



450 Columbus Blvd Ste 1  
Hartford CT 06103-1837

SPECIAL NOTICE

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## 2019 Legislative Changes Affecting the Income Tax and the Income Tax Withholding

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**Purpose:** This Special Notice describes legislation enacted during the 2019 regular session of the Connecticut General Assembly affecting the income tax and the income tax withholding. It also explains legislation enacted in prior years that affects taxable year 2019.

pension or annuity subtraction modification, then the taxpayer may claim both modifications.

*Conn. Gen. Stat. § 12-701(a)(20)(B), as amended by 2019 Conn. Pub. Acts 117, § 332; and Conn. Gen. Stat. § 12-722, as amended by 2019 Conn. Pub. Acts 117, § 334.*

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### Income Tax

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**Property Tax Credit:** The maximum amount of property tax credit is \$200. The eligibility requirement of being 65 years or older before the close of the taxable year, or at least one dependent was claimed on the federal income tax return for the taxable year is extended to taxable years 2019 and 2020.

*Conn. Gen. Stat. § 12-704c, as amended by 2019 Conn. Pub. Acts 117, § 335.*

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### Definition of “Residential Building” Expanded for Purposes of the Crumbling Foundations

**Subtraction Modification:** Current law allows a taxpayer, in computing Connecticut AGI, to subtract the amount of any financial assistance received from the Crumbling Foundations Assistance Fund, or paid to or on behalf of, the owner of a residential building, to repair the concrete foundation of such residential building that has deteriorated due to the presence of pyrrhotite.

Effective July 1, 2019, new legislation expands the definition of “residential building” to include (1) a single family or multifamily residential dwelling, including, but not limited to (A) a residential unit in a condominium, as such term is defined in Conn. Gen. Stat. § 47-68a, and (B) a unit that is used for residential purposes and located in a common interest community, as such terms are defined in Conn. Gen. Stat. § 47-202; and (2) a building containing one or more units in a condominium or in a common interest community.

*Conn. Gen. Stat. § 12-701(a)(20)(B), as amended by 2019 Conn. Pub. Acts 192, § 2.*

**Subtraction Modification of Income from the Connecticut Teachers’ Retirement System:** In computing Connecticut Adjusted Gross Income (AGI) for taxable years beginning January 1, 2019, and January 1, 2020, a taxpayer is allowed a subtraction modification of 25% of the income received from the Connecticut Teachers’ Retirement System.

This modification applies only to the extent that such income has been properly included in federal gross income for the taxable year.

The subtraction modification had been scheduled to increase for taxable year 2019 to 50% of the income received from the Connecticut Teachers’ Retirement System. That scheduled increase has been postponed to taxable year 2021.

Taxpayers may not claim the 25% Teachers’ Retirement System income subtraction modification and the 14% pension and annuity income subtraction modification for the same income. However, if a taxpayer filing an individual return or a joint return has income from the Teachers’ Retirement System and income from a pension or annuity that qualifies for the

**Angel Investor Tax Credit:** For taxable years beginning on or after January 1, 2019, the total amount of tax credit allowed to an angel investor was increased from \$250,000 to \$500,000. The total amount of Angel Investor Tax Credit that Connecticut Innovations, Inc. (CII) may reserve in each fiscal year was increased from three million to five million dollars.

CII cannot reserve more than 75% of the tax credits available for investments in emerging technology businesses each year. However, if any credits remain

available for reservation after April 1 in any fiscal year, CII may reserve such remaining credits giving priority to veteran-owned, women-owned or minority-owned businesses and businesses owned by individuals with disabilities.

The angel investor tax credit program is extended to July 1, 2024. CII cannot reserve angel investor tax credits after June 30, 2024.

*Conn. Gen. Stat. § 12-704d, as amended by 2019 Conn. Pub. Acts 117, § 347.*

**Increase in Thresholds for Determining the Amount of Social Security Benefits Excluded from Connecticut Income Tax:** For taxable years beginning on or after January 1, 2019, the thresholds for determining the amount of Social Security benefits excluded from Connecticut income tax are revised as follows:

Federal Filing Status	Federal AGI	Subtraction Modification
Single or Married Filing Separately	Less than \$75,000 \$75,000 or more	100% of the Social Security benefits included in federal AGI. The amount of Social Security benefits calculated in the <i>Social Security Benefit Adjustment Worksheet</i> found in the Form CT-1040 and CT-1040NR/PY Instruction Booklets.
Married Filing Jointly, Qualifying Widow(er), or Head of Household	Less than \$100,000 \$100,000 or more	100% of the Social Security benefits included in federal AGI. The amount of Social Security benefits calculated in the <i>Social Security Benefit Adjustment Worksheet</i> found in the Form CT-1040 and CT-1040NR/PY Instruction Booklets.

*Conn. Gen. Stat. § 12-701(a)(20)(B), as amended by 2017 Conn. Pub. Acts 2, § 641 (June Spec. Sess.), and by 2017 Conn. Pub. Acts 4, § 18.*

**Subtraction Modification for Pension and Annuity Income:** Pursuant to § 641 of Public Act 17-2 (June Spec. Sess.), for the taxable year beginning on January 1, 2019, an individual with a federal filing status of single, married filing separately or head of household, with federal AGI for the taxable year of less than \$75,000, or married filing jointly with federal AGI of less than \$100,000 will be allowed to subtract 14% of certain pension or annuity income received for the taxable year when calculating Connecticut AGI. This subtraction modification only applies to the extent that the pension or annuity income has already been properly included in federal AGI.

For purposes of calculating the amount of the subtraction modification to report on the Connecticut income tax return (Line 48b, on *Schedule 1* of the 2019 Form CT-1040, or Line 50b, on *Schedule 1* of the 2019 Form CT-1040NR/PY), the term “pension and annuity income” means the pension and annuity income reported on Line 4d of the 2019 federal Form 1040 or Form 1040-SR. The amounts reported on Line 4d of the federal income tax return are the taxable distributions from retirement plans, including the following:

- Defined benefit plans;
- 401(k), 403(b) and governmental 457(b) plans;
- Military retirement pay; **and**
- Tier 1 and Tier 2 railroad retirement benefits.

Taxpayers must reduce the amount reported on Line 4d of the federal income tax return by the amount of any military retirement pay, any Tier 1 and Tier 2 railroad retirement benefits, and any income received from the Connecticut Teachers’ Retirement System for which the 25% subtraction modification has been made. This is required because Connecticut already allows a separate subtraction modification for military retirement pay (Line 44, *Schedule 1*, Form CT-1040; Line 46, *Schedule 1*, Form CT-1040NR/PY); for Tier 1 and Tier 2 railroad retirement benefits or supplemental annuities (Line 43, *Schedule 1*, Form CT-1040; Line 45, *Schedule 1*, Form CT-1040NR/PY); and for income received from the Connecticut Teachers’ Retirement System (Line 45, *Schedule 1*, Form CT-1040; Line 47, *Schedule 1*, Form CT-1040NR/PY).

The following amounts are not included in Line 4d of the federal income tax return and should not be added when calculating the pension and annuity amount for Line 48b of Form CT-1040 or Line 50b of Form CT-1040NR/PY:

- Disability pensions received before the recipient met the minimum retirement age set by his or her employer;
- Corrective distributions of excess elective deferrals or other excess contributions to retirement plans; **and**
- Distributions from traditional IRAs, Roth IRAs, simplified employee pension (SEP) IRAs, and savings incentive match plans for employees (SIMPLE) IRAs.

A survivor or beneficiary of a plan participant may claim the 14% subtraction modification for Connecticut income tax purposes in the same manner as the plan participant would have been allowed to claim the modification, if such survivor or beneficiary is required to report the pension and annuity income on the federal income tax return in the same manner as the plan participant would have reported such income.

**Individuals receiving income from the Connecticut Teachers' Retirement System:** Taxpayers may not claim the 25% Connecticut Teachers' Retirement System income subtraction modification and the 14% pension and annuity income subtraction modification for the same income. However, if a taxpayer has income from the Connecticut Teachers' Retirement System and income from a pension or annuity that qualifies for the pension or annuity subtraction modification, then the taxpayer may claim both modifications.

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**Example:** Anna's filing status on her Connecticut resident return is single. She receives \$30,000 from the Connecticut Teachers' Retirement System and \$38,000 in pension payments from XYZ Corporation for the taxable year. Both amounts are includible in Anna's federal gross income, and her federal AGI is less than \$75,000. On the Connecticut return for taxable year 2019, Anna may subtract \$7,500 ( $\$30,000 \times 25\%$ ) on Line 45, *Schedule 1*, Form CT-1040, and \$5,320 ( $\$38,000 \times 14\%$ ) as a pension and annuity income subtraction modification on Line 48b, *Schedule 1*, Form CT-1040.

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*Conn. Gen. Stat. § 12-701(a)(20)(B), as amended by 2017 Conn. Pub. Acts 2, § 641 (June Spec. Sess.).*

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### **Changes to the Pass-Through Entity Tax Affecting Pass-Through Entity Members:**

**Pass-Through Entity Tax Credit reduction:** For taxable years beginning on or after January 1, 2019, the Pass-Through Entity Tax Credit (PE Tax Credit) that a member of a pass-through entity (PE) is allowed to claim against the Connecticut income tax was reduced. The new amount is 87.50% of the member's direct and indirect share of the Connecticut PE Tax due and paid by the PE for the taxable year.

**Interest on Underpayment of Estimated Tax (2210):** The General Assembly has directed that no interest will be imposed for the underpayment of estimated tax due April 15, 2019, and June 15, 2019, if the underpayment resulted from the taxpayer's calculation of his or her 2019 estimated payment for the first two quarters using the 93.01% PE Tax Credit.

**Guaranteed payments:** For taxable years beginning on or after January 1, 2019, guaranteed payments will be included in determining a PE's Connecticut tax liability.

For taxable year 2018, guaranteed payments were excluded from the calculation, and certain individual nonresident members were required to file Connecticut income tax returns to report guaranteed payments sourced to Connecticut and pay the corresponding income tax liability.

**Nonresident members not required to file a Connecticut income tax return:** A nonresident individual whose only Connecticut sourced income is from PEs is not required to file a Connecticut individual income tax return if:

- He or she receives a **Schedule CT K-1, Member's Share of Certain Connecticut Items**, and the PE Tax Credit properly reported fully satisfies his or her Connecticut income tax liability; **or**
- He or she receives a Schedule CT K-1 and the box "PE filed **Schedule CT-NR, Elective Composite Income Tax Remittance Calculation**" is checked. Nonresident individuals report the amount from Part IV of Schedule CT K-1 on Form CT-1040NR/PY, on one of the lines for income tax withheld (Lines 20a through 20f).

A nonresident individual may still choose to file a Form CT-1040NR/PY even if he or she is not required to file.

If a nonresident member is not excused from filing, or otherwise chooses to file a Connecticut individual income tax return, the member should claim the composite income tax payment made by the PE on his or her behalf along with any PE Tax Credit available to him or her. The member must also include his or her distributive share of the PE's Connecticut sourced income on his or her return.

For nonresident members who are excused from filing and do not choose to file their own personal income tax returns, their returns will be deemed to be filed on the day their PE files its PE Tax return.

*Conn. Gen. Stat. § 12-722, as amended by 2019 Conn. Pub. Acts 117, § 334; 2019 Conn. Pub. Acts 186, § 32; Conn. Gen. Stat. § 12-699, as amended by 2019 Conn. Pub. Acts 186, § 1, and by 2019 Conn. Pub. Acts 117, § 333.*

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### **Statute of Limitations to Appeal Certain Income Tax Determinations:**

The timeframe for an aggrieved taxpayer to appeal to the Superior Court any determination or disallowance by the Department of Revenue Services (DRS) related to a final assessment of deficiency (Conn. Gen. Stat. § 12-729), a jeopardy assessment (Conn. Gen. Stat. § 12-729a), or a refund request (Conn. Gen. Stat. § 12-732) is modified from "within one month" after the notice is mailed to the taxpayer to "no later than 30 days" after the notice is mailed to the taxpayer.

*Conn. Gen. Stat. § 12-730, as amended by 2019 Conn. Pub. Acts 186 § 27.*

**Convenience of the Employer Test:** For taxable years beginning on or after January 1, 2019, for purposes of determining compensation derived from or connected with sources within Connecticut, a nonresident is required to include income from days worked outside of Connecticut for such person's convenience if such person's state of domicile uses a similar test. This is intended to create a "convenience of the employer" test that is similar to the one currently applied by New York to Connecticut residents. Connecticut resident employees working from a remote location who are subject to tax on income earned in a jurisdiction that applies the convenience of the employer test, will therefore be eligible to claim a credit on their Connecticut income tax return for taxes paid to such jurisdiction.

*Conn. Gen. Stat. § 12-711(b)(2), as amended by 2018 Conn. Pub. Acts 49, § 20.*

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**Effect on Other Documents:** DRS is in the process of identifying any additional documents affected by the legislative changes described herein, and will update those publications as soon as practicable.

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**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.

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

- **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. Taxpayers may also call 711 for relay services. A taxpayer must tell the 711 operator the number he or she wishes to call. The relay operator will dial it and then communicate using a TTY with the taxpayer.

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**Forms and Publications:** Visit the DRS website at [portal.ct.gov/DRS](http://portal.ct.gov/DRS) to download and print Connecticut tax forms and publications.

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**Coming Soon!** In May 2020, DRS will introduce a new, state-of-the-art online tax filing system called **myconneCT**. With **myconneCT**, filing taxes, making payments, viewing filing histories, and communicating with the agency will be simpler and more efficient. Business customers will be able to manage their accounts through a web browser on virtually any mobile device, including laptops, tablets, and smartphones, 24 hours a day, 7 days a week.



New tax types will be added to **myconneCT** in each of the next four years. Rollout One will take place in May 2020, and will include the following tax types:

- Sales and Use / Business Use
- Admissions and Dues
- Withholding
- Tourism Surcharge
- Room Occupancy
- Rental Surcharge
- Prepaid Wireless E 9-1-1 Fee
- Dry Cleaning Surcharge

Visit [portal.ct.gov/DRS-myconneCT](http://portal.ct.gov/DRS-myconneCT)

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**What About Other Tax Types?** DRS **myconneCT** will be phased in over four years. You may file other available tax types using the **Taxpayer Service Center (TSC)** at [portal.ct.gov/TSC](http://portal.ct.gov/TSC). Stay tuned for announcements as other taxes are added to the new **myconneCT** system.