



STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

SN 2006(11)

25 Sigourney Street
Hartford CT 06106-5032

SPECIAL NOTICE

2006 Legislative Changes Affecting the Income Tax

Purpose: This Special Notice describes changes made to the income tax during the 2006 session of the Connecticut General Assembly.

Effective Date: Effective for taxable years beginning on or after January 1, 2006.

Statutory Authority: Conn. Gen. Stat. §12-701(a)(20)(B), as amended by 2006 Conn. Pub. Acts 186, §§76 and 77; 2006 Conn. Pub. Acts 186, §78; Conn. Gen. Stat. §12-704c(b), as amended by 2006 Conn. Pub. Acts 159, §79; and Conn. Gen. Stat. §§12-719(b) and (c) and 12-726, as amended by 2006 Conn. Pub. Acts 159, §§ 5 and 6.

Composite Connecticut Income Tax Payments Pass-Through Entities Are Required to Make on Behalf of Their Members

Changes were made to Conn. Gen. Stat. §§12-719(c) and 12-726 by 2006 Conn. Pub. Acts 159, §§5 and 6 and are effective for taxable years beginning on or after January 1, 2006. Answers to frequently asked questions about the composite Connecticut income tax payment a pass-through entity is required to make on behalf of certain members can be found in **Informational Publication 2006(22)**, *Connecticut Income Tax Changes Affecting Pass-Through Entities*.

Civil Unions Recognized Under Connecticut Law: While 2005 Conn. Pub. Acts 10, An Act Concerning Civil Unions, was effective October 1, 2005, the provisions conferring the same Connecticut income tax treatment on parties to a civil union recognized under Connecticut law that are conferred on married persons under the Connecticut income tax law are effective only for taxable years beginning on or after January 1, 2006. See 2005 Conn. Pub. Acts 3, §58 (June Spec. Sess.), codified as Conn. Gen.

Stat. §46b-38pp. Connecticut income tax law confers on married persons the same income tax treatment conferred on married persons under the Internal Revenue Code. Thus, the effect of Conn. Gen. Stat. §46b-38pp is to treat parties to a civil union recognized under Connecticut law as if the Internal Revenue Code treated the parties in the same manner as married persons. The 2006 Connecticut income tax returns will have specific instructions for parties to a civil union recognized under Connecticut law.

For more information on civil unions recognized under Connecticut law, visit the Attorney General's Web site at www.ct.gov/ag for Attorney General Opinion No. 2005-024.

For taxable years beginning prior to January 1, 2006, parties to a civil union recognized under Connecticut law were not treated as married persons for Connecticut income tax purposes because they were not (and still are not) treated as married persons for federal income tax purposes.

Maximum Income Tax Credit for Qualifying Property Tax Payment Increased to \$500:

For taxable years beginning on or after January 1, 2006, the maximum credit against the income tax for qualifying property tax payments has been increased to \$500. For the taxable year beginning during 2005, the maximum credit had been \$350.

Contributions to a Connecticut Higher Education Trust (CHET) Account or Accounts

The following are answers to frequently asked questions about a new modification effective for taxable years beginning on or after January 1, 2006, to be subtracted by individuals from their federal adjusted gross income in computing their Connecticut adjusted gross income. For the sake of simplicity, the answers refer to this subtraction modification as a deduction. Unless otherwise noted, the answers to

Questions 1 through 12 apply for Connecticut income tax purposes only.

1. Who is eligible to claim a deduction, in computing Connecticut adjusted gross income, for contributions to a CHET account(s) during taxable year 2006?

Any individual required to file a 2006 Connecticut income tax return is eligible to claim a deduction for contributions to a CHET account(s) during taxable year 2006, whether or not the individual is a CHET account owner.

An individual whose filing status for Connecticut income tax purposes is single, head of household, married filing separately, or civil union filing separately may claim up to a maximum deduction of \$5,000 for contributions to a CHET account(s) during taxable year 2006. If the individual's CHET contributions during taxable year 2006 exceed \$5,000, the individual may only deduct \$5,000 on his or her 2006 Connecticut income tax return and must carry over the excess to the five taxable years following taxable year 2006. The maximum deduction allowed for each of the five succeeding taxable years may still not exceed \$5,000.

Example 1: Dan, an individual whose filing status is head of household, makes contributions totaling \$8,000 to a CHET account during taxable year 2006. Dan may only deduct \$5,000 on his 2006 Connecticut income tax return and must carry over \$3,000 (the excess of \$8,000 over \$5,000) to taxable year 2007. Assuming Dan makes no other contributions to a CHET account during taxable year 2007, he may deduct \$3,000 on his 2007 Connecticut income tax return.

Example 2: The facts are the same as in Example 1 except Dan makes contributions totaling \$38,000 to a CHET account during taxable year 2006. Dan may only deduct \$5,000 on his 2006 Connecticut income tax return and, assuming that his filing status for Connecticut income tax purposes for those five taxable years following taxable year 2006 is head of household, may deduct \$5,000 each taxable year on his 2007, 2008, 2009, 2010, and 2011 Connecticut income tax returns. The contributions during taxable year 2006 in excess of \$30,000 (\$8,000) will not be deductible for any taxable year.

Individuals whose filing status is married filing jointly, civil union filing jointly, or qualifying widow(er) with dependent child may claim up to a maximum deduction of \$10,000 for contributions to a CHET account(s) during taxable year 2006. If their CHET contributions during taxable year 2006 exceed \$10,000, they may only deduct \$10,000 on their 2006 Connecticut income tax return and must carry

over the excess to the five taxable years following taxable year 2006. The maximum deduction allowed for each of the five succeeding taxable years may still not exceed \$10,000.

Example 3: Peter and Alice, a married couple whose filing status is married filing jointly, make contributions totaling \$60,000 to a CHET account during taxable year 2006. Peter and Alice may only deduct \$10,000 on their 2006 Connecticut income tax return and must carry over \$50,000 (the excess of \$60,000 over \$10,000) to the five taxable years following taxable year 2006. Assuming that their filing status for those five taxable years following taxable year 2006 is married filing jointly, Peter and Alice may deduct \$10,000 each taxable year on their 2007, 2008, 2009, 2010, and 2011 Connecticut income tax returns.

Example 4: The facts are the same as in Example 3 except Peter and Alice make contributions totaling \$80,000 to a CHET account during taxable year 2006. Peter and Alice may only deduct \$10,000 on their 2006 Connecticut income tax return and, assuming that their filing status for Connecticut income tax purposes for those five taxable years following taxable year 2006 is married filing jointly, may deduct \$10,000 each taxable year on their 2007, 2008, 2009, 2010 and 2011 Connecticut income tax returns. The contributions during taxable year 2006 in excess of \$60,000 (\$20,000) will not be deductible for any taxable year.

2. When must contributions to CHET account(s) be made for the taxpayer to be eligible to claim a CHET deduction when computing Connecticut adjusted gross income?

Assuming the taxpayer's taxable year is the calendar year, the contributions must have been made on or after January 1, 2006, and prior to January 1, 2007. Electronic payments must be made on or before the last business day of taxable year 2006 (December 29, 2006).

Example 5: Tom, an individual required to file a 2006 Connecticut income tax return and whose taxable year is the calendar year, makes a contribution by check of \$5,000 to a CHET account and deposits the envelope (properly addressed and with sufficient postage attached) containing the check into the United States mail on December 31, 2006. Tom is eligible to claim on his 2006 Connecticut income tax return a deduction for his \$5,000 contribution to the CHET account during taxable year 2006.

3. Is there a per-beneficiary limit on CHET deductions when computing Connecticut adjusted gross income?

No. There is no per-beneficiary limit. It does not matter whether contributions are to one or to multiple CHET accounts. The \$5,000 and \$10,000 limits are overall

limits (not per-beneficiary or per CHET account) on how much of the contributions to a CHET account(s) is deductible for Connecticut income tax purposes.

Example 6: Ray, an individual whose filing status is married filing separately, makes contributions totaling \$12,000 to three CHET accounts (\$4,000 contributed to each account) during taxable year 2006. Ray may only deduct \$5,000 on his 2006 Connecticut income tax return, and must carry over \$7,000 (the excess of \$12,000 over \$5,000) to taxable years 2007 and 2008. Assuming Ray's filing status for taxable years 2007 and 2008 is married filing separately, he may deduct \$5,000 on his 2007 Connecticut income tax return and \$2,000 on his 2008 Connecticut income tax return.

4. Must the beneficiary of a CHET account be a resident of Connecticut for the contributor to be eligible to claim a CHET deduction when computing Connecticut adjusted gross income?

No. The contributor is eligible to claim a deduction when computing Connecticut adjusted gross income for contributions to a CHET account whether the beneficiary of the CHET account is a resident or nonresident of Connecticut.

5. Must the individual making contributions to a CHET account(s) be a resident of Connecticut to be eligible to claim a CHET deduction when computing Connecticut adjusted gross income?

No. An individual making contributions to a CHET account(s) is eligible to claim a deduction when computing Connecticut adjusted gross income for contributions to the CHET account or accounts, whether the contributor is a resident or nonresident of Connecticut as long as the contributor is required to file a Connecticut income tax return.

6. Does an individual's Connecticut adjusted gross income limit the amount that can be deducted when computing adjusted gross income for contributions to a CHET account(s)?

No. However, the deduction for contributions to the CHET account, taken alone or in conjunction with any other allowable deductions in computing Connecticut adjusted gross income, may not reduce the Connecticut adjusted gross income of the individual making the contribution to less than zero.

Example 7: Sarah, an individual whose filing status is single, makes contributions totaling \$20,000 to a CHET account during taxable year 2006. An individual whose filing status is single could ordinarily deduct \$5,000 on his or her 2006 Connecticut income tax return and could carry over the excess to taxable years 2007, 2008, and 2009. However, Sarah's contributions to the CHET account, taken in conjunction with other allowable deductions in computing Sarah's Connecticut adjusted gross income, would reduce Sarah's Connecticut adjusted gross income to less than zero. The amount that would reduce Sarah's Connecticut adjusted gross income to precisely zero is \$4,000. Therefore, Sarah may only deduct \$4,000 on her 2006 Connecticut income tax return and must carry over \$16,000 (the excess of \$20,000 over \$4,000) to taxable years 2007, 2008, 2009, and 2010. Assuming that Sarah's filing status for taxable years 2007, 2008, and 2009 is single, and assuming that the carried over deductions do not reduce Sarah's Connecticut adjusted gross income in those years to less than zero, Sarah may deduct \$5,000 each taxable year on her 2007, 2008, and 2009 Connecticut income tax return and \$1,000 on her 2010 Connecticut income tax return.

7. Is a rollover or transfer into a CHET account from a non-CHET account under the qualified state tuition plan of another state treated as a contribution for which a taxpayer may claim a deduction in computing Connecticut adjusted gross income?

No. A rollover or transfer into a CHET account from a non-CHET account under the qualified state tuition plan of another state is not treated as a contribution. Also, a rollover or transfer into a CHET account from a Coverdell education savings account is not treated as a contribution. Therefore, a taxpayer may not claim a deduction when computing Connecticut adjusted gross income for a rollover or transfer into a CHET account.

Example 8: Jean and Jon, a married couple whose filing status is married filing jointly, make a rollover or transfer during taxable year 2006 into a CHET account from a non-CHET account under the qualified state tuition plan of another state. Jean and Jon also make contributions totaling \$5,000 to the CHET account during taxable year 2006. Jean and Jon may only deduct the \$5,000 on their 2006 Connecticut income tax return.

8. Will distributions from a CHET account(s) limit an individual's eligibility to claim a deduction for contribution to a CHET account(s) when computing Connecticut adjusted gross income?

No. Distributions do not limit an individual's eligibility to claim a deduction when computing Connecticut adjusted gross income for contributions to a CHET

account(s) during taxable 2006. Distributions from a CHET account(s) are not netted against contributions to a CHET account(s).

Example 9: Pam, an individual whose filing status is head of household, makes contributions totaling \$8,000 to a CHET account during taxable year 2006. There is also a distribution of \$4,000 from the CHET account during taxable year 2006. The amount that Pam is eligible to claim as a deduction when computing Connecticut adjusted gross income for contributions to the CHET account during taxable 2006 is not affected by the distribution from the CHET account. Therefore, Pam may deduct \$5,000 on her 2006 Connecticut income tax return and must carry over \$3,000 (the excess of \$8,000 over \$5,000) to taxable year 2007.

Example 10: Mary and Nate, a married couple whose filing status is married filing jointly, make contributions totaling \$60,000 to a CHET account during taxable year 2006. There is a rollover from the CHET account to a non-CHET account under the qualified state tuition plan of another state during taxable year 2007. The amount that Mary and Nate are eligible to claim as a deduction when computing Connecticut adjusted gross income for contributions to the CHET account during taxable 2006 is not affected by the rollover from the CHET account to a non-CHET account during taxable year 2007. Therefore, Mary and Nate may deduct \$10,000 on their 2006 Connecticut income tax return and must carry over \$50,000 (the excess of \$60,000 over \$10,000) to the five taxable years following taxable year 2006. Assuming that their filing status for taxable years 2007, 2008, 2009, 2010, and 2011 is married filing jointly, Mary and Nate may deduct \$10,000 each taxable year on their 2007, 2008, 2009, 2010, and 2011 Connecticut income tax returns.

9. Must contributions to a CHET account remain in the account for a minimum period of time in order for the contributor to be eligible to claim a deduction when computing Connecticut adjusted gross income for contributions to the account?

No. There is no minimum period of time that contributions to a CHET account must remain in the account in order for the contributor to be eligible to claim a deduction when computing Connecticut adjusted gross income for contributions to the account.

10. What are the Connecticut income tax consequences of a rollover or transfer from a CHET account to a non-CHET account under the qualified state tuition plan of another state?

There are no Connecticut income tax consequences of a rollover or transfer from a CHET account to a non-CHET account under the qualified state tuition plan of another state.

11. What are Connecticut income tax consequences of a distribution from a CHET account?

If the distribution from a CHET account is used for qualified higher education expenses of the beneficiary (that is, if the distribution is a qualified withdrawal), there are no Connecticut income tax consequences. The distribution (made up of the contributions to the CHET account plus earnings on the contributions) is not taxable for Connecticut income tax purposes regardless of whether a deduction when computing Connecticut adjusted gross income for contributions to the account was claimed.

If the distribution from a CHET account is not used for qualified higher education expenses of the beneficiary, then, under current Connecticut law, the beneficiary is eligible to claim a deduction when computing Connecticut adjusted gross income relating to the distribution to the extent the distribution is included in the beneficiary's federal gross income.

If the distribution from a CHET account is not used for qualified higher education expenses of the beneficiary and the distribution is included in the federal gross income of a person other than the beneficiary, then, under current Connecticut law, that person is not eligible to claim a deduction relating to the distribution in computing Connecticut adjusted gross income.

Example 11: David, an individual whose filing status is married filing separately, makes contributions totaling \$5,000 to a CHET account during taxable year 2006. A distribution of \$5,250 from the CHET account is made during taxable year 2007. The amount of the distribution does not exceed the beneficiary's qualified higher education expenses. The distribution is not taxable for Connecticut income tax purposes.

Example 12: Helen, an individual whose filing status is single, makes contributions totaling \$5,000 to a CHET account for her CHET beneficiary, Harrison, during taxable year 2006. A distribution of \$5,250 from the CHET account is made during taxable year 2007. No part of the distribution is used for qualified higher education expenses. Assuming that \$250 (the earnings portion of the distribution) is taxable for federal income tax purposes and includable in Helen's federal gross income, Helen is not eligible to deduct (in computing Connecticut adjusted gross income) the \$250, because, under current Connecticut law, only a beneficiary is eligible to claim a deduction when computing Connecticut adjusted gross income relating to the distribution from a CHET account, to the extent the distribution is included in the beneficiary's federal gross income.

The \$5,000 is not taxable for Connecticut income tax purposes because it is not includable in the Helen's federal gross income.

Note: For federal income tax purposes, there is an additional 10% tax on the amount of a distribution from a qualified state tuition plan that is included in a distributee's federal gross income. There is no similar 10% tax for Connecticut income tax purposes.

12. What records should be kept in order to substantiate contributions to a CHET account or accounts?

Account owners should keep the account statements that they receive from CHET. If contributions are made by check or money order, account owners should keep a copy of their cancelled checks or money orders.

Contributors who are not account owners should keep a copy of correspondence relating to their contributions to particular CHET accounts. If contributions are made by check or money order, contributors should keep a copy of their cancelled checks or money orders.

Effect on Other Documents: Informational Publication 2005(13.1) is modified and superseded.

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 the Department of Revenue Services (DRS).

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); **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:** Visit the DRS Web site at www.ct.gov/DRS to download and print Connecticut tax forms; **or**
 - **Telephone:** Call **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only) and select **Option 2** from a touch-tone phone, or call **860-297-4753** (from anywhere).
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 - **For payment of business taxes other than those listed above:** Use *Fast-File* to pay your business taxes over the Internet or by phone. Visit the DRS Web site at www.ct.gov/DRS and click on *Electronic Services* for a list of eligible taxes. The ACH debit method is used to make the transfer. No preregistration is required.
 - **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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