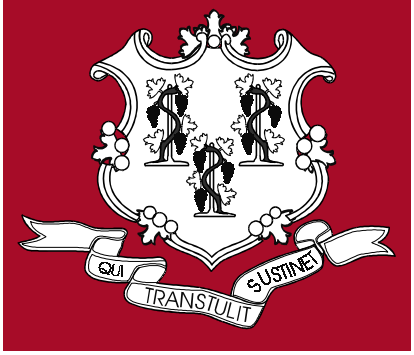
2002

FORM CT-1040 NR/PY

This booklet contains:

- Form CT-1040NR/PY
- Schedule CT-SI
- Schedule CT-1040AW
- Form CT-1040 EXT
- Form CT-1040ES
- Schedule CT-1040BA
- Individual Use Tax Worksheet
- Tax Tables
- Tax Calculation Schedule



Connecticut Nonresident or Part-Year Resident Income Tax

Return and Instructions

Dear Customer:

No one likes paying taxes, not even me, but we all know that it is our duty. At the Connecticut Department of Revenue Services (DRS), we want to make your filing responsibilities as easy as possible. This booklet contains information about any tax changes that may affect you, as well as ways to make your filing as easy and accurate as possible.

If you have questions about filing **Form CT-1040NR/PY**, DRS Taxpayer Services personnel can answer them by phone, letter, or e-mail. DRS tax assistance is always free. Contact information is listed on the back cover.

Our Web site is also a valuable resource that is available 24 hours a day, seven days a week. You can preview and download Connecticut tax forms, publications, and other information that you may need. Visit our Web site at: **www.drs.state.ct.us**

Our goal is to provide you with excellent customer service and user-friendly tax administration. I welcome your comments and ideas on how we can improve the way we do business. Please phone, write, or e-mail me through our Web site.

I look forward to hearing from you.

Sincerely,

Gene Gavin

Gene Gavin

Commissioner of Revenue Services

Taxpayer information is available on our Web site:
www.drs.state.ct.us

Department of Revenue Services walk-in locations and telephone numbers are listed on the back cover.

CONN-TAX

If you have a touch-tone phone, you can obtain important income tax information 24 hours a day from CONN-TAX, the Department's information line. Call **1-800-382-9463** (in-state) or **860-297-5962** (from anywhere), press "**1**" to be connected to "Income Tax Information Menu," then press "**2**" to select "Recorded Income Tax Information." Enter the three-digit number next to the topic of your choice shown below, or follow the prerecorded instructions.

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Extended Telephone Hours for the 2003 Filing Season (Option "0"):

Monday, **January 27** (*until 7 p.m.*)
Monday, **February 3** (*until 7 p.m.*)
Monday, **February 10** (*until 7 p.m.*)
Tuesday, **February 18** (*until 7 p.m.*)

2003 Extended Telephone Personal Assistance and Walk-in Hours at 25 Sigourney Street, Hartford

Saturday, **April 12** (*8:30 a.m. - 12:00 p.m.*)
Tuesday, **April 15** (*until 8 p.m.*)

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WHAT'S NEW

- Beginning with income tax returns filed for the 2002 taxable year, taxpayers may elect to have their refunds **directly deposited** into a checking or savings account. Remember to file early and choose direct deposit to get your refund to you as soon as possible. See *Line 26 – Amount of Line 23 You Want Refunded to You,* on Page 16.
- The annual increase to the **personal exemptions and credits** used in calculating the tax for individuals whose filing status is Single (scheduled to take place over an eight-year period beginning with the 2000 taxable year) has been delayed by two years. The personal exemptions and credits for the 2001 taxable year will remain in effect for the 2002 and 2003 taxable years. The scheduled increases will resume beginning with the 2004 taxable year.
- Every year, DRS receives thousands of Connecticut income tax returns from individuals who are **not required to file**. Even if you are required to file a federal income tax return, you may not be required to file a Connecticut income tax return. Before spending your valuable time and money (for those of you who go to a paid preparer), see *Who Must File Form CT-1040NR/PY*, on Page 5 to determine if you are required to file. If you determine that you are required to file, consider using one of the electronic options provided below. By filing electronically, you will get your refund sooner. You will also help DRS reduce processing and mailing costs associated with handling paper returns.
- The federal Job Creation and Worker Assistance Act of 2002 created a **special 30% depreciation allowance** for certain property acquired after September 10, 2001, and before September 11, 2004. The provision allows taxpayers to claim an additional first-year special depreciation allowance on new MACRS property where the recovery period is 20 years or less. The Connecticut General Assembly enacted legislation to require individuals for taxable years beginning on or after January 1, 2002, to add the additional first-year special depreciation allowance (to the extent deductible in determining their federal adjusted gross income) to their federal adjusted gross income in computing their Connecticut adjusted gross income. Therefore, when computing Connecticut adjusted gross income for taxable years beginning on or after January 1, 2002, individuals are required to add the additional first-year special depreciation allowance to their federal adjusted gross income. See **Special Notice 2002(12)**, *2002 Legislation Affecting the Connecticut Income Tax,* and the instructions to **Form CT-1040NR/PY**, *Schedule 1, Modifications to Federal Adjusted Gross Income*, Line 34.
- Nonresidents are subject to Connecticut income tax on their **lottery 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). Prior law subjected nonresidents to Connecticut income tax on their Connecticut Lottery winnings only if the proceeds from the wager exceeded $5,000. See **Informational Publication 2002(18)**, *Connecticut Income Treatment of State Lottery Winnings Received by Residents and Nonresidents of Connecticut*.
- Interest on the underpayment of estimated tax will not apply to any underpayment of estimated tax payment to the extent such underpayment was created or increased by any provision of Public Act 2002-1 of the May 9, 2002 Special Session of the Connecticut General Assembly and to the extent any estimated tax payment was required to be made on or before July 15, 2002. See **Form CT-2210**, *Underpayment of Estimated Income Tax by Individuals, Trusts and Estates,* for more information.
- For taxable years beginning on or after January 1, 2002, there is an **annual tax of $250** on each:
  - S Corporation;
  - Limited Liability Company, which is, 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 Partnership; **or**
  - Limited Partnership;

  that is required to file an annual report with the Connecticut Secretary of the State. Entities report and pay the tax on **Form OP-424**, *Business Entity Tax Return*. See **Special Notice 2002(11)**, *Business Entity Tax*.

E-File Option

FILE YOUR TAX RETURN ELECTRONICALLY!

Refunds issued in 4 days

Easy to use • Immediate Proof of Filing • Safe and Secure

Paperless with IRS PIN

Available 24 hours a day, 7 days a week!

e-file for Connecticut Part-Year and Nonresident Returns!

File your Federal and State Tax Returns together using e-file!

Have your tax preparer electronically file your tax returns. Visit **www.IRS.gov/efile** or check the Yellow Pages under "Tax Return Preparation" for a list of approved preparers.

File your returns from home using a DRS-approved commercial tax filing web site or software product. Visit: **www.drs.state.ct.us** for a complete list!

Check with your preparer or software company to see if they support this new online option.

GENERAL INFORMATION

Tax Assistance

DRS is ready to help you and offers several resources where you can get answers to your Connecticut tax questions. Visit the DRS Web site at: **www.drs.state.ct.us** or for personal assistance, refer to the back cover of this booklet for a list of DRS walk-in offices and telephone numbers. DRS offices are open Monday through Friday, 8:00 a.m. to 5:00 p.m. If you visit, be sure to bring:

- Your "**state copy**" of your federal Forms W-2 and any other forms showing Connecticut income tax withholding; **and**
- Your **completed** federal Form 1040EZ, 1040A, 1040, or federal TeleFile Tax Record.

Personal telephone assistance is available Monday through Friday, 8:00 a.m. to 5:00 p.m. Extended hours are offered for the filing season, see Page 2. Automated information may answer your questions anytime. Call CONN-TAX, the DRS information line, or visit the DRS Web site for details.

Forms and Publications

Download and print Connecticut tax forms and publications seven days a week from the DRS Web site at: **www.drs.state.ct.us**. Forms are also available during regular business hours at any of the DRS walk-in offices and the other sources listed on the back cover of this booklet, and at most public libraries, town halls, banks, and post offices during the tax filing season.

Important Reminders

Follow these tips to help us process your refund faster:

- ❒ Be sure that you have received all your federal Forms W-2, W-2G, and 1099 before filing your Connecticut income tax return. Generally, you will receive these forms on or before January 31. If you receive an additional federal Form W-2, W-2G, or 1099 after filing your Connecticut income tax return, you may be required to file **Form CT-1040X**. See *Amended Returns* on Page 34.
- ❒ Use the preprinted peel-off label. The preprinted label **does not** include your Social Security Number(s). Therefore, you **must** enter your Social Security Number and the Social Security Number of your spouse (if filing a joint return), in the spaces next to your name(s).

  If you did not receive a tax return package with a label, enter your name(s) and mailing address in the spaces provided at the top of your return.
- ❒ Check the correct filing status on your return.
- ❒ Attach a legible "**state copy**" of each federal Form W-2 (Wages), W-2G (Winnings), 1099-R (Pensions), and any other forms showing Connecticut income tax withheld to your Connecticut return.
- ❒ Sign your return. If you and your spouse are filing jointly, both of you must sign.
- ❒ Have your paid preparer sign the return.
- ❒ Be sure that both you and your spouse file your income tax returns at the same time if you filed joint estimated tax payments but elect to file separate income tax returns. No refund will be processed until both Connecticut returns are received.
- ❒ Use the correct DRS mailing label on the envelope when filing your return. One label is for refunds and all other tax forms without payment. The other label is for all tax forms with payment.

Who Must File Form CT-1040NR/PY

You must file **Form CT-1040NR/PY**, if you were a nonresident or part-year resident of Connecticut in 2002 **and** any of the following is true for the 2002 taxable year:

- You had Connecticut income taxes withheld; **or**
- You made estimated tax payments to Connecticut; **or**
- You were a part-year resident who meets the *Gross Income Test* (see below) or who had a federal alternative minimum tax liability; **or**
- You were a nonresident with Connecticut source income who meets the *Gross Income Test* (see below); or had a federal alternative minimum tax liability. See *Connecticut Source Income of a Nonresident* on Page 8.

If none of the above apply, do not file Form CT-1040NR/PY.

Gross Income Test

You must file a Connecticut income tax return if your gross income for the 2002 taxable year exceeds:

- $12,000 and you will file as Married Filing Separately
- $12,500 and you will file as Single
- $19,000 and you will file as Head of Household
- $24,000 and you will file as Married Filing Jointly

Gross income means all income you received in the form of money, goods, property, and services that is not exempt from federal income tax, **and** any additions to income that are required to be reported on **Form CT-1040NR/PY**, *Schedule 1*.

Gross income includes, but is not limited to:

- Compensation for services, including wages, fees, commissions, taxable fringe benefits, and similar items
- Gross income from a business
- Capital gains
- Interest and dividends
- Gross rental income
- Gambling winnings
- Alimony
- Taxable pensions and annuities
- Prizes and awards
- Your share of income from partnerships, S corporations, estates, or trusts
- IRA distributions
- Unemployment compensation
- **Federally taxable** Social Security

The following examples explain the gross income test:

Example 1: A nonresident whose only income is from a sole proprietorship located in Connecticut files a federal Form 1040, reporting the following on Schedule C:

Gross Income	**$100,000**
Expenses	**($ 92,000)**
Net Income	**$ 8,000**

Because the **gross income** of $100,000 exceeds the minimum requirement **and** the income is from a Connecticut source, this nonresident must file **Form CT-1040NR/PY**.

Example 2: A Connecticut part-year resident who files as single on **Form CT-1040NR/PY** received $8,000 in federally nontaxable Social Security benefits and $11,000 in interest income. Since nontaxable Social Security benefits are not included in gross income, the Connecticut part-year resident will not be required to file a return unless Connecticut tax was withheld or estimated tax payments were made.

Example 3: A nonresident whose filing status is single for federal income tax purposes received $12,500 in wage income from Connecticut employment and $1,000 in federally-exempt interest from California state bonds. The taxpayer's federal gross income with additions from **Form CT-1040NR/PY**, *Schedule 1* (interest on state or local obligations other than Connecticut), is $13,500. Therefore, the nonresident must file **Form CT-1040NR/PY**.

Relief From Joint Liability

In general, if you and your spouse file a joint income tax return you are both responsible for paying the full amount of tax, interest, and penalties due on your joint return. However, in very limited, specific cases, relief may be granted if you believe that all or any part of the amount due should be paid only by your spouse. You may request consideration by filing **Form CT-8857**, *Request for Innocent Spouse Relief* (*And Separation of Liability and Equitable Relief*). See **Special Notice 99(15)**, *Innocent Spouse Relief*, *Separation of Liability, and Equitable Relief*.

Title 19 Recipients

Title 19 recipients must file a Connecticut income tax return if the requirements for *Who Must File Form CT-1040NR/PY* are met.

However, if you do not have funds to pay your Connecticut income tax and during 2002:

- You were a Title 19 recipient; **and**
- Medicaid assisted in the payment of your long-term care in a nursing or convalescent home,

complete **Form CT-19IT**, *Title 19 Status Release*, and attach it to the **front** of your Connecticut income tax return. By completing this form, you authorize DRS to verify your Title 19 status for 2002 with the Department of Social Services.

Deceased Taxpayers

A Connecticut income tax return must be filed for a taxpayer who died during the year if the requirements for *Who Must File Form CT-1040NR/PY* are met. The return must be signed and filed by his or her executor, administrator, or surviving spouse for the portion of the year before the taxpayer's death. The person who files the return must clearly write "**DECEASED**," the deceased taxpayer's name, and the date of death across the top of the return.

A surviving spouse may file a joint return if the surviving spouse filed a joint federal income tax return. Write "**Filing as surviving spouse**" in the deceased spouse's signature block on the return. If both spouses died in 2002, their legal representative must file a final return. The Connecticut and federal filing status must be the same.

Claiming a Refund for a Deceased Taxpayer

If you are a surviving spouse filing a joint return with the deceased, file the tax return to claim the refund. If you are a court-appointed representative, file the return **and** attach a copy of the certificate that shows your appointment. All other filers requesting the deceased taxpayer's refund must file the return and attach federal Form 1310, Statement of Person Claiming Refund Due a Deceased Taxpayer.

Income received by the estate of the decedent for the portion of the year after the decedent's death, and for succeeding taxable years until the estate is closed, must be reported each year on **Form CT-1041**, *Connecticut Income Tax Return for Trusts and Estates*.

Special Information for Nonresident Aliens

A nonresident alien must file a Connecticut income tax return if the requirements of *Who Must File Form CT-1040NR/PY* are met. In determining whether the *Gross Income Test* is met, the nonresident alien must take into account any income that is not subject to federal income tax under an income tax treaty between the U.S. and the country of which the nonresident alien is a citizen or resident. Income tax treaty provisions are disregarded for Connecticut income tax purposes. When filing their Connecticut income tax return, nonresident aliens must enter on **Form CT-1040NR/PY**, Line 1, the amount reported on federal Form 1040NR, Line 33 or federal Form 1040NR-EZ, Line 10. Any treaty income that is reported on federal Form 1040NR or Form 1040NR-EZ, and that is not subject to federal income tax, must be added to the nonresident alien's federal adjusted gross income on **Form CT-1040**, *Schedule 1*, Line 36, or **Form CT-1040NR/PY**, *Schedule 1*, Line 38.

If the nonresident alien does not have and is not eligible for a Social Security Number, he or she must obtain an Individual Taxpayer Identification Number (ITIN) from the IRS, and enter it in the space provided for a Social Security Number.

A married nonresident alien may not file a joint Connecticut income tax return unless the nonresident alien is married to a citizen or resident of the U.S. and they have made an election to file a joint federal income tax return and, in fact, file a joint federal income tax return. Any married individual filing federal Form 1040NR or federal Form 1040NR-EZ is not eligible to file a joint federal income tax return or a joint Connecticut income tax return, and must file as a married individual filing separately.

Am I a Resident, Part-Year Resident, or Nonresident

The following terms are used in this section:

Domicile (permanent legal residence) is the place you intend to have as your permanent home. It is the place you intend to return to whenever you are away. You can have only one domicile although you may have more than one place to live. Your domicile does not change until you move to a new location and definitely intend to make your permanent home there. If you move to a new location but intend to stay there only for a limited time (no matter how long), your domicile does not change. This also applies if you are working in a foreign country.

Permanent place of abode is a residence (a building or structure where a person can live) that you permanently maintain, whether or not you own it, and generally includes a residence owned by or

leased to your spouse. A place of abode is not permanent if it is maintained only during a temporary stay for the accomplishment of a particular purpose.

You are a **resident** for the 2002 taxable year if**:**

- Connecticut was your domicile (permanent legal residence) for the entire 2002 taxable year; **or**
- You maintained a permanent place of abode in Connecticut and spent a total of more than 183 days in Connecticut during the 2002 taxable year, and you are not a part-year resident.

Nonresident aliens who meet either of the above conditions are considered Connecticut residents even if federal Form 1040NR-EZ or federal Form 1040NR is filed for federal income tax purposes.

If you are a resident and any of the following is true for the 2002 taxable year, you must file **Form CT-1040EZ** or **Form CT-1040**:

- You had Connecticut income taxes withheld;
- You made estimated tax payments to Connecticut;
- You meet the gross income test; **or**
- You had a federal alternative minimum tax liability.

You are a **part-year resident** for the 2002 taxable year if you changed your permanent legal residence by moving into or out of Connecticut during the 2002 taxable year. Part-year residents may not elect to be treated as resident individuals.

If you are a part-year resident and you meet the requirements of *Who Must File Form CT-1040NR/PY,* for the 2002 taxable year, you must file **Form CT-1040NR/PY**.

You are a **nonresident** for the 2002 taxable year if you are neither a resident nor a part-year resident for the 2002 taxable year.

If you are a nonresident and you meet the requirements of *Who Must File Form CT-1040NR/PY* for the 2002 taxable year, you must file **Form CT-1040NR/PY**.

Although you and your spouse file jointly for federal purposes, you may be required to file separate Connecticut returns. See *Special Rules for Married Individuals* on Page 13.

Important: You may be treated as a nonresident for 2002 even if your domicile was Connecticut, if you meet **all** of the conditions in Group A or Group B:

Group A

1. You did not maintain a permanent place of abode in Connecticut for the entire 2002 taxable year;
2. You maintained a permanent place of abode outside of Connecticut for the entire 2002 taxable year; **and**
3. You spent not more than 30 days in the aggregate in Connecticut during the 2002 taxable year.

Group B

1. You were in a foreign country for at least 450 days during any period of 548 consecutive days;
2. During this period of 548 consecutive days, you did not spend more than 90 days in Connecticut and you did not maintain a permanent place of abode in Connecticut at which your spouse (unless legally separated) or minor children spent more than 90 days; **and**
3. During the nonresident portion of the taxable year in which the 548-day period begins, and during the nonresident portion of the taxable year in which the 548-day period ends, you were present in Connecticut for no more than the number of days that bears the same ratio to 90 as the number of days in such portion of the taxable year bears to 548. See the calculation below:

$$\frac{\text{Number of days in the nonresident portion}}{548} \times 90 = \text{Maximum days allowed in Connecticut}$$

See **Special Notice 2000(17)**, *2000 Legislation Affecting the Connecticut Income Tax.*

Military Personnel Filing Requirements

Military personnel who claim Connecticut as a residence but are stationed elsewhere will be subject to Connecticut income tax. If you enlisted in the service as a Connecticut resident and have not established a new domicile (permanent legal residence) elsewhere, you are required to file a resident income tax return unless you meet all of the conditions in Group A or Group B for being treated as a nonresident. See *Am I a Resident, Part-Year Resident, or Nonresident* on Page 6.

If your permanent home (domicile) was outside Connecticut when you entered the military, you do not become a Connecticut resident because you are stationed and live in Connecticut. As a nonresident, your military pay is not subject to Connecticut income tax. However, income that you receive from Connecticut sources while you are a nonresident (including your spouse's nonmilitary income) may be subject to Connecticut income tax.

Example: Jennifer is a resident of Florida. She enlisted in the Navy in Florida and was stationed in Groton, Connecticut. She earned $38,000 in military pay.

If Jennifer had no other income. . .

Since Jennifer resided and enlisted in Florida, she is considered a resident of Florida and does not have to file a Connecticut return. Military personnel are residents of the state in which they resided when they enlisted.

If Jennifer had a part-time job in Connecticut. . .

Her Connecticut source income from nonmilitary employment is taxable. Jennifer must file **Form CT-1040NR/PY** to report this income.

Spouses of military personnel who are stationed in Connecticut may be considered residents of this state even if their domicile is elsewhere. See *Am I a Resident, Part-Year Resident, or Nonresident* on Page 6.

See **Informational Publication 2002(22)**, *Connecticut Income Tax Information for Military Personnel and Veterans*.

Combat Zone

The income tax return of any individual in the U.S. Armed Forces serving in a combat zone or injured and hospitalized while serving in a combat zone is due 180 days after returning. There will be no penalty or interest charged. For any individual who dies while on active duty in a combat zone or as a result of injuries received in a combat zone, no income tax or return is due for the year of death. A refund of tax paid will be provided to the legal representative of the estate or to the surviving spouse.

Combat zone is an area designated by the President of the United States as a combat zone by executive order. A combat zone also includes an area designated by the federal government as a *qualified hazardous duty area*.

Members of the U.S. Armed Forces serving in the military operations in the Kosovo and Afghanistan regions are eligible for the 180 day extension allowed to individuals serving in a combat zone. Spouses of military personnel and civilians supporting the military in these regions who are away from their permanent duty stations but are not within the designated combat zone are also eligible for the extension. Individuals requesting an extension under the Kosovo provision should print the words "**Operation Allied Force**" at the top of the tax return. Individuals requesting an extension under the Afghanistan provision should print the words "**Enduring Freedom**" at the top of the tax return.

How Nonresidents and Part-Year Residents are Taxed

If you are a nonresident or a part-year resident, your tax liability is computed based upon the greater of your Connecticut adjusted gross income or your total income from Connecticut sources.

You must calculate the tax in the same manner as a resident individual. Then prorate the tax based upon the percentage of your Connecticut adjusted gross income that is derived from or connected with Connecticut sources.

What is Connecticut Adjusted Gross Income

For the purpose of completing **Form CT-1040NR/PY**, Connecticut adjusted gross income is your federal adjusted gross income as reported on federal Form 1040, Line 35; federal Form 1040A, Line 21; federal Form 1040EZ, Line 4; or federal TeleFile Tax Record, Line I, adding or subtracting the Connecticut modifications that are required to be reported on **Form CT-1040NR/PY**, *Schedule 1*.

Connecticut Source Income of a Nonresident

Connecticut source income of a nonresident is income derived from or connected with sources within Connecticut when the income is:

- Attributable to ownership or disposition of real or tangible personal property within Connecticut; including, but not limited to, the income from the rental or sale of such property;
- Attributable to compensation for services performed in Connecticut or income from a business, trade, profession, or occupation carried on in Connecticut (including income derived directly or indirectly by athletes, entertainers, or performing artists from closed-circuit and cable television transmissions of irregularly scheduled events if such transmissions are received or exhibited within Connecticut);
- Unemployment compensation received from the Connecticut Department of Labor;
- From a partnership doing business in Connecticut;
- From an S corporation doing business in Connecticut;
- From a trust or estate with income derived from or connected with sources within Connecticut;
- From a nonqualified deferred compensation plan for services performed wholly within Connecticut; **or**
- From reportable Connecticut Lottery Winnings. Winnings from the Connecticut Lottery, including Powerball, are reportable if the winner was issued a federal Form W-2G by the Connecticut Lottery Corporation. In general, the Connecticut Lottery Corporation is required to issue a federal Form W-2G to a winner if the Connecticut Lottery winnings, including Powerball, are $600 or more and at least 300 times the amount of the wager. See **Informational Publication 2002(18)**, *Connecticut Income Tax Treatment of State Lottery Winnings Received by Residents and Nonresidents of Connecticut*.

In general, Connecticut source income of a nonresident **does not include** the following income even if it was included in your federal adjusted gross income:

- Distributions from pension or retirement plans (such as 401K plans);
- Interest, dividends, or gains from the sale or exchange of intangible personal property, unless that property is employed in a business, trade, profession, or occupation carried on in Connecticut;
- Compensation received for active service in the U.S. military;
- Dividends from a corporation doing business in Connecticut;
- Compensation you received from an interstate rail carrier, interstate motor carrier, or an interstate motor private carrier;
- Gambling winnings (other than reportable Connecticut Lottery Winnings shown on federal Form W-2G). See **Informational Publication 2001(29)**, *Connecticut Income Tax Treatment of Gambling Winnings Other Than State Lottery Winnings*.
- Interest you earned from a Connecticut bank (unless earned by a Connecticut business); **or**
- Income you received from business or employment activities in Connecticut that are considered casual, isolated, or inconsequential.

Activities Considered to be Casual, Isolated, or Inconsequential

In general, activities that meet one of the following tests are considered casual, isolated, or inconsequential:

1. **$6,000 test** - The gross income from the presence of a nonresident in Connecticut does not exceed $6,000 in the taxable year.

Important: An employee's wages for services performed in Connecticut are taxable, regardless of amount, unless the employee's services meet the Ancillary Activity Test. Also, reportable Connecticut Lottery winnings are taxable regardless of amount.

2. **Ancillary Activity Test** - The nonresident's presence in Connecticut is ancillary to his or her primary business or employment duties that are performed at a base of operations outside of Connecticut. Ancillary activities are those activities that are secondary to the individual's primary out-of-state duties, and include such things as presence in the state for planning, training, attendance at conferences or symposia, etc.

Connecticut Source Income of a Part-Year Resident

Connecticut source income of a part-year resident is the sum of:

1. Connecticut adjusted gross income for the part of the year you were a resident;
2. Income derived from or connected with Connecticut sources for the part of the year you were a nonresident; **and**
3. Special accruals.

What Items are Subject to Special Accrual

A part-year resident must recognize and report items of income, gain, loss, or deduction on the accrual basis, regardless of the method of accounting normally used. In general, an item of income is subject to special accrual if the right to receive it is fixed and the amount to be paid is determinable with reasonable accuracy at the time residency status is changed.

Change From Resident to Nonresident

If you moved out of Connecticut during the taxable year, you must include, in calculating your Connecticut adjusted gross income for the period of your Connecticut residency, all items of

income, gain, loss, or deduction you would be required to include if you were filing a federal income tax return for the same period on the accrual basis, together with any other accruals that are not otherwise includible or deductible for federal or Connecticut income tax purposes (such as deferred gains on installment obligations). Include items of special accrual with other items of income, gain, loss, and deduction reported for your residency period. See *Schedule CT-1040AW Instructions* on Page 31.

Example 1: Laura, a part-year resident who moved out of Connecticut in June 2002, sold property on the installment basis in April 2002. She will receive annual installment payments for five years. She must accrue the entire gain on the sale of the property to the portion of 2002 when she was a resident of Connecticut because her right to receive the gain was fixed and the amount was determinable before the time she changed her residency.

Example 2: Rick, a resident of Connecticut, retired from his Connecticut employment on September 1, 2002, and moved to Florida. His employer notified him on August 15, 2002, that he would receive a $1,000 bonus on September 15, 2002. He must accrue the $1,000 bonus to the portion of 2002 when he was a resident because the right to receive the bonus was fixed and the amount was determinable before the time he changed his residency.

Example 3: Cindy, a Connecticut resident, won the Connecticut Lottery in 2002. The proceeds from her wager were reported on federal Form W-2G. Cindy will receive her winnings on the installment basis for twenty years. During the 2002 taxable year, Cindy moved out of Connecticut, and is a part-year resident, because she changed her permanent legal residence. Ordinarily, Cindy's Connecticut Lottery winnings would be subject to special accrual; however, Cindy may avoid special accrual on those lottery winnings as long as the Connecticut Lottery Corporation continues to withhold Connecticut income tax from those winnings. Cindy will remain subject to Connecticut income tax for the years during which the lottery winnings are received.

If Cindy won another state's lottery during 2002, she would be subject to Connecticut income tax while a Connecticut resident. If Cindy moves out of Connecticut, and is a part-year resident because she changed her permanent legal residence, her lottery winnings would be subject to special accrual.

Payment of Tax

If you moved out of Connecticut during the taxable year and you have items of income or gain subject to special accrual, you must either:

- Include the items of accrual in the calculation of tax in the year you changed your residence; **or**
- File a surety bond or other security and pay the tax as a nonresident in the year(s) the income is actually received.

Surety Bond

You may elect to defer the payment of Connecticut income tax on items of special accrual by filing a surety bond with DRS in an amount not less than the amount of the additional Connecticut income tax that would be payable if no surety bond or other security were filed. If you choose this option, you must file **Form CT-1040NR/PY** for the taxable year when you change your residence. Include a separate statement showing the nature and amount of each item of special accrual as of the date of change of residence, together with a computation of the additional Connecticut income tax which would be due if the election to file a surety bond had not been made. For further information on the requirements for a surety bond, contact DRS and request a copy of Conn. Agencies Regs. §12-717(c)(4)-1, **Form CT-12-717A**, *Change of Resident Status - Special Accruals, Connecticut Surety Bond Form,* and **Form CT-12-717B**, *Change of Resident Status - Special Accruals, Other Acceptable Security Form.*

Change From Nonresident to Resident

If you moved into Connecticut during the taxable year, items of income, gain, loss, or deduction that accrue to the period of the year prior to your Connecticut residency are not included in your Connecticut source income. However, items of income which are derived from or connected with Connecticut sources may **not** be accrued to the nonresident period and must be included in calculating your Connecticut source income for that year.

Example: Jennifer was a California resident from January 1, 2002, until July 31, 2002. She became a Connecticut resident on August 1. While a resident of California, Jennifer earned $10,000 for work performed in that state, but she did not receive payment for that work until September 30, 2002.

Jennifer also owned a condominium in Connecticut, which she rented to a third party from January 1 to July 31, 2002. She received payment of the rent for the first four months of the year while she was living in California, and she received the remaining payments after she became a Connecticut resident.

Jennifer will file a Connecticut part-year resident return for 2002. The $10,000 of California source income earned before Jennifer changed her residency is accrued to her nonresidency period even though she received the payment after becoming a Connecticut resident. The rental payments from Connecticut real estate are considered Connecticut source income regardless of when she received this income. Therefore, the entire amount of rental income is includable in her Connecticut adjusted gross income and none of it is subject to special accrual.

Forms and Schedules Included in This Booklet

In addition to **Form CT-1040NR/PY**, this booklet contains several forms you may have to complete. The following is a brief description of these forms and an explanation of who should complete them.

Form	Who Should Complete
Schedule CT-SI	
Parts 1 and 2:	All nonresidents and part-year residents
Employee Apportionment Worksheet:	A nonresident employee or part-year employee (for his or her nonresidency period) who worked in and outside of Connecticut and does not know the actual amount of Connecticut source income.
Schedule CT-1040AW	All part-year residents
Schedule CT-1040BA	A self-employed nonresident or part-year resident (for his or her nonresidency period) who carried on business both in and outside of Connecticut.

Taxable Year and Method of Accounting

You must use the same taxable year for Connecticut income tax purposes that you use for federal income tax purposes. Most individuals use the calendar year as their taxable year for federal income tax purposes. However, if the calendar year is not your taxable year for federal income tax purposes, references in this booklet to "2002" are references to your taxable year beginning during 2002.

You must use the same method of accounting for Connecticut income tax purposes that you use for federal income tax purposes.

If your taxable year or method of accounting is changed for federal income tax purposes, the same change must be made for Connecticut income tax purposes.

When to File

Your Connecticut income tax return is due on or before April 15, 2003. If you are not a calendar year filer, your return is due on or before the 15th day of the fourth month following the close of your taxable year. If the due date falls on a Saturday, Sunday, or legal holiday, the next business day is the due date.

Your return will meet the timely filed and timely payment rules if the U.S. Postal Service cancellation date, or the date recorded or marked by a designated private delivery service (PDS) using a designated type of service, is on or before the due date. Not all services provided by these designated PDSs qualify.

The following are the designated PDSs and designated types of service at the time of publication:

Airborne Express (Airborne)	DHL Worldwide Express (DHL)
• *Overnight Air Express Service* • *Next Afternoon Service* • *Second Day Service*	• *DHL "Same Day" Service* • *DHL USA Overnight*
Federal Express (FedEx)	**United Parcel Service (UPS)**
• *FedEx Priority Overnight* • *FedEx Standard Overnight* • *FedEx 2Day* • *FedEx International Priority* • *FedEx International First*	• *UPS Next Day Air* • *UPS Next Day Air Saver* • *UPS 2nd Day Air* • *UPS 2nd Day Air A.M.* • *UPS Worldwide Express Plus* • *UPS Worldwide Express*

This list is subject to change. See **Policy Statement 2002(4)**, *Designated Private Delivery Services and Designated Types of Service*.

If **Form CT-1040NR/PY** is filed late, or all the tax due is not paid with the return, see *Interest and Penalties,* on Page 12, to determine if interest and penalty must be reported with the return.

Extension Requests

Extension of Time to File

To request an extension of time to file your return, you must file **Form CT-1040 EXT**, *Application for Extension of Time to File Connecticut Income Tax Return for Individuals*, and pay all the tax you expect to owe on or before the due date. If you file this form and have filed federal Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, your due date will be automatically extended for six months. If you did not file a federal extension request, a six-month extension of time to file will be granted for reasonable cause.

If a taxpayer is unable to request an extension because of illness, absence, or other good cause, any person standing in a close personal or business relationship to the taxpayer (including an attorney, accountant, or enrolled agent) may file the request on the taxpayer's behalf. This person is considered a duly authorized agent for this purpose.

Form CT-1040 EXT extends only the time to file your return; it does not extend the time to pay your tax due. See *Interest and Penalties,* on Page 12 if you do not pay all the tax due with your request for extension.

If you pay your expected 2002 Connecticut income tax due by credit card, you do not need to file a paper **Form CT-1040 EXT.** See **Form CT-1040 EXT**, included in this booklet.

U.S. Citizens Living Abroad

If you are a U.S. citizen or resident living outside the U.S. and Puerto Rico, or if you are in the armed forces of the U.S. serving outside the U.S. and Puerto Rico, and are unable to file a Connecticut income tax return on time you must file **Form CT-1040 EXT**. You must also pay the amount of tax due on or before the original due date of the return.

Include with **Form CT-1040 EXT** a statement that you are a U.S. citizen or resident living outside the U.S. and Puerto Rico, or in the armed forces of the U.S. serving outside the U.S. and Puerto Rico, and that you qualify for a federal automatic two-month extension. If your application is approved, the due date will be extended for six months. If you are still unable to file your return, and you were granted an additional extension of time to file for federal purposes, you may file your Connecticut return using the federal extension due date. A copy of the federal Form 2350 approval notice must be attached to the front of your Connecticut return.

Extension of Time to Pay

You may be eligible for a six-month extension of time to pay the tax due if you can show that paying the tax by the due date will cause undue hardship. You may request an extension by filing **Form CT-1127**, *Application for Extension of Time for Payment of Income Tax*, on or before the due date of the original return.

Attach **Form CT-1127** to the front of **Form CT-1040NR/PY** or **Form CT-1040 EXT**, and send it on or before the due date. As evidence of the need for extension, you must attach:

- An explanation of why you cannot borrow money to pay the tax due; **and**
- A statement of your assets and liabilities; **and**
- An itemized list of your receipts and disbursements for the preceding three months.

If an extension of time to pay is granted and you pay all the tax due in full by the end of the extension period, a penalty will not be imposed. However, interest will accrue on any unpaid tax from the original due date. You should make payments as soon as possible to reduce the interest that you would otherwise owe. To ensure proper posting of your payment, write your Social Security Number(s) and "**2002 Form CT-1040NR/PY**" on the front of your check or money order. Mail payments to:

Department of Revenue Services
Accounts Receivable Unit
PO Box 5088
Hartford CT 06102-5088

Where to File

For **refunds and all other tax forms without payment** enclosed, use the mailing label with this address and mail your return to:

Department of Revenue Services
PO Box 2968
Hartford CT 06104-2968

For **all tax forms with payment** enclosed, use the mailing label with this address and mail your return with payment to:

Department of Revenue Services
PO Box 2969
Hartford CT 06104-2969

Estimated Tax Payments

You must make estimated income tax payments if your Connecticut income tax (after tax credits) minus Connecticut tax withheld is more than $500, and you expect your Connecticut income tax withheld to be less than your required annual payment for the 2003 taxable year.

Your required annual payment for the 2003 taxable year is the lesser of:

- **90%** of the income tax shown on your **2003 Connecticut income tax return**; or
- **100%** of the income tax shown on your **2002 Connecticut income tax return**, if you filed a 2002 Connecticut income tax return that covered a 12-month period.

You do **not** have to make estimated income tax payments if:

- You were a Connecticut resident during the 2002 taxable year and you did not file a 2002 income tax return because you had no Connecticut income tax liability; **or**
- You were a nonresident or part-year resident with Connecticut source income during the 2002 taxable year and you did not file a 2002 income tax return because you had no Connecticut income tax liability.

If you were a nonresident or part-year resident and you did **not** have Connecticut source income during the 2002 taxable year, you **must** use 90% of the income tax shown on your 2003 Connecticut income tax return as your required annual payment.

Annualized Income Installment Method

If your income varies throughout the year, you may be able to reduce or eliminate the amount of your estimated tax payment for one or more periods by using the annualized income installment method. See **Informational Publication 99(33)**, *A Guide to Calculating Your Annualized Estimated Income Tax Installments and Worksheet CT-1040 AES.*

Filing Form CT-1040ES

Use **Form CT-1040ES**, *Estimated Connecticut Income Tax Payment Coupon for Individuals*, to make estimated Connecticut income tax payments for 2003. If you made estimated tax payments in 2002, you will automatically receive coupons for the 2003 taxable year in mid-January. They will be preprinted with your name, address, and Social Security Number. To ensure that your payments are properly credited, use the preprinted coupons.

If you did not make estimated tax payments in 2002, use **Form CT-1040ES**, included in this booklet, to make your first estimated income tax payment. If you file this form, additional preprinted coupons will be mailed to you.

You may pay your 2003 estimated Connecticut income tax payments by credit card. See **Form CT-1040ES**, included in this booklet.

To avoid making estimated tax payments, you may request that your employer withhold additional amounts from your wages to cover the taxes on other income. You can make this change by giving your employer a revised **Form CT-W4**, *Employee's Withholding Certificate*. For help in determining the correct amount of Connecticut withholding to be withheld from your wage income, see **Informational Publication 2003(1)**, *Is My Connecticut Withholding Correct?*

Special Rules for Farmers and Fishermen

If you are a farmer or fisherman (as defined in I.R.C. §6654(i)(2)) who is required to make estimated income tax payments, you must make only **one** payment. Your payment is due on or before January 15, 2004, for the 2003 taxable year. The required installment is the lesser of $66^{2}/_{3}$% of the income tax shown on your 2003 Connecticut income tax return or 100% of the income tax shown on your 2002 Connecticut income tax return.

A farmer or fisherman who files a 2003 Connecticut income tax return on or before March 1, 2004, and pays in full the amount computed on the return as payable on or before that date, will not be charged interest for underpayment of estimated tax.

Farmers and fishermen who use these special rules **must** complete and attach **Form CT-2210**, *Underpayment of Estimated Tax by Individuals, Trusts, and Estates*, to their Connecticut income tax return to avoid being billed for interest on the underpayment of estimated income tax. Be sure to check Box D of **Form CT-2210**, Part I, and the box for **Form CT-2210** on the front of **Form CT-1040NR/PY**. See **Informational Publication 2002(10)**, *Farmer's Guide to Sales and Use Taxes, Motor Vehicle Fuels Tax, Estimated Income Tax, and Withholding Tax.*

Interest on Underpayment of Estimated Tax

You may be charged interest if you did not pay enough tax through withholding or estimated payments, or both, by any installment due date. This is true even if you are due a refund when you file your tax return. Interest is calculated separately for each installment. Therefore, you may owe interest for an earlier installment, even if

2003 Estimated Tax Due Dates	Due dates of installments and the amount of required payments for 2003 calendar year taxpayers are:
April 15, 2003	25% of your required annual payment
June 15, 2003	25% of your required annual payment (A total of 50% of your required annual payment should be paid by this date.)
September 15, 2003	25% of your required annual payment (A total of 75% of your required annual payment should be paid by this date.)
January 15, 2004	25% of your required annual payment (A total of 100% of your required annual payment should be paid by this date.)

An estimate will be considered timely filed if received on or before the due date, or if the date shown by the U.S. Postal Service cancellation mark is on or before the due date. Taxpayers who report on other than a calendar year basis should use their federal estimated tax installment due dates. If the due date falls on a Saturday, Sunday, or legal holiday, the next business day is the due date.

you paid enough tax later to make up the underpayment. Interest at 1% (.01) per month or fraction of a month will be added to the tax due until the **earlier of** April 15, 2003, or the date on which the underpayment is paid.

A taxpayer who files a 2002 Connecticut income tax return on or before January 31, 2003, and pays in full the amount computed on the return as payable on or before that date, will not be charged interest for failing to make the estimated payment due January 15, 2003.

A farmer or fisherman (as defined in I.R.C. §6654(i)(2)) who is required to make estimated income tax payments will not be charged interest for failing to make the estimated payment due January 15, 2003, if he or she files a 2002 Connecticut income tax return on or before March 1, 2003, and pays in full the amount computed on the return as payable on or before that date.

Filing Form CT-2210

You may be charged interest if your 2002 Connecticut income tax (after tax credits) minus Connecticut tax withheld, is more than $500. Use **Form CT-2210**, *Underpayment of Estimated Income Tax by Individuals, Trusts, and Estates*, to calculate interest on the underpayment of estimated tax. **Form CT-2210** and detailed instructions are available from DRS. However, this is a complex form and you may prefer to have DRS calculate the interest. If so, do not file **Form CT-2210** and DRS will send you a bill.

Interest and Penalties

In general, interest and penalty apply to any portion of the tax that is not paid on or before the original due date of the return.

Interest

If you do not pay the tax when due, you will owe interest at 1% (.01) per month or fraction of a month until the tax is paid in full.

If you did not pay enough tax through withholding or estimated payments, or both, by any installment due date, you may be charged interest. This is true even if you are due a refund when you file your tax return. See *Interest on Underpayment of Estimated Tax* on Page 11.

Interest on underpayment or late payment of tax cannot be waived.

Penalty for Late Payment or Late Filing

The penalty for late payment or underpayment of income or use tax is 10% (.10) of the tax due. If a request for an extension of time has been granted, you can avoid a penalty for failure to pay the full amount due by the original due date if you:

- Pay at least 90% (.90) of the income tax shown to be due on the return on or before the original due date of the return; **and**
- Pay the balance due with the return on or before the extended due date.

If no tax is due, DRS may impose a $50 penalty for the late filing of any return or report that is required by law to be filed.

Penalty for Failure to File

If you do not file your return and DRS files a return for you, the penalty for failure to file is 10% (.10) of the balance due or $50, whichever is greater. If you are required to file **Form CT-1040X** and fail to do so, a penalty may be imposed.

Waiver of Penalty

You may be able to have your penalty waived if the failure to file or pay tax on time was due to a reasonable cause. However, interest **cannot** be waived. Before a penalty waiver can be granted, all tax and interest must be paid.

All requests must include:

- A clear and complete written explanation;
- Your name and Social Security Number;
- The taxable filing period;
- The name of the original form filed or billing notice received; **and**
- Documentation supporting your explanation.

Attach your request to the **front** of your tax return **or** mail separately with a copy of your tax return to:

Department of Revenue Services
Penalty Review Committee
PO Box 5089
Hartford CT 06102-5089

Refund Information

DRS issues refund checks as quickly as possible. If you have a touch-tone phone, you may check on the status of your refund 24 hours a day by calling **1-800-382-9463** (in-state) or **860-297-5962** (from anywhere). Be ready to provide your Social Security Number (and your spouse's, if filing jointly) and the exact amount of the refund you requested.

You should allow four weeks before calling to check on the status of your refund. If you do not receive your refund on or before the 90th day after we receive your claim for refund, you may be entitled to interest on your overpayment at the rate of 2/3% for each month or fraction of a month between the 90th day following receipt of your claim for a refund or the due date of your return, whichever is later, and the date of notice that your refund is due.

Offset Against Debts

If you are due a refund but have not paid certain obligations to Connecticut state agencies or the IRS, all or part of your overpayment may be used to pay all or part of these outstanding debts or taxes. You will be advised by mail if your refund is reduced for this reason and will be given information directing you to the agency to contact if you wish to appeal. Your refund may also be reduced if you owe penalty and interest on late-filed or underpaid Connecticut income tax returns.

Nonobligated Spouse

When a joint return is filed and only one spouse owes past-due child support or a debt to any Connecticut state agency, the spouse who is not obligated may be eligible to claim a share of a joint income tax refund. A nonobligated spouse who received income in 2002 and who made Connecticut income tax payments (withholding or estimates) for the 2002 taxable year may be eligible to claim his or her share of any refund if:

- A joint Connecticut tax return was filed for 2002; **and**
- An overpayment of tax was made.

If you are a nonobligated spouse, you may claim your share of a joint refund by filing **Form CT-8379**, *Nonobligated Spouse Claim*.

Do **not** use **Form CT-8379** to claim your share of a Connecticut refund that was applied to federal taxes you owe to the IRS. You must contact the IRS Office of the Local Taxpayer Advocate in Hartford, Connecticut at: 860-756-4555.

STEPS TO COMPLETING FORM CT-1040NR/PY

Step One - Complete Your Federal Return

Before you begin, gather all your records, including your federal W-2s (Wages), W-2Gs (Winnings), 1099-Rs (Pensions), and other 1099 forms. Use this information to complete your federal income tax return. The information on your federal return is needed to complete your Connecticut return.

Step Two - Complete Your Connecticut Return

Remove the income tax forms from this booklet. One copy is for you to file with DRS. The other copy is for your records.

Proceed item by item, reading the instructions for each line item before you enter any amount. Then copy all information carefully onto the form you intend to file.

Keep a copy for your records. You may need information from it when you file next year's return, make estimated tax payments, or to respond to a question from DRS.

Step Three - Check Your Return

Take your time in completing your return. When you have finished, recheck all of your entries and arithmetic.

After you have completed your return, **be sure to sign it** and attach any required schedules, statements, or forms.

Step Four - Attach Your Label

Remove the preprinted peel-off label on the back cover of this booklet and place it over the name and address spaces of your return. The preprinted label **does not** include your Social Security Number(s). Therefore, you **must** write your Social Security Number(s) in the spaces provided next to your name(s).

Step Five - Order of Attachments

Staple all your W-2 forms, **Forms CT-4852** (substitute Form W-2), and any other forms showing Connecticut income tax withheld to the front of the income tax form in the appropriate area marked "**Staple W-2s, W-2Gs, and certain 1099s here**."

Paper clip your check or money order in payment of the tax due to the front of the income tax form in the appropriate area marked "**Clip check or money order here**." To ensure proper posting of your payment, write your Social Security Number(s) and "**2002 Form CT-1040NR/PY**" on the front of your check or money order.

In addition, if you must file any of the following forms, attach the form(s) to the **front** of your income tax return in the following order:

- **Schedule CT-1040CRC**, *Claim of Right Credit*
- **Form CT-19IT**, *Title 19 Status Release*
- **Form CT-1127**, *Application for Extension of Time for Payment of Income Tax*
- **Form CT-8379**, *Nonobligated Spouse Claim*

Attach other required forms and schedules to the **back** of your return, or as directed on the form.

Step Six - Mail Your Return

This package contains one envelope with two pre-addressed labels for mailing your return. Use the correct label to have your return and refund processed faster.

COMPLETING FORM CT-1040NR/PY

Name and Address

Be sure the information on the label is correct. Do not use this label if any of the information is incorrect. Print or type the correct information in the name and address spaces on your return. If there is no preprinted label, print or type the information requested in the space provided at the top of **Form CT-1040NR/PY**.

If your return is being completed by someone else, take your booklet to your tax preparer so that the preparer can attach the label to your return.

Social Security Number

The preprinted label **does not** include your Social Security Number. Therefore, you **must** enter your Social Security Number in the space provided next to your name. If you file a joint return, enter your Social Security Number and your spouse's Social Security Number in the order they appear on your federal return. If you are a nonresident alien and do not have a Social Security Number, enter your Individual Taxpayer Identification Number in the space provided next to your name.

Filing Status

Check the appropriate box to indicate your filing status. Generally, your filing status must match your federal income tax filing status for this year. If you are not certain of your filing status for 2002, consult the information in your federal income tax booklet or call the IRS at: 1-800-829-1040.

If your filing status is ***qualifying widow(er) with dependent child*** on federal Form 1040 or 1040A, check the box on **Form CT-1040NR/PY** for "Married filing jointly or Qualifying widow(er) with dependent child." **Do not** enter your deceased spouse's name or Social Security Number in the spaces provided for Spouse's Name and Spouse's Social Security Number.

Special Rules for Married Individuals

When one spouse is a Connecticut **resident** or a **nonresident** and the other spouse is a **part-year resident**, **each** spouse who is required to file a Connecticut income tax return **must** file as ***married filing separately***.

When one spouse is a Connecticut **resident** and the other is a **nonresident**, **each** spouse who is required to file a Connecticut income tax return **must** file as ***married filing separately*** **unless**:

- They file jointly for federal income tax purposes; **and**
- They elect to be treated as if both were Connecticut residents for the entire taxable year.

Where both spouses are part-year residents, and move into or out of Connecticut at different times during the taxable year, both spouses must file as ***married filing separately.***

If both spouses are part-year residents and moved into or out of Connecticut on the same day and filed jointly for federal income tax purposes, a joint Connecticut income tax return must be filed.

Where both spouses are nonresidents and only one spouse has Connecticut source income, the spouse who is required to file a Connecticut income tax return must file as ***married filing separately*** **unless**:

- They file jointly for federal income tax purposes; **and**
- They elect to be treated as if both had Connecticut source income.

When one spouse is a **nonresident alien** and the other is a **citizen** or **resident** of the U.S., **each** spouse who is required to file a Connecticut income tax return **must** file as ***married filing separately*** **unless**:

- An election is made by the nonresident alien and his or her spouse to file a joint federal income tax return;
- A married filing joint return is filed for federal income tax purposes; **and**
- The spouses are otherwise required or permitted to file a joint Connecticut income tax return.

The election to file a joint return means that the joint federal adjusted gross income **must** be used on **Form CT-1040NR/PY**, Line 1. It also means that the spouse who would not otherwise be required to file is now jointly and severally liable for any tax liability associated with the filing of the income tax return. The Connecticut income tax calculated using the joint income must be prorated based on the income of the spouse that is derived from or connected with sources in Connecticut.

If filing a joint federal return and a separate Connecticut return, enter on **Form CT-1040NR/PY**, Line 1, only **your** portion of the income included in joint federal adjusted gross income.

Rounding Off to Whole Dollars

Generally, you may round off cents to the nearest whole dollar on your return and schedules. Round down to the next lowest dollar all amounts that include 1 through 49 cents. Round up to the next highest dollar all amounts that include 50 through 99 cents. However, if you need to add two or more amounts to compute the amount to enter on a line, include cents and round off **only** the total.

Example: $1.29 becomes $1.00 and $3.50 becomes $4.00.

You may round off the amount of tax due as stated in the 2002 Tax Tables or as calculated using the Tax Calculation Schedule.

Caution: Rounding off to whole dollars may affect the amounts of your personal exemption and your personal tax credit.

Line Instructions

Line 1 - Federal Adjusted Gross Income

Enter your federal adjusted gross income from your 2002 federal income tax return. This is the amount reported on federal Form 1040, Line 35; federal Form 1040A, Line 21; federal Form 1040EZ, Line 4; or federal TeleFile Tax Record, Line I.

Nonresidents aliens, see *Special Information for Nonresident Aliens*, on Page 6.

Line 2 - Additions

Enter the amount from **Form CT-1040NR/PY**, *Schedule 1*, Line 39. See *Additions to Federal Adjusted Gross Income* on Page 18.

Line 3

Add Line 1 and Line 2. Enter the total on Line 3.

Line 4 - Subtractions

Enter the amount from **Form CT-1040NR/PY**, *Schedule 1*, Line 49. See *Subtractions From Federal Adjusted Gross Income* on Page 19.

Line 5 - Connecticut Adjusted Gross Income

Subtract Line 4 from Line 3 and enter the result on Line 5. This is your Connecticut adjusted gross income.

Line 6 - Income From Connecticut Sources

Complete *Schedule CT-SI*. (See *Schedule CT-SI Instructions* on Page 25.) Enter the income from Connecticut sources from *Schedule CT-SI*, Line 28.

Line 7

Enter the greater of Line 5 or Line 6 on Line 7. If Line 5 and Line 6 are equal, enter that amount on Line 7. If the amount on Line 7 is zero or less, go to Line 12 and enter "0."

Line 8 - Income Tax

Let the Income Tax Calculator calculate your tax for you.
Visit: www.drs.state.ct.us

If the amount on Line 7 is: $12,000 or less for married filing separate individuals; $12,500 or less for single individuals; $19,000 or less for head of household individuals; or $24,000 or less for married filing joint individuals, enter "0" on Line 8. You do not owe any income tax. Otherwise, calculate your tax using one of the following methods:

Tax Tables - If Line 7 is less than or equal to $102,000, you may use the *Tax Tables* on Page 39 to find your tax. Be sure to use the correct column in the *Tax Tables*. After you have found the correct tax, enter that amount on Line 8.

Tax Calculation Schedule - You **must** use the *Tax Calculation Schedule* to figure your tax if Line 7 is more than $102,000. You may also use the *Tax Calculation Schedule* if Line 7 is less than or equal to $102,000. This schedule is found at the end of this booklet.

Important: Nonresidents or part-year residents must calculate the tax in the same manner as resident individuals. Then, nonresidents or part-year residents prorate the tax based upon the percentage of their Connecticut adjusted gross income that is derived from or connected with Connecticut sources.

Example 1: Sandy, a nonresident individual whose filing status is single, worked in Connecticut during the entire 2002 taxable year. Sandy entered $40,000 on **Form CT-1040NR/PY**, Line 5 and $20,000 on **Form CT-1040NR/PY**, Line 6. Because the amount on Line 5 is greater than the amount on Line 6, Sandy would enter $40,000 on **Form CT-1040NR/PY**, Line 7. Sandy would then find the tax on $40,000 in the *Tax Tables* and would enter $1,484 on **Form CT-1040NR/PY**, Line 8. Sandy would then divide Line 6 by Line 5 and enter 50% (.50) on Line 9. Therefore, Sandy's Connecticut income tax is $742 ($1,484 x .50) and she would enter this amount on **Form CT-1040NR/PY**, Line 10.

Example 2: William, a part-year resident individual whose filing status is single, moved from Connecticut to Rhode Island on August 15, 2002. William entered $20,000 on **Form CT-1040NR/PY,** Line 5 and $40,000 on **Form CT-1040NR/PY,** Line 6. Because the amount on Line 6 is greater than the amount on Line 5, William would enter $40,000 on **Form CT-1040NR/PY**, Line 7. William would then find the tax on $40,000 in the *Tax Tables* and enter $1,484 on **Form CT-1040NR/PY**, Line 8. Because the amount on Line 6 is greater than the amount on Line 5, William would enter 1.0000 on Line 9. Therefore, William's Connecticut income tax is $1,484 ($1,484 x 1.0000) and he would enter this amount on **Form CT-1040NR/PY**, Line 10.

Line 9

If Line 5 is greater than Line 6, divide Line 6 by Line 5 and enter the result on Line 9. If the result is less than zero, enter "0." If Line 6 is equal to or greater than Line 5, enter 1.0000. **Do not** enter a number that is less than zero or greater than one. Round to four decimal places.

Line 10

Multiply Line 9 by Line 8 and enter the result on Line 10.

Line 11 - Credit for Income Taxes Paid to Qualifying Jurisdictions (Part-Year Residents Only)

If all or part of the income reported on this return for the period of your Connecticut residency is subject to income tax in a qualifying jurisdiction and you have filed a return and paid income taxes to that jurisdiction, complete **Form CT-1040NR/PY,** *Schedule 2*, and enter the amount from Line 58 here. See *Schedule 2 - Credit for Income Taxes Paid to Qualifying Jurisdictions,* on Page 21.

The credit for income tax paid to other jurisdictions is limited to part-year residents for the period of their Connecticut residency.

You must attach a copy of your return filed with the qualifying jurisdiction(s) or the credit will be disallowed.

Line 12

Subtract Line 11 from Line 10. Enter the result on Line 12. If Line 11 is greater than Line 10, enter "0."

Line 13 - Connecticut Alternative Minimum Tax

If you were required to pay the federal alternative minimum tax for 2002, you must file **Form CT-6251**, *Connecticut Alternative Minimum Tax Return - Individuals*. Enter on Line 13 the amount shown on **Form CT-6251**, Line 26.

Line 14

Add Line 12 and Line 13. Enter the total on Line 14.

Line 15 - Adjusted Net Connecticut Minimum Tax Credit

Enter the amount from **Form CT-8801**, *Credit for Prior Year's Connecticut Minimum Tax for Individuals, Trusts and Estates*, on Line 15. If you did not pay Connecticut alternative minimum tax in 1994 or thereafter, or if you entered an amount on **Form CT-1040NR/PY**, Line 13, enter "0."

Line 16 - Connecticut Income Tax

Subtract Line 15 from Line 14. Enter the result on Line 16. If less than zero, enter "0."

Line 17 - Individual Use Tax

Enter on Line 17 the total use tax due as reported on the *Individual Use Tax Worksheet,* on Page 37. You **must** enter "0" if no Connecticut use tax is due; otherwise you will not have filed a use tax return.

Line 18 - Total Tax

Add Line 16 and Line 17. Enter the total on Line 18.

Line 19 - Connecticut Tax Withheld

Enter the total income tax withheld for the State of Connecticut as indicated on your copies of W-2, W-2G, and 1099 forms. Include amounts withheld for the State of Connecticut shown on Form W-2, Box 17; Form W-2G, Box 14; Form 1099-R, Box 10; Form 1099-MISC, Box 16; and Form UC-1099G, Box 5. If you received a 2002 Form 1099 showing Connecticut income tax withheld on other income you received, such as unemployment compensation, include the amount withheld in the total on Line 19. Do **not** include tax withheld for other states or for the IRS.

Be sure you staple the "**state copy**" of all W-2 forms and any other forms showing Connecticut tax withheld to the front of your return or your claim of amounts withheld will not be allowed. If you have not received Form W-2 from your employer or Form 1099-R from your pension, annuity, retirement, or profit sharing plan, you should request **Form CT-4852** (substitute Form W-2) to report your earnings and withholding.

If the amount on Line 19 does not equal the amounts of Connecticut withholding as reported on the forms that you attached to your return, the processing of your **Form CT-1040NR/PY** will be delayed.

Attach copies of W-2G and 1099 forms only if they show Connecticut tax withheld.

Line 20 - All 2002 Estimated Payments

Enter on Line 20 the total of all Connecticut estimated tax payments, advance tax payments, and any overpayments of Connecticut income tax applied from a prior year. Be sure to include any 2002 estimated tax payments made in 2003. **Do not** include any refunds received.

Line 21 - Payments Made With Form CT-1040 EXT

If you filed **Form CT-1040 EXT**, *Application for Extension of Time to File*, enter on Line 21 the amount you paid with that form.

Line 22 - Total Payments

Add Lines 19, 20, and 21. Enter the total on Line 22. This represents the total of all Connecticut tax payments made.

Line 23 - Amount Overpaid

If Line 22 is greater than Line 18, subtract Line 18 from Line 22 and enter the result on Line 23. This is your overpayment. To properly allocate your overpayment, go to Lines 24, 25, and 26. If Line 22 is less than Line 18, go to Line 27.

Line 24 - Amount of Line 23 You Want Applied to Your 2003 Estimated Tax

Enter the amount of your 2002 overpayment that you want applied to your 2003 estimated Connecticut income tax. It will be treated as estimated tax paid on April 15, 2003, if your return is filed on time or if you filed a timely request for extension and your return is filed within the extension period. Payments received after April 15, 2003, will be applied as of the date of receipt. **Your request to apply this amount to your 2003 estimated income tax is irrevocable**.

Line 25 - Amount of Line 23 You Want to Contribute

You may contribute all or a portion of your refund to one or more of five designated funds. Complete *Schedule 3, Contributions of Refund to Designated Charities* on the back of **Form CT-1040NR/PY**. Enter on Line 25 the total contributions as reported on *Schedule 3*, Line 59.

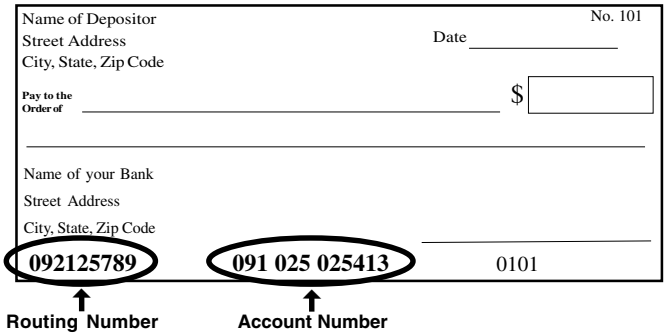
You may make a contribution on this return only if you are entitled to a refund. Your contribution is limited to your refund amount. However, you may also make **direct** contributions by following the instructions on Page 24.

Line 26 - Amount of Line 23 You Want Refunded to You

Subtract the total of Line 24 and Line 25 from Line 23. Enter the result on Line 26. This is the amount of your refund. Early filers receive their refunds faster. Be sure to affix the **refund label** to the envelope when mailing your return.

Get your refund faster by choosing **direct deposit**. Complete Lines 26a, 26b, and 26c to have your refund directly deposited into your checking or savings account.

Enter your nine-digit bank routing number and your bank account number in Lines 26b and 26c. Your bank routing number is the first nine-digit number printed on your check or savings withdrawal slip. Your bank account number generally follows the bank routing number. Do not include the check number as part of your account number. Bank account numbers can be up to 17 digits and must be numeric.



Note: If any of the bank information you supply for direct deposit does not match, a paper check will automatically be issued to you. Some financial institutions do not allow a joint refund to be deposited into an individual account.

Important: Your overpayment is applied in the following order: penalty and interest you owe, amounts designated by you to be applied to your 2003 estimated tax, other taxes you may owe DRS, debts to other Connecticut state agencies, federal taxes you may owe the IRS, and charitable contributions designated by you. Any remaining balance will be refunded to you.

Line 27 - If Line 18 is Greater Than Line 22, Enter the Amount of Tax You Owe.

If Line 18 is greater than Line 22, subtract Line 22 from Line 18 and enter the result on Line 27. This is the amount of tax you owe. See *Estimated Tax Payments* on Page 11.

Line 28 - Penalty for Late Payment or Late Filing

Late Payment Penalty: The penalty for late payment or underpayment of income or use tax is 10% (.10) of such amount due. Taxpayers who pay at least 90% (.90) of the income tax shown to be due on the return on or before the original due date of the return and remit the balance due with the return on or before the extended due date will avoid penalty for failure to pay the full amount due by the original due date. Interest of 1% (.01) per month or fraction of a month will continue to accrue on the underpayment until the tax is paid in full.

Late Filing Penalty: In the event that no tax is due, DRS may impose a $50 penalty for the late filing of any return or report that is required by law to be filed.

Line 29 - Interest for Late Payment or Late Filing

If you fail to pay the tax when due, interest will be charged at the rate of 1% (.01) per month or fraction of a month from the due date until payment is made.

Line 30 - Interest on Underpayment of Estimated Tax

If Line 16 minus Line 19 is more than $500, you may owe interest on estimated tax that you either underpaid or paid late. **Form CT-2210**, *Underpayment of Estimated Income Tax by Individuals, Trusts and Estates*, can help you determine whether you did underestimate and will help you calculate interest. However, this is a complex form and you may prefer to have DRS calculate the interest. If so, do **not** file **Form CT-2210**, leave this line blank, and DRS will send you a bill. Interest on underpayment of estimated income tax stops accruing on the **earlier** of the day you pay your tax or April 15, 2003.

Line 31 - Amount You Owe

Add Lines 27 through 30. Enter the total on Line 31. This is the total amount you owe. Pay the amount in full with your return.

Payment Options

To Pay by Credit Card:

If you filed a 2001 Connecticut income tax return, you may elect to pay your 2002 Connecticut income tax liability using your American Express® card, Discover® card, MasterCard® card, or VISA® card. A convenience fee will be charged by the credit card service provider. The fee is 2.5% of your total tax payment. You will be informed of the amount of the fee and you may elect to cancel the transaction. At the end of the transaction, you will be given a confirmation number for your records. Check the box on **Form CT-1040NR/PY**, Line 31 to indicate payment by credit card, and:

- Call Official Payments Corporation toll-free at: **1-800-2PAY-TAX** (1-800-272-9829). You will be asked to enter the Connecticut Jurisdiction Code: 1777.
- Visit: **www.officialpayments.com** and select Payment Center.

Your payment will be effective on the date you make the charge.

To Pay by Mail:

Make your check or money order payable to the "**Commissioner of Revenue Services**." To ensure proper posting of your payment, write your Social Security Number(s) and "**2002 Form CT-1040NR/PY**" on the front of your check or money order. Be sure to sign your check and paper clip it to the front of your return. **Do not send cash.**

Failure to file or **failure to pay** the proper amount of tax when due **will result in penalty and interest charges**. It is to your advantage to file when your return is due whether or not you are able to make full payment.

Third Party Designee

If you wish to authorize DRS to contact your friend, family member, or any other person, to discuss your 2002 tax return, check the "Yes" box in the "Third Party Designee" area of your return. Enter the designee's name, telephone number, and any five numbers the designee chooses as his or her personal identification number (PIN). If you wish to authorize DRS to contact the paid preparer who signed your return, enter "Preparer" in the space for the designee's name. You do not have to provide the other information requested.

If you check the "Yes" box, you, and your spouse if filing a joint return, are authorizing DRS to call the designee to answer any questions that may arise during the processing of your return. You are also authorizing the designee to:

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

Once DRS completes processing the return, the authorization ends. The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing your 2003 tax return. This is April 15, 2004, for most taxpayers. The box does not replace a power of attorney and will not authorize the designee to receive refund checks, bind you to anything (including additional tax liabilities), or represent you before DRS. To authorize another individual to represent you or act on your behalf, you must complete **Form LGL-001**, *Power of Attorney*.

Sign Your Return

After completing your Connecticut **Form CT-1040NR/PY**, sign your name and write the date you signed the return. Your spouse must also sign and enter the date if this is a joint return. The signature line is located on the back of **Form CT-1040NR/PY**.

If you file a joint return, you **must** review the information with your spouse. When both you and your spouse sign the return, you become jointly and severally responsible for paying the full amount of tax, interest, and penalties due.

Paid Preparer Signature

Anyone you pay to prepare your return must sign and date it. Paid preparers must also enter their Social Security Number (SSN) or Preparer Tax Identification Number (PTIN), and their firm's Federal Employer Identification Number (FEIN) in the spaces provided.

Filing Your Return

Keep a copy of this return and all attachments for your records. Attach to this return copies of any required schedules and forms. Do **not** attach copies of your federal income tax return or federal schedules.

1. Remove both labels from the envelope flap along the perforation.
2. Choose the correct label for your return, moisten, and place it on the return envelope.
3. Affix the correct postage to the envelope.

Do not use these mailing labels to send other correspondence to DRS. Using these labels for other purposes will delay our response to you.

Recordkeeping

Keep a copy of your tax return, worksheets that you used, and records of all items appearing on the return (such as W-2 and 1099 forms) until the statute of limitations expires for that return. Usually, this is three years from the date the return was due or filed, whichever is later. You may need this information to prepare future returns or to file amended returns.

Copies of Returns

You may request a copy of a previously filed Connecticut income tax return from DRS by completing **Form LGL-002**, *Request for Disclosure of Tax Return or Tax Return Information*. You can usually expect your copy in three weeks.

SCHEDULE 1 - MODIFICATIONS TO FEDERAL ADJUSTED GROSS INCOME

The following modifications to federal adjusted gross income are provided in Conn. Gen. Stat. §12-701(a)(20). Your federal adjusted gross income may not be further modified in determining your Connecticut adjusted gross income except as expressly provided by Conn. Gen. Stat. §12-701(a)(20).

Additions to Federal Adjusted Gross Income

Enter all Amounts as Positive Numbers

Line 32 - Interest on State and Local Government Obligations Other Than Connecticut

Enter the total amount of interest income derived from state and municipal government obligations, (other than obligations of the State of Connecticut or its municipalities) which is not taxed for federal income tax purposes. Do not enter interest income derived from government obligations of Puerto Rico, Guam, American Samoa, or U.S. Virgin Islands.

Line 33 - Exempt-Interest Dividends From a Mutual Fund Derived From State or Municipal Government Obligations Other Than Connecticut

Enter the total amount of exempt-interest dividends received from a mutual fund that are derived from state and municipal government obligations, other than obligations of the State of Connecticut or its municipalities. If the exempt-interest dividends are derived from obligations of Connecticut and other states, enter only the percentage derived from non-Connecticut obligations. Do not enter exempt-interest dividends derived from government obligations of Puerto Rico, Guam, American Samoa, or U.S. Virgin Islands.

Example: A fund invests in obligations of many states, including Connecticut. Assuming that 20% of the distribution is from Connecticut obligations, the remaining 80% would be added back on this line.

Line 34 - Special Depreciation Allowance for Qualified Property

If you filed federal Form 4562, Depreciation and Amortization (including Information on Listed Property), and claimed a special 30% depreciation allowance for certain property placed in service after September 10, 2001, enter on Line 34 the sum of the amounts you entered on federal Form 4562, Lines 14 and 25. See *SN 2002 (12), 2002 Legislation Affecting the Connecticut Income Tax*.

Line 35 - Taxable Amount of Lump-Sum Distributions From Qualified Plans Not Included in Federal AGI

If you filed federal Form 4972, Tax On Lump-Sum Distributions, with your federal Form 1040 to compute the tax on any part of a distribution from a qualified plan, enter **that** part of the distribution on Line 35. Do not enter any part of the distribution reported on federal Form 1040A, Line 12a; federal Form 1040, Line 16a; or federal Form 1040, Schedule D.

Part-year residents should enter this amount on *Schedule CT-1040AW*, *Part-Year Resident Income Allocation*, Line 14, Column A.

Line 36 - Beneficiary's Share of Connecticut Fiduciary Adjustment

If you have any income from an estate or trust, your share of any Connecticut modifications (that is, your share of the Connecticut fiduciary adjustment) that apply to such income will be shown on **Form CT-1041**, *Connecticut Income Tax Return for Trusts and Estates, Schedule B*, Part 1, Column 5. Your share of these modifications should be provided to you by the fiduciary. If your share of these modifications is an amount greater than zero, enter the amount on Line 36. If the amount is less than zero, enter the amount on Line 46.

If you are a beneficiary of more than one trust or estate, enter the net amount of all such modifications, if greater than zero, on Line 36.

Line 37 - Loss on Sale of Connecticut State and Local Government Bonds

Enter the total losses from the sale or exchange of notes, bonds, or other obligations of the State of Connecticut or its municipalities used in determining gain (loss) for federal income tax purposes, whether or not the entire loss is used in computing federal adjusted gross income.

Line 38 - Other

Use Line 38 to report any of the following modifications:

1. Add back any treaty income reported on federal Form 1040NR-EZ or Form 1040NR if a nonresident alien. Enter the words "treaty income" in the space provided.
2. Add back any loss or deduction of an enrolled member of the Mashantucket Pequot Tribe who resides in Indian country of the Mashantucket Pequot Tribe, where such loss or deduction is derived from or connected with Indian country of such tribe. Enter the words "Mashantucket Pequot Tribe enrolled member." See **Informational Publication 99(29)**, *Connecticut Income Tax Obligations of Enrolled Members of the Mashantucket Pequot Tribe*.
3. Add back any Connecticut income tax deducted on the federal income tax return to arrive at federal adjusted gross income. Do not add back any Connecticut income tax deducted on federal Form 1040, Schedule A.
4. Add back any expenses paid or incurred for the production (including management, conservation, and maintenance of property held for the production) or collection of income exempt from Connecticut income tax which were deducted on the federal return to arrive at federal adjusted gross income.
5. Add back any amortizable bond premium on bonds producing interest income exempt from Connecticut income tax which premiums were deducted on the federal return to arrive at federal adjusted gross income.
6. Add back any interest or dividend income on obligations or securities of any authority, commission, or instrumentality of the U.S. which federal law exempts from federal income tax but does not exempt from state income taxes.
7. Add back to the extent deductible in determining federal adjusted gross income, any interest expenses on indebtedness incurred or continued to purchase or carry obligations or securities (the income from which is exempt from Connecticut income tax).

8. Enter any item of income or gain subject to special accrual to the extent such item was not includible in federal adjusted gross income for the taxable year. See *What Items are Subject to Special Accrual* on Page 8.

9. Also use Line 38 to report any additions to federal adjusted gross income required for Connecticut income tax purposes which are not listed on Lines 32 through 37.

Line 39 - Total Additions

Add Lines 32 through 38. Enter the total on **Form CT-1040NR/PY**, *Schedule 1*, Line 39.

Subtractions From Federal Adjusted Gross Income

Enter all Amounts as Positive Numbers

Line 40 - Interest on U.S. Government Obligations

Enter the total amount of interest income (to the extent includible in federal adjusted gross income) derived from U.S. government obligations, which federal law prohibits states from taxing (for example, U.S. government bonds such as Saving Bonds Series EE and Series HH, U.S. Treasury bills and notes).

For Series EE U.S. Savings Bonds, you are entitled to include on Line 40 **only** the amount of interest subject to federal income tax after exclusion of the amounts reported on federal Form 8815. In general, you will report the net taxable amount on federal Form 1040, Schedule B, or federal Form 1040A, Schedule 1.

Do not enter the amount of interest income derived from Federal National Mortgage Association (Fannie Mae) bonds, Government National Mortgage Association (Ginnie Mae) bonds, and Federal Home Loan Mortgage Corporation (Freddie Mac) securities. Federal law does not prohibit states from taxing interest income derived from these obligations, and this interest income is taxable for Connecticut income tax purposes.

Do not enter the amount of interest paid to you on any federal income tax refund.

Line 41 - Exempt Dividends From Certain Qualifying Mutual Funds Derived From U.S. Government Obligations

Enter the total amount of exempt dividends received from a qualifying mutual fund that are derived from U.S. government obligations. A mutual fund is a qualifying fund if, **at the close of each quarter** of its taxable year, at least 50% of the value of its assets consists of U.S. government obligations. The percentage of dividends that are exempt dividends should be reported to you by the mutual fund.

Do not enter the amount of dividend income derived from Federal National Mortgage Association (Fannie Mae) bonds, Government National Mortgage Association (Ginnie Mae) bonds, and Federal Home Loan Mortgage Corporation (Freddie Mac) securities. Federal law does not prohibit states from taxing income derived from these obligations, and this income is taxable for Connecticut income tax purposes.

Example: A qualifying mutual fund pays a dividend of $100. Of the distribution, 55% is attributable to U.S. Treasury bills and 45% to other investments. The amount that should be reported on Line 41 is $55.

Line 42 - Social Security Benefit Adjustment

If you receive Social Security benefits that are subject to federal income tax, you may reduce or eliminate the amount of your benefits that are subject to Connecticut income tax. Your Social Security benefits are fully exempt from Connecticut income tax, if your filing status is **Single** or **Married Filing Separately** and the amount reported on **Form CT-1040NR/PY**, Line 1 is **less than $50,000**, or **Married Filing Jointly** or **Head of Household** and the amount reported on **Form CT-1040NR/PY**, Line 1 is **less than $60,000**. If this is the case, enter on Line 42 the amount of federally taxable Social Security benefits reported on federal Form 1040, Line 20b or federal Form 1040A, Line 14b. Your Social Security benefits are

Line 42 – SOCIAL SECURITY BENEFIT ADJUSTMENT WORKSHEET

Enter the amount from **Form CT-1040NR/PY**, Line 1. [ ]

If your filing status is **Single** or **Married Filing Separately**, is the amount on Line 1 $50,000 or more?

- ☐ Yes: **Complete** this worksheet.
- ☐ No: **Do not complete** this worksheet. Enter the amount of federally taxable Social Security benefits you reported on federal Form 1040, Line 20b, or federal Form 1040A, Line 14b, on **Form CT-1040NR/PY**, Line 42.

If your filing status is **Married Filing Jointly** or **Head of Household**, is the amount on Line 1 $60,000 or more?

- ☐ Yes: **Complete** this worksheet.
- ☐ No: **Do not complete** this worksheet. Enter the amount of federally taxable Social Security benefits you reported on federal Form 1040, Line 20b, or federal Form 1040A, Line 14b, on **Form CT-1040NR/PY**, Line 42.

A. Enter the amount reported on your 2002 federal Social Security Benefits Worksheet, Line 1. **If Line A is zero or less, stop here and enter "0" on Line 42. Otherwise, go to Line B.**	A.	
B. Enter the amount reported on your 2002 federal Social Security Benefits Worksheet, Line 9. **If Line B is zero or less, stop here. Otherwise, go to Line C.**	B.	
C. Enter the lesser of Line A or Line B.	C.	
D. Multiply Line C by 25% (.25).	D.	
E. Taxable amount of Social Security benefits reported on your 2002 federal Social Security Benefits Worksheet, Line 18.	E.	
F. **Social Security Benefit Adjustment** - Subtract Line D from Line E. Enter the amount here and on **Form CT-1040NR/PY**, *Schedule 1*, Line 42. (If Line D is greater than or equal to Line E, enter "0.")	F.	

partially exempt from Connecticut income tax, if your federal adjusted gross income is above the threshold for your filing status. If you used the worksheets contained in the instructions to federal Form 1040A or federal Form 1040 to calculate the amount of taxable Social Security benefits, complete the *Social Security Benefit Adjustment Worksheet* on Page 19 and enter the amount from Line F on Line 42. If you did not use these worksheets, but instead used worksheets contained in federal Publication 590 or federal Publication 915, see **Announcement 2001(4)**, *Taxability of Social Security Benefits for Connecticut Income Tax Purposes.*

Important: If you are using a worksheet that is not from a federal publication, such as one you printed from a tax preparation program on your computer or one given to you by your tax preparer, you should verify that the line references from these worksheets are the same as the equivalent federal publication to be certain that you are using the proper amounts.

Line 43 - Refunds of State and Local Income Taxes

Enter the amount of taxable refunds of state and local income taxes reported on federal Form 1040, Line 10. If Line 10 is blank, or if you filed federal Forms 1040A, 1040EZ, or telefiled your federal return, enter "0."

Line 44 - Tier 1 and Tier 2 Railroad Retirement Benefits and Supplemental Annuities

If you received Tier 1 or Tier 2, or both, railroad retirement benefits or supplemental annuities during 2002, you may deduct the amount included in your federal adjusted gross income. Enter the total amount of Tier 1 and Tier 2 railroad retirement benefits reported on federal Form 1040, Line 16b or Line 20b, or federal Form 1040A, Line 12b or Line 14b. Likewise, enter the amount of railroad unemployment benefits, including sickness benefits paid by the Railroad Retirement Board (RRB) in lieu of unemployment benefits, to the extent included in your federal adjusted gross income. However, do not enter sickness benefits paid by the RRB resulting from an on-the-job injury, because these benefits are not included in your federal adjusted gross income.

Line 45 - Do not use. Line reserved for future use.

Line 46 - Beneficiary's Share of Connecticut Fiduciary Adjustment

If you have any income from an estate or trust, your share of any Connecticut modifications (that is, your share of the Connecticut fiduciary adjustment) that apply to such income will be shown on **Form CT-1041**, *Connecticut Income Tax Return for Trusts and Estates, Schedule B*, Part 1, Column 5. Your share of these modifications should be provided to you by the fiduciary. If your share of these modifications is an amount less than zero, enter the amount on Line 46. If the amount is greater than zero, enter the amount on Line 36.

If you are a beneficiary of more than one trust or estate, enter the net amount of all such modifications, if less than zero, on Line 46.

Line 47 - Gain on Sale of Connecticut State and Local Government Bonds

Enter the total of all gains from the sale or exchange of notes, bonds, or other obligations of the State of Connecticut or its municipalities used in determining gain (loss) for federal income tax purposes.

Line 48 - Other

Use Line 48 to report any of the following modifications:

1. Subtract the amount of any distributions that you received from the Connecticut Higher Education Trust Fund (CHET) as a designated beneficiary to the extent includable in your federal adjusted gross income.

   Note: Congress recently passed legislation excluding from federal gross income any distribution from a qualified State tuition program (such as CHET), to the extent that the distribution is used to pay for qualified higher education expenses. (Pub. L. No. 107-16, §402) To the extent any distribution from CHET is excluded from federal gross income, the amount should not be reported as a subtraction modification on Line 48.

2. Subtract any income or gain of an enrolled member of the Mashantucket Pequot Tribe who resides in Indian country of the Mashantucket Pequot Tribe, where such income or gain is derived from or connected with Indian country of such tribe. Enter the words "Mashantucket Pequot Tribe enrolled member." See **Informational Publication 99(29)**, *Connecticut Income Tax Obligations of Enrolled Members of the Mashantucket Pequot Tribe*.

3. Subtract the amount of any settlement payment received, to the extent included in federal adjusted gross income; (1) As a result of a settlement in the Holocaust Victims' Asset Litigation, C.A. No. 96-4849, in the U.S. District Court for Eastern District of New York; (2) Under the German act regulating unresolved property claims also known as Gesetz zur Regelung offener Vermogensfragen, or any other foreign law providing payments for Holocaust claims; or (3) As a result of the settlement of any other Holocaust claim, including insurance claims, claims relating to looted art, claims relating to looted financial assets, or claims relating to slave labor wages. Also include any interest that is accumulated or accrued through the date of payment. Enter the words "Holocaust Victim settlement payment."

   Note: Congress recently passed legislation excluding from federal gross income certain restitution payments received by victims (or their heirs) of the Nazi Regime (Pub. L. No. 107-16, §803). The Internal Revenue Service will revise the 2002 Form 1040 instructions, Publication 17, and Publication 525 to inform Holocaust victims or their heirs about this income exclusion. To the extent any restitution payment is excluded from federal gross income, the amount should not be reported as a subtraction modification on Line 48.

4. Subtract the amount of interest earned on funds deposited in a Connecticut individual development account, to the extent included in federal adjusted gross income.

5. Subtract any interest paid on indebtedness incurred to acquire investments that provide income taxable in Connecticut but exempt for federal purposes, that is not deductible in determining federal adjusted gross income, and that is attributable to a trade or business of that individual.

6. Subtract expenses paid or incurred for the production (including management, conservation, and maintenance of property held for production) or collection of income taxable in Connecticut but exempt from federal income tax, which were not deductible in determining federal adjusted gross income, and that is attributable to a trade or business of that individual.

7. Subtract any amortizable bond premium on bonds that provide interest income taxable in Connecticut but exempt from federal income tax, which premiums were not deductible in determining federal adjusted gross income, and that is attributable to a trade or business of that individual.

8. Enter any item of loss or deduction subject to special accrual to the extent such item was not deductible in determining federal gross income for the taxable year. See *What Items are Subject to Special Accrual* on Page 8.
9. Subtract the amount of any interest income from notes, bonds, or other obligations of the State of Connecticut, which interest income is included in federal adjusted gross income.

Do **not** use Line 48 to subtract income subject to tax in a qualifying jurisdiction (see *Schedule 2 - Credit for Income Taxes Paid to Qualifying Jurisdictions,* below) or income of a nonresident spouse. See *Special Rules for Married Individuals,* on Page 13.

Line 49 - Total Subtractions

Add Lines 40 through 48. Enter the total on **Form CT-1040NR/PY**, *Schedule 1*, Line 49.

SCHEDULE 2 - CREDIT FOR INCOME TAXES PAID TO QUALIFYING JURISDICTIONS (PART-YEAR RESIDENTS ONLY)

Am I Eligible for the Credit for Income Taxes Paid to Other Jurisdictions

If you are a **part-year resident** of Connecticut and if any part of your income earned during the residency portion of your taxable year was taxed by a **qualifying jurisdiction**, you **may** be able to claim a credit against your Connecticut income tax liability for qualifying income tax payments that you have made.

Nonresidents may not claim a credit for income taxes paid to other jurisdictions.

Taxpayers seeking a credit for alternative minimum taxes paid to another jurisdiction must complete **Form CT-6251**, *Connecticut Alternative Minimum Tax Return-Individuals*, to calculate their alternative minimum tax credit.

What is a Qualifying Jurisdiction

A *qualifying jurisdiction* includes another state of the U.S., a local government within another state, or the District of Columbia. A *qualifying jurisdiction* does not include the State of Connecticut, the U.S., or a foreign country or its provinces (for example, Canada and Canadian provinces).

What are Qualifying Income Tax Payments

Qualifying income tax payments are income taxes that you actually paid on income:

- Derived from or connected with sources within a qualifying jurisdiction; **and**
- Subject to tax in the qualifying jurisdiction.

What is Income Derived From or Connected With Sources Within a Qualifying Jurisdiction

- Compensation that is received for personal services performed in a qualifying jurisdiction;
- Income from a business, trade, or profession carried on in a qualifying jurisdiction;
- Gambling winnings from a State-conducted lottery. See **Informational Publication 2002(18)**, *Connecticut Income Tax Treatment of State Lottery Winnings*; **or**
- Income from real or tangible personal property situated in a qualifying jurisdiction.

Income from intangibles, such as stocks and bonds, is not considered derived from or connected with sources within a qualifying jurisdiction **unless** the income is from property employed in a business, trade, or profession carried on in that jurisdiction.

What Payments Do Not Qualify

- Income tax payments that are made to a qualifying jurisdiction on income that was not derived from or connected with sources within the qualifying jurisdiction (such as wages that are not derived from or connected with sources within the qualifying jurisdiction);
- Income tax payments that are made to a qualifying jurisdiction on income that was not included in your Connecticut adjusted gross income or Connecticut source income;
- Income tax paid to a jurisdiction that is not a qualifying jurisdiction, including a foreign country or its provinces (for example, Canada and Canadian provinces);
- Alternative minimum tax paid to a qualifying jurisdiction;
- Income tax paid to a qualifying jurisdiction if you claimed credit on that jurisdiction's income tax return for income tax paid to Connecticut; **or**
- Penalties or interest on income taxes that you paid to a qualifying jurisdiction.

What Limitations Apply to the Credit

The total credit is limited to whichever amount is least:

- The amount of income tax paid to the qualifying jurisdiction;
- The amount of Connecticut income tax due on the portion of Connecticut adjusted gross income that is sourced in the qualifying jurisdiction and earned during the residency portion of your taxable year; **or**
- The amount entered on **Form CT-1040NR/PY**, Line 10.

How Do I Calculate the Credit

You **must** first complete your income tax return(s) in the qualifying jurisdiction(s). Then, complete *Schedule 2 - Worksheet,* on Page 22, to determine the amount to enter on *Schedule 2 - Credit for Income Taxes Paid to Qualifying Jurisdictions*, Line 52.

The allowed credit must be separately computed for each qualifying jurisdiction. Use separate columns for each qualifying jurisdiction for which you are claiming a credit. **Attach a copy of all income tax returns filed with qualifying jurisdictions to your Connecticut income tax return or the credit will be disallowed.**

Schedule 2 provides two columns, A and B, to compute the credit for two jurisdictions. If you need more than two columns, create a worksheet identical to *Schedule 2* and attach it to the back of your **Form CT-1040NR/PY**.

If you are claiming credit for income taxes paid to another state **and** to one of its political subdivisions, follow these rules to determine your credit:

A. If the **same amount** of income is taxed by both the city and state (see Example on Page 24):
   1. Use only **one** column on **Form CT-1040NR/PY**, *Schedule 2* to calculate your credit;
   2. Enter the same income taxed by both city and state in that column on *Schedule 2*; **and**
   3. Combine the amounts of tax paid to the city and the state and enter the total on Line 56 of that column.

B. If the **amounts** of income taxed by both the city and state **are not the same**:
   1. Use **two** columns on **Form CT-1040NR/PY**, *Schedule 2*;
   2. Include only the same income taxed by both jurisdictions in the first column; **and**
   3. Include the excess income taxed by only one of the jurisdictions in the next column.

Schedule 2 - Worksheet Instructions

Complete *Schedule 2 – Worksheet* below to determine the portion of your Connecticut adjusted gross income during the residency portion of your taxable year that is derived from a qualifying jurisdiction. Enter in Column I the items of income that you earned during the residency portion of your taxable year and that are entered on *Schedule CT-1040AW*, Column B. For each line in Column II, enter the items of income from Column I that meet **all** of the following conditions:

- The income was earned during the residency portion of your taxable year;
- The income is derived from or connected with sources within a qualifying jurisdiction;
- The income is reported on an income tax return filed with that qualifying jurisdiction and subject to income tax in such jurisdiction; **and**
- You have paid income tax on the income to that qualifying jurisdiction.

SCHEDULE 2 - WORKSHEET (Part-Year Residents Only)

Column I

Enter on Lines 1 through 28, Column I, the amounts entered on Lines 1 through 28, Column B, respectively, of *Schedule CT-1040AW.* (See instructions on Page 31.)

Column II

For each line, enter that portion of the amount entered on the same line of Column I that you reported on an income tax return filed with (and on which income tax was paid to) the qualifying jurisdiction. Enter only the portion of Connecticut modifications, if any, that are **directly related** to income sourced in the qualifying jurisdiction.

Enter the amount from Line 28, Column II, on **Form CT-1040NR/PY**, *Schedule 2,* Line 52.

To this amount add back any item of loss or deduction and subtract any item of income or gain that was included in Column II as an item of special accrual. Enter the result on Line 52.

Keep this worksheet with your 2002 tax records. Do not attach to your tax return.

Complete this worksheet to determine the amount of income earned during the residency portion of your taxable year **and** taxed by a qualifying jurisdiction. **Complete a separate worksheet for each qualifying jurisdiction if you paid income tax to more than one qualifying jurisdiction.**		**Column I** (From Column B, Schedule CT-1040AW)	**Column II** Amount Taxable in Qualifying Jurisdiction
1. Wages, salaries, tips, etc.	1		
2. Taxable interest	2		
3. Ordinary dividends	3		
4. Alimony received	4		
5. Business income or (loss)	5		
6. Capital gain or (loss)	6		
7. Other gains or (losses)	7		
8. Taxable amount of IRA distributions	8		
9. Taxable amount of pensions and annuities	9		
10. Rental real estate, royalties, partnerships, S corporations, trusts, etc.	10		
11. Farm income or (loss)	11		
12. Unemployment compensation	12		
13. Taxable amount of social security benefits	13		
14. Other income (including lump-sum distributions)	14		
15. **Add lines 1 through 14**	15		
16. Educator expenses	16		
17. IRA deduction	17		
18. Student loan interest deduction	18		
19. Tuition and fees deduction	19		
20. Archer MSA deduction	20		
21. Moving expenses	21		
22. One-half of self-employment tax	22		
23. Self-employed health insurance deduction	23		
24. Self-employed SEP, SIMPLE, and qualified plans	24		
25. Penalty on early withdrawal of savings	25		
26. Alimony paid	26		
27. Total adjustments - Add Lines 16 through 26	27		
28. **Subtract Line 27 from Line 15**	28		

Example 1: Laura, a single taxpayer, was employed in the State of New York during the entire taxable year and moved into Connecticut on July 1, 2002. Her Connecticut adjusted gross income is $105,000. On **Form CT-1040NR/PY**, *Schedule CT-1040AW*, Column A, Laura reported the following: $76,000 in wages, $4,000 in interest and $25,000 from dividends (which was received November 21, 2002). Laura will enter on *Schedule 2 – Worksheet*, Column I, the amounts that she entered on **Form CT-1040NR/PY**, *Schedule CT-1040AW*, Column B: Line 1, $38,000; Line 2, $2,000; and Line 3, $25,000. In Column II, she will enter: Line 1, $38,000. Credit is allowed for the New York tax paid on her $38,000 of wage income because it is derived from or connected to New York during the Connecticut residency portion of her taxable year.

Example 2: Luke and Leslie are part-year residents who file a joint federal Form 1040 and a joint **Form CT-1040NR/PY**. Luke's wages as an employee working in Rhode Island while a resident of Connecticut are $20,000 and Leslie's wages as an employee working in Connecticut while a resident of Connecticut are $25,000. Their combined wages while nonresidents of Connecticut are $25,000. On their federal Form 1040, Line 7, (and on Line 1, Column A of their *Schedule CT-1040AW*), Luke and Leslie entered $70,000. Luke and Leslie will enter on the *Schedule 2 – Worksheet*, $45,000 in Column I, Line 1, and $20,000 in Column II, Line 1. Luke and Leslie will also enter $20,000 on **Form CT-1040NR/PY**, *Schedule 2*, Line 52.

Example 3: Linda, a part-year resident, is a sole proprietor of a business conducted at two locations: one in Connecticut and one in Massachusetts. All of Linda's income was earned while she was a Connecticut resident. On Linda's federal Form 1040, Line 12, she entered $100,000. Of the $150,000 of gross income reported on federal Form 1040, Schedule C, $90,000 is derived from the Massachusetts location. Of the $50,000 of expenses reported on her Schedule C, $35,000 is derived from the Massachusetts location. When completing *Schedule 2 – Worksheet*, Linda will enter $100,000 in Column I, Line 5, and $55,000 ($90,000 - $35,000), in Column II, Line 5. Linda will also enter $55,000 on **Form CT-1040NR/PY**, *Schedule 2*, Line 52.

Schedule 2 - Line Instructions

Line 50 - Connecticut Adjusted Gross Income During the Residency Portion of the Taxable Year

The amount from *Schedule CT-1040AW*, *Part-Year Resident Income Allocation*, Line 28, Column B will be entered on Line 50 with the following exceptions:

1. **Add** to the amount on Line 28, Column B any **net** loss during the residency portion of your taxable year that was derived from or connected with sources in a qualifying jurisdiction(s) where you were subject to income taxation (whether or not income tax was actually paid to the jurisdiction(s)).
2. For the residency portion of your taxable year, add back any item of loss or deduction and subtract any item of income or gain which was included in *Schedule CT-1040AW*, Column B as an item of special accrual.

Enter the modified amount on Line 50.

Example: Claudia's Connecticut adjusted gross income for the residency portion of her taxable year is $60,000 which includes income of $15,000 from business activities conducted in Massachusetts and a net loss of $20,000 from a business conducted in Rhode Island. She must add the $20,000 net loss to the $60,000 and enter $80,000 on Line 50.

Line 51 - Taxing Jurisdiction(s)

If you claim credit for income taxes paid to a qualifying jurisdiction, enter on Line 51 the name and the two-letter code of each qualifying jurisdiction for which you are claiming credit. If you are claiming credit for income taxes paid to a political subdivision of another state, enter on Line 51 the name and the two-letter code of the state. These codes are listed below.

Standard Two-letter Codes

Alabama	AL	Louisiana	LA	Ohio	OH
Arizona	AZ	Maine	ME	Oklahoma	OK
Arkansas	AR	Maryland	MD	Oregon	OR
California	CA	Massachusetts	MA	Pennsylvania	PA
Colorado	CO	Michigan	MI	Rhode Island	RI
Delaware	DE	Minnesota	MN	South Carolina	SC
District of Columbia	DC	Mississippi	MS	Tennessee	TN
Georgia	GA	Missouri	MO	Utah	UT
Hawaii	HI	Montana	MT	Vermont	VT
Idaho	ID	Nebraska	NE	Virginia	VA
Illinois	IL	New Jersey	NJ	West Virginia	WV
Indiana	IN	New Mexico	NM	Wisconsin	WI
Iowa	IA	New York	NY		
Kansas	KS	North Carolina	NC		
Kentucky	KY	North Dakota	ND		

Line 52 - Non-Connecticut Income

Complete *Schedule 2 - Worksheet,* on Page 22, to determine the total of non-Connecticut income that is included in your Connecticut adjusted gross income for the residency portion of your taxable year and that is reported on a qualifying jurisdiction's income tax return. To the amount on *Schedule 2 - Worksheet*, Line 28, Column II, add back any item of loss or deduction and subtract any item of income or gain that was included in Column II as an item of special accrual. Enter the result on Line 52.

Line 53

Divide the amount on Line 52 by the amount on Line 50. The result cannot exceed 1.0000. Round to four decimal places.

Line 54 - Apportioned Income Tax

To determine the portion of your 2002 Connecticut income tax attributable to income earned during the residency portion of your taxable year:

1. Divide the amount on the *Schedule 2 - Worksheet*, Line 28, Column I, by the amount on **Form CT-1040NR/PY,** Line 6. (Round to four decimal places. The result may not exceed 1.0000.)
2. Multiply the result by the amount on **Form CT-1040NR/PY**, Line 10, and enter on Line 54.

Line 55

Multiply the percentage arrived at on Line 53 by the amount reported on Line 54.

Line 56 - Income Tax Paid to a Qualifying Jurisdiction (While a Resident)

Enter on Line 56 the total amount of income tax paid to a qualifying jurisdiction on income derived from or connected with sources in that jurisdiction during the residency portion of your taxable year.

If the tax you paid to that jurisdiction was also based on income earned during the nonresidency portion of your taxable year, you must prorate the amount of tax for which you are claiming credit. The proration is based upon the relationship that the income earned in that jurisdiction during your Connecticut residency (from *Schedule 2 - Worksheet*, Line 28, Column II) bears to the total amount of income that you earned in that jurisdiction in the taxable year.

Example: George, a part-year resident, worked in Rhode Island all year and paid $1,200 in Rhode Island tax for 2002. His total Rhode Island wages for 2002 were $20,000 of which $15,000 was earned while he was a Connecticut resident. The income tax paid to Rhode Island during the residency portion of his taxable year is:

$$\frac{\$\,15{,}000}{\$\,20{,}000} \times \$1{,}200 = \$900$$

He should enter $900 on Line 56.

Income tax paid means the lesser of your income tax liability to the qualifying jurisdiction or the income tax paid to that jurisdiction as reported on a return filed with that jurisdiction, but not any penalty or interest. Do **not** report the amount of tax withheld for that jurisdiction directly from your W-2 or 1099 form. You **must** first complete a return for the qualifying jurisdiction in order to determine the amount of income tax paid.

Line 57

Enter on Line 57 the lesser of the amounts reported on Line 55 or Line 56.

Line 58 - Total Credit for Income Taxes Paid to Qualifying Jurisdictions

Add the amounts from Line 57A, Line 57B, and Line 57 of any additional worksheets. The amount on Line 58 cannot exceed the amount on Line 55. Enter the total on Line 58.

Attach a copy of the income tax return filed with each qualifying jurisdiction to your Connecticut income tax return or the credit will be disallowed.

Example: Louise, a part-year resident whose filing status is single, changed her permanent legal residence during the taxable year by moving from Connecticut to City Y in State X. She worked in City Y during the entire taxable year. Both State X and City Y impose an income tax. Louise's Connecticut adjusted gross income is $75,000 (**Form CT-1040NR/PY**, Line 5). Louise's income from Connecticut sources (**Form CT-1040NR/PY**, Line 6) and her Connecticut adjusted gross income during her Connecticut residency period (*Schedule CT-1040AW*, Column B, Line 26) is $50,000. Louise completes *Schedule CT-1040AW* as follows: Line 1: Col. A, $73,000; Col. B, $49,000; Col. C, $24,000; and Col. D, $0. Line 2: Col. A, $2,000; Col. B, $1,000; Col. C, $1,000; and Col. D, $0. Louise will use the amounts in Column B when completing *Schedule 2 - Worksheet*, Column I. Louise's Connecticut income tax before the credit for income taxes paid to other jurisdictions is $2,149.36 (**Form CT-1040NR/PY**, Line 10). Since the amount of income taxed by both State X and City Y are equal, Louise will use only one column on **Form CT-1040NR/PY**, *Schedule 2*. Louise will enter $49,000 (the common amount of income taxed in both State X and City Y during her residency period) on Line 52, Column A. Louise pays an income tax of $6,100 to State X; however, only $4,039.19 (($49,000/$74,000) x $6,100) of that amount is attributable to her income sourced to State X during her Connecticut residency period. Louise pays an income tax of $510 to City Y; however, only $337.70 (($49,000/$74,000) x $510) is attributable to her income sourced to City Y during her Connecticut residency period. Therefore, the total tax paid to State X and City Y on the common amount of income is $4,376.89 ($4,039.19 + $337.70). When completing **Form CT-1040NR/PY**, *Schedule 2*, Louise will enter $50,000 on Line 50 and complete *Schedule 2* as follows:

	COLUMN A		COLUMN B	
LINE 51	**State X, City Y**			
LINE 52	**49,000**	**00**		
LINE 53	**.9800**			
LINE 54	**2,149**	**36**		
LINE 55	**2,106**	**37**		
LINE 56	**4,376**	**89**		
LINE 57	**2,106**	**37**		
LINE 58	**TOTAL CREDIT**		**2,106**	**37**

Schedule 3 – Contributions of Refund to Designated Charities

Check the appropriate box or write in a whole dollar amount for each fund to which you wish to contribute. Add your contributions and enter the total here and on the front of **Form CT-1040NR/PY**, Line 25. **Your contribution is irrevocable.**

Designated Contributions

AIDS RESEARCH EDUCATION FUND

This fund was created to assist research, education, and community service programs related to Acquired Immune Deficiency Syndrome (AIDS). The fund is administered by the Connecticut Department of Public Health.

To contribute directly send to:
AIDS Division, Department of Public Health
MS#11APV
PO Box 340308
Hartford CT 06134-0308
Make check payable to:
"Treasurer, State of Connecticut/AIDS Fund"

ORGAN TRANSPLANT FUND

This fund assists Connecticut residents in paying for the unmet medical and ancillary needs of organ transplant candidates and recipients. The fund is administered by the Connecticut Department of Social Services.

To contribute directly send to:
Department of Social Services
Accounts Receivable
25 Sigourney Street
Hartford CT 06106-5003
Make check payable to:
"Commissioner of Social Services/Organ Transplant Fund"

ENDANGERED SPECIES, NATURAL AREA PRESERVES, AND WATCHABLE WILDLIFE FUND

This fund was established to help preserve, protect, and manage Connecticut's endangered plants and animals, wildlife and their habitats. The fund is administered by the Connecticut Department of Environmental Protection.

To contribute directly send to:
Department of Environmental Protection-Bureau of Administration
Financial Management
79 Elm Street
Hartford CT 06106-5127
Make check payable to:
"DEP-Endangered Species/ Wildlife Fund"

BREAST CANCER RESEARCH AND EDUCATION FUND

This fund was created to assist research, education, and community service programs related to Breast Cancer. The fund is administered by the Connecticut Department of Public Health.

To contribute directly send to:
Department of Public Health
Breast and Cervical Cancer Early Detection Program
MS#11HLS
PO Box 340308
Hartford CT 06134-0308
Make check payable to:
"Treasurer, State of Connecticut/ Breast Cancer Fund"

SAFETY NET SERVICES FUND

This fund was created to protect the children of families who are no longer eligible for public assistance benefits. The fund is administered by the Connecticut Department of Social Services.

To contribute directly send to:
Department of Social Services
Accounts Receivable
25 Sigourney Street
Hartford CT 06106-5003
Make check payable to:
"Commissioner of Social Services/Safety Net Fund"

SCHEDULE CT-SI INSTRUCTIONS

General Information

If you are a nonresident or part-year resident, you must use *Schedule CT-SI*, *Nonresident or Part-Year Resident Schedule of Income From Connecticut Sources,* to report items of income, gain, loss, or deduction that make up your federal adjusted gross income that were derived from or connected with sources within Connecticut.

Nonresidents

Report in *Schedule CT-SI*, Part 1, all items of income you received from Connecticut sources with modifications as described below. Report in *Schedule CT-SI*, Part 2, adjustments that are directly related to the income items in Part 1.

Part-Year Residents

You **must** first complete *Schedule CT-1040AW, Part-Year Resident Income Allocation,* to determine your income from Connecticut sources. See instructions on Page 31. Add the amounts in Columns B and D for each line and transfer the total to the corresponding line of *Schedule CT-SI*.

Report in *Schedule CT-SI*, Part 1, the income that you received from all sources earned while you were a Connecticut resident and your Connecticut source income for the part of the year you were a nonresident of Connecticut. Report in *Schedule CT-SI*, Part 2, adjustments that are a result of transactions that occurred while you were a Connecticut resident or that are directly related to Connecticut source income for the part of the year you were a nonresident.

Modifications

All amounts reported in Part 1 should include any modifications to federal adjusted gross income as provided on **Form CT-1040NR/PY**, *Schedule 1*.

> **Example:** Dave, a part-year Connecticut resident received $1,000 in taxable interest income reported on federal Form 1040 and $1,000 in interest from New York bonds while a Connecticut resident. Dave would report $2,000 on *Schedule CT-SI*, Part 1, Line 2.

Special Accrual

For part-year residents, the amounts included on *Schedule CT-1040AW* and on *Schedule CT-SI*, Parts 1 and 2, should include items of income, gain, loss, and deduction that would accrue for federal income tax purposes prior to the change of residence. See *What Items are Subject to Special Accrual* on Page 8.

Part-year residents who file a surety bond or other security in lieu of special accruals do not include accruals in the amounts in *Schedule CT-SI*, Parts 1 and 2.

Capital Losses, Passive Activity Losses, and Net Operating Losses

Capital losses, passive activity losses, and net operating losses generated from activities within Connecticut can reduce Connecticut adjusted gross income derived from or connected with Connecticut sources of a nonresident to the extent that they are properly computed for federal income tax purposes and are offset against income derived from or connected with Connecticut sources. A nonresident must recompute capital losses, passive activity losses, and net operating losses as if such nonresident's federal adjusted gross income consisted only of items derived from Connecticut sources.

> **Example:** Brenda, a nonresident of Connecticut, reported a capital gain from sources outside of Connecticut (from the sale of securities) of $20,000 on her 2002 federal income tax return. Brenda also reported on her federal income tax return a capital loss of $8,000 from sources exclusively within Connecticut (from the sale of real property not used in Brenda's trade or business). For federal income tax purposes, Brenda has a gain from the sale or exchange of property of $12,000 ($20,000 minus $8,000). Brenda has a capital loss of $8,000 derived from or connected with sources within Connecticut, but may claim as a deduction only $3,000 on her 2002 **Form CT-1040NR/PY** (in accordance with the federal limitation of $3,000 of capital loss to offset ordinary income). She must carry forward the balance of the capital loss to the succeeding taxable year(s), even though for federal income tax purposes, she will show no capital loss carryforward.

Election to Forego Carryback

Where a nonresident incurs a net operating loss for Connecticut income tax purposes but does not incur a net operating loss for federal income tax purposes, the nonresident is required first to carry back such net operating loss to each of the three taxable years preceding the taxable year in which the net operating loss was incurred (except as limited by the information highlighted below) and then to carry any remaining net operating loss forward to each of the 15 taxable years following the taxable year in which the loss was incurred. An election to forego the three-year carryback period and to carry the loss forward may be made by filing a timely **Form CT-1040NR/PY** for the year the loss was incurred and attaching a statement indicating that the election to forego the carryback is being made. This election may not be revoked.

No loss incurred by a nonresident for taxable years beginning prior to January 1, 1991, may be carried forward to a succeeding taxable year. Likewise, no loss incurred by a nonresident in a taxable year beginning on or after January 1, 1991, may be carried back to a taxable year beginning prior to January 1, 1991.

Part 1 - Connecticut Income - Line Instructions

The federal income tax return line references are to the federal Form 1040. If you file federal Form 1040A, federal Form 1040EZ, or federal TeleFile Tax Record, use the appropriate lines from those forms.

Line 1 - Wages, Salaries, Tips, Etc.

(federal Form 1040, Line 7)

- **Part-Year Resident**

Enter the total of the amounts from *Schedule CT-1040AW,* Line 1, Column B and Column D

- **Nonresident**

Enter all wages, salaries, tips, and other compensation that you earned for services performed in Connecticut while you were a nonresident of Connecticut.

If you worked both in and outside of Connecticut while you were a nonresident, and the amount of Connecticut source income is not known, complete the *Employee Apportionment Worksheet.* See instructions on Page 29.

Income from employment activities in Connecticut that meet the Ancillary Activity Test are considered casual, isolated, or inconsequential and are **not** part of the Connecticut source income of a nonresident. See *Ancillary Activity Test* on Page 8.

Line 2 - Taxable Interest

(federal Form 1040, Line 8a)

- **Part-Year Resident**

Enter the total of *Schedule CT-1040AW,* Line 2, Column B and Column D.

- **Nonresident**

Enter that part of your federal adjusted gross income (as modified by adjustments on **Form CT-1040NR/PY**, *Schedule 1*) that represents interest income earned as a nonresident that is part of the receipts of a business, trade, profession, or occupation carried on in Connecticut or from the ownership of shares of an S corporation doing business in Connecticut and not otherwise exempt from Connecticut income tax. If the business is conducted both in and outside of Connecticut, see instructions for *Schedule CT-SI*, Line 5 below.

Line 3 - Ordinary Dividends

(federal Form 1040, Line 9)

- **Part-Year Resident**

Enter the total of *Schedule CT-1040AW*, Line 3, Column B and Column D.

- **Nonresident**

Enter that part of your federal adjusted gross income (as modified by adjustments on **Form CT-1040NR/PY**, *Schedule 1*) that represents dividend income earned as a nonresident that is part of the receipts of a business, trade, profession, or occupation carried on in Connecticut or from the ownership of shares of an S corporation doing business in Connecticut and not otherwise exempt from Connecticut income tax. If the business is conducted both in and outside of Connecticut, see instructions for *Schedule CT-SI*, Line 5 below.

Line 4 - Alimony Received

(federal Form 1040, Line 11)

- **Part-Year Resident**

Enter the amount from *Schedule CT-1040AW*, Line 4, Column B.

- **Nonresident**

This line does not apply to a nonresident.

Line 5 - Business Income or (Loss)

(federal Form 1040, Line 12)

- **Part-Year Resident**

Enter the total of *Schedule CT-1040AW*, Line 5, Column B and Column D.

- **Nonresident**

Enter that part of your federal adjusted gross income (as modified by adjustments on **Form CT-1040NR/PY**, *Schedule 1*) that represents business income (loss) you received from a business, trade, profession, or occupation carried on in Connecticut.

Income from business activities in Connecticut that are considered casual, isolated, or inconsequential is not considered part of the Connecticut source income of a nonresident. See *Activities Considered to be Casual, Isolated, or Inconsequential* on Page 8.

Where a Business, Trade, Profession, or Occupation is Carried on: Generally, your business, trade, profession, or occupation (not including personal services as an employee) is considered to be carried on at the location:

1. Where you maintain, operate, or occupy desk space, an office, a shop, a store, a warehouse, a factory, an agency, or other place where your affairs are regularly carried on (this summary is not all inclusive); **or**
2. Where your business is transacted with a fair measure of permanency and continuity.

Example 1: A plumber, who is a resident of Rhode Island, carries on his business from an office in Danielson, Connecticut. He has maintenance contracts with housing authorities in the Worcester, Massachusetts area, which require him to regularly perform his services at various locations in and around Worcester. This taxpayer is considered to be carrying on business in Connecticut (by reason of his office in this state) and in Massachusetts (because his business is conducted there with a fair measure of permanency and continuity).

Example 2: Assume the same facts as in Example 1, except that the taxpayer carries on his business from an office in Auburn, Massachusetts, and has maintenance contracts with housing authorities in northeast Connecticut. This taxpayer is considered to be carrying on business in Massachusetts (by reason of his office there) and in Connecticut (because his business is conducted in this state with a fair measure of permanency and continuity).

Business Carried on Both In and Outside of Connecticut: If your business, trade, profession, or occupation is carried on both in and outside of Connecticut and you maintain books and records that satisfactorily disclose the portion of income that is derived from or connected with sources within Connecticut, enter the net profit (loss) from business carried on in Connecticut on Line 5. Complete *Schedule CT-1040BA*, *Nonresident Business Apportionment,* Schedule A. If you report income using this method, your income reported to other states in which you carry on your business, where such states permit allocation on the basis of separate books and records, must result in a consistent allocation of income. (Where another state does not permit allocation on the basis of separate books and records, such a consistent allocation of income may not be possible.)

Example 3: In Example 1, assume the plumber allocated, on the basis of separate books and records, the income derived from his plumbing business on his Connecticut nonresident return as follows: 60% to Connecticut and 40% to Massachusetts. Therefore, on his Massachusetts return, this taxpayer must also allocate 60% of this income to Connecticut and 40% to Massachusetts, since Massachusetts permits allocation on the basis of separate books and records.

Apportionment Formula: If your books and records do not satisfactorily disclose the portion of income that is derived from or connected with sources within Connecticut, income from business carried on both in and outside of Connecticut must be apportioned according to a prescribed formula or an approved alternative method. *Schedule CT-1040BA*, *Nonresident Business*

Apportionment, containing the formula and other instructions pertaining to the apportionment of business income, must be completed for this purpose and attached to *Schedule CT-SI*. If you submit an alternative method of apportionment, you must also complete *Schedule CT-1040BA* and submit all information about your alternative method of apportionment.

Line 6 - Capital Gain or (Loss)

(federal Form 1040, Line 13)

- **Part-Year Resident**

Enter the total of *Schedule, CT-1040AW*, Line 6, Column B and Column D.

- **Nonresident**

Enter that part of your federal adjusted gross income (as modified by adjustments on **Form CT-1040NR/PY**, *Schedule 1*) that represents capital gains (losses) from Connecticut sources in accordance with federal provisions for determining capital gains (losses). This includes a deduction for any capital loss carryover from Connecticut sources **as limited by the following highlighted information**. Use a copy of federal Form 1040, Schedule D as a worksheet in determining your Connecticut capital gain (loss). Include in your computations only transactions that were from Connecticut sources in 2002. If these computations result in a net capital loss for Connecticut purposes, the loss is limited to $3,000 ($1,500 if you are married and filing separately) on the Connecticut return. Any balance of a 2002 net capital loss (in excess of the amount claimed on the 2002 return) will be treated as a carryover loss to be claimed on returns for subsequent years.

No loss incurred by a nonresident for taxable years beginning prior to January 1, 1991, may be carried forward to a succeeding taxable year. No loss incurred by a nonresident in a taxable year beginning on or after January 1, 1991, can be carried back to a taxable year beginning prior to January 1, 1991.

Capital Transactions From Connecticut Sources: Include transactions resulting in capital gains (losses) derived from real or tangible personal property located within Connecticut, whether or not connected with a trade or business, and capital gains (losses) from stocks, bonds, and other intangible personal property used in or connected with a business, trade, profession, or occupation carried on in Connecticut. Include your share of any capital gain (loss) derived from Connecticut sources of a partnership of which you are a partner, an estate or trust of which you are a beneficiary, or an S corporation of which you are a shareholder. If any capital gains (losses) are from business property (other than real property) of a business carried on both in and outside of Connecticut, apply the business apportionment method (*Schedule CT-1040BA*) in determining the Connecticut capital gain (loss). Gains and losses from the sale or disposition of real property are not subject to apportionment. In all cases, use the federal basis of property in computing capital gains (losses).

Line 7 - Other Gains or (Losses)

(federal Form 1040, Line 14)

- **Part-Year Resident**

Enter the total of *Schedule CT-1040AW*, Line 7, Column B and Column D.

- **Nonresident**

Enter that part of your federal adjusted gross income (as modified by adjustments on **Form CT-1040NR/PY**, *Schedule 1*) that represents the gain (loss) from the sale or exchange of non-capital assets from Connecticut sources. Apply the federal provisions for determining gains (losses) from the sale or exchange of other than capital assets to your Connecticut transactions.

Non-capital Transactions From Connecticut Sources: Include non-capital transactions pertaining to property used in connection with a business, trade, profession, or occupation carried on in Connecticut. Also include your share of any non-capital gain (loss) from a partnership of which you are a partner, an estate or trust of which you are a beneficiary, or an S corporation of which you are a shareholder. If any capital gains (losses) are from business property (other than real property) of a business carried on both in and outside of Connecticut, apply the business apportionment method (*Schedule CT-1040BA*) in determining the Connecticut capital gain (loss). Gains and losses from the sale or disposition of real property are not subject to apportionment. In all cases, use the federal basis of property in computing capital gains (losses).

Line 8 - Taxable Amount of IRA Distributions

(federal Form 1040, Line 15b)

- **Part-Year Resident**

Enter the amount from *Schedule CT-1040AW*, Line 8, Column B.

- **Nonresident**

This line does not apply to a nonresident.

Line 9 - Taxable Amount of Pensions and Annuities

(federal Form 1040, Line 16b)

- **Part-Year Resident**

Enter the amount from *Schedule CT-1040AW*, Line 9, Column B.

- **Nonresident**

This line does not apply to a nonresident.

Line 10 - Rental Real Estate, Royalties, Partnerships, S Corporations, Trusts, Etc.

(federal Form 1040, Line 17)

- **Part-Year Resident**

Enter the total of *Schedule CT-1040AW*, Line 10, Column B and Column D.

- **Nonresident**

Enter that part of your federal adjusted gross income (as modified by adjustments on **Form CT-1040NR/PY**, *Schedule 1*) that represents income or losses from rents, royalties, partnerships, S corporations, trusts, and estates that were derived from or connected with Connecticut sources.

Rental and Royalty Income: As a nonresident, enter rents and royalties from:

1. Real property located in Connecticut, whether or not used in connection with a business;

2. Tangible personal property not used in a business if such property is located in Connecticut; **and**
3. Tangible and intangible personal property used in or connected with a business, trade, profession, or occupation carried on in Connecticut.

If such income is earned by a business that is carried on both in and outside of Connecticut, apply the business apportionment percentage (*Schedule CT-1040BA*) or alternative method **only** to items of tangible and intangible personal property used in or connected with the business to determine the income from Connecticut sources. Do **not** apportion income from real property located in Connecticut (whether or not used in a business). That income must be entirely included if the real property is located in Connecticut and entirely excluded if the real property is located outside Connecticut. Do **not** apportion income from tangible personal property that is not used in a business. Report on this line your share of any rental or royalty income from a partnership, trust, estate, or S corporation.

Partnerships: As a nonresident, enter your distributive share of partnership income, gain, loss, and deduction that are derived from or connected with Connecticut sources. (This information should be provided to you by the partnership.) If your distributive share includes any other items of partnership income taxable to a nonresident, those items must be entered on the appropriate lines of *Schedule CT-SI*. For example, your share of a partnership's Connecticut capital gain would be included in determining the amount on Line 6.

S Corporations: As a nonresident, enter your pro rata share of the S corporation's nonseparately stated items of income or loss (to the extent includable in your Connecticut adjusted gross income) that are derived from or connected with Connecticut sources. Also, enter your pro rata share of the S corporation's separately stated items of income or loss (such as interest and dividends) that are derived from or connected with Connecticut sources on the appropriate lines of *Schedule CT-SI*. This information, which is reported on the S corporation's **Form CT-1120SI**, Part VI, should be provided to you by the S corporation.

Trusts and Estates: As a nonresident beneficiary, enter your share of trust or estate income that is derived from or connected with Connecticut sources. (This information should be provided to you by the fiduciary.) If your share includes any items of taxable trust or estate income from Connecticut sources not reported on Line 10, those items should be included on the appropriate lines of *Schedule CT-SI*.

Passive Activity Loss Limitations: Any deduction for passive activity losses for a nonresident must be recomputed to determine the amounts which would be allowed if the federal adjusted gross income took into account only items of income, gain, loss, or deduction derived from or connected with Connecticut sources.

If you were a **part-year resident**, you must recalculate your passive activity loss limitations as if separate federal returns were filed for your resident and nonresident periods.

Line 11 - Farm Income or (Loss)

(federal Form 1040, Line 18)

- **Part-Year Resident**

Enter the total of *Schedule CT-1040AW*, Line 11, Column B and Column D.

- **Nonresident**

Enter that part of your federal adjusted gross income (as modified by adjustments on **Form CT-1040NR/PY**, *Schedule 1*) that represents income (loss) from farming carried on in Connecticut as a nonresident.

See the instructions for reporting business income (Line 5), including the instructions for reporting income from a business carried on both in and outside of Connecticut.

Line 12 - Unemployment Compensation

(federal Form 1040, Line 19)

- **Part-Year Resident**

Enter the total of *Schedule CT-1040AW*, Line 12, Column B and Column D.

- **Nonresident**

Enter that part of federal adjusted gross income that represents unemployment compensation received as a nonresident and derived from or resulting from former employment in Connecticut.

If the unemployment compensation received from Connecticut sources is based on wage or salary income earned partly in and partly outside of Connecticut, figure the amount allocable to Connecticut in the same manner as the wage and salary income on which it is based.

Line 13 - Taxable Amount of Social Security Benefits

(federal Form 1040, Line 20b)

- **Part-year Resident**

Enter the amount from *Schedule CT-1040AW*, Line 13, Column B.

- **Nonresident**

This line does not apply to a nonresident.

Line 14 - Other Income

(federal Form 1040, Line 21)

- **Part-Year Resident**

Enter the total of *Schedule CT-1040AW*, Line 14, Column B and Column D.

When completing *Schedule CT-1040AW*, include in Column A the total taxable amount of lump-sum distributions from qualified plans not included in federal adjusted gross income. (This amount should also have been entered on **Form CT-1040NR/PY**, Line 35.) In Column B, enter the amount from Column A that you received during the period you were a Connecticut resident.

Also, use Line 14 to report any adjustments to federal adjusted gross income not included on Lines 1 through 13.

- **Nonresident**

Enter that part of federal adjusted gross income from other income derived from or connected with Connecticut sources. Connecticut Lottery winnings are taxable to a nonresident if the proceeds from the wager exceed $5,000. See *Connecticut Source Income of a Nonresident* on Page 8. Lump-sum distributions from qualified plans are **not** taxable to a nonresident.

Line 15 - Gross Income From Connecticut Sources

Add Lines 1 through 14 and enter the total on Line 15.

Part 2 - Adjustments to Connecticut Income - Line Instructions

Lines 16 - 26

(federal Form 1040, Lines 23-33a)

- **Part-Year Resident**

Enter the totals from *Schedule CT-1040AW*, Lines 16 through 26, Column B and Column D.

- **Nonresident**

The amount of the deduction for educator expenses (Line 16), IRA (Line 17), student loan interest deduction (Line 18), tuition and fees (Line 19), Archer MSA (Line 20), moving expenses (Line 21), one-half of self-employment tax (Line 22), self-employed health insurance deduction (Line 23), self-employed SEP, SIMPLE, and qualified plans (Line 24), penalty on early withdrawal of savings (Line 25), and alimony paid (Line 26), is limited to the amount connected with income from Connecticut sources while a nonresident that is stated on Lines 1 through 14. Any adjustment that relates to wage or salary income or business income must be apportioned to Connecticut on the same basis as the wage or salary income to which it relates.

Line 27 - Total Adjustments

Add Lines 16 through 26. Enter the total on Line 27.

Line 28 - Income From Connecticut Sources

Subtract Line 27 from Line 15. Enter the total on *Schedule CT-SI*, Line 28 and on **Form CT-1040NR/PY**, Line 6.

Employee Apportionment Worksheet Instructions

Sometimes your employment requires you to work both inside and outside Connecticut, but you do not know the actual amount of income you earned from working in Connecticut. In this case, you must apportion your income so that only the correct portion (the amount attributable to Connecticut) will be taxed by Connecticut. Nonresidents and part-year residents who were employed in Connecticut during the nonresidency period must use the Employee Apportionment Worksheet for this purpose. **Part-year residents may not apportion income earned while they were residents of Connecticut.**

Income from business activities in Connecticut that are considered casual, isolated, or inconsequential is not considered part of the Connecticut source income of a nonresident. See *Activities Considered to be Casual, Isolated, or Inconsequential* on Page 8.

Who May Not Apportion Income

If you know the actual amount of your Connecticut source income, you may not apportion. Simply report your income taxable in Connecticut on your Connecticut return. Examples of individuals who are not permitted to apportion include:

1. An employee whose actual Connecticut income is shown on federal Form W-2; **and**
2. An employee whose W-2 does not indicate initially his or her actual Connecticut income but whose employer issued a corrected W-2 or other statement which breaks down this amount. Since your employer is required by law to withhold Connecticut income tax on your Connecticut wages, this breakdown should be easy to obtain.

Nonresident employees who work inside and outside Connecticut should complete **CT-W4NA**, *Employee's Withholding or Exemption Certificate - Nonresident Apportionment*. The employer will use the information on **Form CT-W4NA** along with **Form CT-W4** to withhold the correct amount of Connecticut income tax for services performed in this state.

Who Must Use the Employee Apportionment Worksheet

If your employment required you to perform services both inside and outside Connecticut and **you do not know the actual amount of income you earned in Connecticut**, you must use the Employee Apportionment Worksheet if you fit into any of the categories listed below:

1. An employee who is compensated on an hourly, daily, weekly, or monthly basis;
2. An employee whose compensation depends upon sales, at least some of which take place outside of Connecticut; **or**
3. An employee whose compensation is based on miles.

How Do I Complete the Employee Apportionment Worksheet

If you qualify to use the *Employee Apportionment Worksheet*, select the appropriate basis below and then follow the instructions. If you have more than one job requiring the use of the worksheet, complete a worksheet for each job.

Working Day Basis

Employees who qualify to use the *Employee Apportionment Worksheet* and who are compensated on an hourly, daily, weekly, or monthly basis should use the working day basis to apportion their income. The income of these taxpayers is to be apportioned to Connecticut in the same proportion that the amount of time spent working in Connecticut bears to the total working time.

Line A - Working Days Outside Connecticut

Enter on Line A the number of days you worked outside of Connecticut.

Line B - Working Days Inside Connecticut

Enter on Line B the number of days you worked inside of Connecticut.

Working days do not include days on which you were not required to work, such as holidays, sick days, vacations, and paid or unpaid leave. If you spent a working day partly inside and partly outside of Connecticut, treat the day as having been spent one-half inside Connecticut.

Line C - Total Working Days

Add Line A and Line B and enter the total on Line C.

Line D - Nonworking Days

Enter your nonworking days. Your nonworking days are those days during the year (or during the period you worked, if your job lasted less than a year) that you are not required to work, such as Saturdays, Sundays, holidays, sick days, vacation, and leave with or without pay.

Line E - Connecticut Ratio

Divide Line B by Line C and enter the result on Line E.

Line F - Total Income Being Apportioned

Enter your total income from employment which is earned both inside and outside of Connecticut.

Line G - Connecticut Income

Multiply Line E by Line F.

- **Part-Year Resident**

Enter the result here and on *Schedule CT-1040AW*, Line 1, Column D.

- **Nonresident**

Enter the result here and on *Schedule CT-SI*, Line 1.

Example: An auditor living in Massachusetts is employed by an accounting firm in Hartford at an annual salary of $33,000. She works a total of 240 days in 2002, performing field audits in Rhode Island on 160 days of the year and working 80 days in Hartford. Her Connecticut adjusted gross income derived from or connected with sources within this state is $11,000 computed as follows:

$$\$33{,}000 \quad X \quad \frac{80}{240} \quad = \quad \$11{,}000$$

Basis If Other Than Working Days

If you are using the sales or mileage basis, substitute sales or mileage for working days and complete all items in the worksheet, except Line D. Indicate what basis you are using in the space provided, and enter your Connecticut income from Line G on the appropriate line(s) of *Schedule CT-SI*.

Sales Basis

Where compensation of a salesperson, agent, or other employee is based in whole or in part upon commissions from sales, Connecticut adjusted gross income derived from or connected with sources within Connecticut is determined by multiplying the gross compensation earned from sales everywhere, determined as if the nonresident were a resident, by a fraction, the numerator of which is the amount of sales made within Connecticut and the denominator of which is the amount of sales made everywhere. The amount of sales is determined on the same basis as that on which the amount of sales is determined for purposes of figuring such individual's commissions. The determination of whether sales are made within Connecticut or elsewhere is based upon where the salesperson, agent, or employee performs the activities in obtaining the order, not the location of the formal acceptance of the contract.

Mileage Basis

Where an employee's wages are based on mileage, Connecticut adjusted gross income derived from or connected with sources within this state is determined by multiplying the employee's gross wages, determined as if the nonresident were a resident, wherever earned, from the employment which includes employment carried on in Connecticut, by a fraction the numerator of which is the employee's total mileage traveled in Connecticut and the denominator of which is the employee's total mileage upon which the employer computes total wages.

SCHEDULE CT-1040AW INSTRUCTIONS

General Information

Part-year resident individuals **must** complete *Schedule CT-1040AW, Part-Year Resident Income Allocation*, to calculate Connecticut source income for the entire taxable year. After completing *Schedule CT-1040AW*, add the amount in Column B to the amount in Column D and transfer each total to the corresponding line of *Schedule CT-SI.*

Special Accrual

Report in Column B if you moved out of Connecticut, or Column C if you moved into Connecticut, all items you would be required to report if you were filing a federal return on the accrual basis for the period before you changed your resident status. These accrual amounts are to be combined with the corresponding amounts on Lines 1 through 28.

What Items are Subject to Special Accrual

A part-year resident must recognize and report items of income, gain, loss, or deduction on the accrual basis, regardless of the method of accounting normally used. In general, an item of income is subject to special accrual if the right to receive it is fixed and the amount to be paid is determinable with reasonable accuracy at the time residency status is changed. See *What Items are Subject to Special Accrual* on Page 8.

Wage Apportionment

If your salary or wages while you were a nonresident were earned partially in Connecticut, you have to determine how much should be apportioned to Connecticut and enter that amount in Column D. If you do not know the actual amount of income you earned from working in Connecticut, completed *Schedule CT-SI, Employee Apportionment Worksheet.*

Partners and S Corporation Shareholders

For taxable years beginning on or after January 1, 2001, part-year residents must include in Column B, their distributive share of partnership income, gain, loss, and deduction, or their pro rata share of S corporation income, gain, loss, and deduction, to the extent included in Connecticut adjusted gross income during their taxable year, prorated to their Connecticut resident period based on the number of days they resided in Connecticut.

Part-year residents must also include in Column D, their distributive share of partnership income, gain, loss, and deduction or their pro rata share of S corporation income, gain, loss, and deduction, to the extent included in Connecticut adjusted gross income during their taxable year, prorated to their Connecticut nonresident period based on the number of days they resided outside of Connecticut, but only to the extent such prorated amount of income, gain, loss, and deduction is derived from or connected with Connecticut sources.

Part 1 – Adjusted Gross Income

Column A – Federal Income as Modified

Enter the amounts of income reported on your federal return as modified by amounts on **Form CT-1040NR/PY**, *Schedule 1*, **plus all items you would be required to include if you were filing a federal return on the accrual basis.** See *What Items are Subject to Special Accrual* above and *Schedule 1 – Modifications to Federal Adjusted Gross Income* on Page 18.

Column B – Connecticut Resident Period

Enter that part of the amount from Column A that you earned during the period you were a Connecticut resident.

Column C – Connecticut Nonresident Period

Enter that part of the amount from Column A that you earned during the period you were a nonresident of Connecticut.

Column D – Nonresident Period Connecticut Source Income

Enter that part for the amount from Column C that you earned while a nonresident that was derived from or connected with Connecticut sources including, but not limited to:

1. Services you performed in Connecticut;
2. Real or tangible personal property located in Connecticut; **and**
3. Businesses, trades, professions, or occupations conducted in Connecticut. See *Connecticut Source Income of a Nonresident* on Page 8.

Refer to each specific line instruction for *Schedule CT-SI*, Part 1, on Page 25 to determine the income from Connecticut sources earned during your nonresident period.

Part 2 – Adjustments to Income

Column A – Federal Income as Modified

Enter the amounts of adjustments reported on your federal return plus all items you would be required to include if you were filing a federal return on the accrual basis. See *What Items are Subject to Special Accrual,* on this page.

Column B – Connecticut Resident Period

Enter that part of the adjustments from Column A that you earned during the period you were a Connecticut resident.

Column C – Connecticut Nonresident Period

Enter that part of the adjustments from Column A that you earned during the period you were a nonresident of Connecticut.

Column D – Nonresident Period Connecticut Source Income

See *Schedule CT-SI*, Part 2, Lines 16 through 26 on Page 29. Enter that part of the adjustments from Column C that you earned while a nonresident that was derived from or connected with Connecticut sources.

Example: Mark moved from California to Connecticut on September 15, 2002. On Mark's federal return, he reported $50,000 in total wages. $10,000 was earned while Mark was a Connecticut resident. On Line 1, Mark would enter $50,000 in Column A, $10,000 in Column B, $40,000 in Column C, and $0 is Column D. No income was earned in Connecticut prior to the move.

Mark also claimed moving expenses of $3,000 on federal Form 1040, Line 28. This amount was specified in a contract he entered into with a moving company before he moved out of California. He also had a student loan interest of $525 on federal Form 1040, Line 25. He would enter $3,000 in Column A, $0 in Column B, $3,000 in Column C, and $0 in Column D. The entire moving deduction is included in Column C because the moving expense was fixed and determinable before he moved out of California. For the student loan interest, he would enter $525 in Column A, $105 in Column B (10,000/50,000 X $525), $420 in Column C (40,000/50,000 X $525), and $0 in Column D.

Part 3 – Part-Year Resident Information

All part-year residents must complete this section in its entirety.

Attach Schedule CT-1040AW to Form CT-1040NR/PY.

SCHEDULE CT-1040BA INSTRUCTIONS

General Instructions

Schedule CT-1040BA, *Nonresident Business Apportionment*, must be completed by nonresidents and part-year residents (for the nonresidency portion of the year) if they are required to apportion business income. Complete *Schedule CT-1040BA* on Page 35.

Who Must Apportion Business Income

An apportionment of business income must be made if you are a nonresident and you carry on business both in and outside of Connecticut so that only the correct portion (the amount attributable to Connecticut) will be taxed by Connecticut.

Generally, your business is considered to be carried on at the location:

1. Where you maintain, operate or occupy desk space, an office, a shop, a store, a warehouse, a factory, an agency, or other place where your affairs are regularly carried on (this summary is not all inclusive); **or**
2. Where your business is transacted with a fair measure of permanency and continuity.

Business is carried on outside of the state if you maintain, operate or occupy desk space, an office, a shop, a store, a warehouse, a factory, an agency, or other place where your business matters are systematically and regularly carried on outside Connecticut.

Income from an occasional or isolated business transaction outside of the state may not be apportioned. In addition, if you have no regular place of business outside of Connecticut, you may not apportion any income for business carried on outside of the state.

Income from business activities in Connecticut that are considered casual, isolated, or inconsequential is not considered part of the Connecticut source income of a nonresident. See *Activities Considered to be Casual, Isolated, or Inconsequential* on Page 8.

Example 1: A plumber, who is a resident of Rhode Island, carries on his business from an office in Danielson, Connecticut. He has maintenance contracts with housing authorities in the Worcester, Massachusetts area, that require him to regularly perform his services at various locations in and around Worcester. This taxpayer is considered to be carrying on business in Connecticut (by reason of his office in this state) and in Massachusetts (because his business is conducted there with a fair measure of permanency and continuity).

Example 2: Assume the same facts as in Example 1, except that the taxpayer carries on his business from an office in Auburn, Massachusetts, and has maintenance contracts with housing authorities in northeast Connecticut that require him to regularly perform his services at various locations in and around Connecticut. This taxpayer is considered to be carrying on business in Massachusetts (by reason of his office there) and in Connecticut (because his business is conducted here with a fair measure of permanency and continuity).

Who Must Complete Schedule A

All nonresidents required to apportion income because they carry on business both in and outside of Connecticut must complete Schedule A.

If apportionment is determined from books and records of the business: If you carry on business both in and outside of Connecticut and maintain books and records that satisfactorily disclose the portion of business income that is derived from or connected with sources within Connecticut, enter in the space immediately below Schedule A the words **"Connecticut income determined from books and records."** Do not complete Schedule B.

If you report income using this method, your income reported to other states in which you carry on your business, where such states permit allocation on the basis of separate books and records, must result in a consistent allocation of income. (Where another state does not permit allocation on the basis of separate books and records, such a consistent allocation of income may not be possible.)

Example 3: Assume the same facts as in Example 1, except that the plumber allocated, on the basis of separate books and records, the income derived from his plumbing business on his Connecticut nonresident return as follows: 60% to Connecticut and 40% to Massachusetts. Therefore, on his Massachusetts return, this taxpayer must also allocate 60% of this income to Connecticut and 40% to Massachusetts, since Massachusetts permits allocation on the basis of separate books and records.

Who Must Complete Schedule B

If your books and records do not satisfactorily disclose the portion of business income that is derived from or connected with sources within Connecticut, income from business carried on both in and outside of Connecticut must be apportioned using the **business apportionment percentage** (arrived at by completing Schedule B) or using an approved alternative method. Schedule B of *Schedule CT-1040BA* must be completed for this purpose and attached to **Form CT-1040NR/PY**. If you submit an alternative method of apportionment, you must also complete *Schedule CT-1040BA* and include with it information explaining the alternative method of apportionment.

The **business apportionment percentage** or alternative method is **not** applied to income from the rental of real property or gains (losses) from the sale of real property. The entire rental income from **Connecticut** real property or gain from the sale of such property is taxable and the entire amount of any loss therefrom is deductible. Rental income from real property located **outside** Connecticut or gain from the sale of such property is not taxable. Any loss connected with such property is not deductible.

The **business apportionment percentage** is to be applied to business income (loss), or farm income (loss), or to the income from intangible personal property (such as annuities, dividends, interest, and gains from the disposition of intangible personal property) if such property is used in or connected with a business carried on both in and outside of Connecticut.

If you carried on more than one business for which an apportionment is required on *Schedule CT-1040BA*, prepare a separate *Schedule CT-1040BA* for each business and attach all schedules to **Form CT-1040NR/PY**.

Specific Instructions

Schedule A

In Column 1 and Column 2, list the exact locations both in and outside of Connecticut where you carry on business. In Column 3, describe the places listed in Column 1 and Column 2 (for example, branch office, agency, factory, warehouse, etc.) **and** state whether you rent or own these places.

Schedule B

Complete this schedule if business is carried on both in and outside of Connecticut and you do not maintain books and records that satisfactorily disclose the portion of business income that is derived from or connected with sources within Connecticut.

Line 1 - Real Property Owned

Enter in Column A the average value of all real property owned by the business. Enter in Column B the average value of real property located in Connecticut. Real property includes assets of a fixed nature such as buildings and land.

The average value of property is determined by adding its fair market value at the beginning and at the end of the taxable year, and dividing the result by two.

Line 2 - Real Property Rented From Others

Enter the value of all real property rented from others in Column A and the value of Connecticut real property rented from others in Column B.

The value of real property rented by the business and to be included in Line 2 generally is eight times the gross rent payable during the taxable year for which the return is filed. Gross rent includes:

1. Any amount payable for the use or possession of real property, or any part of it, whether designated as a fixed sum of money or as a percentage of sales, profits, or otherwise;
2. Any amount payable as additional rent or in lieu of rent, such as interest, taxes, insurance, repairs, or any other amount required to be paid by the terms of a lease or other agreement; **and**
3. A proportion of the cost of any improvement to real property made by or on behalf of the business which reverts to the owner or lessor upon termination of a lease or other arrangement. However, if a building is erected on leased land by or on behalf of the business, the value of the building is determined in the same manner as if it were owned by the business.

Line 3 - Tangible Personal Property Owned or Rented From Others

Enter in Column A the average value of all tangible personal property owned by the business and the value of all tangible personal property rented from others by the business. Enter in Column B the average value of tangible personal property located in Connecticut that is owned by the business and the value of tangible personal property located in Connecticut that is rented from others by the business. If tangible personal property is rented from others by the business, its value is determined by multiplying the gross rents payable during the taxable year by eight. If tangible personal property is owned by the business, its average value is determined by adding its book value at the beginning and at the end of the taxable year, and dividing the result by two.

Line 4 - Property Percentage

Add Lines 1, 2, and 3 in Column A and Column B and enter the result on Line 4.

Divide Column B by Column A. Carry the result to four decimal places and enter it as a percentage in Column C. For example, .6667 should be entered as 66.67%.

Line 5 - Payroll Percentage

Enter wages, salaries, and other personal service compensation paid only to employees of the business. Do not include payments to independent contractors, independent sales agents, etc. Enter in Column A the total compensation paid to employees during the taxable year in connection with business operations carried on both in and outside of Connecticut. Enter in Column B the amount paid in connection with business operations carried on in Connecticut. The compensation paid for services is in connection with operations carried on in Connecticut if the employee works in or travels out of an office or other place of business located in Connecticut.

Divide Column B by Column A. Carry the result to four decimal places and enter it as a percentage in Column C. For example, .6667 should be entered as 66.67%.

Line 6 - Gross Income Percentage

Enter in Column A total gross sales made or charges for services performed by the proprietor or by employees, agents, agencies, or independent contractors of the business in and outside of Connecticut. Enter in Column B the portion of total gross sales or charges which represents sales made, or charges for services performed, by the proprietor or by employees, agents, agencies, or independent contractors situated at, connected with, or sent out from offices of the business (or its agencies) located in Connecticut.

Example: If a salesperson working out of the Connecticut office of the business, covers Connecticut, Massachusetts, and Rhode Island, all sales made by him are to be allocated to Connecticut and included on Line 6, Column B.

Divide Column B by Column A. Carry the result to four decimal places and enter it as a percentage in Column C. For example, .6667 should be entered as 66.67%.

Line 7 - Total of Percentages

Add Lines 4, 5, and 6 in Column C and enter the total.

Line 8 - Business Apportionment Percentage

Divide Line 7 by three (or by the actual number of percentages if less than three). Carry the result to four decimal places and enter the result as a percentage.

Each item of business income (loss) reported on federal Form 1040, which is required to be apportioned, is multiplied by the percentage on Line 8. Nonresidents, enter the apportioned amounts on the proper lines of *Schedule CT-SI*. Part-year residents, enter the apportioned amounts on the proper lines of *Schedule CT-1040AW*, Column D.

Do not apply the business apportionment percentage to income from the rental of real property or gains or losses from the sale of real property. The entire rental income from Connecticut real property or gain from the sale of such property is taxable and the entire amount of any loss therefrom is deductible. Rental income from real property located **outside** Connecticut or gain from the sale of this property is not taxable. Any loss connected with such property is not deductible.

Amended Returns

Use **Form CT-1040X**, *Amended Connecticut Income Tax Return*, to amend a previously filed Connecticut income tax return. If **Form CT-1040X** is filed to have an overpayment of Connecticut income tax refunded or credited, it must be filed before the Connecticut statute of limitations expires. Generally, the Connecticut statute of limitations for refunding or crediting any Connecticut income tax overpayment expires three years after the due date of the return, but if a timely request for an extension of time to file a return was filed, the statute of limitations expires three years after the extended due date of the return, or three years after the date of filing the return, whichever is earlier. If an amended return is not timely filed, a penalty may be imposed. Interest will also be assessed on any additional Connecticut income tax not paid on or before the due date. See *Interest and Penalties*, on Page 12.

The following circumstances require the filing of Form CT-1040X:

1. The IRS or federal courts change or correct your federal income tax return, and the change or correction results in your Connecticut income tax being overpaid or underpaid.	**File Form CT-1040X no later than 90 days after the final determination.** If you file **Form CT-1040X** no later than 90 days after the final determination, any Connecticut income tax overpayment resulting from the final determination will be refunded or credited to you, even if the Connecticut statute of limitations has otherwise expired.
2. You filed a timely amended federal income tax return, and the amendment results in your Connecticut income tax being overpaid or underpaid.	**File Form CT-1040X no later than 90 days after the date you filed your timely amended federal return.** If you file **Form CT-1040X** no later than 90 days after the date of filing the timely amended federal income tax return, any Connecticut income tax overpayment resulting from filing the timely amended federal income tax return will be refunded or credited to you, even if the Connecticut statute of limitations has otherwise expired.
3. You claimed a credit for income tax paid to a qualifying jurisdiction on your original income tax return and the tax officials or courts of that qualifying jurisdiction made a change or correction to your income tax return and the change or correction results in your Connecticut income tax being overpaid or underpaid (by increasing or decreasing the amount of your allowable credit).	**File Form CT-1040X no later than 90 days after the final determination.** If you file **Form CT-1040X** no later than 90 days after the final determination, any Connecticut income tax overpayment resulting from the final determination will be refunded or credited to you, even if the Connecticut statute of limitations has otherwise expired.
4. You claimed a credit for income tax paid to a qualifying jurisdiction on your original income tax return and you filed a timely amended income tax return with that qualifying jurisdiction, and the amendment results in your Connecticut income tax being overpaid or underpaid (by increasing or decreasing the amount of your allowable credit).	**File Form CT-1040X no later than 90 days after the date you filed your amended return with the qualifying jurisdiction.** If you file **Form CT-1040X** no later than 90 days after the final determination, any Connecticut income tax overpayment resulting from the final determination will be refunded or credited to you, even if the Connecticut statute of limitations has otherwise expired.
5. If none of the above circumstances apply, but you made a mistake or omission on your Connecticut income tax return, and the mistake or omission results in your Connecticut income tax being overpaid or underpaid.	**File Form CT-1040X no later than three years after the due date of your return**, or if you filed a timely request for an extension of time to file, three years after the date of filing the return, or three years after the extended due date, whichever is earlier.

Do not file Form CT-1040X for any of the following reasons:

- To have an overpayment refunded instead of applied to next year's estimated tax or to change contributions made to designated funds. The elections that you made on your original return **cannot** be changed by filing **Form CT-1040X**.
- To amend your Connecticut income tax return for an earlier year in order to claim a credit for income tax paid on income which was included in your Connecticut adjusted gross income for that year and which you repaid in a later taxable year. File **Schedule CT-1040CRC**, *Claim of Right Credit*, with your Connecticut income tax return for the later taxable year.

Financial Disability

If you are financially disabled, as defined in I.R.C. §6511(h)(2), the time for having an overpayment of Connecticut income tax refunded or credited to you is extended for as long as you are financially disabled. You are considered financially disabled if you are unable to manage your own affairs by reason of a medically determinable physical or mental impairment that has lasted or can be expected to last for a continuous period of not less than 12 months. You are not considered financially disabled during any period that your spouse or any other person is authorized to act on your behalf in financial matters.

STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

SCHEDULE CT-1040BA

2002

Nonresident Business Apportionment

Formula basis apportionment of Connecticut income derived from business carried on both inside and outside Connecticut

For the year January 1 – December 31, 2002, or other taxable year beginning _____, 2002, and ending _____, _____.

Your First Name and Middle Initial	Last Name	Social Security Number ___ ___ ___ ⋮ ___ ___ ⋮ ___ ___ ___ ___
If a *JOINT* Return, Spouse's First Name and Middle Initial	Last Name	Spouse's Social Security Number ___ ___ ___ ⋮ ___ ___ ⋮ ___ ___ ___ ___

Schedule A - List all places, both inside and outside Connecticut, where you carry on business

(1) STREET ADDRESS	(2) CITY AND STATE	(3) DESCRIPTION (See Instructions)

Schedule B - Formula basis apportionment of income or (loss), if books and records do not satisfactorily disclose the portion of business income derived from or connected with Connecticut sources

		Column A Totals – All locations	Column B Connecticut only	Column C Divide Column B by Column A (Carry to four decimal places and enter as a percentage.)
1. Real property owned	1.			
2. Real property rented from others	2.			
3. Tangible personal property owned (or rented from others)	3.			
4. **Property percentage** (Add Lines 1, 2, and 3)	4.			%
5. **Payroll percentage**	5.			%
6. **Gross income percentage**	6.			%
7. Total of percentages (Add Lines 4, 5, and 6, Column C)	7.			%
8. **Business apportionment percentage** (Divide Line 7 by three, or by actual number of percentages, if less than three)	8.			%

The business apportionment percentage on Line 8 should be applied to certain items of business income or loss to determine the amounts to be reported on Schedule CT-SI. See instructions for Schedule CT-SI for details.

COMPLETE AND ATTACH TO FORM CT-1040NR/PY

CT-1040BA (Rev. 12/02)

QUESTIONS AND ANSWERS ABOUT THE CONNECTICUT INDIVIDUAL USE TAX

For additional information, see **Informational Publication 2002(21)**, *Q & A on the Connecticut Individual Use Tax.*

1. What is the use tax?

When you make a retail purchase in this state, you usually pay sales tax to the seller who in turn pays the tax to the DRS. Sometimes Connecticut sales tax is not paid to the retailer. In these situations, the purchaser must pay the use tax directly to DRS.

2. On what kinds of goods or services must I pay use tax?

You must pay use tax on taxable tangible personal property, whether purchased or leased. Examples of taxable personal property include items of clothing costing $75 or more, automobiles, appliances, furniture, jewelry, cameras, VCRs, computers, and prewritten computer software. Some taxable services include repair services to your television, motor vehicle, or computer, landscaping services for your home, reupholstering services for your household furniture, or charges for on-line access to computer services.

3. Are there exemptions from the use tax?

Yes. If you buy goods or services in Connecticut that are exempt from sales tax, they are exempt from the use tax if you buy them out-of-state for use in Connecticut. Some examples are items of clothing that cost less than $75, newspapers, magazines by subscription, charges to access the Internet through an Internet provider's server, and repair and maintenance services to vessels.

4. Do I owe Connecticut use tax on all my out-of-state purchases of taxable goods and services?

No. If all the items you purchased and **brought into** Connecticut at one time total $25 or less, you do not have to pay Connecticut use tax. The $25 exemption does **not** apply to items that are **shipped or mailed** to you.

5. What is the use tax rate?

In general, the use tax rate for taxable goods or services is 6% (.06). However, effective July 1, 2001, computer and data processing services are taxed at 1% (.01).

6. What if I buy taxable goods or services in another state and the vendor charges sales tax for the other state?

If the goods or services were purchased for use in Connecticut and the tax paid to the other state is less than the Connecticut tax, you must report and pay the use tax. Your use tax due is the difference between the Connecticut tax and the tax paid to the other state.

Example: You purchased a $1,000 refrigerator in another state, and paid a $50 tax to that state. If you bought the refrigerator for use in Connecticut, you owe Connecticut use tax. The Connecticut tax of $60 is reduced to $10, after allowing $50 credit for the tax paid to the other state. If no tax was paid to the other state, the Connecticut use tax is $60.

7. When must individuals pay the use tax?

You must pay the individual use tax when you file an individual income tax return. **Forms CT-1040EZ, CT-1040,** or **CT-1040NR/PY**, must be filed on or before April 15, 2003. If you are not required to file a Connecticut income tax return, you must pay the use tax on **Form OP-186**, *Connecticut Individual Use Tax Return*. You may file **Form OP-186** for the entire year or you may file several returns throughout the year.

If you are engaged in a trade or business, you must register with DRS for business use tax and report purchases made in connection with your trade or business on **Form OS-114**, *Sales and Use Tax Return*.

8. What are the penalties and interest for not paying the use tax?

The penalty is 10% (.10) of the tax due. Interest is charged at the rate of 1% (.01) per month or fraction of a month from the due date of the tax return. There are also criminal sanctions for willful failure to file a tax return.

9. On what amount should the use tax be calculated?

Calculate the use tax by multiplying the total cost of the taxable goods or services purchased, including separately stated charges such as shipping and handling, by the tax rate (generally 6%).

OTHER TAXES THAT YOU MAY OWE

The information that follows is intended to be a general description of other Connecticut taxes for which you may be liable. More detailed information is available in the forms or publications specified. Failure to pay these taxes, if you are liable for them, may subject you to civil and criminal penalties.

Business Entity Tax (Form OP-424)

For taxable years beginning on or after January 1, 2002, there is an annual tax of $250 on each:

- S Corporation;
- Limited Liability Company, which is, 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 Partnership; **or**
- Limited Partnership;

that is required to file an annual report with the Connecticut Secretary of the State. See **Special Notice 2002(11)**, *Business Entity Tax*. An entity that has a Connecticut tax registration number issued by DRS will automatically be registered for the Business Entity Tax and be mailed **Form OP-424**. If an entity does not have a Connecticut number, one can be obtained by completing **Form REG-1**, *Business Taxes Registration Application*. The failure to receive **Form OP-424** will not excuse any entity from the obligation to file it and to pay the Business Entity Tax.

Connecticut Gift Tax (Form CT-709)

Gifts made during the calendar year by resident and nonresident individuals are subject to the Connecticut gift tax. Residents are subject to tax on all gifts of intangible property and of real and tangible personal property located in Connecticut. Nonresidents are taxed on gifts of real and tangible personal property located in Connecticut. In general, gifts made to any particular donee are not subject to the Connecticut gift tax unless the value of all such gifts to such donee during the calendar year exceeds $11,000. The tax is computed on the fair market value of the property that was given. The donor is liable for the tax, but if the donor does not pay the tax, it may be collected from the donee. The tax is reported on, and paid upon the filing of **Form CT-709**, *Connecticut Gift Tax Return*. The return must be filed, and the gift tax paid, on or before April 15 annually, for gifts made during the preceding calendar year.

Connecticut Income Tax Withholding for Household Employers

Connecticut rules differ from federal rules. Household employers may not report and pay household employee withholding tax with their Connecticut income tax return. See **Special Notice 96(8)**, *1996 Legislative Changes Concerning "Nanny Tax" Withholding*.

INDIVIDUAL USE TAX WORKSHEET

Complete this worksheet if you have a Connecticut individual use tax liability. If you require additional lines, you should copy this worksheet.

You owe use tax if you purchased taxable goods or services during the taxable year and did not pay Connecticut sales tax on the purchase. Refer to *Questions and Answers About the Connecticut Individual Use Tax*, on Page 36.

Enter only those purchases subject to use tax that you have **not** previously reported on **Form OP-186**, *Connecticut Individual Use Tax Return*.

List separately on this worksheet any individual item with a purchase price of **$300 or more** and complete Columns A through G. Although you do not need to list separately any individual item with a purchase price of **less than $300**, such items are subject to tax and the total of the purchase prices of these items should be reported on Line 1, Column D. Multiply the sales and use tax rate by the purchase price of the item and enter the result in Column E.

Enter the total tax for all taxable purchases on Line 2 of this worksheet and on **Form CT-1040EZ**, Line 7; **Form CT-1040**, Line 15; or **Form CT-1040NR/PY**, Line 17. **You must attach a copy of this worksheet to your Connecticut income tax return if you are reporting the purchase of any individual item with a purchase price of $300 or more.**

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F	COLUMN G
DATE OF PURCHASE	DESCRIPTION OF GOODS OR SERVICES	RETAILER OR SERVICE PROVIDER	PURCHASE PRICE	CT TAX DUE (.06 X Column D)	TAX, IF ANY, PAID TO ANOTHER JURISDICTION	BALANCE DUE (Column E minus Column F but not less than zero)
1. Total of individual purchases under $300 not listed above						1.

2. **Individual Use Tax** (Add all amounts for Column G.) Enter here and on **Form CT-1040EZ,** Line 7; **Form CT-1040,** Line 15; or **Form CT-1040NR/PY**, Line 17. You **must** enter "0" on the appropriate line of your Connecticut income tax return if no Connecticut use tax is due. 2.