

# 2004

## FORM

### CT-1065/ CT-1120SI

This booklet  
contains:

Form CT-1065/  
CT-1120SI

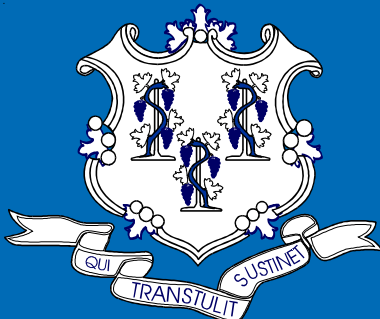
Form CT-1065/  
CT-1120SI EXT

Form CT-2NA

Form CT-1065/  
CT-1120SI ES

Schedule CT K-1

Form CT-1065/  
CT-1120SI  
Supplemental  
Attachment



# Connecticut Composite Income Tax Return and Instructions

Dear Customer:

At the Connecticut Department of Revenue Services (DRS), our goal is to provide you with the most complete resource for state business tax information. Recent legislative changes have resulted in the combining of the 2004 CT-1065 and CT-1120SI tax forms. This booklet contains important information about those legislative changes, how they will affect Connecticut taxpayers, and how this new form will be filed. Please read it carefully.

DRS values its partnerships with Connecticut businesses and continues to focus on providing excellent customer service with a user-friendly approach to tax administration. If you need assistance, DRS Taxpayer Services personnel can answer your questions by phone, letter, or e-mail. The back cover of this booklet provides all the ways you can access this Agency including the DRS Web site, which is a valuable resource available anytime for you to download Connecticut tax forms, DRS publications, and other information you may need.

Comments and ideas on how we can improve the way we do business are always welcomed, so please feel free to contact us.

Sincerely,

Pam Law

Commissioner of Revenue Services

Taxpayer information is available on our Web site:

**[www.ct.gov/DRS](http://www.ct.gov/DRS)**

*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 anytime from CONN-TAX, the Department of Revenue Services information line. Call **1-800-382-9463** (in-state) or **860-297-5962** (from anywhere), press **4** to be connected to the recorded tax information menu, then press **1** 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 2004 Filing Season:

Monday, **January 31** (until 7 p.m.)

Monday, **February 7** (until 7 p.m.)

Monday, **February 14** (until 7 p.m.)

### Extended Telephone Personal Assistance and Walk-in Hours:

(25 Sigourney Street, Hartford Only)

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# OTHER TAXES FOR WHICH THE PASS-THROUGH ENTITY (PE) MAY BE LIABLE

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The information that follows is intended to be a general description of certain other Connecticut taxes for which a pass-through entity (PE) may be liable. For further information about these taxes, contact the Department of Revenue Services (DRS), Taxpayer Services Division. See the back cover for a list of DRS walk-in offices and telephone numbers.

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## Registration

To register for sales and use taxes and Connecticut income tax withholding, as well as most other Connecticut taxes administered by DRS, a PE must complete **Form REG-1**, *Business Taxes Registration Application*. Visit the DRS Web site to register on-line. If a PE already has a Connecticut Tax Registration Number, additional taxes for which the PE is liable may be added to the registration by contacting the DRS Registration Unit at 860-297-4885.

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## Connecticut Sales and Use Taxes

A PE may be responsible for the filing of sales and use tax returns. Sales taxes are due if the company sells taxable goods or services. Use taxes are due on the purchase of taxable goods or services from out-of-state retailers, or Connecticut retailers who have failed to collect the sales tax. Both taxes are reported on **Form OS-114**, *Sales and Use Tax Return*.

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## Connecticut Income Tax Withholding

Any PE which maintains an office or transacts business in Connecticut (regardless of the location of the payroll department) and is considered an employer for federal income tax withholding purposes must withhold Connecticut income tax from Connecticut wages, as defined in Conn. Agencies Reg. §12-706(b)-1. (See **Circular CT**.)

## Business Entity Tax

The BET applies to each of the following entities, if required to file an annual report with the Connecticut Secretary of the State:

- S corporation;
- Limited liability partnership;
- Limited partnership; **or**
- 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.

See **Special Notice 2002(11)**, *Business Entity Tax*, and **Informational Publication 2003(15)**, *Q & A on the Business Entity Tax*, for more information.

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## Controlling Interest Transfer Taxes

There is a tax imposed on the transfer of a controlling interest in an entity where the entity owns, directly or indirectly, an interest in Connecticut real property. This tax is reported on **Form AU-330**, *Controlling Interest Transfer Taxes*. See **Special Notice 2003(11)**, *Legislation Affecting the Controlling Interest Transfer Tax*, for more information.

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## Real Estate Conveyance Tax

If a PE transfers real estate in Connecticut, it must complete and file **Form OP-236**, *Real Estate Conveyance Tax Return*, in the town in which the real estate is situated.

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# WHAT'S NEW

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## New Form

For taxable years beginning on or after January 1, 2004, a PE is required to file **Form CT-1065/CT-1120SI**, *Connecticut Composite Income Tax Return*, where it is required to file federal Form 1065, U.S. Return of Partnership Income, or federal Form 1120S, U.S. Income Tax Return for an S Corporation, and has any income, gain, loss, or deduction derived from or connected with sources within Connecticut. **Form CT-1065**, *Connecticut Partnership Income Tax Return*, and **Form CT-1120SI**, *Connecticut S Corporation Composite and Income Tax Return*, are obsolete. A PE is required to make a Connecticut composite income tax payment on behalf of a member where:

- The member's share of the PE's income derived from or connected with Connecticut sources is **\$1,000 or more**;
- An election to be included on a **group return** (Form CT-G) **has not been made** by the member; **and**
- The member is a **nonresident noncorporate member or a PE**.

Previously, a PE was not required to make a composite Connecticut income tax payment on behalf of any nonresident member who elected to pay Connecticut income tax by filing **Form CT-1NA**, *Nonresident Income Tax Agreement*, with the PE. *2004 Conn. Pub. Acts 216, §54* precludes that election, and, if the election was previously made, nullifies that election for taxable years of PEs beginning on or after January 1, 2004.

A PE is required to make *estimated* composite income tax payments on behalf of a member where:

- The member's share of the PE's income derived from or connected with Connecticut sources is \$20,000 or more;
- An election to be included on a group return has not been made by the member; **and**
- The member is a nonresident noncorporate member or a PE.

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## Form CT-G

For taxable years beginning on or after January 1, 2004, a PE with **two or more qualified electing nonresident members** may file a group return. A group return may also be filed by a trust or estate with

two or more qualified electing nonresident beneficiaries. All qualified electing nonresident members must have the same taxable year. Previously, a group return could only be filed by a PE (or by a trust or estate) with ten or more qualified electing nonresident members.

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## Underpayment of Estimated Tax

For taxable years beginning on or after January 1, 2004, the threshold for imposing an addition to tax for an underpayment of estimated tax has been **increased from more than \$500, to \$1,000 or more**.

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## New Coding for Part IV Member Information

A two-letter *Member Type Code* is required on Part IV of **Form CT-1065/CT-1120SI**. The PE must enter a code for each member. The codes are used to identify the type of member and, for some members, their residency. The codes are as follows:

Member	Member Type Code
Nonresident or part-year resident individual	NI
Nonresident or part-year resident trust	NT
Nonresident estate	NE
Pass-through entity	PE
Resident individual	RI
Resident trust	RT
Resident estate	RE
Corporate member	CM

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## Schedule CT K-1

For taxable years beginning on or after January 1, 2004, each PE is required to complete and furnish **Schedule CT K-1**, *Member's Share of Certain Connecticut Items*, to each member listed in **Form CT-1065/CT-1120SI**, Part IV, other than a corporate member.

The PE is required to furnish **Schedule CT K-1** on or before the fifteenth day of the fourth month (April 15 for calendar year filers) to each resident and nonresident noncorporate member and each member which is a PE.

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## DEFINITIONS

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**Pass-through entity (PE)** means a partnership or an S corporation.

**Partnership** means and includes a general partnership, limited partnership, limited liability partnership, publicly traded partnership, or limited liability company (LLC) treated as a partnership for federal income tax purposes.

**S corporation** means a corporation which is an S corporation for federal income tax purposes.

**Member** means and includes a partner of a partnership, a member of a LLC treated as a partnership for federal income tax purposes, or a shareholder of an S corporation.

**Member's share** means a partner's distributive share of partnership income, gain, loss, or deduction; a member's distributive share of LLC income, gain, loss, or deduction; or a shareholder's pro rata share of S corporation income, gain, loss, or deduction.

**Noncorporate member** means each member that is a resident individual, resident trust, resident estate, nonresident individual, nonresident trust, nonresident estate, part-year resident individual, or part-year resident trust.

**Nonresident noncorporate member** means each noncorporate member who is a nonresident individual, nonresident trust, nonresident estate, part-year resident individual, or part-year resident trust.

**Resident noncorporate member** means each noncorporate member who is a resident individual, resident trust, or resident estate.

**Corporate member** means each member which is a C corporation for federal income tax purposes, LLC that has elected to be taxed as a C corporation for federal income tax purposes, real estate investment trust, real estate mortgage investment conduit, regulated investment company, or organization exempt from federal income tax.

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## GENERAL INFORMATION

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### How to Get Help

DRS is ready to help you and offers several resources where you can get answers to Connecticut tax questions. Visit the DRS Web site at [www.ct.gov/DRS](http://www.ct.gov/DRS) or for personal assistance, see the back cover 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 **completed** federal Form 1065, Partnership Return of Income, or Form 1120S, U.S. Income Tax Return for an S corporation.

Personal telephone assistance is available Monday through Friday, 8:30 a.m. to 4:30 p.m. Extended hours are offered, 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.

### How to Get Additional Forms and Publications

Download and print Connecticut tax forms and publications anytime from the DRS Web site at [www.ct.gov/DRS](http://www.ct.gov/DRS). 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. You may also photocopy the forms you need from the *2004 Connecticut Package X*, which is on file at most public libraries.

### Who Must File Form CT-1065/CT-1120SI

Every PE doing business in Connecticut, or having income derived from or connected with sources within Connecticut, must file **Form CT-1065/CT-1120SI**, regardless of the amount of its income (or loss).

The PE must first complete either federal Form 1065, U.S. Partnership Return of Income, or Form 1120S, U.S. Income Tax Return for an S corporation. Information on the federal return is needed to complete **Form CT-1065/CT-1120SI**.

**Important:** If the PE files **Form CT-G** and pays Connecticut income tax on behalf of its qualified electing nonresident members, it must also complete **Form CT-1065/CT-1120SI**.

### What Information Must be Provided to the Members

On or before the fifteenth day of the fourth month following the close of the taxable year (April 15 for calendar year filers), the PE must furnish **Schedule CT K-1** to each resident and nonresident noncorporate member and each member which is a PE. (See Page 19 for more information on completing **Schedule CT K-1**.)

### How Do Members Report Income

#### Resident Noncorporate Members

**If the member is a resident individual**, his or her share of PE income or loss is included in his or her federal adjusted gross income and is, therefore,

includable in the federal adjusted gross income reported on the member's **Form CT-1040**. The PE must provide the member with a **Schedule CT K-1** reporting Connecticut modifications that the member must include on his or her **Form CT-1040, Schedule 1**.

**If the member is a resident trust or estate**, its share of PE income or loss is included in its federal taxable income and is, therefore, includable in the federal taxable income reported on the member's **Form CT-1041**. The PE must provide the member with a **Schedule CT K-1**, reporting Connecticut modifications that the member must include on its **Form CT-1041, Schedule A**.

### **Nonresident Noncorporate Members**

**If the member is a nonresident individual**, his or her share of PE income or loss is included in his or her federal adjusted gross income and is, therefore, includable in the federal adjusted gross income reported on the member's **Form CT-1040NR/PY**. The PE must provide the member with a **Schedule CT K-1**, reporting Connecticut modifications that the member must include on his or her **Form CT-1040NR/PY, Schedule 1**, and amounts of PE income or loss derived from or connected with Connecticut sources that the member must include on his or her **Form CT-1040NR/PY, Schedule CT-SI**.

**If the member is a nonresident trust or estate**, its share of PE income or loss is included in its federal taxable income and is, therefore, includable in the federal taxable income reported on the member's **Form CT-1041**. The PE must provide the member with a **Schedule CT K-1**, reporting Connecticut modifications that the member must include on its **Form CT-1041, Schedule A**, and amounts of PE income or loss derived from or connected with Connecticut sources that the member must include on its **Form CT-1041, Schedule CT-1041FA**.

For further information on whether a member is a resident or nonresident, see the instructions for **Form CT-1040, Connecticut Resident Income Tax Return**, or **Form CT-1041, Connecticut Income Tax Return for Trusts and Estates**.

### **Members Which Are Themselves Pass-through Entities**

If the member is a PE, it is referred to here as a parent PE, and the PE of which it is a member is referred to here as a subsidiary PE. The parent PE's share of the subsidiary PE's income or loss is included in the income or loss reported on the parent PE's federal Form 1065 or federal Form 1120S, as the case may be, and is, therefore, included in the income or loss reported on the parent PE's **Form CT-1065/CT-1120SI**. The subsidiary PE must furnish a **Schedule CT K-1** to the parent PE, reporting:

- Connecticut modifications that the parent PE must include on its **Form CT-1065/CT-1120SI, Part V**;
- Amounts of the subsidiary PE's income or loss derived from or connected with Connecticut sources that the parent PE must include on its **Form CT-1065/CT-1120SI, Part VI**;
- The amount of Connecticut income tax paid by the subsidiary PE on behalf of the parent PE that the parent PE must include on its **Form CT-1065/CT-1120SI, Part I, Schedule A, Lines 3, 4, and 7**; **and**
- The amount of interest paid by the subsidiary PE on behalf of the parent PE that the parent PE must include on its **Form CT-1065/CT-1120SI, Part I, Schedule A, Line 10**.

The parent PE must, in turn, provide its members with a **Schedule CT K-1**, reporting their share of the Connecticut modifications, as reported on the parent PE's **Form CT-1065/CT-1120SI, Part V**, their share of the amounts of the parent PE's income or loss derived from or connected with Connecticut sources, as reported on the parent PE's **Form CT-1065/CT-1120SI, Part VI**, their share of the Connecticut income tax paid by the subsidiary PE on behalf of the parent PE, as reported on the parent PE's **Form CT-1065/CT-1120SI, Part I, Schedule A**, and their share of the amount of interest paid by the subsidiary PE on behalf of the parent PE, as reported on the parent PE's **Form CT-1065/CT-1120SI, Part I, Schedule A**.

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### **Composite Payment of Tax**

A PE is required to make a Connecticut composite income tax payment on behalf of each member where:

- A member's share of the PE's income derived from or connected with Connecticut sources is \$1,000 or more;
- A member is a nonresident noncorporate member or a PE; **and**
- If the member is a nonresident individual, the member has not elected to be included in a group return (**Form CT-G, Connecticut Group Income Tax Return**).

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### **Group Returns for Nonresident Members Who Are Individuals**

Two or more qualified electing nonresident individuals may elect to file **Form CT-G** for a taxable year in lieu of having to file their own **Form CT-1040NR/PY**. A qualified electing nonresident member **must meet all** of the following conditions. The member:

- Was a nonresident **individual** for the **entire** taxable year;
- Did not maintain a permanent place of abode in Connecticut at any time during the taxable year;
- Has the same taxable year as the other qualified electing nonresident members;

- (Or his or her spouse, if a joint federal income tax return is or will be filed) Did not have income or loss derived from or connected with sources within Connecticut other than from one or more pass-through entities;
- Waives the right to claim any Connecticut personal exemption (under Conn. Gen. Stat. §12-702) and any Connecticut personal credit (under Conn. Gen. Stat. §12-703);
- Does not have a Connecticut alternative minimum tax liability for the taxable year; **and**
- Has completed and filed **Form CT-2NA** with the PE prior to the filing of **Form CT-G**.

By filing **Form CT-2NA**, the member is agreeing to be subject to personal jurisdiction in Connecticut for purposes of the collection of Connecticut income tax, together with any additions to tax, interest, and penalties, and waiving his or her right to request, on his or her own behalf, an extension of time to pay Connecticut income tax. **Form CT-2NA** will be effective for the taxable year and for all following taxable years, unless the member revokes the agreement by providing written notice of the revocation to the PE. No such revocation shall be effective prior to the taxable year that follows the taxable year during which written notice of the revocation was provided to the PE. The PE shall keep and maintain such written notices in its permanent records, and make them available to DRS upon request.

The agreement is binding upon the member's heirs, representatives, assigns, successors, executors, and administrators.

## Accounting Period and Method of Accounting

A PE's accounting period and method of accounting for Connecticut income tax purposes must be the same as its accounting period and method of accounting for federal income tax purposes.

If a PE's accounting period 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 Form CT-1065/CT-1120SI

**Form CT-1065/CT-1120SI** is due on or before the fifteenth day of the fourth month following the close of the taxable year (April 15 for calendar year filers). If the due date falls on a Saturday, Sunday, or legal holiday, the next business day is the due date. The 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:

<b>Airborne Express (Airborne)</b> <ul style="list-style-type: none"> <li>• Overnight Air Express Service</li> <li>• Next Afternoon Service</li> <li>• Second Day Service</li> </ul>	<b>DHL Worldwide Express (DHL)</b> <ul style="list-style-type: none"> <li>• DHL "Same Day" Service</li> <li>• DHL USA Overnight</li> </ul>
<b>Federal Express (FedEx)</b> <ul style="list-style-type: none"> <li>• FedEx Priority Overnight</li> <li>• FedEx Standard Overnight</li> <li>• FedEx 2Day</li> <li>• FedEx International Priority</li> <li>• FedEx International First</li> </ul>	<b>United Parcel Service (UPS)</b> <ul style="list-style-type: none"> <li>• UPS Next Day Air</li> <li>• UPS Next Day Air Saver</li> <li>• UPS 2nd Day Air</li> <li>• UPS 2nd Day Air A.M.</li> <li>• UPS Worldwide Express Plus</li> <li>• UPS Worldwide Express</li> </ul>

This list is subject to change. To verify the names of designated PDSs and designated types of service, check the DRS Web site, or call DRS. See **Policy Statement 2002(4)**, *Designated Private Delivery Services and Designated Types of Service*.

If **Form CT-1065/CT-1120SI** is filed late or all the tax due is not paid with the return, see *Interest and Penalties* to determine if interest and penalty must be reported with this return.

## Extension Request

To get a six-month extension of time to file **Form CT-1065/CT-1120SI**, and the same extension of time to furnish **Schedule CT K-1** to its members, the PE must file **Form CT-1065/CT-1120SI EXT**, *Application for Extension of Time to File Connecticut Composite Income Tax Return*, no later than the fifteenth day of the fourth month following the close of the taxable year, together with payment of the total tax due. The timely filing of this form will automatically extend the due date for six months only if federal Form 8736, Application for Automatic Extension of Time to File U.S. Return for Partnership, REMIC, or for Certain Trusts, or federal Form 7004, Application for Automatic Extension of Time to File Corporation Income Tax Return, has been filed with the Internal Revenue Service (IRS). If federal Form 8736 or federal Form 7004 was not filed, the PE may apply for a six-month extension to file **Form CT-1065/CT-1120SI**, only if there is reasonable cause for the request.

**Form CT-1065/CT-1120SI EXT** extends only the time to file a return. It does not extend the time to pay the amount of income tax due. See *Interest and Penalties*.

If a general partner or corporate officer is unable, by reason of illness, absence, or other good cause, to request an extension, any person standing in a close personal or business relationship (including attorneys, accountants, and enrolled agents) to the general partner or corporate officer may sign the request on his or her behalf, and shall be considered as a duly authorized agent for this purpose, provided the request states the



reasons for a signature other than that of a general partner or corporate officer, and the relationship existing between the general partner or corporate officer and the signer.

### Extension of Time to Pay the Tax

A PE making a composite income tax payment may be eligible for a six-month extension of time to pay the tax due if the PE can show that paying the tax on or before the due date will cause undue hardship. The PE 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-1065/CT-1120SI** or **Form CT-1065/CT-1120SI EXT** and send it on or before the due date. As evidence of the need for extension, the PE **must** attach:

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

If an extension of time to pay is granted and the PE pays 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. The PE should make payments as soon as

possible to reduce the interest that it would otherwise owe. Write the PE's Federal Employer Identification Number and "**2004 Form CT-1065/CT-1120SI**" on its check or money order. Mail payments to:

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

### Where to File

Use the pre-addressed envelope enclosed with **Form CT-1065/CT-1120SI** or mail to:

**Department of Revenue Services  
PO Box 2967  
Hartford CT 06104-2967**

### 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 the PE does not pay the tax when due, it will owe interest of 1% (.01) per month or fraction of a month until the tax is paid in full.

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

### Amended Returns

Check the "Amended Return" box on the front of **Form CT-1065/CT-1120SI** to amend a previously filed **Form CT-1065/CT-1120SI**. If an amended return is filed to have an overpayment of Connecticut income tax refunded or credited, the overpayment will be refunded or credited to members. However, the amended **Form CT-1065/CT-1120SI** and the amended returns of members (or, if the members did not file original tax returns, the original tax returns of members) must be filed before the Connecticut statute of limitations expires. (Generally, the 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 filed to report an underpayment of Connecticut income tax, interest will apply and, if the amended return is not timely filed, a penalty may be imposed. See *Interest and Penalties*. The following circumstances require the filing of an amended **Form CT-1065/CT-1120SI** and of amended returns by members (or, if the members did not file original tax returns, the filing of original tax returns by members) and the time period to do so.

<p><b>1. The IRS or federal courts change or correct the PE's federal income tax return, and the change or correction results in the Connecticut income tax liability of the PE's members being overpaid or underpaid.</b></p>	<p>File no later than 90 days after the final determination.</p>
<p><b>2. The PE files a timely amended federal income tax return, and the amendment results in the Connecticut income tax of the PE's members being overpaid or underpaid.</b></p>	<p>File no later than 90 days after the date of filing the timely amended federal income tax return.</p>
<p><b>3. If neither of the above circumstances apply, but the PE made a mistake or omission on its Form CT-1065/CT-1120SI, and the mistake or omission results in the Connecticut income tax of the PE's members being overpaid or underpaid.</b></p>	<p>File no later than three years after the due date of the return, or, if a timely request for an extension of time to file the return was filed, three years after the extended due date of the return, or three years after the date of filing the return, whichever is earlier.</p>

**Penalty for Late Payment or Late Filing**

The penalty for late payment or underpayment of tax is 10% (.10) of the tax due. The PE can avoid a penalty for failure to pay the full amount due by the original due date if it:

- Files **Form CT-1065/CT-1120SI EXT** on or before the due date;
- Pays at least 90% of the tax shown to be due on the return on or before the original due date of the return; **and**
- Pays the balance due with the return on or before the extended due date.

If no tax is due, the Commissioner of Revenue Services 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 the PE does not file its return and the Commissioner of Revenue Services files a return for it, the penalty for failure to file is 10% (.10) of the balance due or \$50, whichever is greater.

If the PE is required to file an amended **Form CT-1065/CT-1120SI** and fails to timely do so, a penalty may be imposed.

**Penalty for Willful Failure to File or Pay**

If you willfully fail to pay the tax or file a return, you may be fined up to \$1,000 or imprisoned up to one year, or both, in addition to any other penalty.

**Penalty for Willful Filing of a Fraudulent or Materially False Return**

If you willfully file a tax return you know to be fraudulent or false in any material matter, you may be fined up to \$5,000 or imprisoned from one to five years, or both.

**Waiver of Penalty**

A PE may be able to have its penalty waived if the failure to file or pay tax on time was due to a reasonable cause and was not intentional or due to neglect. Interest

cannot be waived. Before a penalty waiver can be granted, all tax and interest must be paid. All requests **must** contain:

- A clear and complete written explanation;
- The PE's name, Federal Employer Identification Number, and Connecticut Tax Registration Number (if applicable);
- The name of the original form filed or billing notice received;
- The taxable filing period; **and**
- Documentation supporting your explanation.

Attach the request to the **front** of **Form CT-1065/CT-1120SI** or mail separately to:

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

**Estimated Tax Payments**

Beginning with estimated Connecticut composite income tax payments due on or after June 15, 2004, a PE is required to make *estimated* Connecticut composite income tax payments for a member where:

- The PE is required to make a Connecticut composite income tax payment on behalf of the member; **and**
- The member's Connecticut income tax liability on the member's share of the PE's income derived from or connected with Connecticut sources is expected to equal or exceed \$1,000. Therefore, estimated Connecticut composite income tax payments will be required if a member's share of the PE's income derived from or connected with Connecticut sources is expected to equal or exceed \$20,000.

In accordance with the above criteria, a PE may be required to make estimated Connecticut composite income tax payments on behalf of all of its members, some of its members, or none of its members. (See **Informational Publication 2004(39), Q & A on Connecticut Income Tax Changes Affecting Pass-through Entities**, for more information.)

<b>2005 Estimated Tax Due Dates</b>		Due dates of installments and the amount of required payments for 2005 calendar year taxpayers are:
<b>April 15, 2005</b>	25% of the required annual payment	
<b>June 15, 2005</b>	25% of the required annual payment (A total of 50% of the required annual payment should be paid by this date.)	
<b>September 15, 2005</b>	25% of the required annual payment (A total of 75% of the required annual payment should be paid by this date.)	
<b>January 15, 2006</b>	25% of the required annual payment (A total of 100% of the 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.		

For each installment, the PE must aggregate the estimated Connecticut composite income tax payments made on behalf of members and file one **Form CT-1065/CT-1120SI ES**, *Estimated Connecticut Composite Income Tax Payment*.

**A member's required annual payment is the lesser of:**

- **90%** of the tax shown for the member on the 2005 **Form CT-1065/CT-1120SI**; or
- **100%** of the tax shown for the member on the 2004 **Form CT-1065/CT-1120SI**.

If the member was a nonresident noncorporate member or a PE and did not have Connecticut source income during the 2004 taxable year, then the required annual payment for that member is 90% of the tax shown for the member on the 2005 **Form CT-1065/CT-1120SI**.

### **Installment Amounts and Due Dates**

For estimated tax purposes there are four required installments for each taxable year. The amount of any required installment is 25% of the required annual payment. See chart on Page 10.

### **Annualized Income Installment Method**

If a member does not receive income evenly throughout the year, the member may be able to lower or eliminate the interest otherwise due for not making estimated payments in four equal installments by

calculating his or her underpayments using the **annualized income method**. The required estimated tax payment using the annualized income method for one or more periods may be less than the amount figured using the equal installment method. If the member establishes that the annualized income installment is less than the equal installment method, the member may use the annualized income method to determine the amount of the estimated tax payments. See **Informational Publication 2004(17)**, *A Guide to Calculating Your Annualized Estimated Income Tax Installments and Worksheet CT-1040ES*, and **Form CT-2210**, *Underpayment of Estimated Income Tax by Individuals, Trusts, and Estates*.

### **Recordkeeping**

Keep a copy of the tax return, worksheets used, and records of all items appearing on the return 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. This information may be needed to prepare future returns or to file amended returns.

### **Copies of Returns**

A copy of a previously filed Connecticut income tax return may be requested 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.

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## **FORM CT-1065/CT-1120SI INSTRUCTIONS**

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**Attach a completed copy of the PE's federal income tax return, including all schedules and attachments as filed with the IRS, to Form CT-1065/CT-1120SI.**

### **Pass-through Entity Information**

Enter the PE's name, address, Federal Employer Identification Number, and Connecticut Tax Registration Number. Check the box to indicate type of entity - partnership or S corporation.

#### **Question A**

Check the appropriate box(es) for an amended return, final return, or both.

#### **Question B**

Check the Change of Address box and file **Form CT-8822**, *Change of Address*, to indicate a change in the PE's physical or mailing address. If the Change of Address box is checked, a completed **Form CT-8822** must be attached to **Form CT-1065/CT-1120SI**.

#### **Question C**

Enter the total number of resident noncorporate members as of the close of the PE's taxable year. Enter the total number of nonresident noncorporate members as of the close of the PE's taxable year. Include part-year noncorporate members as nonresidents.

#### **Question D**

Enter the amount from Schedule K, Line 1, federal Form 1065 or federal Form 1120S.

#### **Question E**

Enter the date the PE first began business and the date the PE first began business in Connecticut.

#### **Question F**

Indicate whether the PE owns, directly or indirectly, an interest in Connecticut real property.

#### **Question G**

If this question is answered "Yes," and the PE owned, directly or indirectly, Connecticut real property, the transferor(s) is liable for the controlling interest transfer tax. Enter the name and Social Security Number or Federal Employer Identification Number of the transferor(s).

#### **Question H**

If this question is answered "Yes," the PE is liable for the controlling interest transfer tax. Enter the name of the entity in which a controlling interest was

transferred and its Federal Employer Identification Number in the applicable spaces.

For information on the controlling interest transfer tax, see *Other Taxes for Which the Pass-through Entity (PE) May Be Liable*.

## Rounding Off to Whole Dollars

You must 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:** Add two amounts (\$1.29 + \$3.21) to compute the total (\$4.50) to enter on a line. \$4.50 is rounded to \$5.00 and entered on the line.

## Part I - Schedule A – PE Computation of Composite Tax Due

Do not complete Part I, *Schedule A* and *Schedule B* for members who are:

- Resident noncorporate members;
- Corporate members; **or**
- Nonresident individuals who elect to be included on **Form CT-G**.

All other members, including members which are PEs, must be included in Part I, *Schedule A* and *Schedule B*.

### Line 1 - Total Connecticut source income included in composite return

Enter the amount from Part I, *Schedule B*, Line 8, Column B.

### Line 2 - Tax liability

Multiply the amount entered on Line 1 by 5% (.05) to compute the amount of tax liability. The amount computed should equal the amount entered on Part I, *Schedule B*, Line 9, Column C.

### Line 3 - Payments made with Form CT-1065/CT-1120SI ES

Enter the amount of estimated tax paid with **Form CT-1065/CT-1120SI ES** by the PE on behalf of its nonresident noncorporate members.

### Line 4 - Payment made with Form CT-1065/CT-1120SI EXT

If **Form CT-1065/CT-1120SI EXT**, *Application for Extension of Time to File Connecticut Composite Income Tax Return*, was filed, enter on Line 4 the amount of tax paid with **Form CT-1065/CT-1120SI EXT**.

### Line 5 - Total payments

Add Line 3 and Line 4. Enter the total on Line 5.

### Line 6 - Overpayment

If Line 5 is more than Line 2, subtract Line 2 from Line 5, and enter the result on Line 6. This overpayment

will not be refunded or credited to the PE. Any overpayment of a noncorporate member will be refunded or credited **only to the member**, and **not to the PE**. If the PE has a member that is itself a PE (parent PE), any overpayment of the parent PE will be refunded or credited only to noncorporate members of the parent PE, and not to the parent PE.

A nonresident noncorporate member will file **Form CT-1040NR/PY** (if a nonresident or part-year resident individual) or **Form CT-1041**, (if a nonresident trust or estate or a part-year resident trust) to have the overpayment refunded or credited. (If there is any overpayment of a resident noncorporate member, that member will file **Form CT-1040** (if a resident individual) or **Form CT-1041** (if a resident trust or estate) to have the overpayment refunded or credited.)

### Line 7 - Amount of tax owed

If Line 2 is more than Line 5, subtract Line 5 from Line 2, and enter the result on Line 7. This is the amount of tax owed.

### Line 8 - Late payment or filing penalty

The penalty for late payment of the tax due is 10% (.10) of the amount due. In the event that no tax is due, the Commissioner of Revenue Services **may** impose a \$50 penalty for the late filing of any return or report that is required by law to be filed. However, if a request for extension of time to file a tax return has been granted, no late payment penalty will be imposed if the:

- Amount of tax shown to be due on the return minus the amount of tax paid on or before the original due date of the return equals an amount not greater than 10% of the amount of tax shown to be due on the return; **and**
- Balance due is remitted with the return on or before the extended due date of the return.

### Line 9 - Late payment interest

If the tax is not paid by the due date, interest is charged at the rate of 1% (.01) per month or fraction of a month from the due date until payment is made.

### Line 10 - Interest on underpayment of estimated tax

Enter the amount from Part I, *Schedule B*, Line 11, Column E. This is the total interest due on the underpayment of estimated income tax for all nonresident members entered in Part I, *Schedule B*.

### Line 11 - Balance due with this return

Add Lines 7 through 10 and enter the total on Line 11. Pay the balance due with this return. Make check or money order payable to the **Commissioner of Revenue Services**. Write the PE's Federal Employer Identification Number and **2004 Form CT-1065/CT-1120SI** on the front of the check or money order. Do not send cash. Paper clip (do not staple) the check to the front of the return. Be sure to sign the check.

## Part I - Schedule B – PE Member Composite Return

Do not complete Part I, *Schedule A* and *Schedule B* for members who are:

- Resident noncorporate members;
- Corporate members; **or**
- Nonresident individuals who elect to be included on **Form CT-G**.

All other members, including members which are PEs, must be included in Part I, *Schedule A* and *Schedule B*.

If there are more than six members included in Part I, *Schedule B*, use **Form CT-1065/CT-1120SI**, *Supplemental Attachment*, Part I, *Schedule B*, and Parts IV, V, and VI (included in this booklet).

### Column A - Name of member who is a nonresident noncorporate member or PE and Identification Number

Enter the name and Federal Employer Identification Number or Social Security Number of members who are nonresident noncorporate members or PEs.

### Column B - Connecticut Source Income

Enter the member's Connecticut source income. This amount is the total of the amounts entered for the member on **Form CT-1065/CT-1120SI**, Part VI, Lines 1 through 13. Enter the total on Line 8, Column B. **The federal rules apply regarding restrictions in netting only similar characters of income.**

### Column C - Tax Liability

Multiply Column B by 5% (.05). Enter the total on Line 9, Column C.

### Column D - Payments Made

Enter any tax payment made by the PE on behalf of the member (including payments made with Form CT-1065/CT-1120SI ES, Form CT-1065/CT-1120SI EXT, or Form CT-1065/CT-1120SI). Enter the total on Line 10, Column D.

### Column E - Interest

Enter the amount of any interest due for the member. Use **Form CT-2210** to calculate the interest on underpayment. Enter the total on Line 11, Column E.

## Part II - Allocation and Apportionment of Income

Complete Part II only if **all** of the following apply. The PE:

- Has at least one member who is a nonresident noncorporate member or a PE;
- Carries on business both within and outside Connecticut; **and**
- Does not maintain books and records that satisfactorily disclose the portion of income, gain, loss, or deduction derived from or connected with Connecticut sources.

The apportionment fraction calculated on Line 8 is used to complete Part VI, unless the PE maintains books and records that satisfactorily disclose the portion of income, gain, loss, or deduction derived from or connected with Connecticut sources, in which case those amounts must be used to complete Part VI.

Part II must still be completed even if an approved alternative apportionment method under Conn. Agencies Regs. §§12-711(b)-15 and 12-712(d)-1 is used. A detailed explanation of the approved alternative apportionment method used to determine the Connecticut income must be attached.

### Line 1 - Real property owned

Enter in Column A the average value of all real property, wherever located, owned by the PE. Do not include in Column A the average value of real property that was rented to others or that was sold, exchanged, or otherwise disposed of during taxable year. Enter in Column B the average value of real property owned by the PE and located in Connecticut. Do not include in Column B the average value of Connecticut real property that was rented to others or that was sold, exchanged, or otherwise disposed of during the taxable year.

The average value of real property owned by the PE is determined by adding its fair market value at the beginning and at the end of the taxable year and dividing the sum by two.

### Line 2 - Real property rented from others

Enter in Column A the value of all real property rented from others by the PE, wherever located. Enter in Column B the value of Connecticut real property rented from others by the PE.

The value of real property rented by the PE from others and to be included on Line 2 is eight times the gross rent payable during the taxable year for which the return is filed.

Gross rent includes:

- 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;
- 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**
- The yearly amortization applicable to any improvement to real property made by or on behalf of the PE 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 PE, the value of the building is determined in the same manner as if it were owned by the PE.

**Line 3 - Tangible personal property owned or rented from others**

Enter in Column A the average value of all tangible personal property, wherever located and owned by the PE, and the value of all tangible personal property, wherever located and rented from others by the PE.

Enter in Column B the average value of tangible personal property owned by the PE and located in Connecticut, and the value of tangible personal property rented from others by the PE and located in Connecticut.

The average value of tangible personal property owned by the PE is determined by adding its book value at the beginning and at the end of the taxable year and dividing the sum by two.

The value of tangible personal property rented from others is determined by multiplying by eight the gross rents payable during the taxable year for which the return is filed.

**Line 4 - Property owned or rented**

Add Lines 1, 2, and 3 in Column A and Column B. Enter the result on Line 4 in Column A and Column B. On Line 4 divide the Column B amount by the Column A amount. Carry the result to four decimal places and enter on Line 4 in Column C.

If zeros are entered on Line 4 in both Column A and Column B, do not enter any amount in Column C.

**Line 5 - Employee wages and salaries**

Enter in Column A the total compensation paid to employees during the taxable year in connection with business operations carried on everywhere. Enter in Column B the total compensation paid to employees during the taxable year in connection with business operations carried on in Connecticut. Only enter wages, salaries, and other personal service compensation paid to **employees** of the PE. Do not include payments to independent contractors, independent sales agents, etc. 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 the Column B amount by the Column A amount. Carry the result to four decimal places and enter in Column C.

If zeros are entered on Line 5 in both Column A and Column B, do not enter any amount in Column C.

**Line 6 - Gross income from sales and services**

Enter in Column A total gross sales made and charges for services performed by the PE or by its employees, agents, agencies, or independent contractors of the PE, everywhere. Enter in Column B the portion of total gross sales or charges that represents the sales made, or services performed, by the PE or by its employees, agents, agencies, or independent contractors of the PE, in Connecticut. This includes sales made or services

performed by employees, agents, agencies, or independent contractors situated at, connected with, or sent out from offices of the PE (or its agencies) located in Connecticut.

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

Divide the Column B amount by the Column A amount. Carry the result to four decimal places and enter in Column C.

If zeros are entered on Line 6 in both Column A and Column B, do not enter any amount in Column C.

**Line 7 - Total (of percentages)**

Add Lines 4, 5, and 6 in Column C, and enter the total on Line 7, Column C.

**Line 8 - Apportionment fraction**

Divide Line 7 by three (or by the actual number of fractions, if less than three). Carry the result to four decimal places and enter on Line 8, Column C. The actual number of fractions is less than 3 if, on Lines 4, 5, or 6, zero was entered in both Column A and Column B.

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**Part III - Place(s) of Business**

Attach a schedule that lists the exact location of each place where the PE carries on business. Briefly describe each place (such as sales office, agency, factory) and identify if the location is rented or owned. Briefly describe the activity at the location shown (such as storage, administration, manufacturing, etc.).

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**Part IV - Member Information**

Complete Part IV for all members.

Assign each member a number and a member type code, and list in sequential order. **Each member must be assigned the same "Member #"** for Parts IV, V, and VI. **Assign numbers to each member in the following order:**

1. Nonresident or part-year resident individual ... NI
2. Nonresident or part-year resident trust ..... NT
3. Nonresident estate ..... NE
4. Pass-through entity ..... PE
5. Resident individual ..... RI
6. Resident trust ..... RT
7. Resident estate ..... RE
8. Corporate member ..... CM

Enter each member's name, address, Member Type Code, Federal Employer Identification Number or Social Security Number (whichever is applicable), and percentage of ownership (enter as a decimal and carry to four places).

**Example 1:** If Mary L. Smith is identified as Member #1 in Part IV, Mary L. Smith must also be identified as Member #1 in Parts V and VI. If Mary L. Smith is a resident individual, no information is entered in Part VI with respect to her. Therefore, no entry would be made in Part VI with respect to a person identified as Member #1.

**Example 2:** If X Inc., a Corporate member, is identified as Member #49 in Part IV, X Inc. must also be identified as Member #49 in Part VI. Because X Inc. is a C corporation, no information is entered in Part V with respect to it. Therefore, no entry would be made in Part V with respect to a person identified as Member #49.

If there are more than eight members, use the **Form CT-1065/CT-1120SI**, Supplemental Attachment, Part I, *Schedule B*, and Parts IV, V, and VI. The supplemental attachment is included in this booklet.

## Part V - Member's Share of Connecticut Modifications

Complete Part V for all noncorporate members or PEs. **Each member must be assigned the same number for Parts IV, V, and VI.**

Enter each member's share of Lines 1 through 10.

### ADDITIONS

Enter the amount of each member's share as a positive number.

#### Line 1 - Interest on state and local government obligations other than Connecticut

Enter the amount of each member's share of interest income derived from state and municipal government obligations, other than obligations of the State of Connecticut or its municipalities, which interest income 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 2 - Mutual fund exempt-interest dividends from non-Connecticut state or municipal government obligations

Enter the amount of each member's share 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 3 - Certain deductions relating to income exempt from Connecticut income tax

Enter the amount of each member's share of the amount deducted for federal income tax purposes for:

- Interest expense on loans used to buy bonds and securities whose interest is exempt from Connecticut income tax;
- Expenses related to income exempt from Connecticut income tax; **and**
- Amortizable bond premium on any bond, the interest from which is exempt from Connecticut income tax.

#### Line 4 - Special depreciation allowance for qualified property placed in service prior to September 11, 2004

If the PE filed federal Form 4562, Depreciation and Amortization (Including Information on Listed Property), enter on Line 4 each member's share of the sum of the following:

- For qualified property placed in service prior to September 11, 2004, for which an additional 50% depreciation allowance applies, 60% of the sum of the amounts entered for that property on federal Form 4562, Line 14 and Line 25. (Do not enter any amount for qualified property placed in service on or after September 11, 2004, and prior to January 1, 2005.)
- For qualified property placed in service prior to September 11, 2004, for which an additional 30% special depreciation allowance applies, (because an election is made to deduct the 30% special depreciation allowance instead of the 50% special depreciation allowance), the sum of the amounts entered for that property on federal Form 4562, Line 14 and Line 25. (Do not enter any amount for qualified property placed in service on or after September 11, 2004, and prior to January 1, 2005.)

See **Special Notice 2003(21)**, *2003 Legislation Affecting the Connecticut Income Tax*.

#### Line 5 - Other

Use Line 5 to report the amount of each member's share of additions to income which are not listed on Lines 1 through 4. For example, include the amount of each member's share of:

- Any loss recognized on the sale or exchange of bonds or other obligations of the State of Connecticut or its municipalities;
- The PE's share of any positive Connecticut fiduciary adjustment received from a trust or estate of which the PE is a beneficiary;

- Any interest or dividend income on federal obligations or securities the federal government does not prohibit states from taxing;
- Income taxes imposed under Chapter 229 of the Connecticut General Statutes, and paid to Connecticut by the PE with a composite return on behalf of nonresident members, to the extent deductible by such nonresident members in determining their federal adjusted gross income;
- To the extent deductible in determining federal adjusted gross income, expenses paid for the production or collection of Connecticut tax exempt income, or paid for the management, conservation or maintenance of property held for the production of such income; **and**
- Amortizable bond premium for the taxable year on any bond, the interest on which is exempt from Connecticut income tax.

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## SUBTRACTIONS

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Enter the amount of each member's share as a positive number.

### **Line 6 - Interest on U.S. government obligations**

Enter the amount of each member's share of interest income derived from U.S. government obligations (to the extent included in federal adjusted gross income) that federal law prohibits states from taxing; for example all U.S. government bond interest such as Savings Bonds Series EE and Series HH, and U.S. Treasury bills and notes.

Do not enter the amount of interest earned on 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 interest is taxed by Connecticut. For further information, including lists of exempt and taxable obligations, see **Policy Statement 2003(6)**, *Connecticut Income Tax on Bonds or Obligations Issued by the United States Government by State Governments or Municipalities*.

### **Line 7 - Exempt dividends from certain qualifying mutual funds derived from U.S. government obligations**

Enter the amount of each member's share of exempt dividends that are received from a qualifying mutual fund and 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 the PE by the mutual fund.

Do not enter the amount of 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 \$100 distribution, 55% is attributable to U.S. Treasury bills and 45% to other investments. The amount that should be reported on Line 7 is \$55.

### **Line 8 - Certain expenses related to income exempt from federal income tax but subject to Connecticut tax**

Enter the amount of each member's share of interest expense on money borrowed to purchase or carry bonds or securities, whose interest income is subject to Connecticut income tax but exempt from federal income tax, provided this interest was a business expense for the federal taxable year and was not deducted in determining the PE's income.

### **Line 9 - Special depreciation allowance for qualified property placed in service during the preceding year(s)**

Enter on Line 9 for each member 25% of the share entered for the member on Line 4 of the:

- **2002 Form CT-1065, Schedule D, or 2002 Form CT-1120SI, Part V.** The remaining 50% of the share will be entered (in two equal 25% installments) on the comparable line of the 2005 and 2006 **Form CT-1065/CT-1120SI; and**
- **2003 Form CT-1065, Schedule D, or 2003 Form CT-1120SI, Part V.** The remaining 75% of the share will be entered (in three equal 25% installments) on the comparable line of the 2005, 2006, and 2007 **Form CT-1065/CT-1120SI.**

### **Line 10 - Other**

Use Line 10 to report the amount of each member's share of subtractions not listed on Lines 6 through 9. For example, include the amount of each member's share of:

- Any gain recognized on the sale or exchange of bonds or other obligations issued by the State of Connecticut or its municipalities;
- Interest income from federally taxable Connecticut bonds;
- The PE's share of any negative Connecticut fiduciary adjustment received from a trust or estate of which the PE is a beneficiary;
- Any refund or credit for the overpayment of income taxes imposed by any state of the United States or a political subdivision thereof, or the District of Columbia, to the extent such amount was included in federal adjusted gross income;
- Business expenses incurred in connection with the income, or property held to produce income, that is subject to Connecticut income tax but exempt from federal income tax, provided these expenses were not deducted in determining PE income; **and**



- Amortization of bond premium on any bond, the interest from which is subject to Connecticut income tax but exempt from federal income tax, provided this amortization was business expense for the taxable year and was not deductible in determining PE income.

## **Part VI - Member's Share of Connecticut-sourced Portion of Items From Federal Schedule K-1 (Form 1065 or Form 1120S)**

Complete Part VI for all members who are nonresident noncorporate members or PEs.

### **Each member must be assigned the same number for Parts IV, V, and VI.**

Any PE carrying on business both within and outside Connecticut must apportion the amount of each member's share of items of income, gain, loss, or deduction and the related Connecticut modifications to arrive at the Connecticut source income reported in Part VI.

### **The character of the income (loss) for Connecticut income tax purposes must mirror the character of such income (loss) for federal income tax purposes.**

The amounts entered on Lines 1 through 13 should also reflect the amount of the member's share of Connecticut modifications (as reported on Part V, Lines 1 through 10), to the extent the modifications are derived from or connected with Connecticut sources.

#### **Line 1 - Ordinary business income (loss)**

Enter the Connecticut portion of each member's share of nonseparately stated income or loss.

A PE that maintains books and records that satisfactorily disclose the portion of its nonseparately stated income or loss that is derived from or connected with Connecticut sources must enter (on Line 1 in the appropriate column) the amount of each member's share of that nonseparately stated income or that nonseparately stated loss, as determined from those books and records. The portion of the PE's nonseparately stated income or loss that is derived from or connected with Connecticut sources (as determined from the PE's books and records) will be multiplied by the member's share (%) of that income or loss.

A PE that does not maintain books and records that satisfactorily disclose the portion of its nonseparately stated income or loss that is derived from or connected with Connecticut sources must use the apportionment fraction computed on Part II, Line 8, or an authorized alternative apportionment method, to determine the portion of any item that is derived from or connected with Connecticut sources. This is accomplished by multiplying the amount of each member's share of nonseparately stated income or nonseparately stated loss by the PE's apportionment fraction as reported on Part II, Line 8, and entering the result on Part VI.

**Example 1:** Assume that a PE, whose nonseparately stated income is entirely derived from its retail business, maintains books and records that satisfactorily disclose the portion of such income that is derived from or connected with each of its retail stores (including its stores in Connecticut). Assume that the PE has nonseparately stated income of \$500,000; Member #1's share of the PE's nonseparately stated income is 10% (.10); and the PE's books and records disclose that the portion of its nonseparately stated income that is derived from or connected with Connecticut sources is \$150,000. The PE must enter \$15,000 ( $\$150,000 \times .10$ ) on Line 1 as the amount of Member #1's share of the PE's nonseparately stated income that is derived from or connected with Connecticut sources.

**Example 2:** The facts are the same as in Example 1, except that the PE does not maintain books and records that satisfactorily disclose the portion of its nonseparately stated income that is derived from or connected with each of its retail stores. Assume that the PE's apportionment fraction as reported on Part II, Line 8, is 40% (.40). The PE must enter \$20,000 ( $(\$500,000 \times .10) \times .40 = \$20,000$ ) on Line 1 as the amount of Member #1's share of the PE's nonseparately stated income that is derived from or connected with Connecticut sources.

#### **Line 2 - Net rental real estate income (loss)**

Enter the Connecticut portion of the amount of the member's share attributable to rental activities (gain or loss). The Connecticut portion of amounts attributable to real property located in Connecticut is 100%. The Connecticut portion of amounts attributable to real property located outside Connecticut is 0%.

#### **Line 3 - Other net rental income (loss)**

Enter the Connecticut portion of the amount of the member's share attributable to rental activities (gain or loss). Unless the PE maintains books and records that satisfactorily disclose the portion of income, gain, loss, or deduction derived from or connected with Connecticut sources, the Connecticut portion is calculated by multiplying the amount of the member's share of such amount from federal Schedule K-1 by the apportionment fraction on Part II, Line 8.

#### **Line 4 - Guaranteed payments (Partnerships and LLCs treated as Partnerships only)**

Enter the Connecticut portion of the amount of each member's share of guaranteed payments made to the member. Unless the PE maintains books and records that satisfactorily disclose the portion of income, gain, loss, or deduction derived from or connected with Connecticut sources, the Connecticut portion is calculated by multiplying the amount of the member's distributive share of guaranteed payments from federal Form 1065, Schedule K-1, by the apportionment fraction on Part II, Line 8.

**Line 5 - Interest income**

Enter the Connecticut portion of the member's share of interest income. Items of income, gain, loss, and deduction derived from or connected with sources within Connecticut do not include such items attributable to intangible personal property except to the extent such intangible personal property is employed in a business, trade, profession or occupation carried on in Connecticut. Unless the PE maintains books and records that satisfactorily disclose the portion of the interest income that is derived from or connected with Connecticut sources, the Connecticut portion is calculated by multiplying the amount of the member's share of the income from federal Schedule K-1 by the apportionment fraction entered on Part II, Line 8.

**Line 6a - Ordinary dividends**

Enter the Connecticut portion of the member's share of dividend income. Items of income, gain, loss, and deduction derived from or connected with sources within Connecticut do not include such items attributable to intangible personal property except to the extent such intangible personal property is employed in a business, trade, profession, or occupation carried on in Connecticut. For example, dividends from stock used as collateral to secure a business loan (for a Connecticut business) would be income from intangible personal property employed in a Connecticut trade or business and therefore would be subject to Connecticut income tax. Unless the PE maintains books and records that satisfactorily disclose the portion of the dividend income that is derived from or connected with Connecticut sources, the Connecticut portion is calculated by multiplying the amount of the member's share of the income from federal Schedule K-1 by the apportionment fraction entered on Part II, Line 8.

**Line 6b - Qualified dividends**

Enter the Connecticut portion of the member's share of qualified dividends from Line 6a above.

**Line 7 - Royalties**

Enter the Connecticut portion of the member's share of royalties income. Items of income, gain, loss, and deduction derived from or connected with sources within Connecticut do not include such items attributable to intangible personal property except to the extent such intangible personal property is employed in a business, trade, profession, or occupation carried on in Connecticut. Unless the PE maintains books and records that satisfactorily disclose the portion of the royalties income that is derived from or connected with Connecticut sources, the Connecticut portion is calculated by multiplying the amount of the member's share of the income from federal Schedule K-1 by the apportionment fraction entered on Part II, Line 8.

**Line 8 - Net short-term capital gain (loss)**

Enter the Connecticut portion of the member's share of net short-term capital gain (loss). If the amount relates

to the sale of rental property located in Connecticut, the capital gain (loss) is 100% sourced to Connecticut. Items of capital gain (loss) attributable to intangible personal property (such as the sale of stock) are not sourced to Connecticut except to the extent such intangible personal property is employed in a business, trade, profession, or occupation carried on in Connecticut.

**Line 9a - Net long-term capital gain (loss)**

Enter the Connecticut portion of the member's share of net long-term capital gain (loss). If the amount relates to the sale of rental property located in Connecticut, the capital gain (loss) is 100% sourced to Connecticut. Items of capital gain (loss) attributable to intangible personal property (such as the sale of stock) are not sourced to Connecticut except to the extent such intangible personal property is employed in a business, trade, profession, or occupation carried on in Connecticut.

**Line 9b - Collectibles (28%) gain (loss)**

Enter the Connecticut portion of the member's share of collectibles gain (loss).

**Line 9c - Unrecaptured section 1250 gain**

Enter the Connecticut portion of the member's share of I.R.C. §1250 gain.

**Line 10 - Net section 1231 gain (loss)**

Enter the Connecticut portion of the member's share of gain (loss) under I.R.C. §1231.

The Connecticut portion of amounts attributable to real property located in Connecticut is 100%. The Connecticut portion of amounts attributable to real property located outside Connecticut is 0%.

If the amount relates to a trade or business activity, unless the PE maintains books and records that satisfactorily disclose the portion of income, gain, loss, or deduction derived from or connected with Connecticut sources, the Connecticut portion of the member's share of such gain (loss) is calculated by multiplying the amount of the member's share of gain (loss) under I.R.C. §1231 from federal Schedule K-1 by the apportionment fraction on Part II, Line 8.

**Line 11 - Other income (loss) (Attach Schedule)**

Enter the Connecticut portion of the member's share of other items of income, gain, loss, or deduction not included on Lines 1 through 10 above.

**Line 12 - Section 179 deduction**

Enter the Connecticut portion of the member's share of the deduction allowed under I.R.C. §179.

Unless the PE maintains books and records that satisfactorily disclose the portion of income, gain, loss, or deduction derived from or connected with Connecticut sources, the Connecticut portion is calculated by multiplying the amount of the member's share of such deduction from federal Schedule K-1 by the apportionment fraction on Part II, Line 8.

### Line 13 - Other deductions

Enter the Connecticut portion of the member's share of other deductions that are not deducted in arriving at ordinary income (loss) from trade or business activities and that are separately stated on the federal Schedule K-1.

Unless the PE maintains books and records that satisfactorily disclose the portion of income, gain, loss, or deduction derived from or connected with Connecticut sources, the Connecticut portion is calculated by multiplying the amount of the member's share of such deduction from federal Schedule K-1 by the apportionment fraction on Part II, Line 8.

### Schedule CT K-1 Instructions

Complete **Schedule CT K-1** for each member (other than a corporate member) listed on 2004 **Form CT-1065/CT-1120SI**, Part IV as follows:

If Member Type Code is:	Complete Schedule CT K-1 Parts:
NI	I, II, and III
NT	I, II, and III
NE	I, II, and III
PE	I, II, and III
RI	I
RT	I
RE	I
CM	N/A

### Specific Instructions for Completing Schedule CT K-1

Complete Part I for a member by transferring entries for that member from Form CT-1065/CT-1120SI, Part V, Lines 1 through 10. Complete Part II for a member by transferring entries for that member from Form CT-1065/CT-1120SI, Part VI, Lines 1 through 13. Complete Part III, Line 1, by transferring the amount of Connecticut income tax paid by the PE on the member's behalf (with Form CT-1065/CT-1120SI ES, Form CT-1065/CT-1120SIEXT, and Form CT-1065/CT-1120SI) from Form CT-1065/CT-1120SI, Part I, *Schedule B*, Column D. Do not include any Connecticut income tax paid by the PE with **Form CT-GES**, **Form CT-GEXT**, or **Form CT-G**. Complete Part III, Line 2, by transferring the amount of interest on underpayment of estimated tax paid by the PE on the member's behalf, from Form CT-1065/CT-1120SI, Part I, *Schedule B*, Column E.

### Signature

**Form CT-1065/CT-1120SI** must be signed by a general partner or corporate officer. A phone number must be provided.

### Paid Preparer Signature

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

### Paid Preparer Authorization

If the PE wishes to authorize DRS to contact the paid preparer who signed the 2004 tax return to discuss it, check the "Yes" box in the signature area of the return. This authorization applies only to the individual whose signature appears in the *Paid Preparer's Signature* section of the return. It does not apply to the firm, if any, shown in that section.

If the "Yes" box is checked, the PE is authorizing DRS to call the paid preparer to answer any questions that may arise during the processing of the 2004 **Form CT-1065/CT-1120SI**. The PE is also authorizing the paid preparer to:

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

The PE is **not** authorizing the paid preparer to receive any refund check, bind the PE to anything (including additional tax liability), or otherwise represent the PE before DRS. The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing the 2005 Connecticut Composite Income Tax Return. This is on or before the fifteenth day of the fourth month following the close of the taxable period.

**Keep a copy of this return for the PE's records.**

### Attachments

The following forms and schedules must be attached to **Form CT-1065/CT-1120SI**:

- Federal Form 1065 or federal Form 1120S;
- **Form CT-1065/CT-1120SI**, *Supplemental Attachment* (if applicable); **and**
- **Form CT-2210** for each member (if applicable).

**Do not attach federal Form K-1 or Schedule CT K-1.**

**ELECTRONIC  
FILING  
OPTIONS**



File Form CT-1040 EXT over the internet using WebFile.  
Visit: [www.ct.gov/DRS](http://www.ct.gov/DRS)

Check this booklet for additional details!



File your federal and Connecticut returns together using e-file!

Visit: [www.irs.gov/efile](http://www.irs.gov/efile)

# CONNECTICUT TAX ASSISTANCE

	<b>FOR TAX INFORMATION</b>	<b>FORMS AND PUBLICATIONS</b>	
<b>Internet</b>	DRS Web site:		
	<b><a href="http://www.ct.gov/DRS">www.ct.gov/DRS</a></b>		
<b>Telephone</b>	<b>CONN-TAX</b> 1-800-382-9463 (in-state) or 860-297-5962 (from anywhere) TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.		From a touch-tone phone call: 1-800-382-9463 (in-state) and select <b>Option 2</b> , or 860-297-4753 (from anywhere) <b>DRS TaxFax</b> - Call 860-297-5698 from the handset attached to your fax machine and select from the menu.
	<b>Department of Revenue Services</b> <b>Taxpayer Services Division</b> <b>25 Sigourney Street</b> <b>Hartford CT 06106-5032</b>		
<b>Write</b>			
<b>Walk-in Offices</b>  Free personal taxpayer assistance and forms are available by visiting our offices, Monday through Friday, 8:00 a.m. to 5:00 p.m. Call CONN-TAX for directions to DRS offices.	<b>Location</b>	<b>Address</b>	<b>Phone</b>
	<b>Bridgeport</b>	10 Middle Street	203-336-7890
	<b>Hartford</b>	25 Sigourney Street	860-297-5962
	<b>Norwich</b>	2 Cliff Street	860-889-2669
	<b>Hamden</b>	3074 Whitney Avenue, Building #2	203-287-8243
	<b>Waterbury</b>	55 West Main Street, Suite 100	203-805-6789
	* IF YOU REQUIRE SPECIAL ACCOMMODATIONS, PLEASE ADVISE THE DRS REPRESENTATIVE *		
<b>FEDERAL TAX INFORMATION</b> For questions about <b>federal taxes</b> , contact the Internal Revenue Service (IRS) at 1-800-829-1040 or visit: <a href="http://www.irs.gov">www.irs.gov</a> To order <b>federal tax forms</b> , call: 1-800-829-3676.		<b>STATEWIDE SERVICES</b> For information on statewide services and programs, visit the ConneCT Web site at <a href="http://www.ct.gov">www.ct.gov</a>	

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State of Connecticut  
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