Tax Alert
Connecticut Tax Reforms Enacted

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Significant tax reform measures have been signed into law in Connecticut, with the greatest impact expected to be from the mandatory combined filing for unitary groups of corporations. Due to an outcry by many major corporations headquartered in Connecticut, this combined filing provision has been deferred until tax years beginning on or after January 1, 2016, while all of the other changes have effective dates in 2015.

We address the most pertinent changes below.

Connecticut Corporate Income Tax

- Connecticut currently assesses a 20% surtax on the income and capital tax. This surtax will be extended for income years beginning prior to January 1, 2018. For years beginning on or after January 1, 2018 and before January 1, 2019, the surtax will be reduced to 10%. The surtax will apply to companies with gross income of at least $100,000,000, and all companies filing unitary returns.
- Effective January 1, 2015, the amount of tax credit available for use is limited to 50.01% of the amount of tax due.
- Effective January 1, 2015, net operating losses are limited to 50% of Connecticut income.
- Combined returns are required for years beginning on or after January 1, 2016.
  - All entities with common ownership and engaged in a unitary business must be part of the combined return.

- Unitary members with Connecticut members are referred to as taxable members and those without nexus are nontaxable members.
- The combined group's income is the aggregate income of all taxable and nontaxable members.
- Dividends paid from one group member to another are eliminated.
- Each taxable member determines its separate apportionment.
- The Connecticut sales of nontaxable members must be reallocated to the numerators of the group's taxable members.
- Combined group net operating losses can be shared with other taxable members that were also members during the year in which the loss was incurred.
- Financial services companies are subject to the $250 minimum capital base tax, but are not included in the unitary group's capital base calculation or the capital base apportionment.
- The aggregate capital base tax is capped at $1,000,000.
- Tax credits can be shared with other members of the group, provided they were also members at the time the credit was earned.
- The default unitary group uses water's - edge reporting. However, an election can be made for filing on a federal affiliated group or worldwide basis. Such election is effective for 10 years.
- The preference tax has been repealed effective for years beginning on or after January 1, 2015. The preference tax requires a combined group to add to its tax liability the difference between the total tax due, had the company filed separate returns, minus the total tax due on the combined return. The preference tax is capped at $500,000.

Connecticut Personal Income Tax

- For years beginning on or after January 1, 2015, U.S. military retirement income is exempt from Connecticut tax.
- Effective January 1, 2015, the top two marginal rates are increased to 6.9% and 6.99%.
    - The 6.9% tax rate applies to those individuals in the highest existing income tax bracket with Connecticut taxable income over $250,000, if filing Single or Married Filing Separately; $400,000 for Head of Household, and; $500,000 if the taxpayer is Married Filing Jointly.
    - The 6.99% rate applies to those individuals in the newly created highest tax bracket with Connecticut taxable income over $500,000, if filing Single or Married Filing Separately; $800,000 for Head of Household, and; $1,000,000 if the taxpayer is Married Filing Jointly.
    - The 6.99% rate also applies to trusts and estates.
- The personal exemption for a year beginning on January 1, 2016 is $14,500, and increases to $15,000 for years beginning on or after January 1, 2017.

Connecticut Estate and Gift Tax

- The combined estate and gift tax liability for decedents dying on or after January 1, 2016 is capped at $20,000,000.
- The gift tax is also capped at $20,000,000 for gifts made on or after January 1, 2016.
- The $20,000,000 estate tax is reduced by gift taxes paid on gifts included in the taxable estate that were made by the decedent or the decedent's spouse subsequent to January 1, 2016.

Connecticut Sales and Use Tax

- Effective July 1, 2015, the luxury sales and use tax rate increased from 7% to 7.75%. This tax applies to motor vehicles over $50,000, jewelry over $5,000 and clothing and footwear over $1,000.
- Effective July 1, 2015, the definition of computer and data processing was expanded to include services rendered in connection with the creation, development, hosting and maintenance of a website. The tax rates for computer and data processing remains at 1%.
- For periods ending on or after December 31, 2015, sales tax is due the last day of the succeeding month instead of on the 20th.

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