

Connecticut Tax News

quarterly

Volume 13, Issue 5
December 2001

A PUBLICATION OF THE CONNECTICUT DEPARTMENT OF REVENUE SERVICES

From the Commissioner Gene Gavin

Business Users Group tackles Carpenter Technology Issue

As Commissioner, I believe one of the most important roles the Department of Revenue Services (DRS) can play is to create forums for productive



dialogue that can shape and improve Connecticut tax policy. As the world around us changes, tax policy must change as well to adapt

to new situations and new technology. As most of you know, I have never believed, "that's the way we've always done it" should be a phrase used at DRS.

Because of this, I assembled a working committee of business organizations, practitioner groups, and state personnel in 1995 to develop viable alternatives to the state's tax treatment of corporate partners. This was a new idea for state government, but proved to be a good one. The work done by this ad hoc committee resulted in the successful passage and implementation of Connecticut's corporate partner legislation in 1996.

Since that first ad hoc working committee was created seven years ago, other similar committees - now referred to as the DRS Business

► COMMISSIONER, Page 2

Electronic Filing Expanded for 2002

DRS has expanded electronic filing options offered to individuals and businesses for the 2002 filing season. Taxpayers now have more non-paper filing options than ever. These filing methods are faster and more convenient, allow taxpayers to complete returns with fewer errors, offer electronic payment options, and issue refunds quicker. In addition, it saves the State money by reducing the cost of processing returns.

Individuals

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

- **Telefile** – Filing by telephone is the fastest and simplest method available and, if a refund is due, it will be issued in four days;
- A **fillable Form CT-1040EZ** is available on the DRS Web site and can be completed and printed; and
- **WebFile** (*new this year*) – Complete and submit Form CT-1040 or request an extension of time to file directly from our Web site!
- Income tax and property tax credit calculators are available on our Web site to assist taxpayers in accurately identifying amounts to enter on their returns.

Businesses

Any business that is registered with DRS for sales and use taxes, business use tax, room occupancy tax, or

► Electronic Filing, Page 3

Inside

- Attorney's Occupational Tax Due 2
- State Tax Seminars Offered 2
- New DRS Communications Director .. 3
- **SALES AND USE TAXES**
 - Holiday Items 4
 - Internet Sales 4
 - What is a "Box of Joe"? 4
- Update Registration Information
 - On-line 5
- 2001 Tax Forms and Package X 5
- 2001 Tax Booklet Changes 6
- Succession Tax Changes 9
- CT Tax Calendar 10
- Tax Product Update 11
- DRS Customer Service Award 11

New Connecticut Income Tax Withholding Tables

New Connecticut income tax withholding tables for wages paid on or after January 1, 2002, are now available. The new tables are included in **Informational Publication 2001(31)**,

Connecticut Income Tax Withholding Tables Effective January 1, 2002. The tables are a short click away on the DRS Web site at: www.drs.state.ct.us

The new tables include changes affecting employees who checked *Filing Status F* on **Form CT-W4, Employee's Withholding or Exemption Certificate**. Employees who check *Filing Status F* are those individuals who

► Withholding Tables, Page 3

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

Commissioner
from Page 1

Users Group (BUG) - have played a key role in combining private and public interests to solve many complicated tax issues. From single factor apportionment to managed compliance, BUG has helped craft legislation that is palatable to both business and the state. I am very proud of this DRS initiative and the work that has been accomplished as a result of this cooperative effort. I believe Connecticut can be a model for other states on how to successfully address the tax concerns of both the public and private sector.

Presently, BUG is working to more clearly define the term "economic substance" because of the Connecticut Supreme Court decision on the Carpenter Technology Corporation v. Commissioner of

Revenue Services case. The court upheld the findings of a lower court, which ruled in favor of Carpenter, saying the company's creation of a subsidiary, or "paper company," had economic substance. The court found a valid business purpose to the act of Carpenter paying \$300 million to its subsidiary, which then immediately loaned \$300 million back to Carpenter. As a result of the decision, the state had to refund tax, penalties, and interest that Carpenter had paid.

BUG has been meeting to explore possible legislative solutions to the Carpenter decision since July. The outcome of the group's work is of particular concern to the public and private sector. As it now stands, the state Supreme Court's decision could have a significant impact on corporate tax revenues. As we see it, interpretations of the court's decision

have potentially given corporations a green light to create "paper companies" strictly for the purpose of maneuvering out of paying their fair share of state taxes.

While no definitive solutions have been agreed upon as of the writing of this column, I am certain that BUG will be able to devise a solution that is acceptable to both business and the state. I feel strongly that both sides in this issue want to do what is fair and equitable for everyone involved.

Because of this, I believe it is in everyone's best interest that any legislative proposals presented to the General Assembly in regard to the Carpenter case come from BUG, if possible.

As we have found from BUG's previous work, the best solutions come from compromise. I hope this will be the situation with the Carpenter case as well. T_N

Understanding Connecticut Taxes Clearly

DRS is pleased to offer *Understanding Connecticut Taxes Clearly*, a free program designed to provide a broad overview of Connecticut tax requirements for owners and operators of new and existing small businesses.

Space is still available. Call now to register. Programs are held from 6:30 p.m. to 9:00 p.m. Call Melvin Jones at 860-297-4935 to register.

Winter/Spring 2002

- HARTFORD January 10
- STAMFORD January 24
- NEW HAVEN February 7
- DANBURY February 21
- NORWICH March 7
- WATERBURY March 21
- ENFIELD May 2
- NORWALK May 9

Attorney Occupational Tax Due January 15, 2002

Any person admitted as an attorney by the judges of the Connecticut Superior Court and who engaged in the practice of law in Connecticut during the preceding calendar year must annually file **Form 472, Attorney Occupational Tax Return**. This year, **Form 472** must be filed on or before January 15, 2002, whether or not the tax is owed. This filing requirement also applies to attorneys who have been admitted on motion and are temporarily permitted to practice law in Connecticut.

The amount of the tax is \$450. No prorating of the tax is allowed, even if the attorney was admitted to practice for less than the entire calendar year or was exempt from the tax for part of the year.

Form 472 is mailed annually to all attorneys listed on the roll of attorneys maintained by the Superior Court. If you are an attorney required to file and you do not receive a return by January 1, 2002, you should request one from DRS. To request a **Form 472**, visit the DRS Web site www.drs.state.ct.us or contact the Forms Unit at 1-800-382-9463 (toll-free from within Connecticut) or 860-297-5962 (from any where) 24 hours a day and choose **Option 2**. Failure to receive **Form 472** does not relieve an attorney from his or her obligation to file it by the due date. For further information on the Attorney's Occupational Tax, see **Informational Publication 2000(28), Attorney Occupational Tax and Client Security Fund Fee**.

NOTE: An insert announcing *Fast-File* was included with **Form 472**. Unfortunately, the option to *Fast-File Form 472* is not currently available. However, DRS will announce new *Fast-File* options as they become available. T_N

DRS telephone hours for the 2002 filing season are extended until 7:00 p.m. on:
 • Monday, January 28 • Thursday, January 31 • Monday, February 11 • Tuesday, February 19

Electronic Filing
from Page 1

withholding tax may be eligible to **Fast-File** its business tax returns. The **Fast-File** Program offers 24-hour filing, seven days a week, by telephone or Internet, and filers get an immediate confirmation that their return is filed. It is more accurate than paper filing methods, because the computer catches most errors immediately and provides the filer the opportunity to correct them.

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

TN

Withholding Tables
from Page 1

will file as “single” on their Connecticut income tax returns.

The withholding tables for all other filing statuses remain unchanged.

When calculating the amounts to withhold for employees who checked *Filing Status F*, employers must use the withholding tables included in **IP 2001(31)** instead of the tables included in **Informational Publication 2000(11)**, *Connecticut Circular CT – Employer’s Tax Guide* or **Informational Publication 2000(29)**, *Connecticut Income Tax Withholding Tables Effective January 1, 2001*.

TN

New DRS Director of Communications Announced

The Department of Revenue Services (DRS) announced that Sarah E. Kaufman has been hired as Director of Communications to fill the position of Ellen R. Schnieder, who will retire at the end of December. Ms. Kaufman’s tenure as head of DRS communications began November 30, 2001.

Ms. Schneider began working at DRS after moving from the Department of Public Safety in March 1994. She was a Communication Specialist in the DRS Commissioner’s Office until being promoted to Director of Communications in 1999. Her responsibilities included media relations, administrative approval of DRS products, issuing press releases, and establishing DRS communications policy. She also served as manager of the Tax Products Group in 1999. Ellen and her husband, Herb, will both formally retire by the end of the year and move to Cape Coral, Florida, to enjoy the warm weather and their love of boating.

Ms. Kaufman most recently served as Public Relations Coordinator for the Senate Republican Office of the Connecticut General Assembly. She was responsible for writing columns and press releases, creation and distribution of mass publications, and photography. She worked in that office from 1997 to 2001 where she began as a Communications Analyst. Her previous experience includes working as a newspaper reporter

for both the New Haven Register and the Connecticut Post, in addition to publications in Indianapolis. A

Hoosier native, Ms. Kaufman earned bachelor degrees in Theater and Journalism from Indiana State University. She now lives in Waterbury with her two children, Perry and Devinne Rose.

Sarah said she accepted the position, in part, because, “it offers an interesting and exciting challenge.” She added, “I look forward to meeting the diverse responsibilities of the job by using my writing background and other communications skills I have acquired over the years.” She

said that serving as a reporter gives her an understanding of what is required to serve as an Agency spokesperson and that, “I look forward to learning about the tax department and working with Commissioner Gene Gavin, DRS staff, the media, and professional organizations.”

Commissioner Gavin recently reflected on the change by stating, “DRS, and I personally, are sad to be losing Ellen Schneider. Ellen has been an invaluable employee and important contributor to the success of the Department. She will be greatly missed. However, I believe that Sarah Kaufman will be able to follow in Ellen’s footsteps, she is a welcome addition to our staff.”

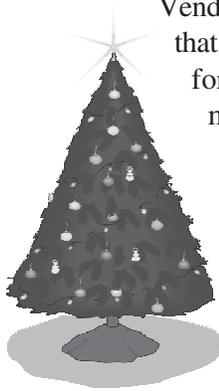
TN



Sarah E. Kaufman, takes over as new DRS Director of Communications

Sales and Use Taxes

Holiday Items are Taxable



Vendors doing business in Connecticut are reminded that all sellers, including nonresidents, must register for a Connecticut *Sales and Use Tax Permit* and must collect and remit the 6% Connecticut sales tax on all taxable items sold. This includes vendors that come into Connecticut to participate in a craft show or who set up a temporary booth at a shopping mall in Connecticut.

As the holiday season approaches, DRS reminds retailers of Christmas trees (live or cut), wreaths, ornaments,

and other similar holiday items that these items are taxable.

This season, as in years past, DRS field agents will be inspecting sites at which sales are made by holiday vendors to ensure compliance. Inspections include, but are not limited to, shopping malls, craft shows, and Christmas tree lots.

Sellers are also reminded that Connecticut law requires vendors to display their Connecticut *Sales and Use Tax Permit* prominently at locations where sales are made.

T_N



Purchases Over the Internet Subject to Taxes

DRS reminds businesses selling or purchasing taxable goods over the Internet that Connecticut sales and use taxes apply to these transactions. Existing Connecticut laws cover all remote sales transactions — mail order, TV shopping channels, phone shopping, etc.

Anyone who purchases taxable goods or services for use in Connecticut and does not pay Connecticut sales tax **must** pay the use tax. When a purchase is made and Connecticut sales or use tax is not paid to the retailer, the purchaser must pay use tax directly to DRS.

Use tax applies to the purchase or lease of assets such as furniture, equipment, machines, instruments, and computers. It also applies to the purchase of goods such as office supplies, paper, stationery items, certain publications, packaged software, and books that are used by the business. Goods and services that are used in carrying on a business are consumed by the business, and the business must report and pay tax on them.

If purchases are made in connection with carrying on a trade, occupation, business, or profession, the purchaser must be registered with DRS for business use tax and must report taxable purchases on **Form OS-114, Sales and Use Tax Return** for the period in which the taxable purchase was made, and pay any tax that is due.

If a business purchases taxable goods for its own use from an Internet company or an out-of-state mail-order company and no Connecticut tax is charged by the retailer, the business **must report** the purchase.

A resale certificate may only be used to purchase goods or services that are intended for resale in the regular course of business.

T_N

What is a “Box of Joe” and is it Taxable?

A “Box of Joe” is a box containing 10 – 12 cups of hot coffee that is sold by a national donut chain. DRS considers the sale of a “Box of Joe”, and all similar types of products, to be the sale of a meal. In Connecticut the sale of all meals, regardless of cost, is subject to sales and use taxes.

According to **Policy Statement 99(1), Sales and Use Taxes on Meals**: “Meals ... include food products ordinarily sold in such form and portions that are ready for immediate consumption at or near the location of the seller. This includes prepared foods, prepackaged foods, hot foods, and foods heated on the premises for the purchaser. A meal may be a full dinner or it may be a single item.” Therefore, because a “Box of Joe” is served hot and is intended to be consumed right away, it is a meal and is subject to sales tax in Connecticut.

Retailers should be aware that when selling a “Box of Joe” together with a nontaxable item, say, a dozen donuts, the entire charge will be taxable unless the price of the “Box of Joe” is separately stated.

T_N

Businesses Can Now Update Their Registration Information On-line

DRS *Fast-File* Program not only offers Connecticut businesses on-line filing, but also provides many convenient registration options.

Businesses can now add a new option to the list! Now, businesses currently registered for a ***Fast-File*** tax (sales and use taxes, business use tax, room occupancy tax, or income tax withholding) can update their Connecticut tax registration information on-line!



For more information about ***Fast-File***, visit the DRS Web site at: **www.drs.state.ct.us** and select "***Fast-File Program***."

More Registration Options Will Be Available In 2002

Beginning in early 2002, new businesses and businesses registered for ***Fast-File*** taxes will have additional registration options. New businesses, by selecting the "***Register***" button in the ***Fast-File***

site, will be permitted to submit a registration application for most Connecticut taxes.

Businesses registered for a ***Fast-File*** tax will be able to register for additional taxes.

For more information on the ***Fast-File*** registration process, visit the DRS Web site at: **www.drs.state.ct.us** or call **1-800-382-9463** (toll free from within Connecticut) or **860-297-5962** (from anywhere).

TN

How to Get 2001 Connecticut Tax Forms and Package X

DRS provides most tax filing materials by Internet on the DRS Web site, by fax using TaxFax, or in the ***2001 Connecticut Package X***. These options offer tax preparers the fastest and most efficient methods of obtaining forms and instructions. Therefore, the DRS has eliminated the service of providing bulk orders of Connecticut tax forms for the filing season.

The ***2001 Connecticut Package X***, which is the most comprehensive forms booklet that we have ever assembled, is available beginning in January and includes official copies of nearly every form that DRS makes available for the 2002 filing season. All forms may be reproduced without obtaining any other permission. The ***2001 Connecticut Package X*** contains over 500 pages, including a complete selection of forms for individual income tax, estates and trusts, partnership income tax, S corporation information and composite income tax, group income tax, withholding tax, gift tax, corporation business tax, and sales and use taxes. It also includes all



required certificates for making tax exempt purchases.

To order the ***2001 Connecticut Package X***, complete **Form OP-253X, Request For Ordering 2001 Connecticut Package X**, or contact the DRS Forms Unit. The cost is **\$15.00** (Connecticut sales tax and postage included). You also may purchase copies at 25 Sigourney Street at a cost of **\$8.00** (Connecticut sales tax included). Call DRS to verify availability.

Should you need a hard copy of any

tax document, the DRS Forms Unit will send two copies. DRS Regional offices (see back cover for locations) will also have tax materials available on a limited basis.

To electronically obtain tax forms and instructions, use the following:

- DRS Web site **www.drs.state.ct.us** – Most forms are available for free downloading and printing
- **Facsimile (TaxFax)** – Call 860-297-5698 from the handset attached to your fax machine and select from the menu.)

Another important tool for tax preparers is the ***DRS E-News***. Important tax information, new releases of forms, updates, and alerts are sent to your e-mail address as soon as they are released. You also are given a direct link to the document to preview or print it. To subscribe to the free ***DRS E-News*** service visit our Web site, or contact the Taxpayer Services Division at 1-800-382-9463 (toll-free from within Connecticut) or 860-297-5962 (from any where).

TN

2001 Tax Booklet Changes

The following changes are included in the 2001 Connecticut tax booklets.

Individual Income Tax

CT-1040EZ/Telefile Combo *CT-1040* *CT-1040NR/PY*

The exemptions and credits used in calculating the tax for individuals whose filing status is Single are increased at certain thresholds of Connecticut adjusted gross income. The increased exemptions and credits will result in lowering the amount of tax due and are reflected in the *Tax Tables*.

For taxable years beginning on or after January 1, 2001, you may check a box to authorize the Department of Revenue Services (DRS) to contact another person whom you have chosen (such as a friend, family member, tax preparer, or any other person), to correct return-processing problems. You must enter the designee's name, telephone number, and any five numbers the designee chooses as his or her personal identification number (PIN). If you want to allow the paid preparer who signed the return to discuss it with DRS, you should enter "Preparer" in the space for the designee's name.

Effective October 1, 2001, the Commissioner of Revenue Services may withhold the payment of any income tax refund to any person who is due a refund and who is in default of a student loan made or guaranteed by the Connecticut Student Loan Foundation.

For taxable years beginning on or after January 1, 2001, any interest earned on funds deposited in a Connecticut individual development account, to the extent includable in federal adjusted gross income, shall be subtracted in computing Connecticut adjusted gross income. Individual development accounts are matched savings accounts that enable low income families to build assets and achieve economic well-being. The funds must be used to pay for the costs of education or job training; the purchase of a new home as a primary residence;

the participation in or development of a new or existing entrepreneurial activity; the purchase of an automobile for the purpose of obtaining or maintaining employment; or the making of a lease deposit on a primary residence. For more information about Connecticut individual development accounts, contact the Connecticut Department of Labor Assistance Center at: 860-263-6785.

DRS is now authorized to disclose, to the news media or on the DRS Web site, a list of the name and municipality of residence of persons entitled to tax refunds for purposes of notifying those persons when DRS, after reasonable effort and lapse of time, has been unable to locate them. If you move after filing your Connecticut income tax return, contact DRS at: 860-297-4962 (during business hours) to provide your new address, especially if you anticipate being issued a refund check by DRS. Providing your new address helps DRS to get your refund check to you promptly and keeps your name off the above-mentioned list.

CT-1040EZ/Telefile Combo *CT-1040*

The Connecticut adjusted gross income thresholds used to calculate the property tax credit limitation for individuals whose filing status is Single are increased.

For taxable years beginning on or after January 1, 2001, a resident individual who has winnings from a wager placed in a lottery conducted by a qualifying jurisdiction (a State of the United States, a political subdivision of such a State, or the District of Columbia) and who is required to pay income tax to the qualifying jurisdiction on the lottery winnings, may claim a credit against his or her Connecticut income tax for income tax paid to the qualifying jurisdiction if the proceeds from the wager exceed \$5,000. If the proceeds from a wager placed in a lottery conducted by a qualifying jurisdiction do not exceed \$5,000, or if

the proceeds are other than from a lottery conducted by a qualifying jurisdiction, the resident individual is not eligible to claim a credit against his or her Connecticut income tax for income tax paid to a qualifying jurisdiction on gambling winnings.

DRS is offering a new electronic filing option for taxpayers to file their Connecticut income tax return. The new **WebFile** Program offers a fast, easy, accurate, and confidential way to file your Connecticut income tax return. Log on to **WebFile** by visiting the DRS Web site at: www.drs.state.ct.us

CT-1040 *CT-1040NR/PY*

The General Assembly has rejected the Connecticut Supreme Court's conclusion in *Berkley v. Commissioner of Revenue Services*, 253 Conn. 761 (2000) and has reaffirmed that an individual's federal adjusted gross income is his or her federal adjusted gross income, as properly reported on his or her federal income tax return, and that an individual's federal adjusted gross income is not to be further modified in determining his or her Connecticut adjusted gross income except as expressly provided in Conn. Gen. Stat. §12-701(a)(20). (The modifications expressly provided in Conn. Gen. Stat. §12-701(a)(20) are those described in the instructions for Lines 30 to 36 and Lines 38 to 46 of **Form CT-1040**.)

For the taxable year beginning on or after January 1, 2001, and prior to January 1, 2002, each individual who is a shareholder of an S corporation which was subject to the Connecticut corporation business tax for its 2000 taxable year and which has a taxable year for federal income tax purposes that is other than the calendar year, must include 30% of his or her pro rata share of the S corporation's nonseparately computed income or loss, multiplied by the S corporation's corporation business tax apportionment

percentage, in computing **Form CT-1040, Schedule 1 - Modifications to Federal Adjusted Gross Income.**

CT-1040

For taxable years beginning on or after January 1, 2001, **all** resident individuals who reported federally taxable Social Security Benefits for the 2000 taxable year, will receive the **Form CT-1040 Booklet** in the mail. Resident individuals who paid federal income tax on their benefits should not **Telefile** or file **Form CT-1040EZ**. Instead, such individuals must take a modification on **Form CT-1040**, Line 40 to reduce or eliminate federally taxable Social Security benefits for Connecticut income tax purposes. Any individual who received federally taxable Social Security benefits in 1998, 1999, or 2000, and did not take such a modification to federal adjusted gross income on **Form CT-1040** or **Form CT-1040NR/PY**, may be entitled to a refund.

CT-1040NR/PY

For taxable years beginning on or after January 1, 2001, a nonresident individual who has winnings from a wager placed in the Connecticut Lottery (including Powerball winnings if the Powerball ticket was purchased from a Connecticut Lottery agent) is subject to Connecticut income tax if the proceeds from the wager exceed \$5,000.

For taxable years beginning on or after January 1, 2001, a part-year resident partner's distributive share of partnership income, gain, loss, and deduction, or shareholder's pro rata share of S corporation income, gain, loss, and deduction is prorated to the partner's or shareholder's period of residence based upon the number of days such individual was a Connecticut resident and prorated to the partner's or shareholder's period of nonresidence based upon the number of days such individual was a Connecticut nonresident, but only to the extent such income, gain, loss, and deduction is derived from or connected with Connecticut sources.

For taxable years beginning on or after January 1, 2001, nonresident and

part-year resident taxpayers may use the new **WebFile Program** to request an extension of time to file their Connecticut income tax returns. Taxpayers who use **WebFile** are not required to send in **Form CT-1040EXT**.

Visit the DRS Web site at: www.drs.state.ct.us for details.

Fiduciary Income Tax

CT-1041

For the taxable year beginning on or after January 1, 2001, and prior to January 1, 2002, each trust or estate that is a shareholder of an S corporation which was subject to the Connecticut corporation business tax for its 2000 taxable year and which has a taxable year for federal income tax purposes that is other than the calendar year, must include 30% of its pro rata share of the S corporation's nonseparately computed income or loss, multiplied by the S corporation's corporation business tax apportionment percentage, in computing **Form CT-1041, Schedule A - Connecticut Fiduciary Adjustments**.

Corporation Business Tax

CT-1120

For income years beginning on or after January 1, 2001, Conn. Gen. Stat. §12-222 is amended to provide that the corporation business tax return is due on or before the first day of the month next succeeding the due date of the company's corresponding federal income tax return for the income year, determined without regard to any extension of time for filing. In the case of any company that is not required to file a federal income tax return for the income year, the Connecticut corporation business tax return is due on or before the first day of the fourth month next succeeding the end of the income year.

This amendment does not substantively change the due date of the return but instead provides a rule for corporations with a short period return that join a federal consolidated group.

(2001 Conn. Pub. Acts 6, §25 (June Spec. Sess.))

Conn. Gen. Stat. §12-217(c)(2) provides for the phaseout of the S corporation business tax by reducing the percentage of net income subject to corporation business tax for income years beginning on or after January 1, 1997.

For income years beginning on or after January 1, 2001, the net income of S corporations will not be subject to the corporation business tax.

For income years beginning on or after January 1, 2001, manufacturers may use a new single factor apportionment formula to apportion their net income to Connecticut based on a ratio of the manufacturer's gross receipts assignable to Connecticut, over total gross receipts whether or not assignable to Connecticut. Manufacturers will be required to use (new) **Form CT-1120A-MFG, Corporation Business Tax Apportionment Computation - Manufacturing Companies**. (Conn. Gen. Stat. §12-218)

For income years beginning on or after October 1, 2001, broadcasters are allowed to apportion their net income to Connecticut using a single factor formula that apportions net income based on a ratio of the broadcaster's gross receipts from sources assignable to Connecticut, over total gross receipts whether or not assignable to Connecticut. Broadcasters will be required to use (new) **Form CT-1120A-BPE, Corporation Business Tax Apportionment Computation - Broadcasters and Production Entities**. (Conn. Gen. Stat. §12-218)

For income years beginning on or after January 1, 2001, companies providing services to regulated investment companies must apportion their net income using a single factor apportionment formula. (Conn. Gen. Stat. §12-218(f))

For income years beginning on or after January 1, 2001, with respect to the petitions filed on or after October 1, 2001, additional

Some Important
Changes
from Page 7

requirements must be met by:

(1) A financial service company described in Conn. Gen. Stat. §12-218b(6)(J) that petitions not to apportion its income as a financial service company, or (2) A company that does not meet the statutory definition of a financial service company but petitions to apportion its income as a financial service company.

Any company submitting a petition pursuant to Conn. Gen. Stat. §12-218b(6)(a)(K) must submit the petition in writing no later than 60 days prior to the due date of the return to which the petition applies, determined with regard to any extension of time for filing such return. The Commissioner shall grant or deny such petition before the due date of the return.

(2001 Conn. Pub. Acts 6, §24 (June Spec. Sess.))

Corporation Business Tax Credits

Urban or Industrial Site Investment Credit

Conn. Gen. Stat. §32-9t is amended to provide that investments in urban and industrial sites may be made through a "community development entity."

(2001 Conn. Pub. Acts 9, §122 (June Spec. Sess.))

Credit for Human Capital Investment

For income years beginning on or after January 1, 2001, the definition of "human capital investment" includes contributions made to the Individual Development Account Reserve Fund.

(Conn. Gen. Stat. §12-217x(a))

Insurance Reinvestment Fund Credit

Effective July 1, 2001, Conn. Gen. Stat. §38a-88a is amended to provide that no tax credit shall be granted for investments made in an insurance business through an insurance reinvestment fund after December 31, 2015.

(2001 Conn. Pub. Acts 6, §39 (June Spec. Sess.))

Effective July 1, 2001, Conn. Gen. Stat. §38a-88a(f) is amended to provide that if the reason for the cessation of the insurance business in which an investment was made is dissolution, liquidation, or reorganization of the insurance business in a bankruptcy or delinquency proceeding, the tax credit shall be allowed. Previously, the tax credits only continued if the cessation of the insurance business was due to dissolution in a bankruptcy or delinquency proceeding.

(2001 Conn. Pub. Acts 6, §72 (June Spec. Sess.))

Effective July 1, 2001, Conn. Gen. Stat. §38a-88a(i) is amended to not require the recapture of tax credits if either:

(1) the insurance business subsequently increases its employment outside Connecticut with the correlating result that it no longer has 25% of its total work force in new jobs in Connecticut; or (2) the insurance business merges with another insurance business in Connecticut so that it no longer has 25% of its total work force in new jobs in Connecticut, provided there is no decrease in the original number of new employees in Connecticut.

(2001 Conn. Pub. Acts 6, §80 (June Spec. Sess.))

S Corporation Information and Composite Income Tax

CT-1120SI

A nonresident shareholder of an S corporation, whether an individual, trust, or estate, may file **Form CT-1NA**, *Connecticut Nonresident Income Tax Agreement*.

Form CT-1NA is modified to provide that, for taxable years beginning on or after January 1, 2001, a **Form CT-1NA** that is filed with the S corporation will be effective for that taxable year and for all succeeding taxable years, unless the shareholder revokes the agreement by providing written notice of the revocation to the S corporation.

Form CT-1NA is not required to be attached to **Form CT-1120SI**, *Connecticut S Corporation Information and Composite Income*

Tax Return. However, the S corporation is required to keep and maintain **Form CT-1NA** in its permanent records, and shall make it available to DRS upon request.

For taxable years beginning on or after January 1, 2001, S corporations are exempt from the Connecticut corporation business tax.

Gift Tax

CT-709

The Connecticut gift tax will be reduced in increments, starting with gifts made during 2001. The tax will ultimately be repealed after 2005 other than for those donors who make taxable gifts, for Connecticut tax purposes, in an amount exceeding \$1 million during a calendar year.

See **Special Notice 2000(10)**, *2000 Legislation Affecting the Connecticut Gift Tax*.

If the amount of taxable gifts, for Connecticut gift tax purposes, is \$25,000 or less for calendar year 2001, no Connecticut gift tax is due. When this is the case, the donor is not required to file **Form CT-709**, *Connecticut Gift Tax Return*, unless the donor made a gift of farmland and valued it based upon its use as farmland (and not based upon its fair market value).

TN

Partnership Income Tax Booklet Not Being Mailed

The 2001 **Form CT-1065**, *Connecticut Partnership Income Tax Return and Instructions*, will not be mailed directly to taxpayers.

Partners can obtain the tax booklet by visiting the DRS Web site or contact the Forms Unit at 1-800-382-9463 (toll-free from within Connecticut) or 860-297-5962 (from any where).

Form CT-1065 is available in *2001 Connecticut Package X* (see *How to Get 2001 Connecticut Tax Forms and Package X*, on Page 5).

TN

NEW 2001 LEGISLATION AFFECTING THE SUCCESSION TAX

During the November 15, 2001, Special Session the Connecticut General Assembly passed legislation that delays the reduction, and ultimate repeal, of the succession tax. The net taxable estate passing to any Class B beneficiary or to any Class C beneficiary is affected by the delay. The net taxable estate passing to any **Class AA beneficiary** or to any **Class A beneficiary** is, and remains, exempt from succession tax.

A person is a Class B beneficiary of the decedent if he or she is the decedent's brother or sister (full or half); a natural or adopted descendant of the brother or sister (niece or nephew related by blood); stepchild; or the spouse or unremarried widow(er) of the descendant's natural or adopted child.

A person is a Class C beneficiary of the decedent if he or she is **not** a Class AA beneficiary, a Class A beneficiary, or a Class B beneficiary. For example, a Class C beneficiary may include the decedent's cousin, uncle, aunt, sister-in-law, brother-in-law, stepbrother, stepsister, or step-grandchild, as well as unrelated individuals and associations or corporations.

A person is a Class AA beneficiary of the decedent if he or she is the decedent's spouse. The net taxable estate passing to a Class AA beneficiary is and remains exempt from succession tax if the decedent died on or after July 1, 1988.

A person is a Class A beneficiary of the decedent if he or she is the decedent's parent;

grandparent; adoptive parent; and a natural or adopted descendant of the decedent, such as a daughter, son, grandchild, or great-grandchild. The net taxable estate passing to a Class A beneficiary is and remains exempt from succession tax if the decedent died on or after January 1, 2001.

The effect of Conn. Gen. Stat. §12-344 (d) and (e), as amended by 2001 Conn. Pub. Acts 1, §1 (Nov. 15 Spec. Sess.), for estates of decedents dying during 2001 is outlined in the following table (The table takes into account the effective tax rate, including the surtax under Conn. Gen. Stat. §12-344a(a), and the surtax on the sum of the tax, and the surtax under Conn. Gen. Stat. §12-344a(b), applicable to

the net taxable estate of a decedent who dies during 2001, 2002, 2003, or 2004 passing to a Class B beneficiary **or** a Class C beneficiary. The tables do not cover the net taxable estate passing to a Class AA beneficiary or to a Class A beneficiary, or any transfer to any charitable, literary, scientific, historical, religious to government-related organization. Transfers from an estate of a decedent to any charitable, literary, scientific, historical, religious, or government-related organization are exempt from succession tax. (Conn. Gen. Stat. §12-347(a))

For tax rates in subsequent years, see **Special Notice 2001(10)**, *More Legislation Affecting the Succession Tax.* TN

Tax Table for Estates of Decedents Dying During 2001				
Class AA. Exempt				
Class A. Exempt				
Class B. (Total exemption for class (\$600,000) is included in table)				
If net taxable amount passing to class B is at least:	but is less than or equal to:	the tax is the sum of:	plus the following %:	of the amount exceeding:
\$0	\$600,000	\$0	—	—
600,000	1,000,000	0	12.87%	\$600,000
over 1,000,000	—	51,480	14.30%	1,000,000
Class C. (Total exemption for class (\$200,000) is included in table)				
If net taxable amount passing to Class C is at least:	but is less than or equal to:	the tax is the sum of:	plus the following %:	of the amount exceeding:
\$0	\$200,000	\$0	—	—
200,000	250,000	0	14.30%	\$200,000
250,000	400,000	7,150	15.73%	250,000
400,000	600,000	30,745	17.16%	400,000
600,000	1,000,000	65,065	18.59%	600,000
over 1,000,000	—	139,425	20.02%	1,000,000

Connecticut Tax Calendar

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

DECEMBER

- 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

JANUARY

- 1** Corporation Business Tax for year ending September 2001
- 15** Attorney's Occupational Tax
Cigarette Vending Machine Tax
Estimated Corporation Business Tax Payment
Form CT-1120 ESA for year ending October 2002
Form CT-1120 ESB for year ending July 2002
Form CT-1120 ESC for year ending April 2002
Form CT-1120 ESD for year ending January 2002
Estimated Fiduciary Income Tax Payment, 4th
Installment 2001
Estimated Group Income Tax Payment, 4th Installment 2001
Estimated Individual Income Tax Payment, 4th
Installment 2001
Estimated S Corporation Information and Composite
Income Tax Payment 4th Installment 2001
Estimated Unrelated Business Income Tax Payment
Fiduciary Income Tax for year ending September 2001
Group Income Tax for year ending September 2001
Individual Income Tax for year ending September 2001
Partnership Income Tax for year ending September 2001
S Corporation Business Tax for year ending
September 2001
S Corporation Information and Composite Income Tax for
year ending September 2001
Unrelated Business Income Tax (Foreign Trusts)

- 25** Motor Vehicle Fuels Tax Return
Tobacco Products

- 31** Admissions and Dues Tax, Monthly and Quarterly Filers
Beverage Tax
Dry Cleaning Surcharge
Gas and Electric Gross Earnings Tax
Motor Carrier Road Tax
Petroleum Companies Gross Earnings Tax
Quarterly Reconciliation of Withholding, 4th Quarter 2001
Room Occupancy Tax, Monthly and Quarterly Filers
Sales and Use Taxes, Monthly and Quarterly Filers
Seed Oyster Tax
Solid Waste Tax
Tourism and Rental Surcharge, Monthly and Quarterly Filers

FEBRUARY

- 1** Corporation Business Tax for year ending October 2001

- 15** Cigarette Vending Machine Tax
Estimated Corporation Business Tax Payments
Form CT-1120 ESA for year ending November 2002
Form CT-1120 ESB for year ending August 2002
Form CT-1120 ESC for year ending May 2002
Form CT-1120 ESD for year ending February 2002
Estimated Unrelated Business Income Tax Payment
Fiduciary Income Tax for year ending October 2001
Group Income Tax for year ending October 2001
Individual Income Tax for year ending October 2001
Partnership Income Tax for year ending October 2001
S Corporation Business Tax for year ending October 2001
S Corporation Information and Composite Income Tax for
year ending October 2001
Unrelated Business Income Tax (Foreign Trusts)

- 25** Motor Vehicle Fuels Tax

- 28** Admissions and Dues Tax, Monthly Filers
Annual Reconciliation of Withholding 2001
Annual Summary and Transmittal of U.S.
Informational Returns
Beverage Tax
Room Occupancy Tax, Monthly Filers
Sales and Use Taxes, Monthly Filers
Tourism and Rental Surcharge, Monthly and Quarterly Filers

MARCH

- 1** Corporation Business Tax for year ending November 2001

- 15** Cigarette Vending Machine Tax
Estimated Corporation Business Tax Payments
Form CT-1120 ESA for year ending December 2002
Form CT-1120 ESB for year ending September 2002
Form CT-1120 ESC for year ending June 2002
Form CT-1120 ESD for year ending March 2002
Estimated Insurance Companies Tax Payment,
1st Installment 2002
Estimated Health Care Centers Tax Payment,
1st Installment 2002
Estimated Unrelated Business Income Tax
Fiduciary Income Tax for year ending November 2001
Group Income Tax for year ending November 2001
Individual Income Tax for year ending November 2001
S Corporation Business Tax for year ending November 2001
S Corporation Information and Composite Income Tax for
year ending November 2001
Partnership Income Tax for year ending November 2001
Unrelated Business Income Tax (Foreign Trusts)

- 25** Motor Vehicle Fuels Tax

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

DRS Tax Product Update

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

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

DRS Brochures

DRS 2001(9), Quick Guide to Fast File
DRS 006, Federal/State Electronic Tax Filing Program

Announcements

AN 2001(10), Responsibility for Collecting Hazardous Waste Special Assessment With Connecticut Siting Council
AN 2001(2.3), Quarterly List of Distributors for Motor Vehicle Fuels Tax Purposes
AN 2001(8.1), Further Automatic Extension for Taxpayers Affected by September 11, 2001 Terrorist Attacks
AN 2001(8), Extensions for Victims of Disasters at World Trade Center and Pentagon
AN 2001(7), Taxability of Federal Advanced Refund Checks

Informational Publications

IP 2001(17), Guide to Connecticut Business Tax Credits
IP 2001(30), Connecticut Tax Tips for Senior Citizens
IP 2001(23), IFTA Manual
IP 2001(26), Q & A on Sales and Use Tax for a New Business
IP 2001(18), Common Register Sales and Consignment Sales
IP-2001(22), Federal/State Electronic Filing Handbook
IP 2001(18), Common Register Sales and Consignment Sales
IP 2001(6.3), Topical Index to Rulings and Administrative Pronouncements Covering Miscellaneous Taxes and Administrative Topics
IP 2001(5.3), Topical Index to Rulings and Administrative Pronouncements Covering Sales and Use Tax
IP 2001(4.3), Numerical Index to Rulings and Administrative Pronouncements as affected, if at all, by Later-Issued Rulings and Pronouncements

IP 2001(19), Connecticut Magnetic Media Filing Requirements For Federal Forms 1098, 1099-MISC, 1099-R, 1099-S, and W-2G
IP 2001(3.3), Topical Index to Rulings and Administrative Pronouncements Covering Corporation Business Tax
IP 2001(2.3), Topical Index to Rulings and Administrative Pronouncements Covering Income Tax
IP 2001(20), Q & A Concerning Freedom of Information Act Requests
IP 2001(16), Farmer's Guide to Sales and Use Taxes, Motor Vehicle Fuels Tax, etc.

Policy Statements

PS 2001(13), Application of Sales and Use Taxes and Room Occupancy Tax to the Hotel and Motel Industry
PS 2001(12), Production of Prewritten Software
PS 2001(9), Sales and use Taxes on Sales and Purchases Made by Veterinarians
PS 2001(10), Exemptions From Petroleum Gross Earnings Tax and Reduced Threshold for Imposition of Tax on Importers

Special Notices

SN 2001(9), Sales and Use Tax and Admissions and Dues Tax Legislation
SN 2001(8), 2001 Legislation Affecting the Succession Tax
SN 2001(2), Miscellaneous Personal Services
SN 2001(3), Sales and Use Tax Exemptions for nonprescription Drugs and Medicines and Smoking Cessation Products
SN 2001(5), The "Buy Connecticut" Provision
SN 2001(7), Sharing Certain Use Tax Revenue With Municipal Agencies

DRS Customer Service Award Winner

Danny L. Heard, Revenue Examiner II, from the Taxpayer Technical Support Unit of the Taxpayer Services Division was recently recognized for his outstanding service by Connecticut taxpayers and DRS Commissioner Gene Gavin. Mr. Heard will receive the DRS Customer Service Award for the 3rd quarter.

In announcing the award, Commissioner Gavin relayed that Danny was recognized because he has continuously received praise from taxpayers on how helpful he is and how he helps taxpayers by suggesting ways they can save time and money. Admiration for Danny's work includes one taxpayer who stated, "Danny and his office are a true rarity for government organizations." Many others went further in their gratitude and expressing that Danny's office should be commended for their friendly and informational approach.

Commissioner Gavin concluded his announcement with his own praise, stating, "Congratulations to Danny for his dedication, proving that DRS is a professional, and customer friendly organization."

Danny will receive his award at a ceremony later this year hosted by Governor John G. Rowland.

For Tax Forms, Publications or Personal Assistance

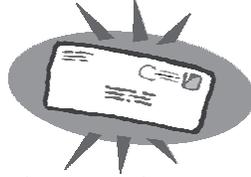
- Visit the **DRS Web site:** www.drs.state.ct.us



- 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

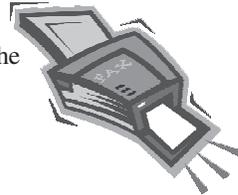


Forms and publications may be obtained 24 hours a day, seven days a week, by using any of the following resources.



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.

BRIDGEPORT

10 Middle St.
203-579-6251

HAMDEN

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

HARTFORD

25 Sigourney St.
860-297-5962

NORWICH

2 Cliff St.
860-889-2669

WATERBURY

55 West Main St.
Suite 100
203-805-6789



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

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

**Gene Gavin,
Commissioner**

CONTRIBUTORS:

John M. Dunham
Sarah Kaufman
Ellen R. Schneider
David P. Barry
Louis P. Bucari
Lisa Civitillo
James Chakulski, Sr.
Frederick P. Clark
Anna Crawford
Felicia S. Hoeniger
Peter A. Teeuwissen

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

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