



STATE OF CONNECTICUT

DEPARTMENT OF REVENUE SERVICES

OCG-11

OFFICE OF THE COMMISSIONER GUIDANCE

Regarding Depreciation of Qualified Improvement Property for Connecticut Tax Purposes

Background on Federal Treatment

Prior to the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), the depreciable life of qualified improvement property for federal purposes (“QIP”) was 39 years. The CARES Act revised I.R.C. § 168(e) and (g) to provide QIP with a depreciable life of 15 years under the general depreciation system and a depreciable life of 20 years under the alternative depreciation system. The changes made by the CARES Act make QIP eligible for bonus depreciation and are applicable to QIP placed in service after December 31, 2017.

Revenue Procedure 2020-25 allows a taxpayer to change its depreciation and claim the additional bonus depreciation under I.R.C. § 168 for QIP placed in service by the taxpayer after December 31, 2017, in taxable year 2018, 2019 or 2020, pursuant to revisions to the CARES Act. Taxpayers changing the depreciation method and claiming the additional bonus depreciation may do so by either:

- Filing Form 3115, Application for Change in Accounting Method, with the taxpayer’s timely federal income tax return for the year of change, provided the I.R.C. § 481(a) adjustment reported on Form 3115 includes the amount of any adjustment attributable to all property; or
- Filing an amended return or amended Form 1065, US Return of Partnership Income, for the placed in service year of the qualified improvement property on or before October 15, 2021.

Corporation Business Tax

For corporation business tax purposes, Connecticut conforms to the calculation of depreciation under the Internal Revenue Code, except for I.R.C. § 168(k). Therefore, Connecticut conforms to the changes made to the depreciable life of QIP by the CARES Act, but does not conform to the ability to claim bonus depreciation on such assets.

If a company files an amended federal return to reflect the QIP depreciation change, the company must file the corresponding amended corporation business tax return to report the depreciation change, except that it must calculate the depreciation deduction for Connecticut purposes without regard to the provisions of I.R.C. § 168(k) (i.e., bonus depreciation). Alternatively, if a company files federal Form 3115 to claim additional QIP depreciation as a I.R.C. § 481(a) adjustment, it must report such adjustment on the corresponding corporation business tax return, except that such adjustment must be calculated for Connecticut purposes without regard to the provisions of I.R.C. § 168(k).

Individual Income Tax and Pass-Through Entity Tax

For taxable years beginning on or after January 1, 2017, for purposes of the calculation of Connecticut adjusted gross income under the personal income tax and Connecticut taxable income under the pass-through entity tax, any amount of bonus depreciation allowed under I.R.C. § 168(k) for property placed in service after September 27, 2017, must be added back to the extent deductible in determining federal adjusted gross income. However, for each of the four succeeding taxable years, the taxpayer is allowed to deduct 25% of the amount added back.

If the taxpayer files federal Form 3115, the amount of the I.R.C. § 481(a) adjustment that relates to bonus depreciation must be added back to calculate Connecticut taxable income. The taxpayer may claim a subtraction equal to 25% of the amount added back in each of the four years following the taxable year for which the add back was reported.

If a taxpayer files an amended federal return to reflect the QIP depreciation change, the taxpayer must file the corresponding Connecticut amended return to report the depreciation change. The taxpayer must add back any amount of depreciation allowed under I.R.C. § 168(k). The taxpayer may claim a subtraction equal to 25% of the amount added back in each of the four years following the taxable year for which the add back was reported.

Additional Questions: Send an e-mail to the DRS Legal Division at legal.division@po.state.ct.us

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

For Forms and Publications: Visit the DRS website at portal.ct.gov/DRS

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