Connecticut Tax Changes

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After much debate and political posturing, the State of Connecticut finally has an operating budget for fiscal year 2015. As you might expect when a budget deficit exists, the bill is full of many not so friendly tax changes.

Business Tax Provisions:

1. **Mandatory unitary combined reporting -** The legislation replaces the current combined reporting provisions with mandatory unitary combined reporting effective January 1, 2016, and applicable to income years starting on or after that date. A company that is part of a group of companies constituting a unitary business must determine its Connecticut corporation tax liability based on the net income or capital base of the entire group. A "unitary business" is defined as a single economic enterprise that is interdependent, integrated, or interrelated enough through its activities to provide mutual benefit and produce significant sharing or exchanges of value among its entities or a significant flow of value among its separate parts. A unitary business can be either separate parts of a single entity or a group of separate entities under common ownership. Businesses conducted or connected through pass-through entities (Partnerships or S Corporations) may be considered unitary if they meet certain criteria. Basically, the state is looking to tax revenue economically generated in the state, rather than reliance on bright line physical presence standards.
2. **Corporate income tax surcharge extended -** The 20% corporation income tax surcharge has been extended for two additional years (2016 and 2017 tax years). In addition, a temporary 10% surcharge is imposed for the 2018 tax year. Somewhat good news - Companies that have less than $100 million in annual gross income in those years are exempt from the surcharge, unless they file combined or unitary returns.
3. **Net operating loss carryforward limitation -** Beginning with the 2015 income year, the amount of net operating loss (NOL) that a corporation may carry forward is limited to the lesser of:
    a. 50% of net income, or for companies with taxable income in other states, 50% of the net income apportioned to Connecticut, or
    b. the excess of NOL over the NOL being carried forward from prior income years.
4. **Tax credit limitation -** For any income year commencing on or after January 1, 2015, the amount of tax credits that corporations may use to reduce their corporation tax liability is limited to 50.01% (currently 70%) of the amount of tax due in any income year prior to the application of credits.

Personal Income Tax Provisions:

1. Beginning with this 2015 tax year, the bill increases the marginal income tax rates on higher income taxpayers from 6.7% to 6.9% and adds a seventh, higher-income tax bracket subject to a 6.99% marginal tax rate. For single filers and married filing separately, the 6.9% rate applies to taxable income over $250,000 but not over $500,000 and the 6.99% rate applies to taxable income over $500,000. For heads of households, the 6.9% rate applies to taxable income over $400,000 but not over $800,000 and the 6.99% rate applies to taxable income over $800,000. For married couples filing jointly, the 6.9% rate applies to taxable income over $500,000 but not over $1 million and the 6.99% rate applies to taxable income over $1 million. It also increases the flat income tax rate for trusts and estates from 6.7% to 6.99%.
2. Beginning with the 2016 tax year, the bill reduces the property tax credit (for those taxpayers eligible to take the credit) from $300 to $200.
3. Effective July 1, 2015 and applicable to taxable years beginning on or after January 1, 2015, federally taxable military retirement pay is made fully exempt from Connecticut income tax. The exemption applies to federal retirement pay for retired members of the U.S. Army, Navy, Air Force, Marine Corps, Coast Guard, and Air National Guard. Previously the exemption was 50%.

Property and Sales Taxes:

1. Applicable to assessment years beginning on or after October 1, 2015, municipalities and special taxing districts may tax motor vehicles at a different rate than other taxable property and the motor vehicle rate is capped at 32 mills for the 2015 assessment year and 29.36 mills for the 2016 assessment year and thereafter.
2. Effective October 1, 2015, a 6% gross receipts tax is imposed on ambulatory surgical centers. The tax must be remitted quarterly by electronic funds transfer, beginning with the last calendar quarter of 2015.
3. Effective July 1, 2015, the luxury tax on motor vehicles, jewelry, clothing, and footwear costing more than
    a. $50,000 for motor vehicles, with certain exceptions;
    b. $5,000 for jewelry (real or imitation); and
    c. $1,000 for clothing, footwear, handbags, luggage, umbrellas, wallets, and watches, increases from 7% to 7.75%.
4. The budget bill also expands the definition of computer and data processing services subject to the tax to include the creation, development, hosting, and maintenance of an Internet website.
5. Effective July 1, 2015, the bill eliminates the sales and use tax exemptions for clothing and footwear costing less than $50,
6. The sales and use tax is now applicable to car washing services, including coin-operated car washes.
7. Effective July 1, 2015, the exemption for clothing and footwear during the "sales-tax-free-week" in August applies to items costing less than $100, rather than $300.
8. Effective October 1, 2015 and applicable to periods ending on or after December 31, 2015, the bill moves the deadline for remitting monthly sales and use taxes and filing sales tax returns from the 20th day of the month to the last day of the month following the month covered by the return.

Estate Tax Changes:

1. A $20 million estate and gift tax cap is placed on the maximum amount of
   a. estate tax imposed on the estates of residents and nonresidents who die on or after January 1, 2016, and
   b. gift tax imposed on taxable gifts donors make on or after January 1, 2015.
2. The maximum probate charge has increased to .5% for estates above $2 million, and the $12,500 maximum fee has been eliminated.

Please feel free to contact us to further discuss these wide ranging tax changes