



25 Sigourney Street Ste 2
Hartford CT 06106-5032

STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

SN 2009(3)

SPECIAL NOTICE

2009 Legislative Changes Affecting the Income Tax

Purpose: This Special Notice describes changes made to the income tax during the 2009 session of the Connecticut General Assembly.

Effective Date: Effective for taxable years beginning on or after January 1, 2009.

Statutory Authority: Conn. Gen. Stat. §12-700, as amended by 2009 Conn. Pub. Acts 3, §91 (June Spec. Sess.); Conn. Gen. Stat. §12-701(a)(20)(A) and §12-701(a)(20)(B), as amended by 2009 Conn. Pub. Acts 2, §5 (June 19 Spec. Sess.) and Conn. Pub. Acts 3, §121 (June Spec. Sess.); Conn. Gen. Stat. §12-726, as amended by 2009 Conn. Pub. Acts 3, §91 (June Spec. Sess.); Conn. Gen. Stat. §12-701(a)(10)(A), as amended by 2009 Conn. Pub. Acts 3, §120 (June Spec. Sess.); Conn. Gen. Stat. §12-702(a)(2), as amended by 2009 Conn. Pub. Acts 3, §122 (June Spec. Sess.); Conn. Gen. Stat. §12-703(a)(2), as amended by 2009 Conn. Pub. Acts 3, §123 (June Spec. Sess.); Conn. Gen. Stat. §12-704c(c), as amended by 2009 Conn. Pub. Acts 3, §91 (June Spec. Sess.); 2009 Conn. Pub. Acts 8, §14 (Sept. Spec. Sess.) and 2009 Conn. Pub. Acts 8, §15 (Sept. Spec. Sess.).

Addition Modification for Certain Cancellation of Debt Income: Section 1231 of the American Recovery and Reinvestment Act of 2009 allows a taxpayer, at the taxpayer's election, to defer the inclusion in federal gross income of cancellation of debt income realized in connection with a reacquisition of an applicable debt instrument after December 31, 2008, and before January 1, 2011. The cancellation of debt income, if the deferral election is made, must be included in federal gross income ratably over a period of five taxable years beginning in 2014.

For taxable years ending after December 31, 2008, in computing Connecticut adjusted gross income, a taxpayer making the federal deferral election must add back to his or her federal adjusted gross income

the amount of cancellation of debt income deferred for federal income tax purposes.

Where a taxpayer made the federal election to defer cancellation of debt income and reported the amount as an addition modification on his or her Connecticut income tax return, and where the taxpayer is required to include those amounts ratably over the five year period beginning in 2014, the taxpayer will be allowed, in computing his or her Connecticut adjusted gross income, to subtract the ratable amounts from his or her federal adjusted gross income.

This provision affects partnerships, limited liability companies treated as partnerships for federal income tax purposes, S corporations, and individuals conducting a trade or business.

For more information on Section 1231 of the American Recovery and Reinvestment Act, visit the Internal Revenue Services website at www.irs.gov.

Substantial Economic Presence: For taxable years beginning on or after January 1, 2010, a partnership, limited liability company treated as a partnership for federal income tax purposes, or S corporation having a substantial economic presence in Connecticut will be deemed to be doing business in Connecticut. A partnership, limited liability company, or S corporation has substantial economic presence in Connecticut if it purposefully directs business towards the state. The purpose can be determined by the frequency, quantity, and systematic nature of its economic contact with Connecticut.

Income Tax Rate Increase for Certain Taxable Income Brackets: For taxable years beginning on or after January 1, 2009, individuals pay tax at the following rates if their filing status is:

- **Single:** At a 3% rate on the first \$10,000 of Connecticut taxable income; at a rate of 5% on the excess over \$10,000, but not over \$500,000; and at a rate of 6.5% on the excess over \$500,000.

- **Filing separately:** At a 3% rate on the first \$10,000 of Connecticut taxable income; at a rate of 5% on the excess over \$10,000, but not over \$500,000; and at a rate of 6.5% on the excess over \$500,000.
- **Head of household:** At a 3% rate on the first \$16,000 of Connecticut taxable income; at a rate of 5% on the excess over \$16,000, but not over \$800,000; and at a rate of 6.5% on the excess over \$800,000.
- **Filing jointly or qualifying widow(er):** At a 3% rate on the first \$20,000 of Connecticut taxable income; at a rate of 5% on the excess over \$20,000, but not over \$1,000,000; and at a rate of 6.5% on the excess over \$1,000,000.

Trusts and estates pay tax at a flat rate of 6.5%.

Adjustment to 2009 Withholding Calculation Rules: As required, the Commissioner of Revenue Services has adjusted the withholding calculation rules to take into account the new tax rate and has posted the new rules on the DRS website. Employers are required to adjust the withholding amount for the remainder of taxable year 2009 to reflect the 6.5% rate for employees in the highest tax bracket.

Fourth Quarter Estimated Income Tax Payment: Taxpayers affected by the increased marginal tax rate and required to make an estimated income tax payment on January 15, 2010, for the 2009 taxable year are required to make the payment calculated using the 6.5% rate.

Addition Modification for Domestic Production Activity Deduction Under §199 of the Internal Revenue Code (I.R.C.): For taxable years beginning on or after January 1, 2009, an individual is required, in computing his or her Connecticut adjusted gross income, to add back the deduction allowable under I.R.C. §199, to the extent the amount is deductible in determining federal adjusted gross income.

For taxable years beginning on or after January 1, 2009, a trust or estate, in calculating the Connecticut fiduciary adjustment, is required to add the deduction allowable under I.R.C. §199, to the extent the amount is deductible in determining federal taxable income prior to deductions relating to distributions to beneficiaries.

Scheduled Increase in the Personal Tax Exemption for Single Filers Delayed: The personal exemption for single filers under Conn. Gen. Stat. §12-702(a)(2) in effect for the 2008 taxable year will remain in effect for the 2009, 2010, and 2011 taxable years. The scheduled increases will resume in the 2012 taxable year.

Scheduled Increase in the Personal Tax Credit for Single Filers Delayed: The personal tax credit for single filers under Conn. Gen. Stat. §12-703(a)(2) in effect for the 2008 taxable year will remain in effect for the 2009, 2010, and 2011 taxable years. The scheduled increases will resume in the 2012 taxable year.

Scheduled Increase in the Connecticut Adjusted Gross Income Thresholds Used by Single Filers in Calculating the Reduction in the Property Tax Credit Delayed: The Connecticut adjusted gross income threshold under Conn. Gen. Stat. §12-704c(c) used by single filers in calculating the reduction in the property tax credit in effect for the 2008 taxable year will remain in effect for the 2009, 2010, and 2011 taxable years. The scheduled increase will resume in the 2012 taxable year.

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: Visit the DRS website at www.ct.gov/DRS to download and print Connecticut tax forms and publications.

Paperless Filing/Payment Methods (fast, easy, free, and confidential):

Business and individual taxpayers can use the **Taxpayer Service Center (TSC)** at www.ct.gov/TSC to file a variety of tax returns, update account information, and make payments online.

File Electronically: You can choose first-time filer information and filing assistance or log directly into the *TSC* to file returns and pay taxes.

Pay Electronically: You can pay taxes for tax returns that cannot be filed through the *TSC*. Log in and select the *Make Payment Only* option. Designate a payment date up to the due date of the tax and mail a paper return to complete the filing process.

DRS E-Alerts Service: Get connected to the latest news from DRS. Receive notification by email of changes to legislation, policies, and procedures. **DRS E-Alerts** provide information for employer's withholding tax, News – Press Releases, and Top 100 Delinquency List. Visit the DRS website at www.ct.gov/DRS and select *e-alerts* from the left navigation bar.

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