



STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

SN 2005(7)

25 Sigourney Street
Hartford CT 06106-5032

SPECIAL NOTICE

2005 Legislative Changes Affecting the Corporation Business Tax

Purpose: The purpose of this Special Notice is to summarize 2005 legislation affecting the corporation business tax.

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

Statutory Authority: Conn. Gen. Stat. §§12-15(b); 12-213(a)(2); 12-214(b); 12-217z; 12-219; 12-233; 32-9t(j); 32-9t(n)

Carrying on or Doing Business: For income years beginning on or after January 1, 2005, the definition of “carrying on or doing business” provided in Conn. Gen. Stat. §12-213(a)(20) was amended to provide that a company that participates in a trade show or shows at the Connecticut Convention Center (located in Hartford) shall not be deemed to be carrying on or doing business in this state, regardless of whether the company has employees or other staff present at the trade show, provided:

- The company’s activity at the trade show is limited to displaying goods or promoting services;
- No sales are made;
- Any orders received are sent outside this state for acceptance or rejection, and are filled from outside this state; **and**
- Such participation is not more than 14 days in the aggregate during the company’s income year for federal tax purposes.

2005 Conn. Pub. Acts 260, §2

Examination of Returns and Deficiency Assessments: Recent legislation made numerous changes to Conn. Gen. Stat. §12-233, the statutory provision that applies to the examination of corporation business tax returns and deficiency assessments. For income years beginning on or after January 1, 2005, subsection (a)(1) of Conn. Gen. Stat. §12-233 was amended to provide:

- An additional 60 days to make an assessment if, within the 60-day period ending on the day on which the time prescribed in this section for mailing a notice of deficiency assessment for any income year would otherwise expire, the Commissioner receives a written document signed by the taxpayer showing that the taxpayer owes an additional amount of tax for the income year. The Commissioner then shall have up to 60 days after the day the written document is received in which to mail a notice of deficiency assessment;
- That a notice of deficiency assessment may be mailed to the taxpayer at any time in the case of (A) failure to file a return, including any amended return required under Conn. Gen. Stat. §12-226, or (B) a deficiency due to fraud or intent to evade;
- That, in the case of an omission from gross income of an amount in excess of 25% of the amount of gross income stated in the return, a notice of deficiency assessment may be mailed to the taxpayer at any time not later than six years after the return was filed. For purposes of this provision, there shall not be taken into account any amount that is omitted from gross income stated in the return if such amount is disclosed in the return or in a statement attached to the return, in a manner adequate to apprise the Commissioner of the nature and amount of such item;

- That, in the case of a failure to disclose a **listed transaction**, as defined in the Internal Revenue Code (I.R.C.) §6707A, on the taxpayer's federal income tax return, a notice of deficiency assessment may be mailed to the taxpayer at any time not later than six years after the return required under this chapter for the same income year was filed.

New language was included in subsection (b)(1) of Conn. Gen. Stat. §12-233, which provides that for audits beginning on or after January 1, 2006, if a deficiency assessment is made for failure to disclose a **listed transaction** as described above, a penalty of 75% of the amount of the deficiency may be imposed.

Note: I.R.C. §6707A describes a **listed transaction** as a reportable transaction which is the same as, or substantially similar to, a transaction specifically identified by the Secretary of the Treasury as a tax avoidance transaction. A **reportable transaction** is any transaction with respect to which information is required to be included with a return or statement because such transaction has been determined as having a potential for tax avoidance or evasion.

2005 Conn. Pub. Acts 116, as amended by 2005 Conn. Pub. Acts 260, §7

Urban and Industrial Site Reinvestment Tax Credit:

For income years beginning on or after January 1, 2005, Conn. Gen. Stat. §32-9t(j) was amended to provide that the urban and industrial site reinvestment tax credit may be claimed by a taxpayer who has made an investment directly only if the investment in an eligible project has a total asset value, either alone or in conjunction with other taxpayer investments in an eligible project, of not less than \$5 million (reduced from \$20 million); and allows the tax credit for an investment in an eligible project for the preservation of an historic facility and redevelopment of the facility for mixed uses that includes at least four housing units, provided that the eligible project has a total asset value of not less than \$2 million.

2005 Conn. Pub. Acts 276, §2

Conn. Gen. Stat. §32-9t(n) also was amended to provide that any taxpayer allowed a credit under this section may assign such credit to another taxpayer or taxpayers. This amendment allows partial assignment of the tax credits but continues to provide that the assignee or assignees may only claim such

credit with respect to a taxable year for which the assigning taxpayer would have been eligible to claim such credit and such other taxpayer or taxpayers may not further assign such credit.

2005 Conn. Pub. Acts 276, §3

Surtax: Conn. Gen. Stat. §12-214(b) was amended to provide that a surtax of 20% of the tax on net income will apply for income years beginning on or after January 1, 2006, and prior to January 1, 2007. A surtax of 15% will apply for income years beginning on or after January 1, 2007, and prior to January 1, 2008. The surtax does not apply to the minimum tax of \$250.

Note: There is no surtax on the tax on net income for income years beginning on or after January 1, 2005, and prior to January 1, 2006.

2005 Conn. Pub. Acts 251, §62

Conn. Gen. Stat. §12-219 was amended to provide that a surtax of 20% on the tax on capital will apply for income years beginning on or after January 1, 2006, and prior to January 1, 2007. A surtax of 15% will apply for income years beginning on or after January 1, 2007, and prior to January 1, 2008. The surtax does not apply to the minimum tax of \$250.

Note: There is no surtax on the tax on capital for income years beginning on or after January 1, 2005, and prior to January 1, 2006.

2005 Conn. Pub. Acts 251, §63

Tax Credit and Tax Policy Review Committee:

Conn. Gen. Stat. §12-217z was amended to establish a committee to review business tax credits and tax policy. The Committee is responsible for studying all the existing tax credits, evaluating changes or modifications made to the corporation business tax, and considering further changes in policy regarding the taxation of business. The Commissioner, upon request of the chairs of the Committee, shall provide information to the Committee concerning exemptions or credits, the implementation and operation of legislative changes in tax policy, and other tax-related issues. The requested information shall not include the names or addresses of any taxpayers, but may include, for each recipient of a tax credit or business implementing a change in tax policy, a description of the business activities, the amount of income apportioned to this

state and the taxes paid on such income, the exemption or credit taken and the amount of the exemption or credit, and other information as may be available to the Department of Revenue Services (DRS) and relevant to the committee's area of inquiry.

The Committee is required to meet not less than two times a year and at other times as the chairpersons deem necessary. The Committee shall report its findings and recommendations to the joint standing committee of the General Assembly having cognizance of matters relating to finance, revenue, and bonding no later than January 1, 2006, and annually thereafter.

2005 Conn. Pub. Acts 251, §64

Disclosure for Purposes of Tax Credit and Tax Policy Review Committee: For income years beginning on or after January 1, 2005, Conn. Gen. Stat. §12-15(b), was amended to permit disclosure of returns or return information for purposes of the Tax Credit and Tax Policy Review Committee established under Conn. Gen. Stat. §12-217z, as amended by 2005 Conn. Pub. Acts 251, §64. As amended, Conn. Gen. Stat. §12-15(b) permits the Commissioner to disclose returns, which shall not include a copy of the return filed with the Commissioner, or return information for committee purposes.

2005 Conn. Pub. Acts 251, §65, as further amended by 2005 Conn. Pub. Acts 3, §§5 and 36 (June Spec. Sess.)

Effect on Other Documents: None affected.

Effect of This Document: A Special Notice 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 DRS.

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 inquiries 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.

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 business 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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