



STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

SN 2002(12)

25 Sigourney Street
Hartford CT 06106-5032

SPECIAL NOTICE

2002 Legislation Affecting the Connecticut Income Tax

Purpose: This Special Notice summarizes 2002 legislation affecting the Connecticut income tax.

Effective Date: Effective dates are noted below.

Statutory Authority: 2002 Conn. Pub. Acts 1 (May 9 Spec. Sess.) and 2002 Conn. Pub. Acts 4 (May 9 Spec. Sess.).

Increase in Personal Exemption for Single Filers Delayed: The annual increase to the personal exemption for single filers, which was scheduled to take place over an eight year period beginning with the 2000 taxable year, has been delayed by two years. The personal exemption in effect for the 2001 taxable year will remain in effect for the 2002 and 2003 taxable years. The previously scheduled increases will resume beginning with the 2004 taxable year.

Single filers are those individuals who are required to file their federal and Connecticut income tax returns as “single” individuals and *not* as married individuals filing jointly or separately, heads of household, or qualifying widow(er)s.

Conn. Gen. Stat. §12-702, as amended by 2002 Conn. Pub. Acts 1, §78 (May 9 Spec. Sess.), applicable to taxable years beginning on or after January 1, 2002.

Increase in Personal Credit for Single Filers Delayed: The annual increase to the personal credit for single filers, which was scheduled to take place over an eight year period beginning with the 2000 taxable year, has been delayed by two years. The personal credit in effect for the 2001 taxable year will remain in effect for the 2002 and 2003 taxable years. The previously scheduled increases will resume beginning with the 2004 taxable year.

Conn. Gen. Stat. §12-703, as amended by 2002 Conn. Pub. Acts 1, §79 (May 9 Spec. Sess.), applicable to taxable years beginning on or after January 1, 2002.

Increase in Property Tax Credit for Single Filers Delayed:

The annual increase in the thresholds used to determine the property tax credit for single filers, which was scheduled to take place over an eight year period beginning with the 2000 taxable year, has been delayed by two years. The thresholds used to determine the property tax credit in effect for the 2001 taxable year will remain in effect for the 2002 and 2003 taxable years. The previously scheduled increases will resume beginning with the 2004 taxable year.

Conn. Gen. Stat. §12-704c, as amended by 2002 Conn. Pub. Acts 1, §80 (May 9 Spec. Sess.), applicable to taxable years beginning on or after January 1, 2002.

Bonus Depreciation Modification for Individuals:

The federal Job Creation and Worker Assistance Act of 2002 created a special 30% federal depreciation allowance for certain property acquired after September 10, 2001, and before September 11, 2004, and, in general, placed in service before January 1, 2005. The provision (Internal Revenue Code §168(k)) allows taxpayers to claim an additional first-year bonus depreciation allowance on new Modified Accelerated Cost Recovery System (MACRS) property where the recovery period is 20 years or less. The additional first-year bonus depreciation allowance is equal to 30% of the adjusted basis of the property (after any Internal Revenue Code §179 expense deductions are taken). The regular MACRS depreciation deduction is calculated after reducing the adjusted basis of the new property by the additional first-year allowance.

The Connecticut General Assembly enacted legislation to “decouple” from the federal additional first-year bonus depreciation allowance for Connecticut income tax purposes. Individuals who claim this additional first-year bonus depreciation on their federal income tax returns for taxable years beginning on or after January 1, 2002 are required, in computing their Connecticut adjusted gross income, to add to their federal adjusted gross income the additional first-year

bonus depreciation allowance (to the extent deductible in determining their federal adjusted gross income). The effect for Connecticut income tax purposes of this legislation is to disallow permanently the deduction of the additional first-year bonus depreciation, rather than merely to defer the deduction.

If there is a sale or other disposition of the property for which additional first-year bonus depreciation was deducted for federal income tax purposes, the gain recognized will be the same for federal and Connecticut income tax purposes. (In computing Connecticut adjusted gross income, no modification to federal adjusted gross income is expressly authorized by Conn. Gen. Stat. §12-701(a)(20) in connection with the gain recognized from the sale or other disposition of such property. 2001 Conn. Pub. Acts 6, §36 (June. Spec. Sess.).)

Reporting the Bonus Depreciation Modification:

For taxable years beginning on or after January 1, 2002, a new modification for the addback of the additional 30% bonus depreciation will be included on the following Connecticut tax forms: **Form CT-1040, Schedule I**; **Form CT-1040NR/PY, Schedule I**; **Form CT-1120SI, Part VI**; and **Form CT-1065, Schedule D**.

Bonus Depreciation Does Not Apply to Taxable Years of Individuals Prior to the 2002 Taxable Year:

Taxpayers are not permitted or required to file 2001 amended Connecticut income tax returns to report the addition modification for property placed in service after September 10, 2001, and prior to January 1, 2002, because the law is applicable only to taxable years of individuals beginning on or after January 1, 2002.

Effect of Bonus Depreciation on Other Entities:

C Corporations: The treatment of the additional first-year bonus depreciation allowance for corporation business tax purposes differs from the treatment for income tax purposes. For more information on the treatment of bonus depreciation for corporation business tax purposes, see **Special Notice 2002(10), Bonus Depreciation for Connecticut Corporation Business Tax Purposes**.

Trusts and Estates: A trust or estate that owns property for which the bonus depreciation allowance is deducted for federal income tax purposes is *not* required to add the bonus depreciation allowance to its federal taxable income in computing its Connecticut taxable income. Consequently, **Form CT-1041** will not have an addback modification.

Pass-through Entities:

Where the Taxable Year is the Calendar Year: A pass-through entity (such as an S corporation, partnership, or limited liability company that is treated

as a partnership for federal income tax purposes) that owns property for which the bonus depreciation allowance is deducted for federal income tax purposes and whose taxable year is the calendar year, is *not* required for its 2001 taxable year to pass-through the addition modification to each individual who is its shareholder, partner or member. If a pass-through entity owns property for which the bonus depreciation allowance is deducted for federal income tax purposes in a succeeding taxable year, it is required for its succeeding taxable year to pass-through the addition modification to each individual who is its shareholder, partner or member, so that the individual is able to add the bonus depreciation modification to his or her federal adjusted gross income in computing his or her Connecticut adjusted gross income for the individual's taxable year.

Where the Taxable Year is Other Than the Calendar Year:

A pass-through entity that owns property for which the bonus depreciation allowance is deducted for federal income tax purposes and whose taxable year is *other than* the calendar year is required for its 2001 taxable year to pass-through the addition modification to each individual who is its shareholder, partner or member, so that the individual is able to add the bonus depreciation modification to his or her federal adjusted gross income in computing his or her Connecticut adjusted gross income for the individual's 2002 taxable year. If a pass-through entity owns property for which the bonus depreciation allowance is deducted for federal income tax purposes in a succeeding taxable year, it is required for its succeeding taxable year to pass-through the addition modification to each individual who is its shareholder, partner, or member, so that the individual is able to add the bonus depreciation modification to his or her federal adjusted gross income in computing his or her Connecticut adjusted gross income for the individual's taxable year during which the pass-through entity's succeeding taxable year ends.

Conn. Gen. Stat. §12-701(a)(20)(A), as amended by 2002 Conn. Pub. Acts 1, §77 (May 9 Spec. Sess.), applicable to taxable years beginning on or after January 1, 2002.

Nonresident Lottery Winnings: Nonresidents are now subject to Connecticut income tax on their winnings from a wager placed in a lottery conducted by the Connecticut Lottery Corporation, if the proceeds are required to be reported by the Connecticut Lottery Corporation to the Internal Revenue Service (reportable Connecticut Lottery winnings). The Connecticut Lottery Corporation is

required to report Connecticut Lottery winnings to the Internal Revenue Service if the amount paid to the winner is \$600 or more, and at least 300 times the amount of the wager. Prior law subjected nonresidents to Connecticut income tax on their reportable Connecticut Lottery winnings only if the proceeds from the wager exceeded \$5,000. The \$5,000 threshold has been eliminated. For more information, see **Announcement 2002(5)**, *Nonresidents Now Subject to Connecticut Income Tax on Reportable Connecticut Lottery Winnings*, and **Informational Publication 2002(18)**, *Connecticut Income Tax Treatment of State Lottery Winnings Received by Residents and Nonresidents of Connecticut*.

Conn. Gen. Stat. §12-711(b), as amended by 2002 Conn. Pub. Acts 1, §81 (May 9 Spec. Sess.), applicable to taxable years beginning on or after January 1, 2002.

Nonresident Gambling Winnings Other Than Connecticut Lottery Winnings: A provision making nonresidents subject to Connecticut income tax on their *other* gambling winnings derived from any wager, wagering transaction, or gambling activity in this state, if the proceeds were required to be reported by the payer to the Internal Revenue Service, was enacted into law (2002 Conn. Pub. Acts 1, §81 (May 9 Spec. Sess.)) and then repealed before taking effect (2002 Conn. Pub. Acts 4, §17 (May 9 Spec. Sess.)).

No Addition to Tax: No individual, trust, or estate will be subject to an addition to tax in the case of any underpayment of estimated tax required to be paid on or before July 15, 2002, to the extent such underpayment was created or increased by any provision of 2002 Conn. Pub. Acts 1 (May 9 Spec. Sess.), such as the bonus depreciation decoupling modification, the delay in the annual increase in the personal exemption for single filers, the delay in the annual increase in the personal credit for single filers, or the lowering of the threshold at which nonresidents are subject to Connecticut income tax on Connecticut Lottery winnings.

2002 Conn. Pub. Acts 4, §3 (May 9 Spec. Sess.), effective from passage (August 15, 2002).

Effect of This Document: A Special Notice is a document that announces a new policy or practice in

response to changes in State or federal laws or regulations or to judicial decisions. A Special Notice indicates an informal interpretation of Connecticut tax law by DRS and may be referred to for general guidance by taxpayers or tax practitioners.

Effect on Other Documents: None affected.

For Further Information: Please call DRS during business hours, 8:00 a.m. to 5:00 p.m., Monday through Friday:

- **1-800-382-9463** (in-state), or
- **860-297-5962** (from anywhere)

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

Forms and Publications: Forms and publications are available all day, seven days a week:

- **Internet:** Preview and download forms and publications from the DRS Web site: **www.drs.state.ct.us**
- **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu.
- **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.

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

- **For business returns:** Use **Fast-File** to electronically file sales and use taxes, business use tax, room occupancy tax, or withholding tax returns over the internet or telephone. Visit the DRS Web site at: **www.drs.state.ct.us** and click on **Business Taxes Fast File Program**.
- **For resident income tax returns:** Use **WebFile** to file personal income tax returns over the Internet. Visit the DRS Web site at: **www.drs.state.ct.us** and click on **Income Tax Web Filing**.