



STATE OF CONNECTICUT  
DEPARTMENT OF REVENUE SERVICES

25 Sigourney Street  
Hartford CT 06106-5032

**SN 2003(2)**

**SPECIAL NOTICE**

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## February 2003 Legislative Changes

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**Purpose:** This Special Notice summarizes 2003 legislation affecting the sales and use taxes, corporation business tax, business entity tax, income tax (including income tax withholding), cigarette tax, and real estate conveyance tax. It also discusses legislation affecting sales and use taxes enacted in 2002 that took effect on January 1, 2003.

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**Effective Date:** As noted.

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**Statutory Authority:** 2003 Conn. Pub. Acts 2.

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### Sales and Use Taxes

#### Effective April 1, 2003

**Media Advertising and Cooperative Direct Mail Advertising Services:** The exclusion for media advertising and cooperative direct mail advertising services in Conn. Gen. Stat. §12-407(a)(37)(U) is repealed. Tax is imposed at the rate of 3%. (See **Special Notice 2003(6)**, *Media Advertising and Cooperative Direct Mail Advertising*, for more information.)

**Health and Athletic Club Services:** Health and athletic club services in Conn. Gen. Stat. §12-407(a)(37)(FF) are taxable at 6%. Services included in fees subject to the dues tax and services provided by a municipality or exempt organization remain nontaxable. (See **Special Notice 2003(7)**, *Sales and Use Taxes on Health and Athletic Club Services*, for more information.)

**Clothing Exemption Reduced:** The exemption for clothing or footwear in Conn. Gen. Stat. §12-412(47) is reduced from items costing less than \$75 to items costing less than \$50. (See **Special Notice 2003(3)**, *Sales and Use Taxes on Retail Sales of Clothing*, for more information.)

**Newspaper and Magazine Exemption Repealed:** The exemption in Conn. Gen. Stat. §12-412(6) for newspapers and magazines, including publications that contain only puzzles, is repealed. (See **Special Notice 2003(5)**, *Sales and Use Taxes on Magazines and Newspapers*, for more information.)

### Cigarette Tax

#### Effective March 15, 2003

The cigarette tax on a package of cigarettes is increased to \$1.51 (\$1.8875 for packages of 25s). There is also a floor tax imposed on those packages of cigarettes, including those in cartons, that distributors and dealers have in inventory as of the close of business on March 14, 2003, and that have the old cigarette tax stamp attached to them. See **Informational Publication 2003(7)**, *Q&A on the Cigarette Tax Increase That Is Effective March 15, 2003, for Licensed Cigarette Dealers*, and **Informational Publication 2003(8)**, *Q&A on the Cigarette Tax Increase That Is Effective March 15, 2003, for Licensed Cigarette Distributors*, for more information.

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### Income Tax

#### Effective for Taxable Years Beginning On or After January 1, 2003

The highest marginal income tax rate on individuals is increased from 4.5% to 5%. The income tax rate of trusts and estates is increased from 4.5% to 5%. The income tax rate on composite income tax payments made by S corporations for their nonresident shareholders is increased from 4.5% to 5%. Any taxpayer required to make an estimated income tax payment in June 2003 must adjust the payment for the new rate. See **Informational Publication 2003(10)**, *Q&A on Connecticut Income and Withholding Tax Changes*, for more information.

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### Income Tax Withholding

#### Effective for Calendar Years Beginning On or After January 1, 2003

New income tax withholding tables were issued for the period March 1, 2003, through June 30, 2003. See **Informational Publication 2003(9)**, *Connecticut Income Tax Withholding Tables Effective March 1, 2003 through June 30, 2003*, for more information. Income tax withholding tables for the period July 1, 2003, through December 31, 2003, will be issued in June 2003.

Effective March 3, 2003, designated withholding agents are required to withhold income tax from compensation paid to athletes and entertainers at the rate of 5%.

percent (.0025). This rate increase is in effect through June 30, 2004. The state real estate conveyance tax rate has not been increased.

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## Corporation Business Tax

### Effective for Income Years Beginning On or After January 1, 2003, and Prior to January 1, 2004

Any company subject to the tax on net income will pay an additional tax in an amount equal to twenty per cent (.20) of the tax on net income for the 2003 income year, without any reduction of the tax by the amount of any credit that may be applied against the tax.

The additional tax on capital (capital base tax) is increased by adding an amount equal to twenty per cent (.20) of the tax without reduction of the tax by the amount of any credit that may be applied against the tax.

### Estimated Tax Payments

Any company required to make an estimated payment of the corporation business tax in June 2003 will make its estimated payment in an amount that is adjusted for any change in the amount of tax due for the current income year including the additional twenty per cent tax imposed on net income and capital for income years beginning on or after January 1, 2003, and prior to January 1, 2004.

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## Business Entity Tax

### Effective for Taxable Years Beginning On or After January 1, 2003, and Prior to January 1, 2004

Any limited liability company, limited liability partnership, limited partnership and S corporation subject to the business entity tax is also subject to a surtax equal to twenty per cent (.20) of the business entity tax. (The sum of the business entity tax and the surtax is \$300.)

This surtax does not affect the business entity tax due for taxable years beginning on or after January 1, 2002, and prior to January 1, 2003. The business entity tax due for the 2002 taxable year remains \$250.

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## Real Estate Conveyance Tax

### Effective On or After March 15, 2003, Through June 30, 2004

Effective March 15, 2003, the municipal real estate conveyance tax rate has been increased from eleven one-hundredths of one percent (.0011) to one fourth of one

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**Effect on Other Documents:** None affected.

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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 law by the Department of Revenue Services (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, 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 *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 *File Tax Returns On-Line*.
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