



# STATE OF CONNECTICUT

## DEPARTMENT OF REVENUE SERVICES

*Original Issue Date: 7/6/2020*  
*Last Updated: 2/25/2021*

### OCG-10

#### **OFFICE OF THE COMMISSIONER GUIDANCE** **Regarding the Connecticut Tax Implications of the CARES Act**

On March 27, 2020, Public Law No. 116-136, the federal Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), was signed into law. The Department received the following questions related to the impact of the federal CARES Act on Connecticut tax law. The Department will update this publication as it receives additional questions related to the CARES Act. Any information added after initial publication will include the date on which the information was added.

**1) Are the federal economic impact payments (i.e., federal stimulus checks) subject to Connecticut income tax?**

No. The starting point in determining an individual's Connecticut income tax liability is the individual's federal adjusted gross income. Certain Connecticut modifications are made to arrive at Connecticut adjusted gross income. There is no Connecticut statutory modification to include the federal economic impact payments in Connecticut adjusted gross income. Therefore, as the federal economic impact payments are not included in federal adjusted gross income and there is no Connecticut modification to include these payments in Connecticut adjusted gross income, said payments are not subject to Connecticut income tax.

**2) What are the Connecticut tax implications of the CARES Act provisions that relate to the taxability of coronavirus-related distributions from qualified retirement accounts?**

The starting point in determining an individual's Connecticut income tax liability is the individual's federal adjusted gross income. Certain Connecticut modifications are made to arrive at Connecticut adjusted gross income. There are no Connecticut statutory modifications specific to coronavirus-related distributions for purposes of calculating Connecticut adjusted gross income. Therefore, to the extent that these distributions are included or excluded from federal adjusted gross income in a particular year will dictate the Connecticut tax treatment of such distributions in such year.

**3) Are coronavirus-related distributions from a qualified retirement account, as allowed under the CARES Act, subject to Connecticut income tax withholding?**

Generally yes. The payer is required to withhold 6.99% from the distribution unless the recipient submits a Form CT-W4P to the payer requesting that no or a lesser amount of Connecticut income tax be withheld.

**4) Are loans forgiven under the CARES Act, Paycheck Protection Program, subject to Connecticut corporation business tax or individual income tax?**

No. The starting point in determining an individual's Connecticut income tax liability is the individual's federal adjusted gross income. Certain Connecticut modifications are made to arrive at Connecticut adjusted gross income. There is no Connecticut statutory modification to include these amounts in the calculation of Connecticut adjusted gross income. Therefore, because loans forgiven under the Paycheck Protection Program are excluded from federal adjusted gross income and there is no Connecticut modification to include these amounts in Connecticut adjusted gross income, such loan forgiveness is not subject to Connecticut income tax. The conclusion is the same for purposes of the Connecticut corporation business tax.

**4A) What are the Connecticut income tax and corporation business tax implications of the federal deduction allowed by Public Law No. 116-260, the federal Consolidated Appropriations Act 2021, for business expenses paid for with proceeds from a forgiven Paycheck Protection Program loan? (*question added February 25, 2021*)**

The starting point in determining an individual's Connecticut income tax liability is the individual's federal adjusted gross income. Certain Connecticut modifications are made to arrive at Connecticut adjusted gross income. There is no Connecticut addition modification for these expenses for Connecticut income tax purposes. Therefore, to the extent that these expense deductions decrease federal adjusted gross income, they will similarly decrease Connecticut adjusted gross income. The conclusion is the same for purposes of the Connecticut corporation business tax.

**5) How does the federal 5-year net operating loss ("NOL") carryback provision enacted as a part of the CARES Act impact the Connecticut corporation business tax and the Connecticut individual income tax?**

Corporation Business Tax

For corporation business tax purposes, Connecticut has its own specific rules for NOLs that are not impacted by the federal carryforward and carryback rules.

Individual Income Tax

For individual income tax purposes, the carryback of federal NOLs that affect an individual's Connecticut income tax liability are applied consistent with the Connecticut Tax Court's decision in Adams v. Sullivan, 2014 WL 4413427 (July 24, 2014) and are subject to the provisions of Conn. Gen. Stat. § 12-727(b).

Note: The NOL provisions that were modified by the CARES Act do not affect an individual with a Connecticut source loss, but with no corresponding federal loss. Such individuals must comply with Conn. Agencies Regs. § 12-711(b)-6.

**6) What are the Connecticut tax implications of the CARES Act provisions that relate to the excess business loss limitation applicable to noncorporate taxpayers under I.R.C. § 461(l)?**

The starting point in determining an individual's Connecticut income tax liability is the individual's federal adjusted gross income. Certain Connecticut modifications are made to arrive at Connecticut adjusted gross income. There are no Connecticut statutory modifications specific to the excess business loss limitation under I.R.C § 461(l) for purposes of calculating Connecticut adjusted gross income. Therefore, to the extent that such excess business loss limitation increases or decreases federal adjusted gross income in a particular year will dictate the Connecticut tax treatment of such limitation in such year.

**Additional Questions:** Send an e-mail to the DRS Legal Division at [legal.division@po.state.ct.us](mailto:legal.division@po.state.ct.us)

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