STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES
25 Sigourney Street
Hartford CT 06106-5032

SN 2003(21)

SPECIAL NOTICE

2003 Legislation Affecting the Connecticut Income Tax

Purpose: This Special Notice summarizes 2003 legislation affecting the Connecticut income tax.

Effective Date: Effective dates are noted below.

Statutory Authority: 2003 Conn. Pub. Acts 2, 2003 Conn. Pub. Acts 107, 2003 Conn. Pub. Acts 225, 2003 Conn. Pub. Acts 1 (June 30 Spec. Sess.), and 2003 Conn. Pub. Acts 6 (June 30 Spec. Sess.).

Rounding Required on All Income Tax Returns

When entering totals on lines of Connecticut income tax returns and schedules, taxpayers are required to round off cents to the nearest whole dollar. Previously, taxpayers were permitted (but not required) to round totals entered on lines of Connecticut income tax returns and schedules.

2003 Conn. Pub. Acts 107, §6, applicable to tax returns first required to be filed on or after January 1, 2004.

Increase in Highest Marginal Income Tax Rate

The highest marginal income tax rate for individuals is increased from 4.5% to 5%. The following schedules illustrate the change for each filing status:

For any person who files a return under the federal income tax for such taxable year as an **unmarried individual** or as a **married individual filing separately**:

Connecticut Taxable Income	Rate of Tax
Not over $10,000	3%
over $10,000	$300, plus **5%** of the excess over $10,000

For any person who files a return under the federal income tax for such taxable year as a **head of household**:

Connecticut Taxable Income	Rate of Tax
Not over $16,000	3%
over $16,000	$480, plus **5%** of the excess over $16,000

For any husband and wife who file a return under the federal income tax for such taxable year as **married individuals filing jointly** or any person who files a return under the federal income tax for such taxable year as a **surviving spouse**:

Connecticut Taxable Income	Rate of Tax
Not over $20,000	3%
over $20,000	$600, plus **5%** of the excess over $20,000

The income tax rate for trusts and estates is increased from 4.5% to 5%. Likewise, the income tax rate on composite income tax payments made by S corporations on behalf of their nonresident shareholders is increased from 4.5% to 5%.

Conn. Gen. Stat. §12-700, as amended by 2003 Conn. Pub. Acts 2, §22, applicable to taxable years beginning on or after January 1, 2003.

New Bonus Depreciation Subtraction Modification: In 2002, the Connecticut General Assembly enacted legislation to "decouple" from the federal first-year bonus depreciation deduction for Connecticut income tax purposes. Individuals who claimed this bonus depreciation deduction on their federal income tax returns in computing their federal adjusted gross income for taxable years beginning on or after January 1, 2002, were required to add back the first-year bonus depreciation deduction in computing their Connecticut adjusted gross income.

For taxable years beginning on or after January 1, 2003, a subtraction modification is available to individuals who added back bonus depreciation on their **2002 Form CT-1040**, *Connecticut Resident Income Tax Return*, Line 32, or **Form CT-1040NR/PY**, *Connecticut Nonresident or Part-Year Resident income Tax Return*, Line 34, in computing their Connecticut adjusted gross income. Individuals may subtract 25% of the add-back bonus depreciation amount on their **2003 Form CT-1040**, Line 43, or **Form CT-1040NR/PY**, Line 45, and 25% of that add-back bonus depreciation amount on the comparable line of their Connecticut income tax return for the 2004, 2005, and 2006 taxable years.

Example 1: Margaret added back bonus depreciation of $5,000 on Line 32 of her **2002 Form CT-1040.** This amount is the 30% bonus depreciation deduction reported on her 2002 federal Form 4562. Margaret will subtract $1,250 on her 2003 **Form CT-1040**, Line 43. This is 25% of the $5,000 reported on her **2002 Form CT-1040**, Line 32. Margaret will also subtract $1,250 on the comparable line of her Connecticut income tax return for the 2004, 2005, and 2006 taxable years.

The new subtraction modification will also be included on the following Connecticut tax forms: **Form CT-1120SI**, *Part VI;* and **Form CT-1065**, *Schedule D.*

Conn. Gen. Stat. §12-701(a)(20)(B), as amended by 2003 Conn. Pub. Acts 225, §13, applicable to taxable years beginning on or after January 1, 2003.

Bonus Depreciation Deduction Added Back for Connecticut Income Tax Purposes: The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 provided for a first-year bonus depreciation deduction equal to 50% of the adjusted basis of qualified property. Qualified property is defined in the same manner as for purposes of the 30% first-year bonus depreciation deduction provided by the federal Job Creation and Workers Assistance Act of 2002, except that the applicable time period for acquisition of the property is modified. In order to qualify for the 50% bonus depreciation deduction, the property must be acquired after May 5, 2003, and before January 1, 2005.

To the extent property qualifies for the 50% bonus depreciation deduction for federal income tax purposes, and an individual claims the 50% bonus depreciation on his or her federal income tax return, the individual is required to multiply the 50% deduction by 60% in computing the amount required to be added back on his or her Connecticut income tax return in computing Connecticut adjusted gross income. To the extent property qualifies for the 50% bonus depreciation deduction for federal income tax purposes, but the individual elects to claim the 30% bonus depreciation deduction on his or her federal income tax return instead, the individual is required to add back the 30% bonus depreciation deduction on his or her Connecticut income tax return in computing Connecticut adjusted gross income.

Example 2: In October 2003, Stephanie purchased tangible personal property for her business that qualified for the 50% bonus depreciation deduction. On her 2003 federal Form 4562, Stephanie claimed the 50% bonus depreciation deduction, reporting a total of $8,500 on Lines 14 and 25, for qualified property placed in service after May 5, 2003. On her **2003 Form CT-1040**, Line 34, Stephanie will report $5,100 ($8,500 x 60%). By multiplying $8,500 (the 50% deduction claimed on her federal Form 4562) by 60%, Stephanie calculated that $5,100 is the amount required to be added back to her federal adjusted gross income to compute her Connecticut adjusted gross income. Stephanie will subtract $1,275 on her 2004 **Form CT-1040**, Line 43. This is 25% of the $5,100 reported on her **2003 Form CT-1040**, Line 32. Stephanie will also subtract $1,275 on the comparable line of her Connecticut income tax return for the 2005, 2006, and 2007 taxable years.

Example 3: In December 2003, Stephen purchased tangible personal property for his business that qualified for the 50% bonus depreciation deduction. However, on his 2003 federal income tax return, Stephen elects to claim the 30% bonus depreciation deduction instead, reporting a total of $12,000 on Lines 14 and 25, for qualified property placed in service after May 5, 2003. On his **2003 Form CT-1040**, Line 34, Stephen will report $12,000, which is the amount required to be added back to his federal adjusted gross income in computing his Connecticut adjusted gross income. Stephen will subtract $3,000 on his 2004 **Form CT-1040**, Line 43. This is 25% of the $12,000 reported on his **2003 Form CT-1040**, Line 32. Stephen will also subtract $3,000 on the comparable line of his Connecticut income tax return for the 2005, 2006, and 2007 taxable years.

See the instructions to **Form CT-1040** and **Form CT-1040NR/PY** for more information.

Conn. Gen. Stat. §12-701(a)(20)(A), as amended by 2002 Conn. Pub. Acts 1 (May 9 Spec. Sess.), §77, applicable to taxable years beginning on or after January 1, 2002.

Effect of Bonus Depreciation on Other Entities:

C Corporations: The treatment of the bonus depreciation deduction for corporation business tax purposes differs from the treatment for income tax purposes. For more information on the treatment of bonus depreciation deduction for corporation business tax purposes, see the instructions to **Form CT-1120,** *Corporation Business Tax Return***.**

Trusts and Estates: A trust or estate that owns property for which the bonus depreciation deduction is claimed for federal income tax purposes is *not* required to add the bonus depreciation deduction to its federal taxable income in computing its Connecticut taxable income. Consequently, **Form CT-1041** does not have an add back modification or a subtraction modification.

Pass-through Entities:

Where the Taxable Year is the Calendar Year: A pass-through entity (such as an S corporation, partnership, or limited liability company treated as a partnership for federal income tax purposes) that owns property for which the bonus depreciation deduction is claimed for federal income tax purposes and whose taxable year is the calendar year, is required for its 2003 taxable year to pass-through any addition or subtraction modification to each individual who is its member. If a pass-through entity owns property for which the bonus depreciation deduction is claimed for federal income tax purposes in a succeeding taxable year, it is required for its succeeding taxable year to pass-through any addition or subtraction modification to each individual who is its member, so that the individual is able to add (or subtract as the case may be) the bonus depreciation to his or her federal adjusted gross income in computing his or her Connecticut adjusted gross income for the individual's taxable year.

Example 4: ABC partnership is a calendar year partnership with two partners, each of whom is an individual and has a 50% interest in the partnership. In June 2003, the partnership purchased tangible personal property for which the 50% bonus depreciation deduction was claimed on its 2003 federal Form 1065. For federal income tax purposes, the partnership passes through the bonus depreciation deduction to its two partners who report it equally on their respective federal income tax returns. In computing Connecticut adjusted gross income on his 2003 Connecticut income tax return, each partner is required to add back 60% of his distributive share of the 50% bonus depreciation deduction. On his 2004 Connecticut income tax return, each partner may subtract 25% of the bonus depreciation amount added back on his **2003 Form CT-1040**, Line 43, or **Form CT-1040NR/PY**, Line 45, and 25% of that add-back bonus depreciation amount on the comparable line of his Connecticut income tax return for the 2005, 2006, and 2007 taxable years.

Where the Taxable Year is Other Than the Calendar Year: A pass-through entity that owns property for which the bonus depreciation deduction is claimed for federal income tax purposes and whose taxable year is *other than* the calendar year is required for its 2002 taxable year to pass-through any addition or subtraction modification to each individual who is its member, so that the individual is able to add (or subtract as the case may be) the bonus depreciation modification to his or her federal adjusted gross income in computing his or her Connecticut adjusted gross income for the individual's 2003 taxable year. If a pass-through entity owns property for which the bonus depreciation deduction is claimed for federal income tax purposes in a succeeding taxable year, it is required for its succeeding taxable year to pass-through any addition or subtraction modification to each individual who is its member, so that the individual is able to add (or subtract as the case may be) the bonus depreciation modification to his or her federal adjusted gross income in computing his or her Connecticut adjusted gross income for the individual's taxable year during which the pass-through entity's succeeding taxable year ends.

Example 5: XYZ partnership, whose taxable year ends July 31, has two partners, each of whom is an individual and has a 50% interest in the partnership. In July 2003, the partnership purchased tangible personal property for which the 50% bonus depreciation deduction was claimed on its 2002 federal Form 1065. For federal income tax purposes, the partnership passes through the bonus depreciation deduction to its two partners who report it equally on their respective 2003 federal income tax returns. In computing Connecticut adjusted gross income on his 2002 Connecticut income tax return, each partner is required to add back 60% of his distributive share of the 50% bonus depreciation deduction. On his 2004 Connecticut income tax return, each partner may subtract 25% of the bonus depreciation amount added back on his **2003 Form CT-1040**, Line 43, or **Form CT-1040NR/PY**, Line 45, and 25% of that add-back bonus depreciation amount on the comparable line of his Connecticut income tax return for the 2005, 2006, and 2007 taxable years.

Conn. Gen. Stat. §12-701(a)(20)(A), as amended by 2002 Conn. Pub. Acts 1 (May 9 Spec. Sess.), §77, applicable to taxable years beginning on or after January 1, 2002 and Conn. Gen. Stat. §12-701(a)(20)(B), as amended by 2003 Conn. Pub. Acts 225, §13, applicable to taxable years beginning on or after January 1, 2003 .

Tier 1 and Tier 2 Railroad Retirement Subtraction Modification for Individuals Amended: Tier 1 and Tier 2 Railroad Retirement Benefits and supplemental annuities may be subtracted from federal adjusted gross income in computing Connecticut adjusted gross income, but only to the extent such benefits were includable in federal gross income and were not already subtracted from federal adjusted gross income in computing Connecticut adjusted gross income (as a result of the Connecticut Social Security benefit adjustment).

Example 6: Marjorie received $10,000 in Tier 1 railroad retirement benefits and $12,000 in Social Security benefits. She reported $18,700 in federally taxable Social Security benefits on her federal Form 1040, Line 20b. Marjorie completes the Connecticut Social Security Benefit Adjustment Worksheet and determines her modification on **Form CT-1040**, Line 40 (Line 42 if filing **Form CT-1040NR/PY**) to be $13,200. Marjorie subtracts the $13,200 from her $18,700 of federally taxable Social Security benefits and the difference ($5,500), she multiplies by a fraction, the numerator of which is the amount of Tier 1 railroad retirement benefits reported on federal Form RRB-1099, Box 5 ($10,000) and the denominator of which is the amount from Box 5 of all Forms SSA-1099 and RRB-1099 ($22,000). She enters the result ($2,500) on **Form CT-1040**, Line 42 (Line 44 if filing **Form CT-1040NR/PY**).

$18,700 (federally taxable Social Security benefits)
- $13,200 (reported on **Form CT-1040**, Line 40)
$ 5,500

$$\$5{,}500 \times \frac{\$10{,}000 \text{ (from RRB-1099, Box 5)}}{\$22{,}000 \text{ (total SS and RR benefits)}} = \$2{,}500$$

Conn. Gen. Stat. §12-701(a)(20)(B), as amended by 2003 Conn. Pub. Acts 225, §13, applicable to taxable years beginning on or after January 1, 2003.

Increase in Connecticut Minimum Tax

For Connecticut alternative minimum tax purposes, the Connecticut minimum tax is the lesser of 19% of adjusted federal tentative minimum tax, or 5.5% (formerly 5%) of adjusted federal alternative minimum taxable income. The Connecticut alternative minimum tax is reported on **Form CT-6251**, *Connecticut Alternative Minimum Tax Return – Individuals*.

Conn. Gen. Stat. §12-701(a)(26), as amended by 2003 Conn. Pub. Acts 6 (June 30 Spec. Sess.), §72, applicable to taxable years beginning on or after January 1, 2003.

Changes Applicable to Single Filers:

Single filers are those individuals who are required to file their federal and Connecticut income tax returns as "single" individuals and *not* as married individuals filing jointly or separately, heads of household, or qualifying widow(er)s.

Increase in Personal Exemption and Personal Tax Credit: The personal exemption and personal tax credit used by single filers in calculating their Connecticut income tax are unchanged for the 2003 taxable year. However, beginning with the 2004 taxable year, the personal exemption and personal tax credit for single filers will increase annually through the 2009 taxable year. Taxpayers who file as single on their Connecticut income tax returns should take the new personal exemption and credit into account when calculating their required annual payment on **2004 Form CT-1040ES**, *2004 Estimated Connecticut Income Tax Payment Coupon for Individuals*.

Conn. Gen. Stat. §§12-702 and 12-703, as amended by 2003 Conn. Pub. Acts 1 (June 30 Spec. Sess.), §§115, and 116, applicable to taxable years beginning on or after January 1, 2004.

Increase in Single Filer Thresholds Used in Calculating the Property Tax Credit: The thresholds used by single filers in calculating the phase-out of the Connecticut property tax credit are unchanged for the 2003 taxable year. However, beginning with the 2004 taxable year, the thresholds used by single filers in calculating the phase-out of the Connecticut property tax credit will increase annually through the 2009 taxable year.

Conn. Gen. Stat. §12-704c, as amended by 2003 Conn. Pub. Acts 1 (June 30 Spec. Sess.), §101, applicable to taxable years beginning on or after January 1, 2003.

Property Tax Credit Changes:

Maximum Property Tax Credit Reduced: The maximum property tax credit is reduced from $500 to $350.

Minimum $100 Property Tax Credit Eliminated: The maximum property tax credit is phased-out depending upon a taxpayer's Connecticut adjusted gross income. Under prior law, a taxpayer who paid more than $100 in property taxes to a Connecticut municipality was entitled to a property tax credit equal to at least $100. For taxable years beginning on or after January 1, 2003, there is no minimum property tax credit allowable.

Conn. Gen. Stat. §12-704c, as amended by 2003 Conn. Pub. Acts 1 (June 30 Spec. Sess.), §101, applicable to taxable years beginning on or after January 1, 2003.

Effect of This Document: A Special Notice is a document announcing 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 law by DRS.

Effect on Other Documents: None affected.

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.

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 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.
- **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.

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.ct.gov/DRS** and click on ***File Returns On-line***.
- **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 Returns On-line***.

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