



Connecticut Income Tax Changes Affecting Pass-Through Entities

Purpose: This Informational Publication addresses frequently-asked question about changes made to the income tax affecting pass-through entities during the 2006 session of the Connecticut General Assembly.

Effective Date: Effective for taxable years beginning on or after January 1, 2006.

Statutory Authority: Conn. Gen. Stat. §§12-719(b) and (c) and 12-726, as amended by 2006 Conn. Pub. Acts 159, §§ 5 and 6.

Composite Connecticut Income Tax Payments Pass-Through Entities Are Required to Make on Behalf of Their Members

The following are answers to frequently asked questions about the composite Connecticut income tax payment a pass-through entity is required to make on behalf of certain members. These answers reflect changes made to Conn. Gen. Stat. §§12-719(c) and 12-726 by 2006 Conn. Pub. Acts 159, §§5 and 6, and are effective for taxable years beginning on or after January 1, 2006. These answers modify and supersede the answers to similar questions provided in **Informational Publication 2005(13.1)**, *Connecticut Income Tax Changes Affecting Pass-Through Entities*.

Definitions: As used in this Informational Publication:

Pass-through entity (PE) means a partnership or an S corporation as defined below.

Partnership means and includes a general partnership, limited partnership, limited liability partnership, publicly-traded partnership, limited liability company (LLC) treated as a partnership for federal income tax purposes, or other entity treated as a partnership for federal income tax purposes.

S corporation means a corporation which is an S corporation for federal income tax purposes.

Member means and includes a partner of a partnership, a member of a LLC treated as a partnership for federal income tax purposes, or a shareholder of an S corporation.

Member's share means a partner's distributive share of partnership income, gain, loss, or deduction; a member's distributive share of LLC income, gain, loss, or deduction; or a shareholder's pro rata share of S corporation income, gain, loss, or deduction.

Noncorporate member means each member who or which is a resident individual, resident trust, resident estate, nonresident individual, nonresident trust, nonresident estate, part-year resident individual, part-year resident trust, or PE.

Nonresident noncorporate member means each noncorporate member who or which is a nonresident individual, nonresident trust, nonresident estate, part-year resident individual, or part-year resident trust.

Resident noncorporate member means each noncorporate member who is a resident individual, resident trust, or resident estate.

Corporate member means each member which is a C corporation for federal income tax purposes, LLC which has elected to be taxed as a C corporation for federal income tax purposes, real estate investment trust, real estate mortgage investment conduit, regulated investment company, or organization exempt from federal income tax.

Publicly-traded partnership means a partnership, as defined in I.R.C §7704(b), which is treated as a partnership for federal income tax purposes and which has agreed to file **Form CT-1065/CT-1120SI**, *Connecticut Composite Income Tax Return*.

Investing partnership means a partnership which elects, under 26 C.F.R. §1.761-2, not to be treated as a partnership for federal income tax purposes and thus is not subject to Subchapter K of Chapter 1 of the Internal Revenue Code.

Parent pass-through entity (parent PE) is a PE which is a member of another PE. A PE may be both a parent PE (with respect to one or more PEs) and a subsidiary PE (with respect to one or more PEs).

Subsidiary pass-through entity (subsidiary PE) is a PE which has at least one member which is itself a PE. A PE may be both a subsidiary PE (with respect to one or more PEs) and a parent PE (with respect to one or more PEs).

1. What form is a PE required to file?

A PE is required to file Form CT-1065/CT-1120SI, where it:

- Is required to file federal Form 1065, U.S. Return of Partnership Income, or federal Form 1120S, U.S. Income Tax Return for an S Corporation; **and**
- Has any income, gain, loss, or deduction derived from or connected with sources within Connecticut.

The 2006 legislation did not change the specific Connecticut tax form a PE is required to file although the 2006 Form CT-1065/CT-1120SI differs significantly from the form used for taxable year 2005.

2. When is Form CT-1065/CT-1120SI due?

Form CT-1065/CT-1120SI is due on or before the fifteenth day of the fourth month following the close of the PE's taxable year (April 15 for a PE whose taxable year for federal income tax purposes is the calendar year). If the due date falls on a Saturday, Sunday, or legal holiday, the next business day is the due date. The 2006 legislation did not change the due date of the return.

3. Under what circumstances is a PE required to make a Connecticut income tax payment?

A PE is required to make a Connecticut income tax payment on behalf of each member who or which is a nonresident noncorporate member or a PE where the member's share of the PE's income derived from or connected with Connecticut sources is \$1,000 or more. Thus, a PE may be required to make a Connecticut income tax payment on behalf of all of its members, some of its members, or none of its members.

A PE is not required to make a Connecticut income tax payment on behalf of any member who or which is a nonresident noncorporate member or a PE where the member's share of the PE's income derived from or connected with Connecticut sources is less than \$1,000. In addition, a PE is not required to make a Connecticut income tax payment on behalf of any member who or which is a resident noncorporate member or a corporate member.

4. A PE makes a Connecticut income tax payment on behalf of a member who is a nonresident individual. Is the member required to file Form CT-1040NR/PY?

If the member has income derived from or connected with Connecticut sources other than from one or more PEs, the member is required to file **Form CT-1040NR/PY, Connecticut Nonresident and Part-Year Resident Income Tax Return**. In those circumstances, the member, in completing Form CT-1040NR/PY, takes into account all of his or her income or losses derived from or connected with Connecticut sources, including any income or losses derived from one or more PEs, and enters the amount of his or her Connecticut income tax liability, as reported on the **Schedule CT K-1, Member's Share of Certain Connecticut Items**, Part III, Line 1, issued to him or her by a PE, on one of the lines for reporting Connecticut income tax withheld (Lines 20a through Line 20h) on Form CT-1040NR/PY.

If the member's only income derived from or connected with Connecticut sources is from one or more PEs, but at least one of the PEs is not required to make a Connecticut income tax payment on his or her behalf because the member's share of that PE's income derived from or connected with Connecticut sources is less than \$1,000, the member is required to file Form CT-1040NR/PY if the sum of the member's income derived from or connected with Connecticut sources from all PEs is \$1,000 or more. In those circumstances, the member, in completing Form CT-1040NR/PY, takes into account the sum of his or her income or losses derived from or connected with Connecticut sources from one or more PEs, and enters the amount of his or her Connecticut income tax liability, as reported on the Schedule CT K-1, Part III, Line 1, issued to him or her by a PE, on one of the lines for reporting Connecticut income tax withheld (Line 20a through Line 20h) on Form CT-1040NR/PY.

If the member's only income derived from or connected with Connecticut sources is from one or more PEs and each PE is required to make a Connecticut income tax payment on his or her behalf because the member's share of each PE's income derived from or connected with Connecticut sources is \$1,000 or more, the member is **not required** to file Form CT-1040NR/PY. Except as otherwise provided in the answer to Question 10 with respect to a member's payment obligations, the Connecticut income tax payment made by each PE on the member's behalf satisfies the member's Connecticut income tax filing and payment obligations including estimated tax payment obligations. If the Connecticut

income tax payment made on the member's behalf by a PE exceeds the amount of the member's Connecticut income tax liability as reported on the Schedule CT K-1, Part III, Line 1, issued to the member by the PE, DRS will refund the excess to the PE.

Example 1: *X*, a nonresident individual, is a member of *R*, *T*, and *U*, each of which is a PE. *X*'s only income derived from or connected with Connecticut sources is from *R*, *T*, and *U*. *X*'s share of *R*'s income derived from or connected with Connecticut sources is \$500. *X*'s share of *T*'s income derived from or connected with Connecticut sources is \$300. *X*'s share of *U*'s income derived from or connected with Connecticut sources is \$300. Neither *R*, *T*, nor *U* is required to make a Connecticut income tax payment on *X*'s behalf. *X* is required to file Form CT-1040NR/PY because the sum of *X*'s income derived from or connected with Connecticut sources from *R*, *T*, and *U* is \$1,000 or more.

Example 2: The facts are the same as in Example 1 except *X*'s share of *U*'s income derived from or connected with Connecticut sources is \$100. Neither *R*, *T*, nor *U* is required to make a Connecticut income tax payment on *X*'s behalf. *X* is not required to file Form CT-1040NR/PY because the sum of *X*'s income derived from or connected with Connecticut sources from *R*, *T*, and *U* is less than \$1,000.

Example 3: The facts are the same as in Example 1 except *X*'s share of *R*'s income derived from or connected with Connecticut sources is \$1,100, *X*'s share of *T*'s income derived from or connected with Connecticut sources is \$2,300, and *X*'s share of *U*'s income derived from or connected with Connecticut sources is \$1,800. *R*, *T*, and *U* are each required to make a Connecticut income tax payment on behalf of *X*. *X* is not required to file Form CT-1040NR/PY.

5. A PE makes a Connecticut income tax payment on behalf of a member who is a nonresident trust or nonresident estate. Is the member required to file Form CT-1041?

The member may be required to file Form CT-1041 and to make estimated Connecticut income tax payments. See *Who Must File Form CT-1041 and Estimated Tax Payments* in the Form CT-1041 booklet.

6. How is the composite Connecticut income tax payment calculated?

The composite Connecticut income tax payment is the sum of the Connecticut income tax payments required to be made for members who or which are nonresident noncorporate members of PEs. The Connecticut income tax payment required for each member is calculated by multiplying the member's

share of the PE's separately and nonseparately computed income, as modified, if required, under Conn. Gen. Stat. §12-701, derived from or connected with Connecticut sources by 5%. If the member's share of the PE's separately and nonseparately computed income derived from or connected with Connecticut sources is less than \$1,000, a payment is not required for that member. The PE must calculate the Connecticut income tax payment required based only on the member's share of the PE's income derived from or connected with Connecticut sources and not on the member's share of the PE's income or losses derived from or connected with non-Connecticut sources. The PE may not take into account a member's income or losses from sources other than the PE.

7. Is a PE required to make estimated composite Connecticut income tax payments for one or more members?

Effective for taxable years beginning on or after January 1, 2006, a PE is no longer required to make estimated composite Connecticut income tax payments. There will be no estimated composite Connecticut income tax payment coupons prescribed and made available by DRS.

Because the requirement to make estimated composite payments was retroactively repealed by 2006 Conn. Pub. Acts 159, which was approved on June 6, 2006, any estimated composite payments for the 2006 taxable year will be applied to the PE's annual composite Connecticut income tax liability for the 2006 taxable year. The PE is required to make the annual composite Connecticut income tax payment if the criteria of Question 3 are met.

A nonresident noncorporate member who is required to file Form CT-1040NR/PY may be required to make estimated Connecticut income tax payments but only on his or her Connecticut-sourced income other than from a PE or PEs required to file Form CT-1065/CT-1120SI.

8. A member made a Connecticut income tax payment, including estimated Connecticut income tax payments, for taxable year 2006. May the PE net these payments against the Connecticut income tax payment required to be made on behalf of the member for the taxable year and pay only the difference to DRS?

This answer applies for taxable years 2006 and 2007 only. The PE may, at its own risk, rely or act on a statement by a member that a Connecticut income tax payment (including estimated Connecticut income tax payments) has been made by the member for the taxable year. DRS will assess interest and penalty on

the Connecticut income tax payment required to be made but not made by the PE on behalf of a member, but will cancel the interest and penalty if DRS determines that the member has, in fact, made the payment. To avoid this situation, a PE may choose not to rely or act on a statement made by a member that a Connecticut income tax payment, including estimated Connecticut income tax payments, has been made by the member for the taxable year.

For taxable years subsequent to taxable year 2007, the PE should not rely or act on a statement made by a member that a Connecticut income tax payment, including estimated Connecticut income tax payments, has been made by the member for a taxable year. The PE must make an annual Connecticut income tax payment on behalf of the member, if the criteria of Question 3 are met, notwithstanding any instructions to the contrary by the member to the PE.

9. Is a PE subject to interest and penalty for making a late composite Connecticut income tax payment?

Yes. Except as otherwise provided in the answer to Question 8, if a composite Connecticut income tax payment reported on Form CT-1065/CT-1120SI is not timely paid, interest will be assessed at 1% (.01) per month or fraction of a month until the tax is paid in full. The penalty for paying all or a portion of the tax late is 10% of the tax paid late. The late payment penalty may be avoided if the PE:

- Files **Form CT-1065/CT-1120SI EXT**, *Application for Extension of Time to File Connecticut Composite Income Tax Return*, on or before the original due date of the return;
- Pays at least 90% of the tax shown to be due on the return on or before the original due date; **and**
- Pays the balance due with the return on or before the extended due date.

10. How are members affected if a PE fails to file Form CT-1065/CT-1120SI or to make the required composite Connecticut income tax payment?

If the PE does not file its return, the Commissioner of Revenue Services may file a return on its behalf and assess the tax, interest, and a penalty of 10% of the balance due or \$50, whichever is greater. If the PE files a Form CT-1065/CT-1120SI, but does not make the required composite Connecticut income tax payment, DRS assesses the tax, interest, and a penalty of 10%. In either situation, DRS first collects, or attempts to collect, the tax, penalty, and interest from the PE, but, if any amount is uncollectible from the PE, DRS may collect the amount from the members. DRS will not collect an amount from a member that exceeds the member's Connecticut income tax

liability and will take into account any payments made toward that liability by the member.

11. What information is a PE required to furnish to its members?

A PE must furnish **Schedule CT K-1**, *Member's Share of Certain Connecticut Items*, to each member who or which is a noncorporate member (whether resident or nonresident) or a PE.

The PE must furnish Schedule CT K-1 to members who or which are noncorporate members or PEs on or before the fifteenth day of the fourth month following the close of the PE's taxable year (April 15 if the PE's taxable year for federal income tax purposes is the calendar year). If the PE has requested an extension of time to file Form CT-1065/CT-1120SI by timely filing Form CT-1065/CT-1120SI EXT, the deadline for furnishing Schedule CT K-1 to members is automatically extended to the fifteenth day of the tenth month following the close of the PE's taxable year (October 15 if the PE's taxable year for federal income tax purposes is the calendar year). The PE must maintain a copy of each Schedule CT K-1 it furnishes and provide a copy to DRS upon request. Do not attach federal Schedule K-1 or Schedule CT K-1 to Form CT-1065/CT-1120SI.

The PE is not required to furnish Schedule CT K-1 to members which are corporate members. However, because corporate members may be subject to the Connecticut corporation business tax under Chapter 208 of the Connecticut General Statutes and may be entitled to apportion their net income for Connecticut corporation business tax purposes, the PE is required to provide to corporate members necessary apportionment and other information that enables the corporate members to properly calculate their Connecticut corporation business tax liability.

Necessary apportionment information would include information concerning:

- The average monthly net book value of the total tangible property held and owned by the PE during the taxable year and the amount of that value which is held and owned within Connecticut; and the gross rents payable during the taxable year on tangible property rented to the PE and the amount of those gross rents payable which is on tangible personal property rented to the PE within Connecticut;

- The total wages, salaries, and other compensation to employees paid by the PE during the taxable year and the amount of those wages, salaries, or other compensation which is paid in Connecticut; **and**
- The PE's gross receipts from sales or other sources during the taxable year and the amount of those gross receipts which is assignable to Connecticut.

For more information, see Conn. Gen. Stat. §§12-214 and 12-218. The PE must maintain a copy of the information it provides to corporate members and provide a copy to DRS upon request.

12. If the Connecticut income tax payment made on behalf of a member by a PE exceeds the member's Connecticut income tax liability as reported on Schedule CT K-1, Part III, Line 1, will the excess be refunded to the PE or to the member?

The 2006 legislation changes the prior procedure followed by DRS. DRS will refund, not credit, the excess to the PE. DRS will not refund or credit the excess to the member.

If the PE is a subsidiary PE, DRS will refund, not credit, the excess to the subsidiary PE. DRS will not refund or credit the excess to the parent PE.

Example 4: *S*, a PE, has two members: *P*, a PE, and *H*, a nonresident noncorporate member. The Connecticut income tax payment made by *S* on behalf of *P* exceeds *P*'s Connecticut income tax liability as reported on Schedule CT K-1, Part III, Line 1, and the Connecticut income tax payment made by *S* on behalf of *H* exceeds *H*'s Connecticut income tax liability as reported on Schedule CT K-1, Part III, Line 1. The excess will be refunded only to *S* and not to *P* or *H*.

The same approach is followed with an amended Form CT-1065/CT-1120SI. The PE must file an amended Form CT-1065/CT-1120SI before the Connecticut statute of limitations expires. The statute of limitations is three years from the due date of Form CT-1065/CT-1120SI; or if the time for filing the return was extended, three years from the date on which the return was filed or the extended due date of the return, whichever is earlier.

13. May a PE file Form CT-G?

No. Effective for taxable years beginning on or after January 1, 2006, a PE may no longer file **Form CT-G, Connecticut Group Income Tax Return**, on behalf of its qualified electing nonresident members. For taxable years beginning prior to January 1, 2006, a PE with two or more qualified electing nonresident members (ten or more qualified electing nonresident members for taxable years beginning prior to January 1, 2004) could file Form CT-G. For taxable years beginning on or

after January 1, 2006, Form CT-G and **Form CT-2NA, Connecticut Nonresident Income Tax Agreement to Be Included in a Group Return**, are obsolete.

14. What are the requirements for a publicly-traded partnership?

A publicly-traded partnership must report the name, address, Social Security Number, or Federal Employer Identification Number to DRS for each unitholder whose distributive share of partnership income derived from or connected with Connecticut sources exceeds \$500. A publicly-traded partnership fulfills this requirement by filing Form CT-1065/CT-1120SI, and completing Parts II, III, IV, V and VI. In completing those parts, the partnership only reports for those unitholders whose distributive share of the partnership's income derived from or connected with Connecticut sources exceeds \$500. The partnership also furnishes Schedule CT K-1 to each unitholder (see Question 11). A publicly-traded partnership is not required to make a composite Connecticut income tax payment (including estimated composite Connecticut income tax payments for taxable years beginning on or after January 1, 2004) on behalf of its unitholders. The 2006 legislation did not change these requirements.

15. What are the requirements for an investing partnership?

An investing partnership which makes the election under 26 C.F.R. §1.761-2 not to be treated as a partnership for federal income tax purposes is not required to file Form CT-1065/CT-1120SI or to make a composite income tax payment, including estimated composite Connecticut income tax payments for taxable years beginning prior to January 1, 2006. However, an investing partnership which does not make the election not to be treated as a partnership for federal income tax purposes, and which is treated as a partnership subject to Subchapter K of Chapter 1 of the Internal Revenue Code, is required to file Form CT-1065/CT-1120SI and to make a composite Connecticut income tax payment, including estimated composite Connecticut income tax payments for taxable years beginning prior to January 1, 2006, on behalf of its members. The 2006 legislation did not change these requirements.

16. What are the requirements for a partnership deemed under Conn. Gen. Stat. 12-711(f) not to be carrying on a trade or business in Connecticut?

A partnership which is deemed under Conn. Gen. Stat. §12-711(f) not to be carrying on a trade or business in Connecticut is not required to file Form CT-1065/CT-1120SI or to make a composite Connecticut income tax payment, including estimated composite Connecticut income tax payments for taxable years

beginning prior to January 1, 2006. The 2006 legislation did not change these requirements.

17. What are the requirements for a single member LLC (SMLLC)?

SMLLC owned by a corporation. An SMLLC which, for federal income tax purposes, is disregarded as an entity separate from its corporate owner is treated as a division of that corporation. Because an SMLLC which is disregarded as an entity separate from its owner is not a PE, the SMLLC is not required to make a composite Connecticut income tax payment for its owner. If the SMLLC is a member of a PE, the PE is not required to make a composite Connecticut income tax payment for the SMLLC because the SMLLC's corporate owner is a corporate member of the PE.

SMLLC owned by an individual. An SMLLC which, for federal income tax purposes, is disregarded as an entity separate from the individual who is its owner is treated as a sole proprietorship of that individual. Because an SMLLC which is disregarded as an entity separate from its owner is not a PE, the SMLLC is not required to make a composite Connecticut income tax payment for its owner. If the SMLLC is a member of a PE, the PE is required to make a composite Connecticut income tax payment for the SMLLC (because the SMLLC's individual owner is a noncorporate member of the PE) if the criteria of Question 3 are met.

SMLLC owned by a PE. An SMLLC which, for federal income tax purposes, is disregarded as an entity separate from its one owner is treated as a branch or division of that owner. Because an SMLLC which is disregarded as an entity separate from its owner is not a PE, the SMLLC is not required to make a composite Connecticut income tax payment for its owner. If the SMLLC is a member of a PE, the PE is required to make a Connecticut income tax payment for the SMLLC (because the SMLLC's one owner is a PE) if the criteria of Question 3 are met.

SMLLC which elects to be taxed as a C corporation. An SMLLC which elects, for federal income tax purposes, to be taxed as a C corporation is also treated as a C corporation for Connecticut tax purposes. Because the SMLLC is not a PE, the SMLLC is not required to make a composite Connecticut income tax payment for its owner. If the SMLLC is a member of a PE, the PE is not required to make a composite Connecticut income tax payment for the SMLLC because the SMLLC is a corporate member of the PE.

SMLLC which elects to be taxed as an S corporation. An SMLLC which elects, for federal

income tax purposes, to be taxed as an S corporation is also treated as an S corporation and, therefore, as a PE, for Connecticut tax purposes. Because the SMLLC is a PE, the SMLLC is required to make a composite Connecticut income tax payment for its sole member if the criteria of Question 3 are met. If the SMLLC is a member of a PE, the SMLLC is a parent PE with respect to the PE, and the PE is a subsidiary PE with respect to the SMLLC. The subsidiary PE is required to make a composite Connecticut income tax payment for the parent PE if the criteria of Question 3 are met.

The 2006 legislation did not change these requirements.

18. Is a subsidiary PE required to make a Connecticut income tax payment on behalf of a member which is itself a PE (parent PE)?

Yes. A subsidiary PE is required to make a Connecticut income tax payment on behalf of a parent PE where the parent PE's share of the subsidiary PE's income derived from or connected with Connecticut sources is \$1,000 or more. Effective for taxable years beginning on or after January 1, 2006, a subsidiary PE is no longer required to make estimated Connecticut income tax payments on behalf of a parent PE.

However, if both of the following conditions are met, a subsidiary PE is not required to make a Connecticut income tax payment on behalf of a parent PE:

- The parent PE provides sufficient evidence to the subsidiary PE that a member of the parent PE is a member on whose behalf a Connecticut income tax payment is not otherwise required to be made (see Question 3); for example, the member is a corporate member or a resident noncorporate member; **and**
- Information about the member's share of the parent PE's income is provided to the subsidiary PE.

Example 5: *P*, a PE, is a member of *S*, a PE. Therefore, *P* is a parent PE with respect to *S* and *S* is a subsidiary PE with respect to *P*. *P*'s share of *S*'s income derived from or connected with Connecticut sources is \$1,000 or more. Each member of *P* is a C corporation. *P* provides sufficient evidence of this to *S*. *S* is not required to make a Connecticut income tax payment on behalf of *P*. *S* is not required to provide a Schedule CT K-1 to *P* but must provide *P* with the necessary apportionment information described in the answer to Question 11. *P* is not required to make a composite Connecticut income tax payment on behalf of its members. *P* must provide its members with the apportionment information that *S* provided to it.

Example 6: The facts are the same as in Example 5 except for the following: *P*'s share of *S*'s income derived from or connected with Connecticut sources is expected to equal or exceed \$20,000 and the members of *P* are four individuals, each with a 25% share of *P*'s income. *A*, *B*, and *C* are resident individuals, and *D* is a nonresident individual. *P* provides sufficient evidence of this to *S*. *S* is not required to make a Connecticut income tax payment on behalf of *P* to the extent of *A*, *B*, or *C*'s share of *P*'s income. *S* is required to make a Connecticut income tax payment on behalf of *P*, but only to the extent of *D*'s share of *P*'s income, and must report *P*'s Connecticut income tax liability on the Schedule CT K-1 issued by *S* to *P*. *P* is required to make a Connecticut income tax payment on behalf of *D*, but, unless *P* has income derived from or connected with Connecticut sources in addition to its share of *S*'s income derived from or connected with Connecticut sources, *P*'s Connecticut income tax liability as reported on the Schedule CT K-1 issued by *S* to *P* will satisfy *P*'s composite income tax payment requirement (see Question 19). *P* must report *D*'s Connecticut income tax liability on the Schedule CT K-1 issued by *P* to *D*.

If *P* has income derived from or connected with Connecticut sources in addition to its share of *S*'s income derived from or connected with Connecticut sources, *P* must make a Connecticut income tax payment on such additional income derived from or connected with Connecticut sources. The Schedule CT K-1 issued by *P* to *D* will report *D*'s Connecticut income tax liability, which will be the sum of *D*'s Connecticut income tax liability on *D*'s Connecticut income tax liability on the sum of *P*'s share of *S*'s income derived from or connected with Connecticut sources and *P*'s additional income derived from or connected with Connecticut sources.

19. In making a composite Connecticut income tax payment on behalf of its members, may a parent PE take into account a Connecticut income tax payment made by a subsidiary PE on behalf of the parent PE?

Yes. A parent PE may treat the amount of its Connecticut income tax liability, as stated on Part III, Line 1, of the Schedule CT-K1 issued to it by a subsidiary PE, as a Connecticut income tax payment made by the subsidiary PE on behalf of the parent PE.

Example 7: *P*, a PE, is a member of *S*, a PE. Therefore, *P* is a parent PE with respect to *S* and *S* is a subsidiary PE with respect to *P*. *P*'s share of *S*'s income derived from or connected with Connecticut sources is \$1,000 or more. *S* is required to make a Connecticut income tax payment on behalf of *P* and to issue a

Schedule CT-K1 to *P*. The amount of *P*'s Connecticut income tax liability as stated on Part III, Line of the Schedule CT-K1 issued by *S* to *P*, is \$3,000. *P* may treat the amount of its Connecticut income tax liability, as stated on Part III, Line 1, of the Schedule CT-K1 issued to it by *S*, as a Connecticut income tax payment of \$3,000 made by *S* on behalf of *P*. *P* has four members, each of which has a 25% share of *P*'s income and each of which is a nonresident noncorporate member and each of whose share of *P*'s income derived from or connected with Connecticut sources is \$1,000 or more. In making a Connecticut income tax payment on behalf of *P*'s member, *P* may take into account the amount treated as a Connecticut income tax payment made by *S* on *P*'s behalf.

20. In completing Form CT-1065/CT-1120SI, Part I, Schedule B, should a PE include a member who or which is a nonresident noncorporate member or a PE if the member's income derived from or connected with Connecticut sources is less than \$1,000?

No. A PE should **not** include on Form CT-1065/CT-1120SI, Part I, *Schedule B*, any member who or which is a nonresident noncorporate member or a PE if:

- The member's income derived from or connected with Connecticut sources is less than \$1,000; **and**
- No Connecticut income tax payment, including estimated Connecticut income tax payment for taxable year 2006, was made on the member's behalf by the PE.

However, if a PE made a Connecticut income tax payment, including estimated Connecticut income tax payments for taxable year 2006, on behalf of a nonresident noncorporate member or a PE where the payment was not required to be made, such as where a nonresident noncorporate member's share of the PE's income derived from or connected with Connecticut sources is less than \$1,000, the PE **must** include the member on Form CT-1065/CT-1120SI, Part I, *Schedule B*.

On the other hand, if a PE made a Connecticut income tax payment, including estimated Connecticut income tax payments for taxable year 2006, for a member other than a nonresident noncorporate member or a PE, such as a corporate member or a resident noncorporate member, the PE **may not** include the member on Form CT-1065/CT-1120SI, Part I, *Schedule B*, but should instead report the payment and obtain a refund of the payment made for the corporate member or resident noncorporate member from DRS and then in turn refund the erroneous payment directly to the corporate member

or resident noncorporate member. In addition, the PE should enter a zero on Part III, Line 1, of the Schedule CT-K1 issued by it to the resident noncorporate member and should not issue a Schedule CT-K1 to the corporate member.

Effect on Other Documents: Informational Publication 2005(13.1) is modified and superseded.

Effect of This Document: An Informational Publication issued by the Department of Revenue Services (DRS) addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); **or**
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Visit the DRS Web site at www.ct.gov/DRS to download and print Connecticut tax forms; **or**
- **Telephone:** Call **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only) and select **Option 2** from a touch-tone phone, or **860-297-4753** (from anywhere).

Paperless Filing/Payment Methods (fast, easy, free, and confidential):

- **For business returns:** Use *Fast-File* to file sales and use taxes, business use tax, room occupancy tax, estimated corporation business tax, business entity tax, attorney occupational tax, nursing home provider fee, admissions and dues tax, or withholding tax returns over the Internet. Visit the DRS Web site at www.ct.gov/DRS and click on *File/Register OnLine*.
 - **For payment of business taxes other than those listed above:** Use *Fast-File* to pay your business taxes over the Internet or by phone. Visit the DRS Web site at www.ct.gov/DRS and click on *Electronic Services* for a list of eligible taxes. The ACH debit method is used to make the transfer. No preregistration is required.
 - **For resident income tax returns:** Use *WebFile* to file personal income tax returns over the Internet. Visit the DRS Web site at www.ct.gov/DRS and click on *File/Register OnLine*.
 - **For electronic filing of income tax extensions, estimated payments, and for electronic bill payments:** Use *WebFile* to electronically file personal income tax returns over the Internet. You can also use *WebFile* to make an electronic income tax payment for a prior year. Visit the DRS Web site at www.ct.gov/DRS and click on *File/Register OnLine*.
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