connecticut income tax liability (by increasing or decreasing the amount of the allowable credit).**

Form CT-1040X must be filed no later than 90 days after a final determination of the income tax liability by the tax officials or the courts of that qualifying jurisdiction.

4. **A taxpayer claimed a credit on the Connecticut income tax return for income tax paid to a qualifying jurisdiction, and a timely amended income tax return is filed with that jurisdiction that affects the taxpayer's Connecticut income tax liability (by increasing or decreasing the amount of the allowable credit).**

Form CT-1040X must be filed no later than 90 days after the date of filing the amended income tax return with that jurisdiction.

5. **If none of the above circumstances apply, but a taxpayer made an error or omission in completing the Connecticut income tax return, and the error or omission affects the Connecticut income tax liability.**

Form CT-1040X must be filed no later than three years after the original due date of the return, or, if an extension of time to file the return was granted, three years after the date the return was filed or three years after the extended due date, whichever is earlier.

See 2000 income tax booklet instructions for penalty and refund rules.

Do not use Form CT-1040X for the following reasons:

- To change or cancel contributions made to designated funds or overpayments applied to next year's estimated income tax; or
- To claim a credit for income tax paid on income included in a taxpayer's Connecticut adjusted gross income for an earlier taxable year, and that was repaid in a later year (see **Schedule CT-1040CRC**, *Claim of Right Credit*).

Form CT-1040X is year specific. Be sure to use the correct version for the taxable year that you are amending. ^{T_N}

Tax Due Date
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Returns meet the timely filed and timely payment rules if the U.S. Postal Service cancellation date, or the date recorded or marked by a designated private delivery service (PDS), is on or before the due date.

Not all services provided by these designated PDSs qualify. The following are the designated PDSs and qualifying types of services at the time of publication.

Airborne Express (Airborne):

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

DHL Worldwide Express (DHL):

- DHL "Same Day" Service
- DHL USA Overnight

Federal Express (FedEx):

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

United Parcel Service (UPS):

- UPS Next Day Air
- UPS Next Day Air Saver
- UPS 2nd Day Air
- UPS 2nd Day Air A.M.

This list is subject to change. To verify the names of designated PDSs and qualifying types of service, check the DRS Web site or call DRS (see Page 16). See **Special Notice 99(14)**, *Designated Private Delivery Services*, for more information, including special rules for determining date recorded or marked by a designated PDS. ^{T_N}

Sales and Use Taxes

Nonprescription Reading Glasses

Most retailers know that prescription eyeglasses are exempt from sales tax. However, retailers often ask DRS if the sale of over-the-counter nonprescription reading glasses is subject to sales tax.

Conn. Gen. Stat. §12-412(19)(C) exempts from sales and use taxes the sales of “artificial limbs, artificial eyes, and other equipment worn as a correction or substitute for any functioning portion of the body...”. Nonprescription reading glasses fall under this exemption.

Retailers should continue charging sales tax on nonprescription sunglasses and magnifying glasses that are not worn by the user (such as a hand-held magnifying glass). ^{T_N}

Sales Tax Refunded Only for Returns Within 90 Days

Clarification of Connecticut Sales Tax Refund

Retailers can only obtain refunds of sales and use taxes from DRS if goods are returned within 90 days. The qualifying returned goods must be reported as a deduction on **Form OS-114, Sales and Use Tax Return**, Line 52.

Under Conn. Gen. Stat. 12-407(8)(B), retailers can only claim a deduction for taxes refunded to a customer on the *sales price* of goods returned within 90 days of the date of purchase of such goods. Retailers must report on **Form OS-114** the *sales price* or gross receipts from all goods and services sold during the period.



Sales price, as defined in Conn. Gen. Stat. 12-407(8)(B)(ii), does not include, “... any portion of the amount charged for property returned by customers, which upon rescission of the contract of sale is refunded either in cash or credit, provided the property is returned within ninety days from the date of purchase.”

Common Registers and Consignment Sales: How is Sales Tax Collected and Reported?

Retailers selling goods through consignment shops or in shops that rent space to other vendors have asked DRS for direction in collecting and reporting sales tax. In both situations, the customer pays the consignee or through the “host” shop’s register(s) and the consignee or “host” shop collects and remits the sales tax.

Shops with Common Registers

Shops with common registers are shops that rent space to other vendors to display their goods and that collect and remit tax to DRS on behalf of these vendors. The shops do not own the goods of the vendors. Customers making purchases from the various vendors pay for the merchandise at registers that are owned and operated by the shop. In this situation, the shop is not purchasing goods for resale and the vendor is not selling the items to the shop for resale.

Both the shop and the vendor must obtain Connecticut Sales and Use Tax Permits. The shop and the vendor are held jointly and severally liable for the payment of sales tax. Each must file **Form OS-114, Sales and Use Tax Return**, and report their gross receipts of the sales.

The shop must include **all** sales as gross receipts on **Form OS-114**, Line 1, and remit the sales tax on behalf of the vendor(s). Each vendor must include the gross receipts of the sales made on their behalf through the shop on **Form OS-114**, Line 1, and deduct those sales on the back of the return using Line A, *Other Adjustments*. Include on Line A the statement “Sales made and tax collected by (name of shop and the shop’s Connecticut Tax Registration Number).”

Consignment Sales

A *consignment sale* is one in which the retailer, also known as consignee, agrees to sell goods for the owner of the goods (or consignor). In return for selling the goods, the consignee is paid a commission or fee.

The consignee must collect the sales tax from the purchaser if the item being sold is subject to tax. In addition, the consignee charges the original owner 6% sales tax on the commission or fee received for making the sale, unless the commission is for



Corporation Business Tax

Hiring Incentive Tax Credit Available to Connecticut Corporations

The Hiring Incentive Tax Credit (HITC) provides a Connecticut tax credit to corporations subject to the Connecticut corporation business tax, that hire individuals who have received Temporary Family Assistance (TFA) for more than nine consecutive months. To qualify for this credit a corporation must employ a TFA recipient for a minimum of 30 hours per week. They must also meet other requirements established in regulations adopted by the Connecticut Department of Labor (DOL).

The amount of the credit is \$125 for each full month a TFA recipient is employed.

A limited number of tax credits are available in any one year, and the tax credits must be reserved in advance of hiring. To request a reservation of tax credits, the corporation must submit an *Application for Tax Credit* form to the DOL Program Support Unit within the reservation period, July 1 to December 31 of the current year. Tax credit reservations are approved in the order that they are received. Applications are available by calling the Program Support Unit at 860-263-6060 or by downloading them from the DOL website:

www.ctdol.state.ct.us

To assist employers in identifying qualified candidates, DOL can post job listings on the Connecticut Job Bank.

If you have any questions regarding the HITC program, contact Susan Fernandez, HITC Program Resource Associate, by telephone at 860-263-6584 or by e-mail at: **susan.fernandez@po.state.ct.us** ^{T_N}

Phaseout of S Corporation Business Tax

For income years beginning on or after January 1, 2001, S corporations will no longer be subject to the corporation business tax. S corporation shareholders pay personal income tax on their pro-rata share of Connecticut sourced separately stated income as well as their pro-rata share of nonseparately stated income that is not subject to the corporation business tax when filing **Form CT-1040, Form CT-1040NR/PY, Form CT-1120SI, or Form CT-G.** ^{T_N}

Federal/State Electronic Filing Program (E-file)

The Federal/State Electronic Filing program (E-file) is a "one-stop" filing program between the Internal Revenue Service (IRS) and the Connecticut Department of Revenue Services (DRS). E-file enables a taxpayer to electronically file both federal and state income tax returns in one single transmission using a computer instead of having to manually prepare the paper returns and send them through the mail. Both returns are transmitted to the IRS, which in turn, acknowledges acceptance of the federal return and receipt of the state data. The IRS then makes the state return data available for retrieval by authorized DRS personnel.

A taxpayer can choose to have a tax professional electronically file a return or may file from a personal computer

using commercially available software packages or by visiting a developer's Internet Site.

Paying Tax Due

If the taxpayer owes money, there are now two payment options. Payments may be made by mail, submitted with **Form CT-1040V**, supplied by the

software or tax professional, or by credit card (see, *New Payment Options Available*, on Page 1). All payments must be submitted by April 17, 2001, to avoid penalty and interest charges.

Is Electronic Filing New?

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

Benefits of E-file

Fast Refunds

Most refunds are issued within four days of acknowledgment.

Direct Deposit

Optional direct deposit of refunds is available.

Return Acknowledgment

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

Accuracy

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

Convenience

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

FROM THE COURTS

- In **Ethan Book, Jr. v. State of Connecticut, Freedom of Information Commission**, CV 98-0492643 S (May 19, 2000) the Superior Court held that the taxpayer's appeal was moot because the FOIC administrative record showed that the taxpayer had agreed with the decision of the FOIC, adopted at its regular meeting on October 8, 1997.
- In **Charles J. Popple, Executor of The Estate of Elaine Hotchkiss v. Commissioner**, CV99 0497727 S (July 26, 2000) the court found that §45a-356 protects the fiduciary from personal liability following the complete distribution of the estate's assets.
- In **Saveway Petroleum, Inc. v. Gavin**, CV 98-0492589 S (September 14, 2000) the Superior Court held that even where the audit ultimately showed a net overpayment by the taxpayer, the Commissioner properly assessed interest based on the calculations mandated by Conn. Gen. Stat. §§12-549 and 12-589. The Commissioner calculated refund interest under §12-589 for each quarter in which the taxpayer had made an overpayment and assessed interest under §12-594 for each quarter in which the taxpayer had underpaid the petroleum products gross earnings tax. The interest amounts were then netted, resulting in an amount due from the taxpayer.
- In **Michael G. Moore, et. al. v. Commissioner**, CV 98-0492593S (November 22, 2000) the Superior Court held that where a taxpayer fails to report a change or correction to his federal income tax return, within ninety days of the change or correction, the Department may make an assessment at any time.
- In **City of Stamford v. Commissioner**, CV 99-0493545S (December 13, 2000) the Superior Court held that the City of Stamford was obligated to collect and remit sales tax to DRS on fees from the City's operation of parking facilities on state-owned land.
- In **Ger Oil Company, Inc. v. Commissioner, Department of Revenue Services**, CV 98-0492495S (December 19, 2000) the Superior Court held that:
 1. Conn. Gen. Stat. §12-587(c) was intended to apply to an in-state purchaser of petroleum products and, if so, how the tax liability is determined; and
 2. Conn. Gen. Stat. §12-600 does not require a taxpayer to prepay the tax assessed prior to an appeal under Conn. Gen. Stat. §12-597.
- In the appeal of **T.W.L.S. Management Company, Inc. v. Gene Gavin, Commissioner of Revenue Services**, 253 Conn. 452 (2000), SC 16231 (June 13, 2000), the court upheld the trial court's judgment that the company was entitled to a refund of state sales and use taxes on certain payroll reimbursements the company received for business management services.

Sales Tax Refunds

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This section of the Sales and Use Tax Act has been in effect for over 25 years, but has been overlooked by some retailers. Retailers should maintain records substantiating that goods are returned within the 90-day period. Amounts refunded to customers after the 90-day period are not deductible and should **not** be reported on **Form OS-114**. ^{T_N}

Common Sales

from Page 7

the sale of a work of art or articles of clothing.

The shop and the vendor are held jointly and severally liable for the payment of sales tax. The consignee reports the gross receipts from the sale of the tangible goods on **Form OS-114**, Line 1. The gross receipts from the commission or fee are reported on Line 3 of the return as a taxable service.

If the consignor or owner is also a retailer, the consignor must also report the sale of the goods on **Form OS-114**, but may deduct it on the back of the return on Line A, *Other Adjustments*. Include on Line A the statement "Sales made and tax collected by (name of consignee and the consignee's Connecticut Tax Registration Number)." ^{T_N}

RULINGS OF THE CONNECTICUT DEPARTMENT OF REVENUE SERVICES



The following rulings, summarized below, have been released by the DRS Legal Division. To obtain a complete text of any ruling, visit the DRS Web site (www.drs.state.ct.us), or send your name, mailing address, and the number of the ruling or rulings to: **Department of Revenue Services, Forms Unit, 25 Sigourney Street, Hartford, CT 06106-5032**

RULING NO. 2000-3

REAL ESTATE CONVEYANCE TAX, TRANSFERS OR CONVEYANCES

The ruling held that a transfer by deed, instrument, or writing, is exempt from real estate conveyance tax under Conn. Gen. Stat. §12-498(a)(17), which provides that transfers or conveyances to effectuate a mere change of identity or form of ownership or organization are exempt from the real estate conveyance tax, where, at the time of the transfer there is no change in beneficial ownership, even if subsequent transfers or conveyances may be made that will result in a change in beneficial ownership

June 13, 2000

RULING NO. 2000-4

CORPORATION BUSINESS TAX FINANCIAL SERVICES COMPANY

The ruling held that Conn. Gen. Stat. §12-218b(a)(6)(J) does **not** preclude a company deriving more than fifty per cent of its gross income from loans, as defined in Conn. Gen. Stat. §12-218b(a)(10), from being considered a financial service company because some or all of those loans are made to a related person or persons, as defined under Conn. Gen. Stat. §12-218b(a)(18).

June 15, 2000

RULING NO. 2000-05

SALES AND USE TAXES, MANUFACTURING RECOVERY ACT, ELECTRICITY GENERATION

The ruling discusses whether the generation of electricity for sale

and delivery at wholesale to wholesale and retail remarketers is the “furnishing of electricity when delivered to consumers through mains, lines or pipes” for purposes of Conn. Gen. Stat. §12-412(18), thus fully exempting purchases of materials, tools, and fuel used directly in generating electricity.

Whether the generation of electricity for sale and delivery at wholesale to wholesale and retail remarketers is “processing” within the meaning of the Manufacturing Recovery Act of 1992, Conn. Gen. Stat. §12-412i (the “MRA”), thus partially exempting purchases of machinery and equipment used for generating electricity.

The ruling held that the generation of electricity is the “furnishing of electricity when delivered to consumers through mains, lines or pipes” under Conn. Gen. Stat. §12-412(18), and purchases of materials, tools and fuel used directly in generating electricity are fully exempt from sales and use taxes.

The generation of electricity is “processing” within the meaning of Conn. Gen. Stat. §12-412i, and purchases of machinery and equipment for use primarily in generating electricity are partially exempt from sales and use taxes.

July 13, 2000

RULING NO. 2000-06

UTILITY COMPANY GROSS, EARNINGS TAX, GROSS EARNINGS FROM OPERATIONS

The ruling holds that:

1. Under the **Services Billed Separately** billing method, the total charges by the local gas

distribution company (LDC) to the end user will be included in the LDC’s gross earnings that are subject to the utility company gross earnings tax, and the total charges by the gas marketer to the end user will be included in the gas marketer’s gross earnings that are subject to the utility company gross earnings tax.

2. Under the **Gas Marketer as Payment Agent** billing method, the difference computed by subtracting the charges by the LDC to the gas marketer for the transportation services from the total charges reflected on the single bill that the gas marketer will send to the end user will be included in the gas marketer’s gross earnings that are subject to the utility company gross earnings tax. The charges by the LDC to the gas marketer for the transportation services will be included in the LDC’s gross earnings that are subject to the utility company gross earnings tax.
3. Under the **LDC as Payment Agent** billing method, the difference computed by subtracting the charges by the gas marketer to the LDC for the gas from the total charges reflected on the single bill that the LDC will send to the end user will be included in the LDC’s gross earnings that are subject to the utility company gross earnings tax. The charges by the gas marketer to the LDC for the gas will be included in the gas marketer’s gross earnings that are subject to the utility company gross earnings tax.

December 11, 2000

RULING NO. 2000-07**SALES AND USE TAXES,
SALE OF NATURAL GAS,
TRANSPORTATION OF
NATURAL GAS**

The ruling discusses whether a local gas distribution company's (LDC) charges for transportation of natural gas, using different billing and service options (services billed separately, marketer as payment agent, LDC as payment agent, or gas and transportation both provided by LDC), are subject to sales and use taxes as "charges by the retailer to the purchaser for shipping or delivery" under Conn. Gen. Stat. §12-407(8) and (9), if the sale of the natural gas is not exempt.

The ruling held that:

1. In the **Services Billed Separately** option, only the charges by the marketer for gas are subject to sales and use taxes. The charges by the LDC are not taxable; they are not charges "by the retailer" of the gas.
2. In the **Marketer as Payment Agent** option, the charges for transportation by the LDC are not taxable; they are not charges "by the retailer" of the gas. Any and all amounts the marketer collects from its customers *other* than the amounts it remits to the LDC for transportation are subject to sales and use taxes as charges for the sale of gas.
3. In the **LDC as Payment Agent** option, the charges for transportation by the LDC are not taxable; they are not charges "by the retailer" of the gas. Any and all amounts the LDC remits to the marketer *other* than the amounts it retains for transportation charges are subject to sales and use taxes as charges for the sale of gas. The LDC should collect sales and use taxes on the natural gas as

DRS Rulings

from Page 10

agent for the marketer, and remit the amounts collected for gas, together with the tax, to the marketer. It is the marketer's responsibility to remit sales and use taxes to the Department.

4. In the **Gas and Transportation Both Provided by LDC** option, all charges by the LDC are subject to sales and use taxes. The transportation charges, whether or not separately stated, are charges "by the retailer to the purchaser" for the gas, and thus are taxable.

December 11, 2000**RULING NO. 2001-1
INCOME TAX**

The ruling holds that an individual who is a shareholder of an upper-tier fund and who receives exempt-interest dividends, as defined in 26 U.S.C. §852(b)(5), from the upper-tier fund is **not** required under Conn. Gen. Stat. §12-701(a)(20)(A)(ii) to include in his or her Connecticut adjusted gross income the portion of those exempt-interest dividends that is derived from exempt-interest dividends which are paid by lower-tier funds to the upper-tier fund and which are derived from interest income properly allocable to Connecticut-Exempt State or Local Bonds that are owned by the lower-tier funds.

The ruling also holds that an individual who is a shareholder of an upper-tier fund and who receives exempt-interest dividends, as defined in 26 U.S.C. §852(b)(5), from the upper-tier fund is **not** required to include (and should exclude) the portion of those exempt-interest dividends, to the extent includable in his or her federal alternative minimum taxable income. The exclusion is used in calculating his or her adjusted

federal alternative minimum taxable income, as defined in Conn. Gen. Stat. §12-701(a)(30), and in calculating his or her adjusted federal tentative minimum tax, as defined in Conn. Gen. Stat. §12-701(a)(24). Only income derived from exempt-interest dividends which are paid by the lower-tier funds to the upper-tier fund and which are derived from interest income properly allocable to Connecticut-Exempt State or Local Bonds that are owned by the lower-tier funds and that are specified private activity bonds, as defined in 26 U.S.C. §57(a)(5)(C) are excluded.

January 12, 2001**RULING NO. 2001-2
SALES AND USE TAXES
BUSINESS ANALYSIS,
MANAGEMENT
CONSULTING AND PUBLIC
RELATIONS SERVICES**

This ruling discusses whether the consultant's services rendered to the Company under consulting contract are taxable as business management, business analysis, business management consulting, or business public relations services under Conn. Gen. Stat. §12-407(2)(i)(J).

It further discusses whether the consultant's services rendered to the Company under the consulting contract are taxable as advertising services under Conn. Gen. Stat. §12-407(2)(i)(U).

The ruling held that the services rendered by the consultant under the consulting contract, other than the services described as advertising, are subject to tax under Conn. Gen. Stat. §12-407(2)(i)(J) and Conn. Agencies Reg. §12-407(2)(i)(J)-1 as business analysis, business management, business management consulting and business public relations services.

January 17, 2001T_N

Connecticut Tax Calendar

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

MARCH

- 1** Corporation Business Tax for year ending November 2000
S Corporation Business Tax for year ending November 2000
- 15** Cigarette Vending Machine Tax
Estimated Corporation Business Tax Payments
Form CT-1120 ESA for year ending December 2001
Form CT-1120 ESB for year ending September 2001
Form CT-1120 ESC for year ending June 2001
Form CT-1120 ESD for year ending March 2001
Estimated Health Care Centers Tax Payment, 1st Installment 2001
Estimated Insurance Companies Tax Payment, 1st Installment 2001
Estimated Unrelated Business Income Tax
Group Income Tax for year ending November 2000
Health Care Centers Tax for year ending November 2000
Insurance Companies Tax for year ending November 2000
Partnership Income Tax for year ending November 2000
S Corporation Information and Composite Income Tax for year ending November 2000
Unrelated Business Income Tax (Foreign Trusts)
- 25** Motor Vehicle Fuels Tax
Tobacco Products
- 31** Admissions and Dues Tax, Monthly Filers
Beverage Tax
Room Occupancy Tax, Monthly Filers
Sales and Use Taxes, Monthly Filers
Tourism and Rental Surcharge, Monthly Filers

APRIL

- 1** Community Antenna TV Systems
Corporation Business Tax for year ending December 2000
S Corporation Business Tax for year ending December 2000
Telegraph and Cable Companies
- 15** Cigarette Vending Machine Tax
Estimated Composite Income Tax Payment 1st Installment 2001
Estimated Corporation Business Tax Payment
Form CT-1120 ESA for year ending January 2002
Form CT-1120 ESB for year ending October 2001
Form CT-1120 ESC for year ending July 2001
Form CT-1120 ESD for year ending April 2001
Estimated Group Income Tax Payment 1st Installment 2001
Estimated Unrelated Business Income Tax

April 15 (continued)

- Fiduciary Income Tax for year ending December 2000
Group Income Tax for year ending December 2000
Individual Use Tax
Partnership Income Tax for year ending December 2000
S Corporation Information and Composite Income Tax for year ending December 2000
Unrelated Business Income Tax (Domestic Trusts)
- 17** Estimated Income Tax Payment for Individuals, Trusts, and Estates, 1st Installment 2001
Individual Income Tax for year ending December 2000
Application for Extension of Time to File Connecticut Income Tax Return for Individuals
Gift Tax
- 25** Motor Vehicle Fuels Tax
Tobacco Products
- 30** Admissions and Dues Tax, Monthly and Quarterly Filers
Dry Cleaning Surcharge
Gas, Electric & Steam Companies Gross Earnings Tax
Hospital Gross Earnings Tax
Motor Carrier Road Tax
Petroleum Companies Gross Earnings Tax
Quarterly Reconciliation of Withholding
Room Occupancy Tax, Monthly Filers
Sales and Use Taxes, Monthly and Quarterly Filers
Seed Oyster Tax
Solid Waste Tax
Tourism and Rental Surcharge, Monthly Filers

MAY

- 1** Corporation Business Tax for year ending January 2001
- 15** Cigarette Vending Machine Tax
Estimated Corporation Business Tax Payment
Form CT-1120 ESA for year ending February 2002
Form CT-1120 ESB for year ending November 2001
Form CT-1120 ESC for year ending August 2001
Form CT-1120 ESD for year ending May 2001
Estimated Unrelated Business Income Tax
Group Income Tax for year ending January 2001
Partnership Income Tax for year ending January 2001
S Corporation Information and Composite Income Tax for year ending January 2001
Unrelated Business Income Tax
- 25** Motor Vehicle Fuels Tax
Tobacco Products

Connecticut Tax News

March 2001

Reader's Survey

To provide tax professionals the opportunity to inform the Department of Revenue Services (DRS) of their experiences with tax products, newsletters, and methods of delivery, we ask that you complete this survey and mail it to DRS. Please add any additional information you feel will help us improve these areas.

Forms and Instructions:

1. Are DRS Forms easy to use? Yes No
 If **no**, which forms are not easy to use (be specific)? _____

2. Are the DRS Instructions helpful? Yes No
 If **no**, which Instructions are not helpful (be specific)? _____

3. What methods do you use to obtain Connecticut tax forms?

Professional Software	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Internet, DRS Web-site	<input type="checkbox"/> Yes	<input type="checkbox"/> No
DRS CT Package X	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Hard copy from DRS Forms Unit by mail	<input type="checkbox"/> Yes	<input type="checkbox"/> No
DRS TaxFax	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Other _____		

4. In the future, would you prefer to receive the Connecticut Package X on CD? Yes No

5. Do you intend to upgrade your computer equipment in the next 18 months? Yes No

News and Information:

6. Do the articles and features included in Connecticut Tax News meet your needs?
 Yes No
 If **no**, what improvements would you like to see (be specific)? _____

7. This publication is available in the CSCP A Newsletter, on the DRS Web site, and through the U.S. mail as a "hard copy." What method did you use to obtain this document?

<input type="checkbox"/> DRS Web site	<input type="checkbox"/> E-mail notice from DRS E-News
<input type="checkbox"/> CSCP A Newsletter	<input type="checkbox"/> Through mail from DRS
<input type="checkbox"/> From a friend or associate	<input type="checkbox"/> Other _____

If you would like to have Connecticut Tax News delivered by another method, please use the following procedures:

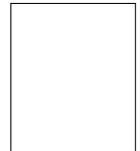
Online - Online delivery is available by registering for **DRS E-News** at: <http://www.drs.state.ct.us>

Web site - Download newsletters from: <http://www.drs.state.ct.us/news/Taxnews.html>

Hard Copy - Contact the DRS Taxpayer Services Division to be added to the mailing list.

Please mail your completed survey to: DRS, Tax Products Group, 25 Sigourney Street, Hartford CT 06106-5032

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**State of Connecticut
Department of Revenue Services
Tax Products Group
25 Sigourney Street
Hartford CT 06106-5032**

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DRS Tax Product Update

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

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

ANNOUNCEMENTS

AN 2000(9), Hazardous Waste Assessment Terminated

AN 2000(8), Rulings and Administrative Pronouncements Obsolete by Sales and Use Tax Regulations

INFORMATIONAL PUBLICATIONS

IP 2001(7), Q&A on the Connecticut Direct Payment Permit Program

IP 2001(6), Topical Index to Rulings and Administrative Pronouncements Covering Miscellaneous Taxes and Administrative Pronouncements

IP 2001(5), Topical Index to Rulings and Administrative Pronouncements Covering Sales and Use Tax

IP 2001(4), Numerical Index to Rulings and Administrative Pronouncements as Affected, if at all, by Later-Issued Rulings and Pronouncements

IP 2001(3), Topical Index to Rulings and Administrative Pronouncements Covering Corporation Business Tax

IP 2001(2), Topical Index to Rulings and Administrative Pronouncements Covering Income Tax

IP 2001(1), Is My Connecticut Withholding Correct?

IP 2000(29), Connecticut Income Tax Withholding Tables Effective January 1, 2001

IP 2000(23), Q&A: Income Tax Credit for Property Taxes Paid to a Connecticut Political Subdivision

IP 2000(21), Q&A on the Connecticut Individual Use Tax

IP 2000(19), Federal/State Electronic Filing Handbook

POLICY STATEMENTS

PS 2000(8), Procedures in Handling Requests for Issuance of Technical Advice Memoranda

PS 2000(7), Procedures in Handling Requests for Issuance of Rulings

SPECIAL NOTICES

SN 2000(17), 2000 Legislation Affecting the Connecticut Income Tax ("548-Day Rule" and Claim of Right Credit)

SN 2000(16.1), Revised Special Reporting Requirements for Cigarette Stickers and Tobacco Products Distributors

May Calendar from Page 12

- 31** Admissions and Dues Tax, Monthly Filers
Beverage Tax
Room Occupancy Tax, Monthly Filers
Sales and Use Taxes, Monthly Filers
Tourism and Rental Surcharge, Monthly Filers

JUNE

- 1** Corporation Business Tax for year ending February 2001
- 15** Cigarette Vending Machine Tax
Estimated Composite Income Tax Payment, 2nd Installment 2001
Estimated Corporation Business Tax Payment Form CT-1120 ESA for year ending January 2002
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Form CT-1120 ESC for year ending July 2001
Form CT-1120 ESD for year ending April 2001
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- Estimated Health Care Centers Tax Payment, 2nd Installment 2001
Estimated Insurance Companies Tax Payment, 2nd Installment 2001
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Beverage Tax
Room Occupancy Tax, Monthly Filers
Sales and Use Taxes, Monthly Filers
Tourism and Rental Surcharge, Monthly Filers

For Tax Forms, Publications or Personal Assistance

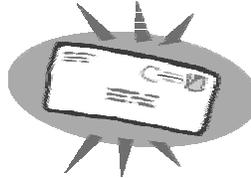
- Visit the **DRS Web site**: www.drs.state.ct.us



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

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

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

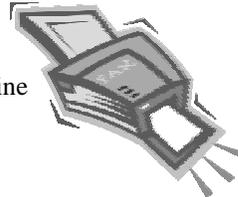


Forms and publications may be obtained 24 hours a day, seven days a week, by using any of the following resources.



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

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



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

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



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

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

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

Gene Gavin, Commissioner

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