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STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

IP 2004(23)

INFORMATIONAL PUBLICATION

Connecticut Tax Tips for Senior Citizens

Purpose: This publication is designed to acquaint you with Connecticut taxes. It includes information on income tax and sales and use taxes, as well as succession, gift, real estate conveyance, and local property taxes. To order forms or publications or to get help, see Page 6.

Part I. Income Tax

The Connecticut income tax applies to Connecticut residents, part-year residents, and nonresidents who have income from Connecticut sources. (To determine your residency status, see the Connecticut income tax instruction booklets.) The tax is computed on your *Connecticut taxable income*, which is explained later in this publication.

Income Tax Return: For calendar year filers, the Connecticut income tax return is due on or before **April 15** of the next calendar year. You may be required to file an income tax return even if you do not owe any tax. Information on filing requirements is included in all Connecticut income tax instruction booklets. Residents must file **Form CT-1040**, *Connecticut Resident Income Tax Return*, **Form CT-1040EZ**, *Connecticut Resident EZ Income Tax Return*, or **Connecticut Telefile Tax Return**. Nonresidents and part-year residents must file **Form CT-1040NR/PY**, *Connecticut Nonresident or Part-Year Resident Income Tax Return*.

Tax Rate: The tax rate is 3% on the first:

- \$10,000 of Connecticut taxable income for single filers and married taxpayers filing separately;
- \$16,000 of Connecticut taxable income for head of household filers; and
- \$20,000 of Connecticut taxable income for married taxpayers filing jointly.

The remaining income is taxed at 5%.

To compute your *Connecticut taxable income*, subtract your personal exemption from your Connecticut adjusted gross income. If your Connecticut adjusted gross income is less than or equal to the maximum personal exemption amount for your filing status, you do not owe any Connecticut income tax.

Maximum personal exemption amounts are:

\$12,000 married filing separately

For every \$1,000 (or part of \$1,000) of Connecticut adjusted gross income over \$24,000, the personal exemption amount is reduced by \$1,000.

\$12,625 single filers (\$12,750 for 2005)

For every \$1,000 (or part of \$1,000) of Connecticut adjusted gross income over \$25,250, the personal exemption amount is reduced by \$1,000.

\$19,000 head of household

For every \$1,000 (or part of \$1,000) of Connecticut adjusted gross income over \$38,000, the personal exemption amount is reduced by \$1,000.

\$24,000 married filing jointly

For every \$1,000 (or part of \$1,000) of Connecticut adjusted gross income over \$48,000, the personal exemption amount is reduced by \$1,000.

Credits: You may be eligible for a personal tax credit of between 1% and 75%, depending on your income level. The credit is incorporated into the income tax tables. (See Table C in the Connecticut income tax instruction booklets if you are using the tax calculation schedule to compute your income tax liability.)

Resident individuals may take a *property tax credit* against their Connecticut income tax liability for property taxes paid to a Connecticut political subdivision on a primary residence or on a privately owned or leased motor vehicle, or both. Generally, this credit is allowed for property tax bills **due** and **paid** during 2004.

This includes any installment payments you make during 2004 that were due in 2004 and any installments you prepaid during 2004 that are due in 2005. Supplemental property tax bills **due** during 2004 or 2005 also qualify if **paid** during 2004. However, the late payment of any property tax bills or the payment of any interest, fees, or charges related to the property tax bill do not qualify for this credit.

The maximum property tax credit allowed for the 2004 taxable year is \$350 per return. Depending on the amount of property taxes you paid to a Connecticut municipality and your Connecticut adjusted gross income, the property tax credit may be reduced or you may not be entitled to a credit. See **Informational Publication 2004(16), Q & A on Income Tax Credit for Property Taxes Paid to Connecticut Political Subdivisions**, for more information.

Computing Your Income Tax: The following example shows how to compute the income tax liability for a resident married couple filing jointly. The tax is rounded to the nearest whole dollar.

CT adjusted gross income	\$45,000
Personal exemption	<u>-24,000</u>
CT taxable income	\$21,000

Calculation of Tax

Income taxable at 3%	\$20,000	
Tax rate	<u>x .03</u>	
Tax at 3%	\$600	
Income taxable at 5%	\$1,000	
Tax rate	<u>x .05</u>	
Tax at 5%	\$50	
Total tax		\$650
Personal tax credit		
(Total tax of \$645 X 15% from Table C)		<u>-98</u>
Tax due (before subtracting any property tax credit)		\$552

Income Subject to Tax: Generally, income **included** in your federal adjusted gross income is subject to Connecticut income tax. Income **excluded** from your federal adjusted gross income **generally is not** subject to Connecticut income tax. For example, interest from Connecticut state or local bonds is not subject to federal or Connecticut income tax. Likewise, the gain from the sale of your primary residence is subject to Connecticut income tax only to the extent that it is subject to federal income tax.

Modifications to Federal Adjusted Gross Income: Certain income is treated differently for Connecticut income tax purposes than it is for federal income tax purposes. If you have such income, you must make modifications (additions or subtractions) to your federal adjusted gross income to compute your Connecticut adjusted gross income. These modifications are explained in the instructions to **Form CT-1040**, and **Form CT-1040NR/PY, Schedule 1**. If you have income from U.S. government obligations, such as U.S. Savings Bonds or Treasury Notes, or income from bonds issued by another state, you must complete *Schedule 1* to make the appropriate modification. **Remember:** You generally cannot use **Form CT-1040EZ** or the **Connecticut Telefile Tax Return** if you are required to make a modification to federal adjusted gross income. You must use **Form CT-1040** or **Form CT-1040NR/PY**.

Social Security Benefit Adjustment: Social Security recipients who pay federal income tax on their benefits may be able to reduce the amount of benefits that are taxable for Connecticut income tax purposes by completing the Social Security Benefit Adjustment Worksheet included with **Form CT-1040** or **Form CT-1040NR/PY**.

Social Security recipients whose filing status is: **Single** or **Married Filing Separately** and whose federal adjusted gross income is **less than \$50,000**, or **Married Filing Jointly** or **Head of Household** and whose federal adjusted gross income is **less than \$60,000**, are not subject to Connecticut income tax on federally taxable Social Security benefits.

Estimated Income Tax Filing Requirements: You must make estimated Connecticut income tax payments if your Connecticut income tax (after tax credits) minus Connecticut income tax withheld is **\$1,000 or more**, and you expect your Connecticut income tax withheld to be less than your required annual payment. Estimated payments are generally

made in four equal installments: April 15, June 15, September 15, and January 15. If your income varies throughout the year, however, you may be able to reduce or eliminate the amount of one or more estimated payments by using the annualized installment method. See **Informational Publication 2004(18)**, *Estimated Connecticut Income Taxes*, and **Informational Publication 2004(17)**, *Guide to Calculating Your Annualized Estimated Income Tax Installments and Worksheet CT-1040AES*, for more information.

Withholding From Your Pension: If you are a resident and receive a pension, you may be able to have Connecticut income tax withheld from your pension payments. Contact your pension payer and ask for **Form CT-W4P**, *Withholding Certificate for Pension or Annuity Payments*. Retired federal civil service employees must contact the United States Office of Personnel Management (USOPM) to start, stop, or change Connecticut income tax withholding. Call USOPM at **1-800-409-6528** to use the automated request system or **1-202-606-0500** to speak with a representative.

If you are a nonresident and receive a pension, your pension is not subject to Connecticut income tax, even if a former employer pays you a pension for services performed while you were employed in Connecticut.

Part II. 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 (computer and data processing services are taxable at a 1% rate).

Some items and services not subject to sales or use taxes include:

- All newspapers; magazines by subscription (effective July 1, 2004);
- Internet access services;
- Clothing and footwear items costing under \$50 each;
- Current United States and Connecticut flags;
- Diabetic supplies (test strips and tablets, lancets and glucose monitoring equipment, and repair and replacement parts for such equipment);
- Doctor, dentist, medical laboratory, lawyer, and travel agent fees;
- Eyeglasses, dentures, hearing aids, and hearing aid batteries;

- Instruction classes, such as knitting, sewing, dog obedience, music, ballroom dancing, etc.;
- Most non-prescription (over-the-counter) drugs for humans or animals used internally or externally. This includes: vitamins or mineral concentrates; dietary supplements; natural or herbal medicines; eye, ear, or nose medications; antacids; cough, cold, asthma, and allergy products; antihistamines; analgesics; antibiotic, antibacterial, antiviral, and antifungal medicines; laxatives; antidiarrheal medicines; antiseptics; astringents; anesthetics; steroidal medicines; anthelmintics; and emetics or antiemetics (Cosmetics, dentifrices, mouthwash, shaving and hair care products, soaps, and deodorants are subject to the tax.);
- Support hose specially designed to aid in the circulation of blood, purchased by persons with a medical need for such hose;
- Adult diapers and disposable pads for incontinence;
- Oxygen and oxygen equipment, customized trusses and braces, crutches, walkers, wheelchairs, and inclined stairway chairlifts, and repair and replacement part services for the equipment;
- Canes;
- Prescription drugs, syringes, and needles;
- Repair services and repair and replacement parts for artificial limbs, artificial eyes, hearing aids, and other equipment used to support vital life functions;
- Telephone equipment designed exclusively for deaf or blind people;
- Closed circuit television equipment used as reading aids by visually impaired persons;
- Equipment for people with physical disabilities installed in motor vehicles and repair and replacement parts for the equipment;
- Electricity and gas for residential use;
- Fuel for residential heating or cooking such as oil, propane, kerosene, wood, coal, and charcoal;
- Fabric, thread, buttons, zippers, trim, and similar materials for noncommercial sewing used to make clothing;
- Yarn for noncommercial use;
- Shoe repair services;
- Food purchased in supermarkets (Beer, wine, and all alcoholic beverages are taxable. Candy, gum, soda, and all other carbonated beverages are also taxable.);
- Food products sold through coin-operated vending machines;
- Meals delivered to homes of elderly persons and provided by special programs, such as "Meals on Wheels";

- Sales of food, meals, candy, confectionery, and beverages to persons in health care facilities. Health care facilities include assisted living facilities, senior centers, day care centers, hospitals, residential care homes, convalescent homes, nursing homes, and rest homes;
- Labor for many home repairs and services including plumbing, electrical, refuse removal, septic cleaning services, painting, staining, paving, roofing, wallpapering, siding, and exterior sheet metal work;
- Landscaping and horticulture services, window cleaning, and maintenance services when rendered at the residence of a person eligible to receive, and currently receiving, total disability benefits under the Social Security Act;
- Repair and maintenance services to vessels and fabrication labor to existing vessels;
- Other nontaxable services, including animal grooming and boarding services, laundry, hair styling, towing, real estate, and jewelry appraisal;
- Vegetable seeds;
- Bicycle helmets;
- Firearm safety devices;
- Personal property used in a burial or cremation with a value of up to \$2,500;
- Caskets used for burial or cremation.

Discounts: When a senior citizen discount or other discount is offered on a taxable item, the sales tax is applied to the discounted price.

Coupons: A coupon entitles a purchaser to an immediate reduction in the sales price of an item when the coupon is presented to a retailer. No additional action is required of the purchaser.

Sales and use taxes are calculated on the sales price after reducing the price by the value of any coupons presented. Any additional value assigned by the retailer, such as to double or triple the coupon, is also excluded from the sales price.

For example, if the original price of an item is \$3.00 and you present a coupon for 50 cents off the item, the taxable price is \$2.50. The total price of the item, including the sales tax, is \$2.65.

In contrast, rebates do not reduce the taxable sales price of an item being purchased. See **Policy Statement 98(1.1)**, *Sales Tax Treatment of Coupons, Scan Cards, Cash Equivalents, Promotional Items and Rebates*, for more information.

Use Tax: When the seller of goods or provider of taxable services does not collect the sales tax, you must pay use tax. You must file a use tax return annually to report purchases of taxable goods or services on which you have not paid Connecticut sales tax.

Typically, if you purchased goods from mail order or catalog companies and had the goods shipped to Connecticut or you purchased goods at out-of-state locations and brought those goods back into Connecticut, you must pay Connecticut use tax if you did not pay Connecticut sales tax. If all the items purchased and brought into Connecticut at one time total \$25 or less, you do not have to pay Connecticut use tax. The \$25 exemption does not apply to items shipped or mailed to you.

You must pay the use tax for purchases you made during the prior calendar year on or before April 15 on either your Connecticut income tax return or on **Form OP-186**, *Connecticut Individual Use Tax Return*.

Part III. Succession Tax

A phase out of the Connecticut succession tax began in 1997 and the tax is scheduled for total repeal in 2008. There is a total exemption from Connecticut succession tax if the entire estate passes to a surviving spouse. For estates of decedents dying on or after January 1, 2001, any part of the net taxable estate passing to Class A beneficiaries is no longer subject to the tax.

A succession tax return must be filed for each decedent who, at the time of death, was a Connecticut resident and for each decedent who, at the time of death, was a nonresident of Connecticut owning real or tangible personal property located in Connecticut. For a resident decedent's estate, the tax applies to all property, except for real property and tangible personal property located outside Connecticut. For a nonresident decedent's estate, the tax applies only to real property and tangible personal property located in Connecticut. The tax rate depends on the date of death, on the relationship of the beneficiary to the decedent, and the size of the estate.

For information and tax tables for estates of decedents dying after 1996, see **Special Notice 2003(13)**, *2003 Legislative Changes Affecting the Succession Tax*.

Part IV. Estate Tax

For estates of decedents dying before July 1, 2004:

Whenever a resident estate is required to file federal Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return, the estate is required to file **Form CT-706, Connecticut Estate Tax Return**. Whenever a nonresident estate owning real property or tangible personal property, located in Connecticut is required to file federal Form 706, the estate is required to file Form CT-706.

For estates of decedents dying on or after July 1, 2004, and before January 1, 2005: The estates of decedents dying on or after July 1, 2004, and before January 1, 2005, are subject to a special Connecticut estate tax, rather than to the regular Connecticut estate tax under Chapter 217 of the Connecticut General Statutes.

The special Connecticut estate tax is computed by using the applicable exclusion amount (and the applicable credit amount) under I.R.C. §2010(c):

- As if a decedent dying on or after July 1, 2004, and before January 1, 2005, had died during calendar year 2002; and
- Applying I.R.C. §2010(c) as it was in effect for the estate of a decedent dying during calendar year 2002.

See **Special Notice 2004(1.1), Special Estate Tax on Estates of Decedents Dying On or After July 1, 2004, and Before January 1, 2005**, for more information.

For estates of decedents dying on or after January 1, 2005: The Connecticut estate tax does not apply to estates of decedents dying on or after January 1, 2005.

Part V. Gift Tax

If you made a gift, you may be required to file federal Form 709, *United States Gift (and Generation-Skipping Transfer) Tax Return*, and **Form CT-709, Connecticut Gift Tax Return**.

Residents are taxed on all gifts of intangible property and on gifts of real property and tangible personal property located in Connecticut. Nonresidents are taxed on gifts of real and tangible personal property located in Connecticut.

Gifts of a present interest to any particular donee during the calendar year are not subject to the Connecticut gift tax unless the value of all the gifts to the donee during that calendar year exceeds \$11,000. Transfers of future interests are not covered by this annual exclusion.

If both spouses are citizens or residents of the United States at the time of the gift, **and** both spouses consent and make an election to gift split for federal gift tax purposes, all gifts made to third parties during the calendar year, whether made by one spouse alone or made partly by each spouse, are considered as made one-half by each spouse. Thus, the first \$22,000 of gifts of a present interest in property to any donee by consenting spouses during the calendar year is not subject to tax.

To split the gift, the spouses must be legally married to each other at the time of the gift. If they are divorced during the year, they still may split the gift as long as neither marries anyone else during the year. In addition, both must be citizens or residents of the United States on the date of the gift.

The special valuation rules under I.R.C. §§2701 to 2704 (dealing with transfers to or for the benefit of family members) apply for Connecticut gift tax purposes. For example, if a donor delivers a deed transferring title to his home to his children but reserving a life use, the value of the gift equals the sum of the value of the life estate and the value of the remainder interest (that is, the full fair market value of the home). Because this is a transfer of a future interest, no annual exclusion is allowed.

Legislation enacted in 2003 delays the incremental reduction and ultimate repeal of the gift tax (other than those donors whose amount of taxable gifts, for Connecticut gift tax purposes, exceeds \$1 million during a calendar year). See **Special Notice 2003(12), 2003 Legislation Affecting the Gift Tax**, and the instruction booklet for **Form CT-709**.

Part VI. Real Estate Conveyance Tax

A state and municipal real estate conveyance tax is imposed on deeds conveying an interest in realty where the consideration for the interest in property equals or exceeds \$2,000. A deed for no consideration or for less than \$2,000 in consideration is exempt from this tax, but may be subject to the gift tax. A deed of the principal residence of a person receiving property tax benefits for the elderly is exempt from the state tax but subject to the municipal tax.

Part VII. Local Property Taxes

Homeowner/Renter Tax Credit: An annual property tax credit or rent rebate is available to residents age 65 or older, or to a surviving spouse age 50 or older, who meet certain residence and income requirements. Regardless of age, a totally and permanently disabled person is also eligible. Contact the assessor in your town or city for details and forms.

Veteran Exemption: A variable, annual property tax exemption on the assessed value of an owner-occupied dwelling or on a motor vehicle is available to any qualified veteran or surviving spouse. Contact the assessor in your town or city for details and forms for any of the above.

Effect on Other Documents: Informational Publication 2004(23) modifies and supersedes **Informational Publication 2003(32)**, *Connecticut Tax Tips for Senior Citizens*.

Effect of This Document: An Informational Publication addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

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Miscellaneous
Connecticut Tax Tips for Senior Citizens
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For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (in-state), or
- **860-297-5962** (from anywhere)

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

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Preview and download forms and publications from the DRS Web site at **www.ct.gov/DRS**
 - **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu. Only forms (not publications) are available through TAX-FAX.
 - **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.
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Paperless Filing Methods (fast, easy, free, and confidential):

- **For business returns:** Use ***Fast-File*** to file sales and use taxes, business use tax, room occupancy tax, estimated corporation tax, business entity tax, or withholding tax returns over the Internet. Visit the DRS Web site at **www.ct.gov/DRS** and click on ***File/Register OnLine***.
 - **For resident income tax returns:** Use ***WebFile*** to file personal income tax returns over the Internet. Visit the DRS Web site at **www.ct.gov/DRS** and click on ***File/Register OnLine***.
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