



25 Sigmourney Street
Hartford CT 06106-5032

INFORMATIONAL PUBLICATION

Business Taxes

Purpose: This publication provides a brief description of certain taxes applicable to companies doing business in Connecticut. It is not an all-inclusive list, but it contains those taxes of interest to most businesses and, where appropriate, identifies the state agencies to contact for information. See **Informational Publication 2006(11), *Getting Started in Business: Understanding Connecticut Taxes.***

Effective Date: Upon issuance.

Registering for Business Taxes

Use **Form REG-1, *Business Taxes Registration Application***, to register a business for those taxes administered by the Department of Revenue Services (DRS) including corporation business tax, business entity tax (BET), sales and use taxes, income tax withholding, and motor vehicle fuels tax. See Page 6 for information on obtaining forms and publications and contacting DRS for more information.

Corporation Business Tax

Corporations pay the corporation business tax for the privilege of carrying on business in a corporate capacity in Connecticut. Corporations calculate their tax under either of two methods, tax measured by net income and the minimum tax, and remit the higher tax. If the tax measured by net income is less than \$250, the corporation pays the minimum tax, which is never less than \$250.

The tax measured by net income

Federal net income is modified by certain additions and subtractions to compute Connecticut net income. Multistate corporations multiply their Connecticut net income by the appropriate apportionment factor. The Connecticut net income, or apportioned Connecticut net income for multistate corporations, is taxed at 7.5%.

The minimum tax

The Connecticut minimum tax base is:

- The average value of issued and outstanding capital stock, surplus, and undivided profits and surplus reserves reduced by;
- The average value of any deficit carried on the balance sheet and holdings of stock of private (nongovernmental) corporations, including treasury stock.

Multistate corporations multiply their Connecticut minimum tax base by an apportionment fraction that is the average of the intangible assets and tangible property ratios.

The Connecticut minimum tax base, or apportioned Connecticut minimum tax base for multistate corporations, is taxed at a rate of 3.1 mils per dollar. The minimum tax cannot be more than \$1,000,000 nor be less than \$250.

Estimated corporation business tax

A corporation whose estimated current year's tax exceeds \$1,000 must make estimated tax payments. The chart below shows the required estimated payments for all filers and the due dates for calendar year filers.

1st installment — March 15, 2008	
	30% of the required annual payment
2nd installment — June 15, 2008	
	70% of the required annual payment
3rd installment — September 15, 2008	
	80% of the required annual payment
4th installment — December 15, 2008	
	100% of the required annual payment

The required annual payment is 100% of the tax shown on the prior year's return, or 90% of the tax shown on the current year's return, whichever is less.

Filing requirements

See *Paperless Filing/Payment Methods* on Page 6.

C corporations

C corporations and other business entities that elect to be taxed as a corporation must file **Form CT-1120, Corporation Business Tax Return**, on or before the first day of the fourth month following the close of the company's income year (April 1 for calendar year filers).

S corporations

Every domestic S corporation is subject to the business entity tax and must file **Form OP-424, Business Entity Tax Return**. A foreign S corporation is subject to the business entity tax and must file Form OP-424, if it is transacting business in Connecticut and is required to obtain a certificate of authority from the Connecticut Secretary of the State.

S corporations are not subject to the corporation business tax. For federal and Connecticut tax purposes, S corporations are treated as pass-through entities. Except as noted below, S corporation shareholders who are individuals, estates, or trusts report their pro rata share of S corporation income on **Form CT-1040, Connecticut Resident Income Tax Return**, **Form CT-1040NR/PY, Connecticut Nonresident or Part-Year Resident Income Tax Return**, or **Form CT-1041, Connecticut Income Tax Return for Trusts and Estates**.

Additionally, the S corporation must file **Form CT-1065/CT-1120SI, Connecticut Composite Income Tax Return**, on or before the fifteenth day of the fourth month following the close of its taxable year. S corporations and other pass-through entities may be required to make a composite income tax payment on behalf of their nonresident noncorporate members or their members that are pass-through entities. See **Informational Publication 2006(22), Connecticut Income Tax Changes Affecting Pass-Through Entities**.

Corporation business tax credits

Corporation business tax credits may be available to new and existing businesses. **Informational Publication 2006(15), Guide to Connecticut Business Tax Credits**, contains detailed summaries of available credits. You may download this publication from the DRS website at www.ct.gov/DRS or to order the publication, send a self-addressed 9" x 12" envelope with \$1.99 postage affixed to:

Department of Revenue Services
Mail Unit, Corporation Credit Guide
25 Sigourney Street
Hartford CT 06106-5032

Business Entity Tax

The business entity tax (BET) is an annual tax of \$250 imposed on the following business types:

- S corporation (Qualified subchapter S subsidiaries (QSSS) are not liable for the BET.);
- Limited liability companies (LLCs or SMLLCs) that are, for federal income tax purposes, either:
 - Treated as a partnership, if it has two or more members; **or**
 - Disregarded as an entity separate from its owner, if it has a single member;
- Limited liability partnerships (LLPs); **and**
- Limited partnership (LPs).

The BET applies to those business entities listed above if either: 1) the entity was formed under Connecticut law; or 2) the entity was not formed under Connecticut law but is required to register with or obtain a certificate of authority from the Connecticut Secretary of the State before transacting business in the state (regardless of whether or not the entities have complied with the requirement). See **Special Notice 2006(12), 2006 Legislative Changes Affecting the Business Entity Tax**, and **Informational Publication 2006(21), Q & A on the Business Entity Tax**.

See *Paperless Filing/Payment Methods* on Page 6.

Controlling Interest Transfer Tax

The controlling interest transfer tax is a tax imposed on the sale or transfer of a controlling interest in a corporation, partnership, association, trust, limited liability company, or other organization, where the entity owns, directly or indirectly, an interest in Connecticut real property, with a value of at least \$2,000.

The tax rate is 1.11% of the present true and actual value of Connecticut real property owned by the entity.

Sales and Use Taxes

Retail sales or leases of tangible personal property and certain services are subject to sales and use taxes at a 6% rate except as noted on Page 3. The room occupancy tax rate of 12% applies to the occupancy of a room in a hotel or lodging house for a period of 30 consecutive days or less.

Use tax generally applies to taxable tangible personal property or services on which the seller did not impose Connecticut sales tax. A business must report purchases subject to the use tax on **Form OS-114, Sales and Use**

Tax Return, for the period in which the purchases are made. If an item purchased in another state already was subject to that state's sales tax, credit for the tax paid is generally given when computing Connecticut use tax.

Certain services subject to tax

For a complete list of taxable services, refer to Conn. Gen. Stat. §12-407(a)(2) and (37) or contact the DRS Taxpayer Services Division. Although not an exhaustive list, the following are commonly provided taxable services:

- Advertising or public relations services not related to the development of media advertising or cooperative direct mail advertising;
- Business analysis, management, management consulting, and public relations services, excluding any environmental consulting services;
- Cable and satellite television services;
- Computer and data processing services, including but not limited to charges for online access to computer services (but excluding Internet access services and services rendered in connection with the creation, development, hosting, or maintenance of all or part of a website on the World Wide Web), are taxed at 1%;
- Credit information and reporting;
- Employment agencies and agencies providing personnel services;
- Exterminating services;
- Flight instruction and chartering by a certificated air carrier;
- Furnishing of space for storage of tangible personal property;
- Furniture reupholstering and repair services;
- Health and athletic club services;
- Janitorial services including the cleaning of homes, offices, and commercial property;
- Landscaping and horticulture services;
- Lobbying or consulting services for the purpose of representing a client's interests in relation to any Connecticut state or local governmental bodies;
- Locksmith services;
- Maintenance services;
- Miscellaneous personal services (U.S. industries 532220, 812191, 812199, or 812990 in the North American Industry Classification Systems (NAICS) United States 1997 manual or industry group 719 in the Standard Industrial Classification (SIC) 1987 manual), exclusive of services rendered by licensed massage therapists and licensed hypertrichologists;
- Motor vehicle repairs, including any type of repair, painting, or replacement to the body or operating parts of a motor vehicle;
- Painting and lettering services;
- Parking services in a lot with 30 or more spaces, other than metered space, and excluding valet parking at airports and space in certain municipal railroad parking lots;
- Personnel training services when the training service provider is engaged by an employer to provide job-related training to personnel whose primary workplace is located in Connecticut;
- Photographic studio services;
- Piped-in music provided to business or professional establishments;
- Prepaid telephone calling services, including prepaid calling cards, and the recharge of the service;
- Private investigation, protection, patrol work, watchman, and armored car services, exclusive of these services provided by off-duty police officers and firefighters;
- Radio or television repair services;
- Repair services to electrical or electronic devices including but not limited to air conditioning and refrigeration equipment;
- Repair or maintenance services to tangible personal property, other than services to vessels and shoe repair;
- Sales agent services for selling tangible personal property, except for the services of a consignee selling works of art or clothing or the services of an auctioneer;
- Services to existing industrial, commercial, and income-producing real property including but not limited to management, repair, and renovation services, but excluding voluntary evaluation, prevention, treatment, containment, or removal of hazardous waste or other contaminants of air, water, or soil;
- Stenographic services;
- Storage or mooring of any noncommercial vessel on land or in the water, **except** the nonseasonal (November 1 through April 30) dry or wet storage or mooring of noncommercial vessels;
- Swimming pool cleaning and maintenance services;
- Telecommunications services;
- Telephone answering services;
- Warranty and service contracts for any item of tangible personal property; **and**
- Window cleaning services.

Related companies

Sales of services between the following affiliated business entities are exempt from sales and use taxes: corporations, trusts, estates, partnerships, limited partnerships, limited liability partnerships, limited liability companies, single member limited liability companies, sole proprietorships, and nonstock corporations. To qualify, the business entities must be affiliated in such a manner that:

- Either business entity in the transaction owns a controlling interest in the other business entity; **or**
- A controlling interest in each business entity in the transaction is owned by the same person or persons or business entity or business entities.

Note that a business entity cannot purchase services on resale when the services are purchased for resale to another affiliate.

Contractor services

This topic is covered in depth in **Informational Publication 2006(35)**, *Building Contractors Guide to Sales and Use Taxes*. You may download this publication from the DRS website at www.ct.gov/DRS, or to order the publication, send a self-addressed 9" x 12" envelope with \$1.99 in postage affixed to:

Department of Revenue Services
Mail Unit, Building Contractors' Guide
25 Sigourney Street
Hartford CT 06106-5032

Manufacturer exemptions

Sales and use taxes are imposed on most items purchased by Connecticut manufacturers. However, there are certain exemptions:

- Machinery used directly in the manufacturing production process;
- Repair, replacement, component or enhancement parts for the machinery;
- Materials that become an ingredient or component part of the products to be sold;
- Tools, fuel, and materials that are used directly in an industrial plant in the actual fabrication of finished products to be sold; **and**
- Calibration services for manufacturing machinery, equipment, or instrumentation.

Also, under the Manufacturing Recovery Act, which is available to manufacturers, processors, and fabricators, 50% of the purchase price of materials, tools, fuels, machinery, and equipment is exempt from sales and use taxes.

Informational Publication 99(18), *Sales and Use Taxes Guide for Manufacturers, Fabricators and Processors*, includes information about tax exemptions and other issues of interest to manufacturers. You may download this publication from the DRS website at www.ct.gov/DRS, or to order the publication, send a self-addressed 9" x 12" envelope with \$1.99 in postage affixed to:

Department of Revenue Services
Mail Unit, Manufacturers' Guide
25 Sigourney Street
Hartford CT 06106-5032

Filing requirements

Connecticut retailers that sell taxable goods or services must collect sales tax on their sales except when a properly completed Connecticut *Sales and Use Tax Resale Certificate* or the *Uniform Sales and Use Tax Certificate — Multijurisdiction* is taken in good faith from the purchaser or, the sale qualifies for exemption. Annual filing is allowed for businesses whose total annual liability for sales and use taxes is less than \$1,000.

Taxpayers whose prior year liability for sales and use tax or withholding tax exceeded \$10,000 for the 12-month period ending the preceding June 30 for monthly and quarterly tax liabilities or for the preceding taxable year for annual tax liabilities and who are notified by DRS to pay that tax by electronic funds transfer (EFT) must pay the tax by EFT.

See *Paperless Filing/Payment Methods* on Page 6.

Other exemptions

Certain sales are exempt from tax including but not limited to sales of food (other than meals), clothing under \$50, and prescription and certain nonprescription drugs. For a complete list of exemptions from Connecticut sales taxes, refer to Conn. Gen. Stat. §12-412.

Income Tax Withholding

A business is an employer, for Connecticut income tax withholding purposes if that employer:

- Maintains an office in Connecticut or is transacting business within Connecticut; **and**
- Is considered an employer for federal income tax withholding purposes.

Employers must withhold Connecticut income tax from wages of resident employees and from nonresident employees who work in Connecticut. Quarterly reconciliations are due on the last day of the month

following the end of the calendar quarter. The annual reconciliation for the preceding year is due on the last day of February. See **Informational Publication 2007(1), Connecticut Employer's Tax Guide - Circular CT**. See *Paperless Filing/Payment Methods* on Page 6.

Motor Vehicle Fuels Tax

An excise tax is imposed on motor vehicle fuels used to propel motor vehicles. The tax rate on gasoline and gasohol is 25¢ per gallon and the tax rate on diesel fuel is 37¢ per gallon.

Motor Carrier Road Tax

A tax is imposed on the use of motor fuels by motor carriers operating **qualified motor vehicles** in Connecticut. The rate is equivalent to the Connecticut motor vehicle fuels tax rate. A **qualified motor vehicle** is a motor vehicle used, designed, or maintained for transportation of persons or property and:

- Has two axles and a gross vehicle weight or registered gross vehicle weight exceeding 26,000 pounds;
- Has three or more axles regardless of weight; **or**
- Is used in combination and the combined gross vehicle weight or registered gross vehicle weight exceeds 26,000 pounds.

International Fuel Tax Agreement (IFTA)

Connecticut is a member of the International Fuel Tax Agreement (IFTA). IFTA is an agreement among jurisdictions (states of the United States and Canadian provinces) to simplify the reporting of the fuel use taxes by interstate carriers. All 48 contiguous states are members of IFTA, as well as ten Canadian provinces.

Each motor carrier whose base jurisdiction is Connecticut and which operates one or more qualified motor vehicles in at least one other IFTA jurisdiction must obtain a Connecticut IFTA license and decals. On a motor carrier's Connecticut IFTA quarterly returns, the motor carrier reports its motor fuel use tax liability to Connecticut and to other IFTA jurisdictions. For carriers based in another jurisdiction that is also an IFTA member, the IFTA license and decals from that jurisdiction satisfy Connecticut fuel use tax registration requirements. Qualified motor vehicles based outside Connecticut in a non-IFTA jurisdiction or that operate only in Connecticut must obtain Connecticut motor carrier road tax decals. Call the DRS Registration Unit at 860-297-4870 to obtain an application.

Petroleum Products Gross Earnings Tax

A tax is imposed on companies engaged in the refining or distribution, or both, of petroleum products on their gross earnings from the first sale within Connecticut of petroleum products.

Franchise Tax

The Connecticut Secretary of the State collects a franchise tax from corporations organized under Connecticut law (domestic corporation). The franchise tax is paid to the Secretary of the State at the time of incorporation and at the time of any increase in the number of shares of authorized capital stock. Domestic corporations may also be required to file annual reports with the Secretary of the State.

Corporations not organized under Connecticut law (foreign corporations) may be required to obtain a certificate of authority to transact business in Connecticut and to appoint an agent to accept service of process. Foreign corporations that have obtained a certificate of authority may also be required to file annual reports with the Secretary of the State.

For more information, call the Commercial Recording Division at 860-509-6003 or visit the website of the Secretary of the State at www.sots.ct.gov/

Unemployment Insurance Tax

The Connecticut Department of Labor (DOL) administers the unemployment insurance tax. For more information on whether an employer is subject to unemployment insurance tax, call the DOL Employer Status Unit at 860-263-6550 or visit the DOL website at www.ctdol.state.ct.us and select unemployment taxes.

Motor Vehicle Registration Fees

The Connecticut Department of Motor Vehicles (DMV) issues certificates of registration for motor vehicles and issues driver's licenses. For fee information, call the DMV at 1-800-842-8222 (Connecticut calls outside the Greater Hartford area only) or 860-263-5700 (from anywhere) or visit the DMV website at www.ct.gov/dmv and select fees.

Property Tax

State law governs the manner in which a city or town assessor determines property assessments and the procedures that tax collectors use to collect property taxes.

State law also authorizes property tax exemptions, credits and abatements. For more information on property tax, write to: Intergovernmental Policy Division, Office of Policy and Management, 450 Capitol Avenue, Mail Stop 54 GSU, Hartford CT 06106-1379, or visit the website of the Office of Policy and Management at www.ct.gov/opm and select *Intergovernmental* from the *Offices & Divisions* pull-down menu. Then scroll down to the Intergovernmental Affairs Unit and select *Statutes relating to Assessment and Taxation*. Specific information may also be obtained from a city or town assessor.

Effect on Other Documents: This **Informational Publication 2007(26)** modifies and supersedes **Informational Publication 2006(32)**, *Business Taxes*, which may no longer be relied upon on after the issuance date of this publication.

Effect of This Document: An Informational Publication issued by 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 website 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 call **860-297-4753** (from anywhere).

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

- **For business returns, tax payments, and electronic bill payments:** Use the **Taxpayer Service Center (TSC)** to file a variety of tax returns and extensions, as well as to pay taxes or bills over the Internet. Visit the DRS website at www.ct.gov/DRS and choose the **TSC** logo for a complete list of taxes that can be electronically filed and paid.
 - **For income tax returns, extensions, estimated payments, and electronic bill payments:** Use the **Taxpayer Service Center (TSC)** to file personal income tax returns and extensions, or to make estimated payments and electronic bill payments over the Internet. Visit the DRS website at www.ct.gov/DRS and select the **TSC** logo.
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