



STATE OF CONNECTICUT  
DEPARTMENT OF REVENUE SERVICES

**SN 2002(14)**

25 Sigourney Street  
Hartford CT 06106-5032

**SPECIAL NOTICE**

**2002 Legislative Changes  
Affecting the Corporation Business Tax**

**Purpose:** The purpose of this Special Notice is to summarize legislation passed in 2002 that affects the corporation business tax.

**Effective Date:** The effective dates of the legislative changes affecting the corporation business tax are noted below.

**Statutory Authority:** 2002 Conn. Pub. Acts 1, §§55 through 64 (May 9 Spec. Sess.) and 2002 Conn. Pub. Acts 4, §§1, 2, 4, 11, and 19 (May 9 Spec. Sess.).

**Bonus Depreciation Deduction Not Permitted:** Effective for certain assets placed in service after September 10, 2001, and before September 11, 2004, the bonus depreciation allowed under Internal Revenue Code §168(k) is not deductible for corporation business tax purposes. This provision requires corporations that have filed federal tax returns for the 2000 or 2001 income years deducting the bonus depreciation to amend their Connecticut corporation business tax return. See **Special Notice 2002(10)**, *Bonus Depreciation for Connecticut Corporation Business Tax Purposes*, for more information. *Conn. Gen. Stat. §12-217(b), as amended by 2002 Conn. Pub. Acts 1, §56 (May 9 Spec. Sess.)*

**Minimum Tax Changes:** Effective for income years beginning on or after January 1, 2002, no tax credit allowed against the corporation business tax shall reduce a company's tax calculated under Conn. Gen. Stat. §12-219 to an amount less than \$250. In addition, financial service companies are now subject to the tax calculated under Conn. Gen. Stat. §12-219 and may not apply any tax credits to reduce the tax

below \$250. *Conn. Gen. Stat. §12-219, as amended by 2002 Conn. Pub. Acts 1, §57 (May 9 Spec. Sess.)*

Effective for income years beginning on or after January 1, 2002, each corporation included in a combined return shall pay the minimum tax, and no tax credit allowed against the tax shall reduce an included corporation's tax calculated under Conn. Gen. Stat. §12-219 to an amount less than \$250. *Conn. Gen. Stat. §12-223c, as amended by 2002 Conn. Pub. Acts 1, §58 (May 9 Spec. Sess.)*

**Tax Credits May Not Reduce Tax by More Than 70%:** Effective for income years beginning on or after January 1, 2002, the amount of tax credit or credits otherwise allowable against the corporation business tax for any income year shall not exceed 70% of the amount of tax due from such taxpayer under the corporation business tax prior to the application of the tax credits. *2002 Conn. Pub. Acts 1, §59 (May 9 Spec. Sess.)*

**Limitations on Refunds of Research and Development Tax Credit:** Effective July 1, 2002, any taxpayer that is entitled to a research and development tax credit refund of more than \$1 million for income years 2000 or 2001 that did not receive its payment before July 1, 2002, will only be entitled to receive \$1 million in any one state fiscal year with any remaining credit refund due paid equally over the next two state fiscal years. For research and development tax credit refund claims filed for income years beginning on or after January 1, 2002, no taxpayer may receive a tax credit refund of more than \$1.5 million in any one income year. *Conn. Gen. Stat. §12-217ee, as amended by 2001 Conn. Pub. Acts 6, §11 (June Spec. Sess.) and 2002 Conn. Pub. Acts 1, §60 (May 9 Spec. Sess.)*

Conn. Gen. Stat. §12-217ee, as amended by 2001 Conn. Pub. Acts 6, §11 and 2002 Conn. Pub. Acts 1, §60, is further amended to provide that for the purposes of determining whether the taxpayer qualifies to claim a refund of research and development tax credits, payment of the minimum tax of \$250 under Conn. Gen. Stat. §§12-219 or 12-223c, as amended by 2002 Conn. Pub. Acts 1, §§57 and 58, shall not be considered a tax liability that would preclude the taxpayer from qualifying for the credit refund. 2002 Conn. Pub. Acts 4, §19 (May 9 Spec. Sess.)

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**Clean Alternative Fuel Tax Credit Extension:**

Effective for income years beginning on or after January 1, 2002, Conn. Gen. Stat. §12-217i is amended to extend the clean alternative fuel tax credit to any income year beginning prior to January 1, 2004. Conn. Gen. Stat. §12-217i, as amended by 2002 Conn. Pub. Acts 4, §11 (May 9 Spec. Sess.)

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**Amendments to the Commissioner's Discretionary Authority:**

Effective for income years beginning on or after January 1, 2002, the Commissioner may exercise his authority to make adjustments in cases where there is an arrangement between related entities that results in an inaccurate reflection of income as long as his discretion is not arbitrarily, capriciously, or unreasonably exercised. In addition, the General Assembly effectively overruled the Connecticut Supreme Court's decision in *Carpenter Technology Corp. v. Commissioner*, 256 Conn. 455 (2001), by specifically affirming that the facts, circumstances, and transactions at issue in the Carpenter case amply satisfy the improper or inaccurate reflection of net income standard set forth in Conn. Gen. Stat. §12-226a. Conn. Gen. Stat. §12-226a, as amended by 2002 Conn. Pub. Acts, §§61 and 62 (May 9 Spec. Sess.)

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**Clarification of Payment of Interest on Corporation Business Tax Overpayments:**

The law under Conn. Gen. Stat. §12-227 regarding the payment of interest on late-filed and amended corporation business tax returns was clarified. This legislation is applicable to tax returns and amended tax returns filed on or after July 1, 2001, and not allowed and paid before July 1, 2002.

In the case of an overpayment of tax reported on a late-filed tax return, no interest shall be allowed or paid on the overpayment for any month or fraction of a month before the 91<sup>st</sup> day after the day prescribed for filing the tax return on which such overpayment was reported, determined without regard to any extension of time for filing, or the 91<sup>st</sup> day after the date such return was filed, whichever is later. Thus, in the case of a late-filed return, interest will only begin to accrue from the 91<sup>st</sup> day after the return was filed.

In the case of an overpayment reported on an amended tax return, no interest shall be paid for any month or fraction of a month before the 91<sup>st</sup> day after the date the amended tax return was filed. Any amended return filed before the last day prescribed for filing the tax return for such year, determined without regard to any extension of time for filing, shall be considered as filed on the last day prescribed for filing the return.

A tax return or amended tax return shall not be treated as filed until it is filed in a "processable form." *Processible form* is defined as a return that is filed on a permitted form containing the taxpayer's name, address and identifying number, the required signatures, and sufficient required information to permit the mathematical verification of the tax liability shown on the return.

The statutory intent of the amendments to Conn. Gen. Stat. §12-227(b) discussed above is to properly indicate that the current law does not authorize the Department of Revenue Services (DRS) to pay interest on an overpayment that is reported on a late-filed tax return or an amended return for any month or fraction of a month that is before the date on which the late return or the amended return is filed with DRS. Conn. Gen. Stat. §12-227, as amended by 2002 Conn. Pub. Acts 1, §§63 and 64 (May 9 Spec. Sess.)

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**No Addition to Tax for Underpayment As a Result of Legislative Changes:**

Effective from passage, no addition to tax shall be made under Conn. Gen. Stat. §12-242d in the case of any underpayment of estimated tax by any company to the extent that the underpayment was created or increased by any provision of 2002 Conn. Pub. Acts 1 (May 9 Spec. Sess.) and to the extent any estimated tax payment was required to be made on or before July 15, 2002. Conn. Gen. Stat. §12-242d, as amended by 2002 Conn. Pub. Acts 4, §2 (May 9 Spec. Sess.)

**No Penalties and Interest for Underpayment As a Result of Legislative Changes:** Effective from passage, Conn. Gen. Stat. §§12-225, 12-226, and 12-229 shall not apply with respect to the imposition of penalties or accrual of interest in the case of any underpayment of tax by any company to the extent such underpayment was created or increased by any provision of 2002 Conn. Pub. Acts 1 (May 9 Spec. Sess.) and to the extent the payment was required to be made on or before August 1, 2002. *Conn. Gen. Stat. §§12-225, 12-226, and 12-229, as amended by 2002 Conn. Pub. Acts 4, §4 (May 9 Spec. Sess.)*

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**Business Entity Tax:** For tax years beginning on or after January 1, 2002, there is an annual tax of \$250 on each S corporation, each 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, each limited liability partnership, and each limited partnership, where the entity is required to file an annual report with the Connecticut Secretary of the State. The tax is required to be paid to DRS by an entity on or before the fifteenth day of the fourth month following the close of the entity's taxable year. An entity's taxable year is its taxable year for federal income tax purposes.

Failure to pay the tax when due subjects an entity to a \$50 late payment penalty. DRS may waive all or part of the penalty when it is proven that the failure to pay the tax on time was due to reasonable cause and was not intentional or due to neglect. Interest accrues on any unpaid tax at the rate of 1% (.01) per month or fraction of a month from the due date until the date of payment. See **Special Notice 2002(11)**, *Business Entity Tax*, for more information. *2002 Conn. Pub. Acts 1, §55 (May 9 Spec. Sess.), as amended by 2002 Conn. Pub. Acts 4, §1 (May 9 Spec. Sess.)*

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**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 an informal interpretation of Connecticut tax

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law by DRS and may be referred to for general guidance by taxpayers or tax practitioners.

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**For Further Information:** Please call DRS during business hours, 8:00 a.m. to 5:00 p.m., Monday through Friday:

- **1-800-382-9463** (in-state), 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.

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**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.drs.state.ct.us](http://www.drs.state.ct.us)
  - **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** (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 electronically file sales and use taxes, business use tax, room occupancy tax, or withholding tax returns over the internet or telephone. Visit the DRS Web site at: [www.drs.state.ct.us](http://www.drs.state.ct.us) and click on *Business Taxes Fast File Program*.
- **For resident income tax returns:** Use *WebFile* to file personal income tax returns over the Internet. Visit the DRS Web site at: [www.drs.state.ct.us](http://www.drs.state.ct.us) and click on *Income Tax Web Filing*.