

1999 Legislation Affecting Sales and Use Taxes and the Admissions, Cabaret and Dues Tax

PURPOSE: This Special Notice summarizes 1999 legislation affecting sales and use taxes and the admissions, cabaret and dues tax. It also covers laws enacted before 1999 that take effect in 1999.

EFFECTIVE DATE: The effective dates of legislative changes are noted below.

STATUTORY AUTHORITY: 1999 Conn. Pub. Acts 48; 1999 Conn. Pub. Acts 121; 1999 Conn. Pub. Acts 173; 1999 Conn. Pub. Acts 1 (June Spec. Sess.); and previously enacted legislation cited below.

SALES AND USE TAXES

Effective January 1, 1998

Vehicles Using Clean Alternative Fuel. Expiration dates are extended from January 1, 1998 to January 1, 2002 for three exemptions:

- new motor vehicles powered by clean alternative fuel, exempt under Conn. Gen. Stat. §12-412(67);
- equipment for converting vehicles to the use of clean alternative fuel, exempt under Conn. Gen. Stat. §12-412(68); and
- equipment for compressed natural gas filling stations or electric recharging stations for such vehicles, exempt under Conn. Gen. Stat. §12-412(69).

Clean alternative fuel means natural gas or electricity, and propane when used in vehicles that meet certain emissions standards.

(1999 Conn. Pub. Acts 173, §§23, 24 and 25)

Effective June 3, 1999

Jeopardy assessments. Amendments to Conn. Gen. Stat. §12-417(3) clarify the procedures for staying

collection of all or a portion of a jeopardy assessment by filing a surety bond.

(1999 Conn. Pub. Acts 121, §13)

Effective June 23, 1999

Sales Tax Rebate. New legislation authorizes a \$50 rebate of sales and use taxes paid in 1998 for Connecticut residents who were:

- required to file Connecticut resident income tax returns for 1998 and filed returns or extensions;
- not required to file Connecticut resident income tax returns but were required to file federal income tax returns for 1998 and filed returns or extensions;
- not required to file Connecticut resident income tax returns but received federal earned income tax credits for 1998; or
- not required to file Connecticut resident income tax returns or federal income tax returns but received benefits under Title II of the Social Security Act during 1998.

DRS expects the rebates to be mailed out later this year. (1999 Conn. Pub. Acts 173, §§3 and 4)

Effective July 1, 1999

Personnel Training Services. Sales and use taxes do not apply to job-related personnel training services otherwise taxable under Conn. Gen. Stat. §12-407(2)(i)(J) when provided by an institution of higher education licensed or accredited by the Connecticut Board of Governors of Higher Education. (1999 Conn. Pub. Acts 173, §10)

Sale and Leaseback Arrangements. Sales and use taxes do not apply to the original sale of tangible personal property in a sale and leaseback arrangement, if within 120 days from the original sale the original purchaser sells or contracts to sell the property to a retailer that will lease it back to the original purchaser in a taxable lease. (1999 Conn. Pub. Acts 173, §11)

Patient Care Services by Hospitals. The tax rate for patient care services under Conn. Gen. Stat. §12-407(2)(i)(FF) is reduced from 6% to 5.75%. Patient care services provided at a short-term acute hospital operated exclusively by the State of Connecticut are no longer subject to tax.
(1999 Conn. Pub. Acts 173, §§12, 13 and 15)

Vessels. Several changes affect the taxation of vessels:

- Vessels are now exempt when purchased by nonresidents who maintain no permanent place of abode in Connecticut and who will not register them in Connecticut. (The alternative “home state” rate for nonresidents purchasing vessels in Connecticut no longer applies.)
- Repair and maintenance services to vessels have been phased out and are exempt from sales and use taxes.
- Fabrication labor to vessels is also exempt.

Vessel means every description of watercraft, other than a seaplane on water, used or capable of being used as a means of transportation on water.
(1999 Conn. Pub. Acts 173, §§13 and 21; 1996 Conn. Pub. Acts 232, §1)

Renovation and Repair Services to Residential Property. The tax on paving, painting or staining, wallpapering, roofing, siding and exterior sheet metal work to other than industrial, commercial or income-producing real property under Conn. Gen. Stat. §12-407(2)(i)(BB) is being phased out. On and after July 1, 1999 the tax is 4%; on and after July 1, 2000 the tax is 2%; on an after July 1, 2001 the services are exempt from tax.
(1999 Conn. Pub. Acts 173, §§13 and 15)

Computer and Data Processing. As part of the phaseout of the tax on computer and data processing services under Conn. Gen. Stat. §407(2)(i)(A), the rate is reduced from 4% to 3%.
(1995 Conn. Pub. Acts 160, §39)

Building Material Suppliers. Certain building material suppliers can qualify to remit tax at the time they receive payment for materials or services from contractors, subcontractors or repairmen. A supplier must demonstrate by July 1st of any year that:

- in two of the four most recent calendar quarters at least 50% of its sales of building materials were to contractors, subcontractors or repairmen; and
- it was a materialman authorized to file mechanic’s liens under state law with respect to such sales.

Tax on the full purchase price, including any unpaid portion, must be paid within one year of the original date of sale. Special record-keeping requirements apply.
(1999 Conn. Pub. Acts 173, §§14 and 28)

Repair, Replacement and Enhancement Parts. Repair, replacement and enhancement parts for the following exempt items are also exempt, whether purchased separately or with the item:

- Medical equipment (such as corrective supports, wheelchairs and equipment used to support vital life functions) exempt under Conn. Gen. Stat. §12-412(19);
- Glucose monitoring equipment exempt under Conn. Gen. Stat. §12-412(54); and
- Special equipment installed in motor vehicles for persons with physical disabilities, exempt under Conn. Gen. Stat. §12-412(80).
(1999 Conn. Pub. Acts 173, §§16, 19 and 26)

Inclined stairway chairlifts. Inclined stairway chairlifts for persons with disabilities, and repair, replacement and enhancement parts for the chairlifts, are exempt under Conn. Gen. Stat. §12-412(19).
(1999 Conn. Pub. Acts 173, §16)

Low and Moderate Income Housing. The exemption under Conn. Gen. Stat. §12-412(29) for tangible personal property and services used in qualifying low and moderate income housing projects is expanded to include projects sponsored and either owned or operated by municipal housing authorities.
(1999 Conn. Pub. Acts 173, §17)

Nonprescription Medicines. The exemption for nonprescription medicines under Conn. Gen. Stat. §12-412(48) is expanded to include many additional items, used in or on the human body. The exemption now includes vitamin or mineral concentrates; dietary supplements; natural or herbal medicines; cough, cold or allergy medicines; antihistamines; laxatives; antidiarrheal medicines; analgesics; antibiotic, antiviral and antifungal medicines; antiseptics; astringents; anesthetics; steroidal medicines; anthelmintics; emetics and antiemetics; antacids; eye, ear or nose medications. **Excluded** from the exemption are cosmetics, dentifrices, mouthwash, shaving and hair care products, soaps and deodorants. (1999 Conn. Pub. Acts 173, §18)

Joint Ventures. The exemption in Conn. Gen. Stat. §12-412(58) for certain personnel and business services rendered in connection with joint ventures is expanded to include joint ventures formed for marketing and support of new or experimental products or systems, in addition to production and development. The exemption is

increased from 10 to 30 years for joint ventures in existence prior to January 1, 1986 within the aircraft industry. (1999 Conn. Pub. Acts 173, §20)

Services Between Wholly Owned Entities. The exemption in Conn. Gen. Stat. §12-412(62) for services rendered between affiliated corporations is expanded to include services between business entities other than corporations, where either entity owns a 100% *controlling interest* (as defined in the statute) in the other. *Business entities* include corporations, trusts, estates, partnerships, limited partnerships, limited liability partnerships, limited liability companies, sole proprietorships and nonstock corporations. In addition, the exemption now applies to telecommunications services and community antenna television services. (1999 Conn. Pub. Acts 173, §22)

Firearm Safety Devices. Safes, lock boxes, trigger and barrel locks and other items designed to enhance home firearm safety are exempt. (1999 Conn. Pub. Acts 173, §27)

Bicycle Helmets. Bicycle helmets that conform to minimum specifications of the American National Standards Institute or the Snell Memorial Foundation are exempt. (1999 Conn. Pub. Acts 173, §27)

Freight Railroad Equipment. Railroad locomotives, track ballasts, ties, rails, machinery and equipment used to maintain railroad rights-of-way exclusively for the carriage of freight are exempt. (1999 Conn. Pub. Acts 173, §27)

Calibration Services. Calibration services for manufacturing machinery, equipment or instrumentation, and other services associated with registration and compliance of quality management and assurance standards, are exempt. (1999 Conn. Pub. Acts 173, §27)

Shoe Repairs. Shoe repair services are exempt. (1999 Conn. Pub. Acts 173, §27)

“Call Before You Dig” Services. Business services by public utilities to the “Call Before You Dig” Program under Conn. Gen. Stat. §16-349 are exempt. (1999 Conn. Pub. Acts 173, §27)

Diesel Fuel for Generators. Diesel fuel used exclusively in portable power system generators larger than 150 kilowatts is exempt. (1999 Conn. Pub. Acts 173, §27)

Certain Motor Vehicles. Motor vehicles sold to limited liability companies or their members in connection with

the organization or termination of the limited liability company are exempt from use tax under Conn. Gen. Stat. §12-431(a), provided the last taxable sale was subject to tax. (1999 Conn. Pub. Acts 173, §29)

MANAGED COMPLIANCE PROGRAM (SALES AND USE TAXES)

Effective July 1, 1999

Managed Audit Agreements. At its discretion, DRS may enter into managed audit agreements with taxpayers. DRS may waive the first \$10,000 of interest and 10% of additional interest in a managed audit, and may waive penalties.

(1999 Conn. Pub. Acts 173, §§60-62, as amended by 1999 Conn. Pub. Acts 1, §42 (June Spec. Sess.))

Managed Compliance Agreements. At its discretion, DRS may enter into managed compliance agreements with taxpayers, developing effective use tax rates for the taxpayers. The agreements will provide for reconciliation of the effective use tax rate with actual taxpayer liability and an acceptable range within which no assessment or refund will be asserted. DRS may waive penalties.

(1999 Conn. Pub. Acts 173, §§60-62, as amended by 1999 Conn. Pub. Acts 1, §41 (June Spec. Sess.))

Effective October 1, 1999

Direct Payment Permits. Amendments to the direct payment permit statute, Conn. Gen. Stat. §12-409a, allow more flexibility in its implementation and use, particularly in connection with managed compliance agreements. Direct payment permits allow taxpayers to pay use tax directly to DRS, rather than paying sales or use taxes to vendors. (1999 Conn. Pub. Acts 173, §63)

TRANSITIONAL RULES FOR TAXES BEING REDUCED OR REPEALED

Charges for services provided before and after the date of repeal of the tax on such services are subject to tax only on the portion of the charges for services provided before the date of repeal. The portion of the charges for services provided on or after the date of repeal is not subject to tax.

Charges for services being reduced because of a phaseout of the tax are subject to tax at the higher rate only on the portion of the charges for services provided before the date of the rate reduction. The portion of the charges for services provided on or after the date of the rate reduction is subject to tax at the reduced rate.

ADMISSIONS AND DUES TAX

Effective July 1, 1999

New Admissions Tax Exemptions. The exemption for movie theater admission charges is increased from \$4.50 to \$5.00.

Admission charges to the following locations are now exempt:

- Bridgeport Harbor Yard Stadium
- Stafford Motor Speedway
- Lime Rock Park
- Thompson Speedway
- Waterford Speedbowl
- New Britain Stadium
(New Britain Stadium's exemption is retroactive to the date the stadium was placed in service.)

Charges for admission to home games of the New Haven Ravens, the Waterbury Spirit and the New Britain Rock Cats are exempt.

(1999 Conn. Pub. Acts 173, §52; 1999 Conn. Pub. Acts 1, §27 (June Spec. Sess.))

New Dues Tax Exemptions. Any increases in dues charges after July 1, 1999, that are to be used for the acquisition of *farm land*, *open space land*, or *forest land*, as those terms are defined in Conn. Gen. Stat. §12-107b, are exempt from dues tax.

Lawn bowling clubs are exempt from dues tax.
(1999 Conn. Pub. Acts 173, §§49 and 53)

CABARET TAX REPEALED

The cabaret tax is repealed, as of July 1, 1999. The cabaret tax was a 5% tax imposed on all amounts charged for admission, food and drink, service or merchandise at any cabaret or similar place furnishing music, dancing privileges, or other entertainment for profit in conjunction with the selling or serving of alcoholic beverages.

(1999 Conn. Pub. Acts 173, §§49, 54 and 64)

Persons operating establishments that were subject to the cabaret tax should be aware of the following important

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change: **admission charges** (including cover charges) to most establishments formerly subject to the cabaret tax are now subject to the 10% admissions tax, rather than the 5% cabaret tax. However, charges for food, beverages, merchandise and service sold in such establishments are **not** subject to admissions tax.

The admissions tax is imposed on admission charges to any place of amusement, entertainment or recreation. *Amusement, entertainment or recreation* include, but are not limited to, dancing, live or recorded music, games, performances and sporting events.

EFFECT OF THIS DOCUMENT: A Special Notice is a document that announces a new policy or practice in response to changes in State or federal laws or regulations or to judicial decisions. A Special Notice indicates the Department's informal interpretation of Connecticut tax law and may be referred to for general guidance by taxpayers or tax practitioners.

FOR FURTHER INFORMATION: Please call the Department of Revenue Services during business hours, 8:00 a.m. to 5:00 p.m., Monday through Friday:

- **1-800-382-9463** (toll-free within Connecticut), or
- **860-297-5962** (from anywhere).

TTY, TDD and Text Telephone users only may transmit inquiries 24 hours a day by calling 860-297-4911.

FORMS AND PUBLICATIONS: Forms and publications are available all day, seven days a week:

- **Internet:** preview and download forms and publications from the DRS web site: www.state.ct.us/drs
- **DRS TAX-FAX:** call **860-297-5698** from the handset attached to your fax machine and select from the menu
- **Telephone:** Call 860-297-4753 (from anywhere), or 1-800-382-9463 (toll-free within Connecticut) and select **Option 2** from a touch-tone phone