

IP 2010(20)

Business Taxes

Purpose: This publication provides a brief description of certain taxes applicable to companies doing business in Connecticut. It is not an all-inclusive list, but contains those taxes of interest to most businesses and, where appropriate, identifies state agencies to contact for information.

Effective Date: Upon issuance.

Registering for Business Taxes

To electronically apply for a Connecticut Tax Registration Number and register a business online, visit the Department of Revenue Services (DRS) **Taxpayer Service Center (TSC)** website at **www.ct.gov/TSC**. To register using paper, complete and mail **Form REG-1, Business Taxes Registration Application**, to DRS. Some business taxes administered by DRS include corporation business tax, business entity tax (BET), sales and use taxes, income tax withholding, and motor vehicle fuels tax. See information on contacting DRS and obtaining forms and publications.

Corporation Business Taxes

Corporations pay the corporation business tax for the privilege of carrying on business in a corporate capacity in Connecticut. Corporations calculate the corporation business tax using the two methods described below:

- The tax measured by net income; and
- The minimum tax.

The corporation business tax due is the higher of the two amounts calculated and in no event is less than \$250.

The Tax Measured by Net Income

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

The Minimum Tax

The Connecticut minimum tax base is:

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

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

The Connecticut minimum tax base or apportioned Connecticut minimum tax base for multistate corporations is taxed at a rate of 3.1 mills per dollar. The minimum tax cannot be more than \$1,000,000 or less than \$250.

Surtax

A surtax of 10% of the corporation business tax will apply for three income years beginning on or after January 1, 2009, and prior to January 1, 2012. The surtax does not apply to companies whose tax is equal to \$250. Companies whose gross income is less than \$100 million are exempt from the surtax unless they file as part of a Connecticut combined or Connecticut unitary return. The surtax is calculated without regard to any credit against the corporation business tax.

Estimated Corporation Business Tax

Every corporation subject to the Connecticut corporation business tax whose estimated current year tax exceeds \$1,000 must make its required annual payment in four installments. The required annual payment is the lesser of:

- 90% of the tax (including surtax) shown on the return for the income year or if no return is filed, 90% of the tax for the year; or
- 100% of the tax (including surtax) shown on the return for the previous income year without regard to any credit if the previous income year was an income year of 12 months and if the company filed a return for the previous income year showing a liability for tax.

For more information regarding estimated business tax payments, see **Informational Publication 2010(10)**, *Q & A on Estimated Corporation Business Tax and Worksheet CT-1120AE*.

Filing Requirements

See *Paperless Filing/Payment Methods*.

C Corporations

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

Corporation Business Tax Credits

Corporation business tax credits may be available to new and existing businesses. **Informational Publication 2010(13)**, *Guide to Connecticut Business Tax Credits*, contains detailed summaries of available credits. You may download this publication from the DRS website at **www.ct.gov/DRS** or to order the publication, send a self-addressed 9" x 12" envelope affixed with \$2.07 postage to:

Department of Revenue Services
Mail Unit, Corporation Credit Guide
25 Sigourney St Ste 2
Hartford CT 06106-5032

S Corporations

Every domestic S corporation is subject to the business entity tax (BET) and must file **Form OP-424**, *Business Entity Tax Return*. A foreign S corporation is subject to the business entity tax and must file Form OP-424 if it is transacting business in Connecticut and is required to obtain a certificate of authority from the Connecticut Secretary of the State (regardless of whether or not it has complied with the requirement).

S corporations are not subject to the corporation business tax. For federal and Connecticut tax purposes, S corporations are treated as pass-through entities (PEs). PEs must file **Form CT-1065/CT-1120SI**, *Connecticut Composite Income Tax Return*, on or before the fifteenth day of the fourth month following the close of its taxable year. S corporations and other PEs may be required to make a

composite income tax payment on behalf of their nonresident noncorporate members or their members that are PE's. See **Informational Publication 2006(22)**, *Connecticut Income Tax Changes Affecting Pass-Through Entities*.

Partnerships

For federal and Connecticut tax purposes, partnerships (including an LLC or an LLP that is treated as a partnership for federal income tax purposes) are treated as PEs. Every PE that does business in Connecticut or has income derived from or connected with sources within Connecticut must also file Form CT-1065/CT-1120SI, and may also be required to make a composite income tax payment on behalf of its nonresident noncorporate members or its members that are PEs. See IP 2006(22).

Business Entity Tax

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

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

The BET applies to those business entities listed above if either: 1) the entity was formed under Connecticut law; or 2) the entity was not formed under Connecticut law but is required to register with or obtain a certificate of authority from the Connecticut Secretary of the State before transacting business in the state (regardless of whether or not the entities have complied with the requirement). Visit DRS website at www.ct.gov/BET for additional information regarding BET.

Controlling Interest Transfer Tax

The controlling interest transfer tax is a tax imposed on the sale or transfer for consideration of a controlling interest in an entity, whether it is a corporation, partnership, association, trust, limited liability company, or other organization, where the entity owns, directly or indirectly, an interest in Connecticut real property, which has a present and true value not less than \$2,000.

The controlling interest transfer tax is imposed on the person selling or transferring the controlling interest at the tax rate of 1.11% of the present true and actual value of the interest in real property possessed, directly or indirectly, by the entity. An additional controlling interest transfer is imposed under Conn. Gen. Stat. §12-638I if a controlling interest in an entity which possesses an interest in land that has been classified as farm land, forest land, maritime heritage land, or open space land is transferred within a period of ten years.

Form AU-330, *Controlling Interest Transfer Taxes*, must be filed by the transferor on or before the last day of the month following the month during which a controlling interest in an entity was transferred. **Form AU-331**, *Controlling Interest Transfer Taxes Informational Return*, must be filed by any entity in which a controlling interest is transferred if the transfer is subject to the controlling interest transfer tax or taxes. For more specific information regarding the tax, see **Special Notice 2003(11)**, *2003 Legislation Affecting the Controlling Interest Transfer Tax*.

Real Estate Conveyance Tax

A state and municipal real estate conveyance tax is imposed on deeds conveying real estate where the consideration for the interest in property equals or exceeds \$2,000. A deed for less than \$2,000 in consideration is exempt from real estate conveyance tax but may be subject to the gift tax. The

grantor/seller pays the taxes due at the time of recording the deed. **Form OP-236**, *Real Estate Conveyance Tax Return*, must be completed and submitted to the town clerk with the deed and payment of the taxes.

The state tax rate on the consideration received for the real estate is as follows:

Type of Real Estate	Rate
Unimproved land	0.5%
Residential property (other than residential dwelling)	0.5%
Nonresidential property (other than unimproved land)	1.0%
Residential dwelling (portion not exceeding \$800,000)	0.5%
Residential dwelling (portion exceeding \$800,000)	1.0%
Property conveyed by a delinquent mortgagor *	0.5%

*If mortgage payments are more than six months delinquent and property is conveyed to a financial institution.

Sales and Use Taxes

Retail sales or leases of tangible personal property and certain services are subject to sales and use taxes at a 6% rate with some exceptions.

The room occupancy tax rate of 12% applies to the occupancy of a room in a hotel or lodging house for a period of 30 consecutive days or less.

Use tax generally applies to taxable tangible personal property or services on which the seller did not collect Connecticut sales tax. A business must report purchases subject to the use tax on **Form OS-114**, *Sales and Use Tax Return*, for the period in which the purchases are made. If an item purchased in another state already was subject to that state's sales tax, credit for the tax paid is generally given when computing Connecticut use tax.

Certain Services Subject to Tax

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

- Advertising or public relations services not related to the development of media advertising or cooperative direct mail advertising;
- Business analysis, management, management consulting, and public relations services, excluding any environmental consulting services;
- Cable and satellite television services;
- Computer and data processing services including but not limited to charges for online access to computer services (but excluding Internet access services and services rendered in connection with the creation, development, hosting, or maintenance of all or part of a website) are taxed at 1%;
- Credit information and reporting;
- Employment agencies and agencies providing personnel services;
- Exterminating services;
- Flight instruction and chartering by a certificated air carrier;
- Furnishing of space for storage of tangible personal property;
- Furniture reupholstering and repair services;

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

Related Companies

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

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

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

Contractor Services

This topic is covered in depth in **Informational Publication 2006(35)**, *Building Contractors' Guide to Sales and Use Taxes*. You may download this publication from the DRS website at **www.ct.gov/DRS**, or to order the publication, send a self-addressed 9" x 12" envelope with \$2.07 in postage affixed to:

Department of Revenue Services
Mail Unit, Building Contractors' Guide
25 Sigourney St Ste 2
Hartford CT 06106-5032

Manufacturer Exemptions

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

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

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

Informational Publication 2009(13), *Sales and Use Taxes Guide for Manufacturers, Fabricators, and Processors*, includes information about tax exemptions and other issues of interest to manufacturers. You may download this publication from the DRS website at **www.ct.gov/DRS**, or to order the publication, send a self-addressed 9" x 12" envelope affixed with \$1.90 in postage to:

Department of Revenue Services
Mail Unit, Manufacturers' Guide
25 Sigourney St Ste 2
Hartford CT 06106-5032

Filing Requirements

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

Taxpayers whose prior year liability for sales and use tax or withholding tax exceeded \$4,000 for the 12-month period ending the preceding June 30 for monthly and quarterly tax liabilities or for the preceding taxable year for annual tax liabilities and who are notified by DRS to pay that tax by electronic funds transfer (EFT) must pay the tax by EFT.

Other Exemptions

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

Income Tax Withholding

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

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

Employers must withhold Connecticut income tax from wages of resident employees and from nonresident employees who work in Connecticut. Quarterly reconciliations are due on the last day of the month following the end of the calendar quarter. The annual reconciliation for the preceding year is due on the last day of February. See **Informational Publication 2011(1)**, *Connecticut Employer's Tax Guide - Circular CT*.

Motor Vehicle Fuels Tax

An excise tax is imposed on motor vehicle fuels used to propel motor vehicles. The tax rate on gasoline and gasohol is 25¢ per gallon. Effective July 1, 2010, the tax rate on diesel fuel decreased from 45.1¢ per gallon to 39.6¢ per gallon. See **Announcement 2010(6)**, *Motor Vehicles Fuels Tax Rate on Diesel Reduced Effective July 1, 2010*.

Motor Carrier Road Tax

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

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

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

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

Petroleum Products Gross Earnings Tax

A tax is imposed on companies engaged in the refining or distribution, or both, of petroleum products on their gross earnings from the first sale within Connecticut of petroleum products. The rate remains at 7% since July 1, 2007. Refer to **CERT-116**, *Exempt Petroleum Products Certificate*, for a list of petroleum products that are exempt from this tax.

Franchise Tax

The Connecticut Secretary of the State collects a franchise tax from corporations organized under

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

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

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

Unemployment Insurance Tax

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

Motor Vehicle Registration Fees

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

Property Tax

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

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

Effect on Other Documents: This **Informational Publication 2010(20)**, *Business Taxes*, modifies and supersedes **Informational Publication 2009(23)**, *Business Taxes*, which may no longer be relied upon on after the issuance date of this publication.

Effect of This Document: An Informational Publication issued by the Department of Revenue Services (DRS) addresses frequently - asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

For More Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); **or**
- **860-297-5962** (from anywhere).

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Visit the DRS website at **www.ct.gov/DRS** to download and print Connecticut tax forms and publications.

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

Business and individual taxpayers can use the **Taxpayer Service Center (TSC)** at **www.ct.gov/TSC** to file a variety of tax returns, update account information, and make payments online.

File Electronically: You can choose first-time filer information and filing assistance or log directly into the **TSC** to file returns and pay taxes.

Pay Electronically: You can pay taxes for tax returns that cannot be filed through the **TSC**. Log in and select the *Make Payment Only* option. Designate a payment date up to the due date of the tax and mail a paper return to complete the filing process.

DRS E-Alerts Service: Get connected to the latest news from DRS. Receive notification by email of changes to legislation, policies, and procedures. **DRS E - News Alerts** provide information for employer's withholding tax, News – Press Releases, and Top 100 Delinquency List. Visit the DRS website at **www.ct.gov/DRS** and select *e-alerts* from the left navigation bar.