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Income Tax

INCOME TAX

Sec. 12-740(a)-1. Preamble and table of contents to Connecticut income tax regulations

(a) **Preamble.** Sections 12-701(c), 12-705(a), (b) and (c), 12-708 (b) and (d), 12-711(b)(3) and (c), 12-712(a)(1), (2) and (3), 12-713(b), 12-714(b)(2), 12-719(a), 12-720(b), 12-722(d), 12-723, 12-725(a), 12-726(b), 12-727(b), 12-739(d) and 12-740(a) and (c) of the general statutes authorize the adoption by the Commissioner of Revenue Services of this section and the regulations that are enumerated in (b) of this section to carry into effect the provisions of chapter 229 of the Connecticut General Statutes. Each such regulation has been assigned a section number that corresponds to the section of the Connecticut General Statutes pursuant to which such regulation is authorized or required or with respect to which such regulation pertains for purposes of implementation, procedural details or supplementary interpretation. However, whenever that section number corresponds to a section that does not include the authorization or requirement for such regulation, a reference is made to the section providing such authorization or requirement.

(b) **Table of contents.** The Connecticut income tax regulations are divided into 14 parts as follows:

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(Effective November 18, 1994; amended March 8, 2006)

PART I. Resident individuals

Sec. 12-701(a)(1)-1. Resident of this state

(a) **General.** An individual may be a resident of Connecticut for income tax purposes, and taxable as a resident, even though he or she would not be deemed a resident for other purposes. As used in these sections, the terms ''resident of this state'' or ''resident individual'' include:

(1) all individuals domiciled in Connecticut, subject to the exceptions set forth in subsection (b) of this section; and

(2) any individual (other than an individual in the armed forces of the United States) who is not domiciled in Connecticut but who maintains a permanent place of abode in Connecticut, and spends in the aggregate more than 183 days of the taxable year in Connecticut.

(b) Certain individuals not deemed residents although domiciled in Connecticut. Any individual domiciled in Connecticut is a resident for income tax purposes for a specific taxable year, unless for that year he or she satisfies all three of the following requirements:

(1) the individual maintains no permanent place of abode inside Connecticut during such year;

(2) the individual maintains a permanent place of abode outside Connecticut during such entire year; and

(3) the individual spends in the aggregate not more than 30 days of the taxable year in Connecticut.

As long as an individual who is domiciled in Connecticut continues to meet the above requirements, such individual shall be considered a nonresident of Connecticut for income tax purposes. However, if for any taxable year those conditions are not met, an individual shall be subject to Connecticut income tax as a resident for that year. An individual who is a Connecticut domiciliary bears the burden of demonstrating that the conditions set forth above have been met when claiming to be a nonresident during the taxable year.

(c) Rules for days within and without Connecticut. In counting the number of days spent within and without Connecticut, a day spent within Connecticut includes any part of a day, except for a part of a day during which an individual is present solely while in transit to a destination outside Connecticut. An individual claiming to be a nonresident who is not domiciled in Connecticut but who has a permanent place of abode in this state shall have records available for examination by the

Department to substantiate the fact that such individual spent 183 days or less within Connecticut.

(d) **Domicile.** (1) Domicile, in general, is the place which an individual intends to be his or her permanent home and to which such individual intends to return whenever absent.

(2) A domicile once established continues until the individual moves to a new location with the bona fide intention of making his or her fixed and permanent home there. No change of domicile results from a removal to a new location if the intention is to remain there only for a limited time; this is the case even though the individual may have sold or disposed of his or her former home. The burden is upon an individual asserting a change of domicile to show that the necessary intention existed. In determining an individual's intention in this regard, declarations shall be given due weight, but they shall not be conclusive if they are contradicted by conduct. The fact that an individual registers and votes in one place is important but not necessarily conclusive, especially if the facts indicate that he or she did this merely to escape taxation in some other place.

(3) Domicile is not dependent on citizenship; that is, an immigrant who has permanently established his or her home in Connecticut is domiciled here regardless of whether such individual has become a United States citizen or has applied for citizenship. However, a United States citizen shall not ordinarily be deemed to have changed domicile by going to a foreign country unless it is clearly shown that such individual intends to remain there permanently. For example, a United States citizen domiciled in Connecticut who goes abroad because of an assignment in connection with employment or for study, research or recreation does not lose her Connecticut domicile unless it is clearly shown that she intends to remain abroad permanently and not to return.

(4) An individual can have only one domicile. If an individual has two or more homes, the domicile is the one which the individual regards and uses as his or her permanent home. In determining an individual's intentions in this matter, the length of time customarily spent at each location is important but not necessarily conclusive.

(5) Generally, the domiciles of a husband and wife are the same; however, if they are separated the spouses may each, under some circumstances, acquire their own separate domiciles, even though no judgment or decree of separation has been rendered. A child's domicile ordinarily follows that of the parents, until the child reaches the age of self-support and actually establishes a separate domicile. Where the mother and father have separate domiciles, the domicile of the child is generally the domicile of the parent with whom the child lives for the major portion of the year. The domicile of a child for whom a guardian has been appointed is not necessarily determined by the domicile of the guardian.

(6) Federal law provides in effect that, for the purposes of taxation, a member of the armed forces is not deemed to have lost residence or domicile in any state solely by reason of being absent therefrom in compliance with military or naval orders (see the Soldiers' and Sailors' Civil Relief Act, 50 U.S.C. App. § 574). Thus, such law ensures that a member of the armed forces domiciled in Connecticut would not be deemed a domiciliary for income tax purposes of another state in which such individual is stationed, and that a member of the armed forces domiciled in another state who is stationed in Connecticut would not be deemed a domiciliary of this state. The general rule is that domicile is in no way affected by service in the armed forces. A change of domicile shall be shown by facts which objectively

manifest a voluntary intention to make the new location a domicile. It is possible for a member of the armed forces to change domicile; however, the requisite intent is difficult to prove.

(7) Unlike a member of the armed forces of the United States, the civilian spouse of such member may not claim the benefits of the Soldiers' and Sailors' Civil Relief Act. The civilian spouse's residency or nonresidency may be affected by where the military spouse is stationed, if the spouses reside together.

(8) The following items shall be considered in determining whether or not an individual is domiciled in Connecticut (this list is not intended to be all-inclusive):

(A) location of domicile for prior years;

(B) where the individual votes or is registered to vote (casting an illegal vote does not establish domicile for income tax purposes);

(C) status as a student;

(D) location of employment;

(E) classification of employment as temporary or permanent;

(F) location of newly acquired living quarters, whether owned or rented;

(G) present status of former living quarters, i.e., whether it was sold, offered for sale, rented or available for rent to another;

(H) whether a Connecticut veteran's exemption for real or personal property tax has been claimed;

(I) ownership of other real property;

(J) jurisdiction in which a valid driver's license was issued and type of license;

(K) jurisdiction from which any professional licenses were issued;

(L) location of the individual's union membership;

(M) jurisdiction from which any motor vehicle registration was issued and the actual physical location of the vehicles;

(N) whether resident or nonresident fishing or hunting licenses were purchased;

(O) whether an income tax return has been filed, as a resident or nonresident, with Connecticut or another jurisdiction;

(P) whether the individual has fulfilled the tax obligations required of a resident;

(Q) location of any bank accounts, especially the location of the most active checking account;

(R) location of other transactions with financial institutions, including rental of a safe deposit box;

(S) location of the place of worship at which the individual is a member;

(T) location of business relationships and the place where business is transacted;

(U) location of social, fraternal or athletic organizations or clubs, or a lodge or country club, in which the individual is a member;

(V) address where mail is received;

(W) percentage of time (excluding hours of employment) that the individual is physically present in Connecticut and the percentage of time (excluding hours of employment) that the individual is physically present in each jurisdiction other than Connecticut;

(X) location of jurisdiction from which unemployment compensation benefits are received;

(Y) location of schools at which the individual or the individual's immediate family attend classes, and whether resident or nonresident tuition was charged;

(Z) statements made to any insurance company concerning the individual's residence, on which the insurance is based;

(AA) location of most professional contacts of the individual and his or her immediate family (e.g., physicians, attorneys); and

(BB) location where pets are licensed.

Any one of the items listed shall not, by itself, determine domicile. Charitable contributions shall not be considered in determining whether an individual is domiciled in Connecticut.

(e) Permanent place of abode. (1) A ''permanent place of abode'' means a dwelling place permanently maintained by an individual, whether or not owned by or leased to such individual, and generally includes a dwelling place owned by or leased to his or her spouse. However, a ''permanent place of abode'' shall generally not include, during the term of a lease, a dwelling place owned by an individual who leases it to others, not related to the owner or his or her spouse by blood or marriage, for a period of at least one year, where the individual has no right to occupy any portion of the premises and does not use such premises as his or her mailing address during the term of the lease. Also, a mere camp or cottage, which is suitable and used only for vacations, is not a permanent place of abode. Furthermore, a barracks, motel room or any construction which does not contain facilities ordinarily found in a dwelling, such as facilities for cooking, bathing, etc., shall generally not be deemed a permanent place of abode. Also, a place of abode is not deemed permanent if it is maintained only during a temporary stay for the accomplishment of a particular purpose. For example, an individual domiciled in another state may be assigned to his employer's Connecticut office for a fixed and limited period, after which he is to return to his permanent location. If such an individual uses an apartment in Connecticut during this period, he is not deemed a resident, even though he spends more than 183 days of the taxable year in Connecticut, because his place of abode is not permanent. He shall be taxable as a nonresident on his income from Connecticut sources, including his salary or other compensation for services performed in Connecticut. However, if his assignment to his employer's Connecticut office is for an indefinite period, his Connecticut apartment shall be deemed a permanent place of abode and he shall be deemed a resident for Connecticut income tax purposes if he spends more than 183 days of the year in Connecticut. The 183-day rule applies only to individuals who are not domiciled in Connecticut.

(2) The determination of whether a member of the armed forces maintains a permanent place of abode outside Connecticut does not depend merely upon whether the individual lives on or off a military base. This is only one of many factors to be considered in determining whether a permanent place of abode is being maintained outside Connecticut. Some of the other factors include the type and location of quarters occupied by the individual (and immediate family members, if any) and how and by whom such quarters are maintained. Barracks, bachelor officers' quarters, quarters assigned on vessels, etc., generally do not qualify as permanent places of abode maintained by a member of the armed forces. Further, the maintenance of a place of abode by a member of the armed forces outside Connecticut shall not be considered permanent if it is maintained only during a limited or temporary duty assignment (in contrast to a permanent duty assignment).

(f) While this section pertains to Section 12-701(a)(1) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-701(a)(20)-1. Connecticut adjusted gross income of a resident individual

(a) The Connecticut adjusted gross income of a resident individual is federal adjusted gross income with certain modifications.

(b) These modifications relate to items whose treatment for purposes of the Connecticut income tax is different from that under the Internal Revenue Code. Section 12-701(a)(20)-2 of this Part lists the modifications which increase federal adjusted gross income in computing Connecticut adjusted gross income, while § 12-701(a)(20)-3 of this Part lists the modifications which reduce federal adjusted gross income in computing Connecticut adjusted gross income. When the net amount of the applicable modifications is added to or subtracted from federal adjusted gross income, as the case may be, the result is the individual's Connecticut adjusted gross income.

(c) While this section pertains to Section 12-701(a)(20) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-701(a)(20)-2. Modifications increasing federal adjusted gross income

(a) The following items are to be added to federal adjusted gross income in computing the Connecticut adjusted gross income of a resident individual:

(1) Interest income on obligations issued by or on behalf of any state or of a political subdivision, or public instrumentality, state or local authority, district or similar public entity of any such state, and interest income on obligations issued by or on behalf of the District of Columbia, to the extent not properly includible in federal adjusted gross income. However, interest income on Connecticut obligations is not to be added to federal adjusted gross income. Furthermore, interest income on obligations issued by or on behalf of any territory or possession of the United States (such as Puerto Rico, Guam and the Virgin Islands), or a political subdivision or public instrumentality, authority, district or similar public entity thereof, the taxation of which by any state is prohibited by federal law, is not to be added to federal adjusted gross income.

Example: Interest income received by a resident individual on bonds issued by or on behalf of the State of California and the District of Columbia shall be added to her federal adjusted gross income in arriving at her Connecticut adjusted gross income, as this interest income is subject to Connecticut income tax but not to federal income tax. However, interest income received by such individual on bonds issued by or on behalf of Guam and the State of Connecticut is not to be added to federal adjusted gross income, as this interest income is not subject to Connecticut income tax.

(2) Any exempt-interest dividends, as defined in section 852(b)(5) of the Internal Revenue Code. However, exempt-interest dividends derived from Connecticut obligations are not to be added to federal adjusted gross income. Furthermore, exempt-interest dividends derived from obligations issued by or on behalf of any territory or possession of the United States (such as Puerto Rico, Guam and the Virgin Islands), or a political subdivision or public instrumentality, authority, district or similar public entity thereof, the direct taxation of which by any state is prohibited by federal law, are not to be added to federal adjusted gross income.

Example: A resident individual receives $1000 in exempt-interest dividends from a mutual fund that owns governmental obligations issued by various states, including

Connecticut, and by the Territory of Guam. If 45% of the exempt-interest dividends was derived from Connecticut obligations, 20% from New York obligations, 10% from Massachusetts obligations and 25% from Guam obligations, then the amount that is to be added to federal adjusted gross income is $300 (that is, the percentage of exempt-interest dividends that is not derived from Connecticut obligations and other obligations, the direct taxation of which by any state is prohibited by federal law). The percentage of exempt-interest dividends derived from Connecticut obligations and Guam obligations is not to be added to federal adjusted gross income.

(3) Interest or dividend income on obligations or securities issued by or on behalf of any authority, commission or instrumentality of the United States, which the laws of the United States exempt from federal income tax but not from state income taxes.

(4) To the extent includible in gross income for federal income tax purposes for the taxable year, the total taxable amount of a lump sum distribution deductible from such gross income in calculating federal adjusted gross income pursuant to section 402(d)(3) of the Internal Revenue Code.

(5)(A) To the extent properly includible in determining the net gain or loss from sales or other dispositions of capital assets for federal income tax purposes, any loss from the sale or exchange of Connecticut obligations, in the taxable year such loss was recognized, whether or not, for federal income tax purposes, gains from sales or other dispositions of capital assets exceed losses therefrom.

(B) *Example 1:* A resident individual has, for federal income tax purposes, a long-term capital loss of $4,000 arising from the sale of Connecticut obligations and a long-term capital loss of $3,000 arising from the sale of bonds issued by the State of Florida. Accordingly, the individual's federal adjusted gross income shall be increased by $4,000, the amount of loss arising from the sale of the Connecticut obligations even though this amount exceeds the losses allowable under section 1211(b) of the Internal Revenue Code.

Example 2: Resident individuals who file a joint Connecticut income tax return have, for federal income tax purposes, a long-term capital gain of $5,000 arising from the sale of stock and a long-term capital loss of $2,000 arising from the sale of Connecticut obligations. Any loss from the sale or exchange of Connecticut obligations is required to be added to federal adjusted gross income, to the extent properly includible in determining the net gain or loss from sales or other dispositions of capital assets for federal income tax purposes, in the taxable year such loss was recognized, even if, for federal income tax purposes, gains from sales or other dispositions of capital assets exceed losses therefrom. Accordingly, the federal adjusted gross income of these individuals shall be increased by $2,000, the amount of loss derived from the sale or exchange of the Connecticut obligations.

(6) To the extent deductible in determining federal adjusted gross income, the amount of Connecticut income tax paid or accrued. However, to the extent deductible from federal adjusted gross income in determining federal taxable income, the amount of Connecticut income tax is not to be added back to federal adjusted gross income.

(7)(A) Interest expenses on indebtedness incurred or continued to purchase or carry obligations or securities, the income from which is exempt from Connecticut income tax, to the extent such expenses are deductible in determining federal adjusted gross income. However, to the extent such expenses are deductible from federal adjusted gross income in determining federal taxable income, the amount of such expenses is not to be added back to federal adjusted gross income.

(B) *Example:* A resident individual is a partner in a partnership that borrows money to purchase United States savings bonds, the income from which is exempt from Connecticut income tax. The partner's share of the interest expense paid during the taxable year on this indebtedness is $200. To the extent that such expense is deductible by the partner in determining her federal adjusted gross income, she shall add this amount back in computing her Connecticut adjusted gross income.

(8)(A) Expenses paid or incurred during the taxable year for (i) the production or collection of income which is exempt from Connecticut income tax or (ii) the management, conservation or maintenance of property held for the production of income which is exempt from Connecticut income tax or (iii) the amortizable bond premium for the taxable year on any bond, the interest income from which is exempt from Connecticut income tax, but only to the extent that such expenses and premiums are deductible in determining federal adjusted gross income. To the extent such expenses and premiums are not deductible in determining federal adjusted gross income but are deductible from federal adjusted gross income in determining federal taxable income, these expenses and premiums are not to be added back to federal adjusted gross income.

(B) *Example:* A nonresident individual is a partner in a Connecticut partnership that purchases shares in a mutual fund that invests solely in United States government obligations. The income therefrom is fully taxable for federal income tax purposes. The partner's share of expenses paid during the taxable year to produce this income is $100. To the extent that such expenses are deductible by the partner in determining his federal adjusted gross income, he shall add this amount back in computing his Connecticut adjusted gross income.

(9) With respect to an individual who is a shareholder of an S corporation carrying on business in Connecticut (as the term is used in Section 12-214 of the general statutes, and as defined in Section 12-214-1), the amount of such individual's pro rata share of the corporation's nonseparately computed loss (as defined in Section 12-701(b)-1 of Part XIV), to the extent such loss is included in computing such individual's federal adjusted gross income, multiplied by the corporation's apportionment fraction, if any, as determined under Section 12-218 of the general statutes (irrespective of whether the S corporation shall pay the additional tax under Section 12-219 of the general statutes).

(b) While this section pertains to Section 12-701(a)(20) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-701(a)(20)-3. Modifications reducing federal adjusted gross income

(a) The following items are to be subtracted from federal adjusted gross income in computing the Connecticut adjusted gross income of a resident individual:

(1)(A) Any income with respect to which taxation by any state is prohibited by federal law, to the extent properly includible in gross income for federal income tax purposes. Such income is from obligations issued by or on behalf of the United States, as defined in subparagraph (B) of this subdivision, or from other obligations, as discussed in subparagraph (B) of this subdivision, the taxation of which by states has been expressly prohibited by Congress, and is to be subtracted from federal adjusted gross income in computing Connecticut adjusted gross income. On the other hand, such income does not include income discussed in subparagraph (D)

of this subdivision which is not includible in gross income for federal income tax purposes and which is not to be subtracted from federal adjusted gross income in computing Connecticut adjusted gross income.

(B) The type of credit instrumentalities that the United States Supreme Court has recognized as being constitutionally exempt from state and local taxation have been characterized by (1) written documents, (2) the bearing of interest, (3) a binding promise by the United States to pay specified sums at specified dates and (4) specific Congressional authorization, which also pledged the faith and credit of the United States in support of the promise to pay. *Smith* v. *Davis*, 323 U.S. 111, 114–15 (1944). For example, United States savings bonds meet the four criteria to be considered obligations of the United States. Interest on those bonds is includible in gross income for federal income tax purposes. The amount of such interest is, therefore, subtracted from federal adjusted gross income in computing Connecticut adjusted gross income. Other obligations do not meet the criteria established in *Smith* v. *Davis*, but, nonetheless, Congress has expressly prohibited states from taxing income derived from such obligations. For example, obligations of the Home Owners' Loan Corporation do not meet the four criteria to be considered obligations of the United States, but Congress has expressly prohibited States from taxing income from such obligations. Interest on these obligations is includible in gross income for federal income tax purposes. The amount of such interest is, therefore, subtracted from federal adjusted gross income in computing Connecticut adjusted gross income.

(C) Examples of obligations described in subparagraph (B) of this subdivision, the interest income from which is includible in gross income for federal income tax purposes and, therefore, is subtracted from federal adjusted gross income in computing Connecticut adjusted gross income include, but are not limited to, obligations issued by or on behalf of Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Land Banks, Production Credit Associations, the Student Loan Marketing Association, the Tennessee Valley Authority, the United States Postal Service, the Federal Deposit Insurance Corporation and the Resolution Trust Corporation, and United States Treasury bonds, bills, notes and certificates.

(D) Examples of obligations described in subparagraph (B) of this subdivision, the interest income from which is not includible in gross income for federal income tax purposes and, therefore, is not subtracted from federal adjusted gross income in computing Connecticut adjusted gross income include, but are not limited to, obligations issued by or on behalf of the Commodity Credit Corporation, Federal Home Loan Banks, Federal Savings and Loan Insurance Corporation, The Resolution Funding Corporation, Guam, Puerto Rico and the Virgin Islands.

(E) Examples of income that is includible in gross income for federal income tax purposes but that is not subtracted from federal adjusted gross income in computing Connecticut adjusted gross income include, but are not limited to:

(i) interest paid on federal income tax refunds or on open accounts and other unsettled claims or demands,

(ii) interest paid by federal credit unions to depositors or by the Federal Home Loan Bank on demand deposits,

(iii) interest paid by a seller-borrower to a purchaser-lender under a repurchase agreement, and

(iv) interest paid on an obligation where the United States is merely an insurer or guarantor and has only a secondary or contingent liability, and is not the primary obligor.

(F) *Example:* Income described in this subparagraph includes, but is not limited to, obligations guaranteed and insured by the Federal National Mortgage Association and the Government National Mortgage Association, and obligations issued by or on behalf of the International Bank for Reconstruction and Development, the National Consumer Cooperative Bank and New Community Development Corporations.

(2)(A) Exempt dividends paid by a qualified regulated investment company. As provided in Section 12-718 of the general statutes, a regulated investment company is a qualified regulated investment Company if, at the close of each quarter of its taxable year, at least 50% of the value of its total assets (as defined in section 851(c)(4) of the Internal Revenue Code) is invested in obligations which states are prohibited from taxing by federal law.

(B) The portion of the dividends received by a shareholder of a qualified regulated investment company that may be subtracted from federal adjusted gross income is based upon the portion of income received by the company that is derived from obligations which states are prohibited from taxing by federal law. Where all of the income of the company is derived from interest on obligations that states are prohibited from taxing by federal law, the full amount of the dividends received by the shareholders may be subtracted. Where less than the full amount is derived from such interest, the amount to be subtracted is determined as follows:

$$\frac{\text{Interest income on obligations which states are prohibited from taxing by federal law less expenses attributable to such income}}{\text{Regulated investment company's taxable income}} = \text{Percent of dividends received by shareholders that qualifies as exempt dividends}$$

(C) In the case of a series fund, the portion of the dividends paid that is exempt from Connecticut income tax shall be determined on a fund-by-fund basis.

(D) Dividends attributable to obligations which states are prohibited from taxing by federal law that are distributed by nonqualified regulated investment companies are fully taxable for Connecticut purposes and may not be subtracted under this section.

(E) *Example:* (i) Computation for regulated investment company. Z, a qualified regulated investment company, receives income from the following sources:

Capital gains from the sale of stock	$ 20,000
Interest income from federal obligations	70,000
Dividends from a corporation	+ 10,000
Total:	$100,000
Expenses ($10,000 of which are directly related to interest income on federal obligations)	– 20,000
Taxable income:	$ 80,000

Z distributed the entire $80,000 to its shareholders. The percentage of this distribution that may be subtracted from federal adjusted gross income under this section is computed as follows:

$$\frac{\$70{,}000 - \$10{,}000}{\$80{,}000} = 75\% \quad \text{(percentage of dividends that qualifies as exempt dividends)}$$

(ii) Computation for shareholder. An individual shareholder receives dividend distributions of $2,000 in 1992 from Z. The amount of these dividends qualifying as exempt dividends is 75% of $2,000, or $1,500.

(3) Any refund or credit for overpayment of income taxes imposed by Connecticut or any other state of the United States or political subdivision thereof, or by the District of Columbia or any province of Canada, to the extent properly includible in gross income for federal income tax purposes. This modification applies to a refund of income taxes which was actually included in federal adjusted gross income, whether the refund represented Connecticut income tax or the income tax of another taxing jurisdiction. However, the modification does not include any portion of the total refund which represents interest received. Such interest, whether received in connection with a state, federal or other tax refund, is not subtracted in computing Connecticut adjusted gross income since it is paid on a claim against the particular government, rather than paid on an obligation thereof arising from the exercise of its borrowing powers.

(4) To the extent properly includible in gross income for federal income tax purposes, annuities, as defined in 45 U.S.C. § 231(p), including Tier I and Tier II railroad retirement benefits, and supplemental annuities, as described in 45 U.S.C. § 231a(b), the taxation of which by states is prohibited under 45 U.S.C. § 231m.

(5) Interest income on Connecticut obligations, to the extent properly included in gross income for federal tax purposes.

(6)(A) To the extent properly includible in determining the net gain or loss from sales or other dispositions of capital assets for federal income tax purposes, any gain (or amount that is properly treated as a capital gain dividend, as defined in section 852(b)(3) of the Internal Revenue Code) from the sale or exchange of Connecticut obligations, in the taxable year such gain was recognized, whether or not, for federal income tax purposes, gains from sales or other dispositions of capital assets exceed losses therefrom.

(B) *Example:* A resident individual has, for federal income tax purposes, a long-term capital gain of $3,000 arising from the sale of Connecticut obligations and a long-term capital loss of $2,000 arising from the sale of bonds issued by the Commonwealth of Massachusetts. The individual's federal adjusted gross income shall be reduced by $3,000, the amount of the gain derived from the sale of the Connecticut obligations.

(7)(A) Interest expenses on indebtedness incurred or continued by an individual to purchase or carry obligations or securities, the interest income from which is subject to Connecticut income tax but exempt from federal income tax, to the extent such expenses (i) would be deductible in determining federal adjusted gross income if the interest income were subject to federal income tax and (ii) are attributable to a trade or business carried on by such individual. However, to the extent such expenses would be deductible from federal adjusted gross income in determining federal taxable income if the interest income were subject to federal income tax or if such expenses are not attributable to a trade or business carried on by such individual, such expenses are not to be subtracted from federal adjusted gross income.

(B) Example: A resident individual is a partner in a partnership that borrows money in order to purchase New Jersey governmental bonds, the income from which is exempt from federal income tax. The partner's share of the interest expense paid during the taxable year on this indebtedness is $200. The partner shall subtract this amount from his federal adjusted gross income.

(8)(A) Expenses paid or incurred by an individual during the taxable year for (i) the production or collection of income which is subject to Connecticut income

tax but exempt from federal income tax or (ii) the management, conservation or maintenance of property held for the production of income which is subject to Connecticut income tax but exempt from federal income tax or (iii) the amortizable bond premium for the taxable year on any bond, the interest income from which is subject to Connecticut income tax but exempt from federal income tax, to the extent that such expenses and premiums (a) would be deductible in determining federal adjusted gross income if such income were subject to federal income tax and (b) are attributable to a trade or business carried on by such individual. However, to the extent such expenses and premiums would be deductible from federal adjusted gross income in determining federal taxable income if such income were subject to federal income tax or if such expenses and premiums are not attributable to a trade or business carried on by such individual, the amount of these expenses and premiums may not be subtracted from federal adjusted gross income.

(B) *Example:* A nonresident individual is a partner in a Connecticut partnership that purchases shares in a mutual fund that invests solely in New York City government obligations. The income therefrom is exempt from federal income tax. The partner's share of expenses paid during the taxable year to produce this income is $100. The partner shall subtract this amount from her federal adjusted gross income.

(9) With respect to an individual who is a shareholder of an S corporation that carries on business in Connecticut (as the term is used in Section 12-214 of the general statutes, and as defined in § 12-214-1), the amount of such individual's pro rata share of the corporation's nonseparately computed income (as defined in § 12-701(b)-1 of Part XIV), multiplied by the corporation's apportionment fraction, if any, as determined under Section 12-218 of the general statutes (irrespective of whether the S corporation shall pay the additional tax under Section 12-219 of the general statutes).

(10) The amount, if any, by which the amount of social security benefits properly includable in gross income for federal income tax purposes under section 86 of the Internal Revenue Code, as amended by section 13215 of the Omnibus Budget Reconciliation Act of 1993, Pub. L. No. 103-66, 107 Stat. 312, 475-477, exceeds the amount of social security benefits properly includable in gross income for federal income tax purposes under section 86 of the Internal Revenue Code, as in effect immediately prior to such amendment.

(b) While this section pertains to Section 12-701(a)(20) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-701(a)(20)-4. Modification for Connecticut fiduciary adjustment

(a) Where a resident individual is a beneficiary of a trust or estate, the individual's federal adjusted gross income shall be increased or decreased (as the case may be) by his or her share of the Connecticut fiduciary adjustment applicable to the trust or estate. The fiduciary adjustment is the net amount of modifications relating to trust or estate items of income, gain, loss or deduction, and is computed by the fiduciary on the Connecticut income tax return for the trust or estate. The fiduciary also allocates to each beneficiary such beneficiary's proportionate share of the fiduciary adjustment (see § 12-701(a)(10)-1 and § 12-716(a)-1). Each beneficiary, on his or her Connecticut income tax return, shall apply the share of the fiduciary adjustment allocated to such beneficiary as a modification of federal adjusted gross income in order to determine Connecticut adjusted gross income. The failure of the

fiduciary to compute the Connecticut fiduciary adjustment or to allocate to a beneficiary such beneficiary's share of such adjustment does not absolve the beneficiary of his or her responsibility to increase or decrease (as the case may be) his or her federal adjusted gross income by his or her share of such adjustment.

(b) While this section pertains to Section 12-701(a)(20) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended July 3, 2003)

Sec. 12-701(a)(20)-5. Modification of federal adjusted gross income for partnership income or loss reportable by resident partner

(a) A partnership as such is not subject to the income tax. Individuals carrying on business as partners are liable for the income tax only in their individual capacities on their respective distributive shares of partnership income, whether or not such shares are actually distributed to them.

(b) Where a resident individual is a member of a partnership, the modifications prescribed by § 12-701(a)(20)-2 and § 12-701(a)(20)-3 of this Part shall be made with reference to items of partnership income, gain, loss or deduction which are reflected in such individual's federal adjusted gross income (see § 12-715(a)-1 of Part VII). If the partnership item is not characterized for federal income tax purposes, it has the same character for a partner as if it were realized directly by the partner from the source from which realized by the partnership, or incurred by the partner in the same manner as incurred by the partnership. The amount of the applicable modifications for each partner shall be computed in accordance with the regulations of Part VII.

(c) While this section pertains to Section 12-701(a)(20) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-701(a)(20)-6. Connecticut adjusted gross income of resident shareholder of S corporation

(a) An S corporation as such is not subject to the income tax. Individuals who are shareholders of an S corporation are liable for the income tax in their individual capacities on their respective pro rata shares of S corporation income, whether or not such shares are actually distributed to them.

(b) Subject to the modifications described in § 12-715(a)-2 and § 12-715(b)-2 of Part VII, a resident shareholder's pro rata share of an S corporation's—

(1) separately computed income or loss is included in such shareholder's federal adjusted gross income and, therefore, is included in such shareholder's Connecticut adjusted gross income; and

(2) nonseparately computed income or loss is included in such shareholder's federal adjusted gross income and, therefore, is included in such shareholder's Connecticut adjusted gross income.

(c) While this section pertains to Section 12-701(a)(20) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended March 8, 2006)

PART II. Nonresident individuals

Sec. 12-700(b)-1. Connecticut income tax imposed upon nonresident individuals

(a) Nonresident individuals compute their tentative Connecticut income tax liability as if they were resident individuals. Thus, the modifications to federal adjusted gross income which are made by a resident individual in determining Connecticut adjusted gross income are also made by a nonresident individual, any exemption allowed under Section 12-702 of the general statutes is taken, and the tax rate is applied, resulting in a tentative tax. After deduction from the tentative tax of any credit allowed under Section 12-703 of the general statutes, the difference is multiplied by a fraction, the numerator of which is Connecticut adjusted gross income derived from or connected with sources within this state, and the denominator of which is Connecticut adjusted gross income from all sources. The regulations of this Part are intended to assist in computing the amount to be included in the numerator.

(b) In cases where a nonresident individual's Connecticut adjusted gross income is less than such individual's Connecticut adjusted gross income derived from or connected with sources within this state, then (1) such individual's Connecticut adjusted gross income derived from or connected with sources within this state, reduced by the amount of the exemption allowed under section 12-702 of the General Statutes, shall be such individual's Connecticut taxable income derived from or connected with sources within this state (to which amount the tax rate is applied) and (2) such individual's Connecticut adjusted gross income derived from or connected with sources within this state shall be such individual's Connecticut adjusted gross income for the purpose of determining the credit allowed under section 12-703 of the General Statutes (which credit is then subtracted from the amount to which the tax rate is applied).

(c) While this section pertains to Section 12-700(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-701(a)(2)-1. Nonresident of this state

(a) For Connecticut income tax purposes, a ''nonresident of this state'' or ''nonresident individual'' is anyone who is not a resident, as defined in § 12-701(a)(1)-1 of Part I, or a ''part-year resident of this state'', as defined in Section 12-701(a)(3) of the general statutes. Except where these sections specifically provide otherwise, references to nonresident individuals may be equally applicable to nonresident aliens.

(b) While this section pertains to Section 12-701(a)(2) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(b)-1. Connecticut adjusted gross income derived from or connected with sources within this state

(a) Connecticut adjusted gross income of a nonresident individual derived from or connected with sources within this state is that portion of Connecticut adjusted gross income that is derived from or connected with Connecticut sources. In addition

to the items of income, gain, loss and deduction realized directly by a nonresident individual, it includes such individual's distributive share of partnership income, gain, loss and deduction (see Part VII), his or her pro rata share of S corporation income, gain, loss and deduction (see Part VII) and his or her share of trust or estate income, gain, loss and deduction (see Part IV), to the extent derived from or connected with Connecticut sources.

Example: During 1992, taxpayer N, a nonresident individual, was paid a salary of $10,000 by his employer, which is headquartered in Massachusetts. N's salary paychecks are drawn on a Massachusetts bank. Eighty percent of N's working days were properly considered days worked within Connecticut. N is also a partner in a partnership carrying on business as a manufacturer's representative both within and without Connecticut. N's distributive share as a partner of the partnership income was $35,000. Seventy percent of the income of the partnership was properly allocated to Connecticut. N received $3,000 in net rental income from a Springfield, Massachusetts apartment house that N owns. N also received a share as a beneficiary of a trust under the will of his father. Income of the trust consisted of $4,000 in net rentals from a Hartford medical office building and $6,000 in dividends from a Connecticut corporation. N's share as a 50% beneficiary of this trust was $5,000.

The portion of N's salary that was derived from or connected with Connecticut sources is $8,000, determined on the basis of an allocation of days worked in and out of Connecticut and not by where payment was made (see § 12-711(c)-5 of this Part). N's share of the partnership income which is sourced to Connecticut is $24,500, determined on the basis of the partnership's 70% allocation (see Part VII). The income from the Massachusetts apartment house is not included in Connecticut adjusted gross income derived from or connected with sources within Connecticut (see § 12-711(b)-3 of this Part). N's share of the income from the trust that is derived from or connected with sources within Connecticut is limited to $2,000, his 50% share of Connecticut rental income, because dividends are income from intangibles that are generally not considered to be derived from or connected with Connecticut sources for a nonresident (see § 12-713(a)-4 of Part IV and § 12-711(b)-5 of this Part).

	Connecticut adjusted gross income	*Connecticut adjusted gross income derived from or connected with Connecticut sources*
Salary	$10,000	$ 8,000
Partnership share	35,000	24,500
Mass. rental income	3,000	0
Trust share:		
Conn. rental income	$2,000	
Dividends	$3,000	
	$ 5,000	2,000
Total	$53,000	$34,500

(b) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(b)-2. Income and deductions from Connecticut sources—general

(a) A nonresident individual's items of income, gain, loss and deduction derived from or connected with Connecticut sources are the items attributable to:

(1) the ownership and disposition of any interest in real or tangible personal property in Connecticut (see § 12-711(b)-3 of this Part);

(2) a business, trade, profession or occupation carried on in Connecticut (see § 12-711(b)-4 and § 12-711(b)-5 of this Part); or

(3) in the case of a shareholder of an S corporation carrying on or having the right to carry on business in Connecticut, the ownership of shares in such corporation, to the extent determined under § 12-712(a)(2)-1 of Part VII.

(b) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1944)

Sec. 12-711(b)-3. Items attributable to real or tangible personal property in Connecticut

(a) Connecticut adjusted gross income derived from or connected with sources within this state includes items of income, gain, loss and deduction entering into Connecticut adjusted gross income which are attributable to the ownership of any interest in, or disposition of, real or tangible personal property in Connecticut. Thus, Connecticut adjusted gross income derived from or connected with sources within this state includes rental income from real or tangible personal property in Connecticut or any interest therein, after deducting ordinary and necessary expenses attributable to the ownership, operation or maintenance of such property.

(b) The Connecticut adjusted gross income derived from or connected with Connecticut sources does not include items of income, gain, loss and deductions attributable to the ownership of any interest in real or tangible personal property located outside of Connecticut, even though rental payments in respect of the property may be made from a point within Connecticut.

(c) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(b)-4. Business, trade, profession or occupation carried on in Connecticut

(a)(1) Connecticut adjusted gross income derived from or connected with sources within this state includes items of income, gain, loss and deduction entering into Connecticut adjusted gross income which are attributable to a business, trade, profession or occupation carried on in Connecticut.

(2) A ''business, trade, profession or occupation'' (as distinguished from personal services as an employee) is carried on within Connecticut by a nonresident individual:

(A) when such nonresident individual occupies, has, maintains or operates desk space, an office, a shop, a store, a warehouse, a factory, an agency or other place where such nonresident's affairs are systematically and regularly carried on, notwithstanding the occasional consummation of isolated transactions outside Connecticut (this list is not intended to be all-inclusive); or

(B) if activities in connection with the business are conducted in Connecticut with a fair measure of permanency and continuity. An individual may enter into transactions for profit within Connecticut and yet not be engaged in a trade, business, profession or occupation within Connecticut. If an individual pursues an undertaking continuously as one relying on the profit therefrom for such taxpayer's income or part thereof, such taxpayer is carrying on a business, trade, profession or occupation. Notwithstanding the provisions of this subparagraph (B), a nonresident individual is not deemed to be carrying on a business, trade, profession or occupation in Connecticut if the nonresident's presence for business in this state is casual, isolated and inconsequential, as provided in subdivision (1) of subsection (c) of this section.

Example 1: A plumber, who is a resident of Rhode Island, carries on his business from an office in Danielson, Connecticut. He has maintenance contracts with housing authorities in the Worcester, Massachusetts area which require him to regularly perform his services at various locations in and around Worcester. This individual is considered to be carrying on business in Connecticut (by reason of his office in this state) and in Massachusetts (because his business is conducted there with a fair measure of permanency and continuity).

Example 2: Assume the same facts as in Example 1, except that the taxpayer carries on his business from an office in Auburn, Massachusetts and has maintenance contracts with housing authorities in northeast Connecticut. This individual is considered to be carrying on business in Massachusetts (by reason of his office there) and in Connecticut (because his business is conducted in this state with a fair measure of permanency and continuity).

(b) The Connecticut adjusted gross income derived from or connected with Connecticut sources of a nonresident individual rendering personal services as an employee includes the compensation for personal services entering into his or her Connecticut adjusted gross income, but only if, and to the extent that, his or her services were rendered within Connecticut and were not casual, isolated and inconsequential, as defined in subdivision (2) of subsection (c) of this section. Compensation for personal services rendered by a nonresident individual wholly outside Connecticut is not derived from or connected with Connecticut sources, regardless of the fact that payment may be made from a point within this state or that the employer is a resident individual, partnership or corporation. Where the personal services are performed both within and without Connecticut, the portion of the compensation attributable to the services performed within Connecticut shall be determined in accordance with § 12-711(c)-5 of this Part.

(c)(1) Income of a nonresident individual conducting a business, trade, profession or occupation in Connecticut, as described in subparagraph (a)(2)(B) of this section, is not considered to be derived from or connected with sources within Connecticut, if the presence of such nonresident individual in this state for the purpose of engaging in any activity or activities, the object of which is direct or indirect financial profit, gain, benefit or advantage, is casual, isolated and inconsequential, if all activity or activities are considered in the aggregate. Such nonresident's presence for business in this state shall ordinarily be considered casual, isolated and inconsequential if it meets one of the following tests:

(A) $6,000 test. The gross income from the presence of a nonresident in Connecticut for the purpose of engaging in any activity or activities, the object of which is direct or indirect financial profit, gain, benefit or advantage, as determined under § 12-711(c)-4 or § 12-711(c)-5 of this Part, does not exceed $6,000 in the taxable year; or

(B) Ancillary activity. The nonresident's presence in Connecticut is ancillary to his or her primary business duties that are performed at a base of operations outside of Connecticut, as with occasional presence in Connecticut for management reporting or planning, training, attendance at conferences or symposia, attendance as a director at board meetings, and other similar activities which are secondary to the individual's primary out-of-state duties.

(2) Compensation paid to a nonresident employee rendering personal services as an employee, whose presence in this state for employment purposes is casual, isolated and inconsequential, is not considered to be derived from or connected with sources within this state. Such nonresident employee's presence for employment purposes in this state shall ordinarily be considered casual, isolated and inconsequential only if the nonresident employee's presence in Connecticut is ancillary to his or her primary employment duties that are performed at a base of operations outside of Connecticut, as with occasional presence in Connecticut for management reporting or planning, training, attendance at conferences or symposia, and other similar activities which are secondary to the individual's primary out-of-state duties.

(3) The following examples illustrate the application of this subsection:

Example 1: The president of a large Texas corporation flies to New Haven to meet a prospective supplier, spends two days there meeting with the supplier and then flies back to Texas. The president had never been to Connecticut on business, nor is she scheduled to return. Her visit is secondary to her primary out-of-state employment duties. She is not considered to be rendering personal services as an employee in Connecticut, and her presence for employment purposes is casual, isolated and inconsequential.

Example 2: A nonresident professional ice hockey player plays in all eighty games for his team in 1992 over parts of two seasons. Four of the games are played in Hartford. He is considered to be rendering personal services as an employee in Connecticut and his presence is not ancillary to his primary employment duties. Thus, his presence for employment purposes is not casual, isolated and inconsequential.

Example 3: A dentist employed by a health maintenance organization in Portland, Maine comes to Connecticut for a paid six-week training course in pediatric dentistry. Her presence for business in Connecticut is ancillary to her primary employment duties elsewhere and is therefore casual, isolated and inconsequential. She is not considered to be rendering personal services as an employee in Connecticut.

Example 4: A New York attorney operating as a sole practitioner in New York City is retained by a Connecticut business in connection with a pending lawsuit in a Connecticut court. All of the trial preparation occurs in New York but the attorney appears in court in Connecticut. He earns more than $6,000 in Connecticut by his activity under § 12-711(c)-4 of this Part. This nonresident is considered to be carrying on business in Connecticut because the part of the fee apportioned to Connecticut is more than $6,000 and the duties performed in Connecticut are not ancillary to his primary duties.

Example 5: The facts are the same as in the previous example, except the attorney earns $1,000 from his activity in Connecticut. The attorney is not considered to be carrying on business in Connecticut because he does not earn more than $6,000 directly from his activity in Connecticut, and therefore his presence for business in Connecticut is casual, isolated and inconsequential.

Example 6: The facts are the same as in Example 5, except that the attorney derived more than $5,000 in income from Connecticut real estate that he rented to others. His presence would not be considered casual, isolated and inconsequential

because the sum of his rental income from Connecticut sources plus his income from the practice of law in Connecticut exceeds $6,000.

Example 7: The regional manager of a New England shoe manufacturer has an office in the company's headquarters in Providence, Rhode Island. The company maintains three retail outlet stores in Connecticut, and the manager spends one week each month assisting in the management of each of the three Connecticut retail stores. The manager is not performing duties which are ancillary to her primary employment duties, so her presence for business in Connecticut is not casual, isolated and inconsequential, and she is considered to be rendering personal services as an employee in Connecticut.

Example 8: The West Coast sales manager of a large Connecticut corporation is based in San Francisco, California and performs all of his duties as sales manager from the San Francisco office. The sales manager flies to Hartford at least once a year for a two-week sales symposium and as needed for technical training sessions. This is the only contact the manager has with Connecticut. Because the services are merely ancillary to his primary employment carried on in California, this nonresident's presence for business in Connecticut is casual, isolated and inconsequential. He is not considered to be rendering personal services as an employee in Connecticut.

Example 9: A nonresident computer systems development engineer is employed in the Illinois office of a Connecticut- based corporation. She is sent to the Connecticut headquarters from January to June 1992 to become familiar with the development and operation of the company's latest computer. The engineer receives her regular salary during the six months in Connecticut. She is considered to be rendering personal services as an employee in Connecticut because her presence for training in Connecticut is not ancillary to her primary employment duties.

(d) If personal services are performed within Connecticut, whether or not as an employee, the compensation for such services constitutes income derived from or connected with Connecticut sources, regardless of the fact that (1) such compensation is received in a taxable year after the year in which the services were performed, or (2) such compensation is received by someone other than the person who performed the services.

Example: A nonresident individual was employed until late 1991 at a place of business in Connecticut and then is transferred by her employer to its place of business in New Hampshire. She and her employer had previously agreed that the compensation for her services rendered during 1991 was not to be paid to her until 1992. The compensation paid for her 1991 services constitutes income derived from or connected with Connecticut sources for her 1992 taxable year, even though she was not performing personal services within Connecticut during 1992.

(e) Unemployment compensation benefits, severance payments, accrued vacation and accrued sick pay constitute income derived from or connected with Connecticut sources if they are paid in connection with personal services that were performed within Connecticut as an employee, regardless of the fact that (1) such amounts may be received in a taxable year after the year or years in which the services were performed or (2) such amounts may be paid by someone other than the employer. To the extent that workers compensation benefits and disability benefits are includible in Connecticut adjusted gross income, they constitute income derived from or connected with Connecticut sources if they are paid in connection with personal services that were performed within Connecticut, regardless of the fact that such amounts may be received in a taxable year after the year or years in which the services were performed.

(f) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of

the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(b)-5. Income from intangible personal property

(a) Items of income, gain, loss and deduction derived from or connected with Connecticut sources do not include such items attributable to intangible personal property of a nonresident individual, including annuities, dividends, interest, and gains and losses from the disposition of intangible personal property, except to the extent attributable to property employed in a business, trade, profession or occupation carried on in Connecticut.

Example: Taxpayer A, a resident of New York, owns 100% of the stock of X Corporation, which operates a store in Connecticut. In 1992, the corporation pays A a salary of $20,000, all of which was earned in Connecticut, and a dividend of $2,000. A's income from Connecticut sources is his salary of $20,000, since the dividend is not income derived from Connecticut sources.

(b) Intangible personal property is employed in a business, trade, profession or occupation carried on in this state if such property's possession and control have been localized in connection with a business, trade, profession or occupation in Connecticut, so that the property's substantial use and value attach to and become an asset of such business, trade, profession or occupation. An example is where a nonresident pledges stocks, bonds or other intangible personal property in Connecticut as security for the payment of indebtedness incurred in connection with a business being carried on in Connecticut by the nonresident. Another example is where a nonresident maintains a branch office in Connecticut and an interest-bearing checking account on which the agent in charge of the branch office may draw checks for the payment of expenses in connection with the activities in this state.

(c) If intangible personal property of a nonresident is employed in a business, trade, profession or occupation carried on in Connecticut, the entire income from such property, including gains from its sale, regardless of where the sale is consummated, is income derived from or connected with sources within this state. However, where a nonresident individual sells real or tangible personal property located in Connecticut and, as a result of such sale, receives intangible personal property (e.g., a note) which generates interest income and capital gain income, such interest income is generally not attributable to the sale of the real or tangible personal property but is attributable to the intangible personal property; however, such capital gain income is attributable to the sale of the real or tangible personal property located in Connecticut. See §§ 12-711(b)-3 and 12-711(b)-8 of this Part. Therefore, such interest income to a nonresident does not constitute income derived from or connected with Connecticut sources. However, interest income derived from an instrument received as a result of a sale of real or tangible personal property located in Connecticut, where the instrument is employed in a business, trade, profession or occupation carried on in this state, does constitute income derived from or connected with Connecticut sources.

(d) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(b)-6. Deductions with respect to capital losses, passive activity losses and net operating losses

(a) Connecticut adjusted gross income derived from or connected with sources within this state includes deductions entering into the Connecticut adjusted gross income of a nonresident individual with respect to capital losses, passive activity losses and net operating losses, but only to the extent that the items of income, gain, loss and deduction that entered into Connecticut adjusted gross income are based solely on items of income, gain, loss and deduction derived from or connected with Connecticut sources.

(b)(1) The amount of any deduction allowed under this section shall be computed as it would be computed for federal income tax purposes if the Connecticut items of income, gain, loss and deduction were the only items making up the corresponding federal items of income, gain, loss and deduction for the particular year. Therefore, a nonresident shall recompute capital losses, passive activity losses and net operating losses as if such nonresident's federal adjusted gross income consisted only of items derived from Connecticut sources.

(2) The deduction of an item of loss or suspended loss from an S corporation in computing Connecticut adjusted gross income derived from or connected with Connecticut sources of a nonresident shareholder is limited to the shareholder's basis in the stock of the S corporation, as determined for federal income tax purposes. The same principles apply to nonresident partners.

(c)(1) Any capital loss or net operating loss deduction computed under this section may, by way of carryback or carryforward, affect the computation of Connecticut adjusted gross income derived from or connected with sources within this state for other Connecticut taxable years as long as such carryback or carryforward is based solely on items of income, gain, loss and deduction from Connecticut sources. Similarly, a suspended passive activity loss deduction shall be based solely on items of income, gain, loss and deduction from Connecticut sources.

Example 1: Taxpayer B, a nonresident of Connecticut, reported a capital gain from sources without Connecticut (from the sale of securities) of $20,000 on her 1992 federal income tax return. B also reported on her federal income tax return a capital loss of $8,000 from sources exclusively within Connecticut (from the sale of real property not used in B's trade or business). For federal income tax purposes, B has a gain from the sale or exchange of property of $12,000 ($20,000 minus $8,000). On her 1992 Form CT-1040NR/PY, B has a capital loss of $8,000 derived from or connected with sources within Connecticut, but may claim as a deduction only $3,000 (in accordance with the federal limitation of $3,000 of capital loss to offset ordinary income). She shall carry forward the balance to the following year(s), even though her 1993 federal income tax return shall show no capital loss carryforward.

Example 2: X, a nonresident individual, reported on her 1992 federal income tax return passive activity income in the amount of $20,000 from New York State sources. X also reported a passive activity loss in the amount of $15,000 from Connecticut sources. For federal income tax purposes, X has passive activity income of $5,000 (20,000 minus 15,000). On her 1992 Form CT-1040NR/PY, X has a passive activity loss of $15,000. X may carry this passive activity loss to the 1993 taxable year even though she shall not have a passive activity loss to carry to 1993 for federal income tax purposes.

(2)(A) Except as otherwise provided in this section, a nonresident individual who sustains a net operating loss for Connecticut income tax purposes in a Connecticut

taxable year but does not sustain a net operating loss for federal income tax purposes is required first to carry back such net operating loss to each of the three taxable years preceding the taxable year in which such net operating loss was sustained and then to carry such net operating loss forward to each of the 15 years following the taxable year in which such net operating loss was sustained, to the extent not absorbed. However, the net operating loss may not be carried back or carried forward to a Connecticut taxable year in which the nonresident was or is a resident of Connecticut, but may be carried back or carried forward to a Connecticut taxable year in which the nonresident was or is a part-year resident but may be applied only against items of income, gain, loss and deduction derived from or connected with Connecticut sources during the nonresidency portion of such year.

(B) Where a nonresident individual sustains a net operating loss for Connecticut income tax purposes in a Connecticut taxable year but does not sustain a net operating loss for federal income tax purposes, such nonresident may make an election for Connecticut income tax purposes to forgo the entire three-year carryback period and to carry such net operating loss forward to each of the 15 years following the taxable year in which such net operating loss was sustained, to the extent not absorbed. An election under this subparagraph shall be made by filing a Form CT-1040NR/PY for the year in which the net operating loss was sustained and attaching thereto a statement indicating that an election to forgo the three-year carryback period is being made. The election shall be made by the due date of the Form CT-1040NR/PY (including extensions of time granted under Part X) for the year in which the net operating loss was sustained. Once an election to forgo the three-year carryback period is made, such election may not be revoked.

(C) Where a nonresident individual sustained a net operating loss for federal income tax purposes in a Connecticut taxable year in which such individual was a resident individual, and had such individual been a nonresident individual in such year, would have been treated as having sustained a net operating loss for Connecticut income tax purposes for such year, such individual may carry forward as provided herein only the amount (the allowable portion) by which such operating loss exceeds such individual's Connecticut adjusted gross income (i) for the three taxable years preceding the taxable year in which such net operating loss was sustained, (ii) for the taxable years succeeding such loss year but preceding the taxable year in which such individual is a part-year resident individual and (iii) for the residency portion of the taxable year in which such individual is a part-year resident. Unless such individual has elected to defer Connecticut income tax under § 12-717(c)(4)-1, the allowable portion shall be deductible from items of income and gain accrued prior to the change of resident status under § 12-717(c)(1)-1, and, to the extent not absorbed by such accrued items of income and gain, shall be deductible only from Connecticut adjusted gross income derived from or connected with Connecticut sources (a) during the nonresidency portion of the taxable year in which such individual is a part-year resident and (b) for succeeding Connecticut taxable years in which such individual is a nonresident individual.

(D) Anything to the contrary in this section notwithstanding, no loss sustained in a taxable year that was not a Connecticut taxable year may be carried forward to a succeeding Connecticut taxable year. In addition, no loss sustained in a Connecticut taxable year may be carried back to a preceding taxable year that was not a Connecticut taxable year.

(E) For purposes of this section, ''Connecticut taxable year'' means a taxable year beginning on or after January 1, 1991 (the effective date of the Connecticut Income Tax Act).

(3) The following examples illustrate the application of this section:

Example 1. Taxpayer T, a single individual, is a resident of New Jersey. T has the following items of income, gain, loss and deduction for 1991:

	Federal Gross Income		*Connecticut AGI Sourced to Connecticut*
Business income		90,000	50,000
Capital gain from Connecticut sources	20,000		
Capital loss carryforward	(15,000)		
Net capital gain		5,000	20,000
		95,000	70,000

The capital loss carryforward is a result of a capital loss sustained in 1990 on the sale of Connecticut real estate. Such loss carryforward, however, may not be deducted for Connecticut income tax purposes because the capital loss was sustained in a taxable year that was not a Connecticut taxable year.

T's Connecticut income tax liability for 1991 is $1,050, calculated as follows:

Tax calculated as if T were a resident:

Federal AGI	95,000
Modifications	0
Connecticut AGI	95,000
Multiplied by tax rate	x .015
Tentative Tax	1,425

Multiplied by the proration formula:

Numerator: Connecticut AGI from Connecticut sources: $70,000
Denominator: Connecticut AGI: $95,000

T's Connecticut income tax liability:

$1,425 x $70,000/$95,000 = $1,050

Example 2. Taxpayer B, a single individual, is a resident of Vermont. B has the following items of income, gain, loss and deduction for 1992:

	Federal Gross Income		*Connecticut AGI Sourced to Connecticut*
Business income		95,000	50,000
Capital gain from Vermont sources	5,000		
Capital loss from Connecticut sources	(15,000)		
Net capital loss		(10,000)	
Capital loss allowed as a deduction		(3,000)	(3,000)
		92,000	47,000

B's Connecticut income tax liability for 1992 is $2,115, calculated as follows:

Tax calculated as if B were a resident:

Federal AGI	92,000	(95,000 minus a 3,000 capital loss deduction against ordinary income)
Modifications	0	
Connecticut AGI	92,000	
Multiplied by tax rate	x .045	
Tentative tax	4,140	

Multiplied by the proration formula:

Numerator: Connecticut AGI from Connecticut sources: $47,000
Denominator: Connecticut AGI: $92,000

B's Connecticut income tax liability:

$4,140 x $47,000/$92,000 = $2,115

B may carry a $12,000 capital loss forward to the 1993 taxable year and beyond for Connecticut income tax purposes even though B shall only have a $7,000 capital loss carryforward for federal income tax purposes.

Example 3. Taxpayer X, a single individual, is a resident of Utah. X has the following items of income, gain, loss and deduction for 1992:

		Federal Gross Income	*Connecticut AGI Sourced to Connecticut*
Income	100,000 (UT)	100,000	25,000
	50,000 (CT)		
Expenses	(25,000) (UT)		
	(25,000) (CT)		
Net business income			
Capital loss from UT sources	(20,000)	(3,000)	(3,000)
Capital loss from CT sources	(10,000)		
Capital loss allowed as a deduction			
Net operating loss carryforward from a year that was not a Connecticut taxable year		(40,000)	0
		57,000	22,000

X's Connecticut income tax liability for 1992 is $990, calculated as follows:

Tax calculated as if X were a resident:

Federal AGI:	57,000	(the 40,000 net operating loss carryforward and 3,000 of the capital loss are deducted from the 100,000 of ordinary income)
Modifications	0	
Connecticut AGI	57,000	
Multiplied by tax rate	x .045	
Tentative tax	2,565	

Multiplied by the proration formula:

Numerator: Connecticut AGI from Connecticut sources: $22,000
Denominator: Connecticut AGI: $57,000

X's Connecticut income tax liability:

$2,565 x $22,000/$57,000 = $990

X may carry a $7,000 capital loss forward to the 1993 taxable year and beyond for Connecticut income tax purposes even though X shall have a $27,000 capital loss carryforward for federal income tax purposes.

(d) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-711(b)(3) of the general statutes.
(Effective November 18, 1994)

Sec. 12-711(b)-7. Compensation not constituting income derived from Connecticut sources

(a) Employees of interstate rail carriers, interstate motor carriers and interstate motor private carriers.

(1) Compensation paid by certain rail carriers. No part of the compensation paid by a rail carrier, as defined in 49 USC 10102, providing transportation subject to the jurisdiction of the surface transportation board under 49 USC, subtitle IV, part A to an employee who performs regularly assigned duties as such an employee on a railroad in more than one state shall be subject to the income tax laws of any state or political subdivision of that state, other than the state or political subdivision thereof of the employee's residence. (See 49 USC 11502.) Accordingly, where a nonresident individual is paid compensation as an employee by such a rail carrier for performing his or her regularly assigned duties on a railroad in more than one state, such compensation does not constitute income derived from or connected with connecticut sources even though the employee performed services in Connecticut.

(2) Compensation paid by certain motor carriers and certain motor private carriers. No part of the compensation paid by a motor carrier, as defined in 49 USC 13102(12), providing transportation subject to the jurisdiction under 49 USC, chapter 135, subchapter I or by a motor private carrier, as defined in 49 USC 13102(13), to an employee, as defined in 49 USC 31132, who performs regularly assigned duties in two or more states as such an employee with respect to a motor vehicle shall be subject to the income tax laws of any state or political subdivision of that state, other than the state or political subdivision thereof of the employee's residence. Accordingly, where a nonresident individual is paid compensation as such an employee with respect to a motor vehicle by such a motor carrier or motor private carrier for performing his or her regularly assigned duties in two or more states, such compensation does not constitute income derived from or connected with Connecticut sources even though the employee performed services in Connecticut. (See 49 USC 14503.)

(b) **Employees of interstate air carriers.** No part of the pay of an employee of an air carrier having regularly assigned duties on aircraft in at least two states shall be subject to the income tax laws of any state or political subdivision of that state, other than (i) the state or political subdivision thereof that is the employee's residence, and (ii) the state or political subdivision thereof in which the employee earns more than 50% of the pay received by the employee from the carrier. For purposes of this subsection, an employee is deemed to have earned more than 50% of his or

her pay in any state or political subdivision thereof in which such employee's scheduled flight time in such state or political subdivision is more than 50% of such employee's total scheduled flight time in the calendar year while so employed. Accordingly, where a nonresident individual is an employee of an air carrier having regularly assigned duties on aircraft in at least two states, such pay shall not constitute income derived from or connected with Connecticut sources unless such employee earned more than 50% of such pay in Connecticut. (See 49 USC 40116.)

(c) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994; amended February 10, 2004)

Sec. 12-711(b)-8. Rentals and gains from the sale or exchange of real property

(a) Income from, and deductions connected with, the rental of real property, and gain and loss from the sale, exchange or other disposition thereof, are not subject to apportionment under this Part but are considered to be entirely derived from or connect with the situs of such property.

(b) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(b)-9. Earnings of salespersons

(a) Where compensation of a salesperson, agent or other employee is based in whole or in part upon commissions from sales, Connecticut adjusted gross income derived from or connected with sources within Connecticut is determined by multiplying the gross compensation earned from sales everywhere, determined as if the nonresident were a resident, by a fraction, the numerator of which is the amount of sales made within Connecticut and the denominator of which is the amount of sales made everywhere. The ''amount of sales'' is determined on the same basis as that on which the amount of sales is determined for purposes of figuring such individual's commissions. The determination of whether sales are made within Connecticut or elsewhere is based upon where the salesperson, agent or employee performs the activities in obtaining the order, not the location of the formal acceptance of the contract.

(b) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(b)-10. Employees compensated on mileage basis

(a) Where an employee's wages are based on mileage, Connecticut adjusted gross income derived from or connected with sources within this state is determined by multiplying the employee's gross wages from the employment, wherever earned, determined as if the nonresident were a resident, by a fraction, the numerator of which is the employee's total mileage traveled in Connecticut and the denominator of which is the employee's total mileage upon which the employer computes total wages.

(b) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of

the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(b)-11. Wages of nonresident seamen

(a) (1) The income derived from Connecticut sources of a nonresident individual includes the full amount of compensation paid to such individual for the performance of regularly-assigned duties as a master, officer, or crewman on a vessel operating exclusively within Connecticut. His or her items of income, gain, loss and deduction derived from or connected with Connecticut sources include all of such items attributable to the performance of such duties.

(2) (A) No part of the compensation paid to a nonresident individual for the performance of duties described in paragraph (B) of this subdivision shall be subject to the income tax laws of any state or political subdivision of that state other than the state and political subdivision in which such individual resides. See 46 USC 11108(b). Accordingly, where a nonresident individual is paid compensation for the performance of duties described in paragraph (B) of this subdivision, such compensation does not constitute income derived from or connected with Connecticut sources even though the individual performed services in Connecticut.

(B) This subdivision applies to a nonresident individual (i) who is engaged on a vessel to perform assigned duties in more than one state as a pilot licensed under 46 USC 7101 or authorized under the laws of a state, or (ii) who performs regularly-assigned duties while engaged as a master, as defined in 46 USC 10101, officer, or crewman on a vessel operating on the navigable waters of more than one state.

(b) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994; amended February 10, 2004)

Sec. 12-711(b)-12. Pension or other retirement benefit plans

(a) Connecticut adjusted gross income derived from or connected with sources within this state does not include income distributed from a pension or retirement plan to nonresidents.

(b) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(b)-13. Income from vessels

(a) Connecticut adjusted gross income derived from or connected with sources within this state does not include charter money or freight or passage payments with respect to a vessel that is operated exclusively between ports of Connecticut and foreign ports, or between ports of Connecticut and ports of other states, if the individual receiving the income maintains no regular agency in Connecticut and is not carrying on business in Connecticut, as determined under § 12-711(c)-2 and § 12-711(c)-3 of this Part.

(b) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(b)-14. Prizes, awards and similar payments

(a) Except as otherwise provided in subsection (b) of this section, Connecticut adjusted gross income derived from or connected with sources within this state does

not include prizes, awards and similar payments won by a nonresident individual, regardless of where the ticket was purchased or whether the nonresident was present in Connecticut at the time the prize or award was won.

(b) (1) Any winnings derived from within this state by a nonresident individual carrying on gambling activities as a trade or business constitute Connecticut adjusted gross income derived from or connected with sources within Connecticut.

(2) Any winnings from a wager placed by a nonresident individual in a lottery conducted by the Connecticut Lottery Corporation, if the proceeds from such wager are required, under the Internal Revenue Code or regulations adopted thereunder, to be reported by the Connecticut Lottery Corporation to the Internal Revenue Service.

(c) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994; amended July 3, 2003)

Sec. 12-711(b)-15. Other methods of apportionment

(a) Where the methods provided in this Part do not apportion items of income, gain, loss and deduction in a fair and equitable manner, the Commissioner may require a nonresident individual to apportion those items under such method as the Commissioner prescribes, as long as the prescribed method results in a fair and equitable apportionment. In addition, a nonresident individual may submit an alternate method of apportionment with respect to items of income, gain, loss and deduction attributable to a business, trade, profession or occupation carried on partly within and partly without Connecticut. The proposed method shall be fully explained in the Connecticut nonresident income tax return. If the method proposed by such individual is approved by the Commissioner, it may be used in lieu of the applicable method described in this Part.

(b) The methods provided in this Part are presumed to result in fair and equitable apportionment, and any person, whether it be the Commissioner or a nonresident individual, proposing an alternate method of apportionment shall bear the burden of establishing that the methods provided in this Part unfairly and inequitably attribute items of income, gain, loss or deduction to Connecticut.

(c) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(b)-16. Incentive stock options

(a) Connecticut adjusted gross income derived from or connected with sources within this state includes, to the extent provided in this section, income from the disposition of stock that was purchased by an employee under an incentive stock option if, during the period beginning with the first day of the employee's taxable year during which such option was granted and ending with the last day of the employee's taxable year during which such option was exercised, the employee was performing services within Connecticut as an employee.

(b) If, during the period described in subsection (a) of this section, the employee's services were performed wholly within Connecticut, the amount by which the fair market value of the stock, at the time such option was exercised, exceeds the option price is compensation that is derived from or connected with sources within this state, provided, if the fair market value of the stock, at the time such option was exercised, exceeds the amount realized on the disposition of the stock, then only the amount of income that is recognized for federal income tax purposes shall be

considered compensation that is derived from or connected with sources within this state.

(c) If, during the period described in subsection (a) of this section, the employee's services were performed partly within and partly without Connecticut, the portion of the amount by which the fair market value of the stock, at the time such option was exercised, exceeds the option price, that is derived from or connected with sources within this state is in the same ratio that, under § 12-711(c)-5 of this Part, the total compensation received from the employer during such period for services performed in this state bears to the total compensation received from the employer during such period for services performed both within and without this state.

(d) Whether or not the holding periods under section 422(a)(1) and (2) of the Internal Revenue Code are met, the difference between the amount realized on the disposition of the stock and the fair market value of the stock, at the time such option was exercised, is income or loss that is not derived from or connected with sources within this state.

(e) For purposes of this section—

(1) ''disposition'' means disposition, as defined in section 424(c) of the Internal Revenue Code;

(2) ''stock'' means stock, as defined in 26 C.F.R. § 1.421-7(d);

(3) ''option price'' means option price, as defined in 26 C.F.R. § 1.421-7(e); and

(4) ''incentive stock option'' means incentive stock option, as defined in section 422(b) of the Internal Revenue Code.

(f) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(b)-17. Property transferred in connection with the performance of services

(a) Connecticut adjusted gross income derived from or connected with sources within this state includes, to the extent provided in this section, income recognized under section 83 of the Internal Revenue Code on the transfer of property in connection with the performance of services, if, during the period beginning with the first day of the taxable year of the transferee during which such property was transferred thereto and ending with the last day of the taxable year of the transferee during which the rights of the person having the beneficial interest in such property first were transferable or first were not subject to a substantial risk of forfeiture, whichever occurs earlier (or, if an election is made under section 83(b)(1) of the Internal Revenue Code, the taxable year that such election is made), the transferee was performing such services within Connecticut. In determining whether the person was performing such services within Connecticut, the regulations of this Part shall apply.

(b) If, during the period described in subsection (a) of this section, the transferee's services were performed wholly within Connecticut, the amount by which the fair market value of the property, as determined under section 83(a) of the Internal Revenue Code, at the first time the rights of the person having the beneficial interest in such property are transferable or are not subject to a substantial risk of forfeiture, whichever occurs earlier, exceeds the amount, if any, paid for such property, is derived from or connected with sources within this state. If an election is made under section 83(b)(1) of the Internal Revenue Code, the amount by which the fair market value of the property, as determined under section 83(b) of the Internal

Revenue Code, exceeds the amount, if any, paid for such property, is derived from or connected with sources within this state.

(c) If, during the period described in subsection (a) of this section, the transferee's services were performed partly within and partly without Connecticut, the portion of the amount by which the fair market value of the property, as determined under section 83(a) of the Internal Revenue Code, at the first time the rights of the person having the beneficial interest in such property are transferable or are not subject to a substantial risk of forfeiture, whichever occurs earlier, exceeds the amount, if any, paid for such property, that is derived from or connected with sources within this state is in the same ratio that the total compensation received from the transferor during such period for services performed in this state bears to the total compensation received from the transferor during such period for services performed both within and without this state. If an election is made under section 83(b)(1) of the Internal Revenue Code, the portion of the amount by which the fair market value of the property, as determined under section 83(b) of the Internal Revenue Code, exceeds the amount, if any, paid for such property, that is derived from or connected with sources within this state is in the same ratio that the total compensation received from the transferor during such period for services performed in this state bears to the total compensation received from the transferor during such period for services performed both within and without this state.

(d) The difference between (1) the amount realized on the disposition of the property and (2) the fair market value of the property, as determined under section 83(a) or (b) of the Internal Revenue Code, as the case may be, is income or loss that is not derived from or connected with sources within this state.

(e) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(b)-18. Nonqualified stock options

(a) Connecticut adjusted gross income derived from or connected with sources within this state includes, to the extent provided in this section, income recognized under section 83 of the Internal Revenue Code in connection with a nonqualified stock option if, during the period beginning with the first day of the taxable year of the optionee during which such option was granted and ending with the last day of the taxable year of the optionee during which such option was exercised (or, if the option has a readily ascertainable fair market value, as defined in 26 C.F.R. § 1.83-7(b), at the time of grant, the taxable year during which such option was granted), the optionee was performing services within Connecticut. In determining whether the optionee was performing services within Connecticut, the regulations of this Part shall apply.

(b) If, during the period described in subsection (a) of this section, the optionee's services were performed wholly within Connecticut, any amount by which (1) the fair market value of the stock, at the time such option was exercised, exceeds (2) the option price, is compensation that is derived from or connected with sources within this state.

(c) If, during the period described in subsection (a) of this section, the optionee's services were performed partly within and partly without Connecticut, the portion of the amount by which the fair market value of the stock, at the time such option was exercised, exceeds the option price, that is derived from or connected with sources within this state is in the same ratio that the total compensation received from the grantor during such period for services performed in this state bears to

the total compensation received from the grantor during such period for services performed both within and without this state.

(d) The difference between the amount realized on the disposition of the stock and the fair market value of the stock, at the time such option was exercised, is gain or loss that is not derived from or connected with sources within this state.

(e) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(b)-19. Nonqualified deferred compensation

(a) Connecticut adjusted gross income derived from or connected with sources within Connecticut includes nonqualified deferred compensation that is attributable to services performed wholly within Connecticut.

(b) Connecticut adjusted gross income derived from or connected with sources within Connecticut does not include deferred compensation that is attributable to services performed wholly without Connecticut, whether or not the recipient was a nonresident individual at the time that the services were performed.

(c)(1) Where the employee's services were performed partly within and partly without this state, Connecticut adjusted gross income derived from or connected with sources within Connecticut includes that proportion of the nonqualified deferred compensation included in Connecticut adjusted gross income that the total compensation received from the employer for the services performed in Conencticut during a period consisting of the portion of the taxable year prior to receipt of the nonqualified deferred compensation and the three immediately preceding taxable years bears to the total compensation received from the employer during such period for services performed within and without Connecticut. For purposes of this subsection, the compensation for services performed within Connecticut shall be determined separately for each taxable year or portion of a year in accordance with the applicable provisions of this Part.

(2) A determination on the basis of a period of time greater than the period referred to in subdivision (1) of this subsection may be made if the individual establishes, to the satisfaction of the Commissioner, the amount of his or her total yearly compensation for a longer period of time and the amount allocable to Connecticut in each year in accordance with the applicable provisions of this Part.

(d) ''Nonqualified deferred compensation'' means the total amount that is distributed to and included in an individual's federal adjusted gross income (and, hence, in that individual's Connecticut adjusted gross income) as deferred compensation. ''Nonqualified deferred compensation'' does not include any amount that is distributed from a plan, as defined in § 12-711(b)-12 of this Part, or that is governed by § 12-711(b)-16, § 12-711(b)-17 or § 12-711(b)-18 of this Part.

(e) The following example illustrates the application of this section.

Example: Taxpayer P, a nonresident individual, performs services both within and without Connecticut for his employer under an employment contract whereby, for each year's services, he is to receive a salary during the period of employment and an additional $100,000, payable in 10 equal annual installments of $10,000, commencing after his employment terminates. The deferred compensation to be paid under the contract between P and his employer is nonqualified deferred compensation. P terminates his employment on July 1, 1995. Assuming that the percentages for apportioning his salary to Connecticut were 25% for 1992, 50% for 1993, 75% for 1994, and 42.8% for the first half of 1995, the portion of additional payments to be included in the Connecticut adjusted gross income derived from or connected with sources within this state would be computed as follows:

		Total compensation	Compensation Apportioned To Connecticut	
1992		$40,000	(25.0%)	$10,000
1993		44,000	(50.0%)	22,000
1994		48,000	(75.0%)	36,000
1995	(6 months)	28,000	(42.8%)	12,000
	Totals	$160,000		$80,000

$\frac{\$80,000}{\$160,000}$ X $10,000 = $5,000 (amount includible annually in P's Connecticut adjusted gross income derived from or connected with sources within this state)

(f) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(b)-20. Covenants not to compete

(a) Connecticut adjusted gross income derived from or connected with sources within Connecticut includes income that is received by a nonresident individual from a covenant not to compete, to the extent that such income is attributable to refraining from carrying on a trade, business, profession or occupation in Connecticut.

(b) The following examples illustrate the application of this section:

Example 1: X, a nonresident individual who is a partner in a law firm, retires during 1994 and, in exchange for receiving the sum of $100,000 in 1994 and each of the nine succeeding years, covenants not to compete with the firm anywhere that the firm is engaged in the practice of law during the next five years. The firm has an office in Connecticut, and an office in Massachusetts. On its 1994 Form CT-1065, the firm properly apportions 60% of the net amount of its items of income, gain, loss and deduction to Connecticut, and 40% to Massachusetts. The partners file 1994 income tax returns with both jurisdictions, also properly reporting 60% of their distributive share of partnership income as derived from or connected with Connecticut sources, and 40% as derived from or connected with Massachusetts sources. Whether X worked at the firm's Connecticut office or at its Massachusetts office, X's Connecticut adjusted gross income derived from or connected with Connecticut sources for 1994 and the nine succeeding years shall include 60% of the income that is received by X from the covenant not to compete. If the percentage of X's distributive share of partnership income that is derived from or connected with Connecticut sources has varied from year to year, the average of such percentage for the taxable year in which X retires and for the two preceding taxable years may be used in determining the percentage of the income that is received by X from the covenant not to compete that is derived from or connected with Connecticut sources.

Example 2: Y, a nonresident individual who is an employee of a corporation that has an office in Connecticut and in many other states, accepts an early retirement in 1994 and, in exchange for receiving the sum of $75,000 in 1994 and each of the four succeeding years, covenants not to compete with the firm anywhere in the United States during that period. During her entire career with the corporation and one of its corporate affiliates, Y has worked only in their Connecticut offices. On her previously filed Forms CT-1040NR/PY, Y has properly reported 100% of her salary from these corporations as pay received from services performed in Connecticut. Y's Connecticut adjusted gross income derived from or connected with Connecticut sources for 1994 and the four succeeding years shall include 100% of the income

that is received by Y from the covenant not to compete. If the percentage of Y's salary from the corporations that is derived from or connected with Connecticut sources had varied from year to year, the average of such percentage for the taxable year in which Y retires and for the two preceding taxable years could be used in determining the percentage of the income that is received by Y from the covenant not to compete that is derived from or connected with Connecticut sources.

Example 3: Z, a nonresident individual who is the sole proprietor of a home appliance business that has its only store in New York and that, while having numerous Connecticut customers, is not considered to be engaged in a trade or business within Connecticut under § 12-711(b)-4. Z sells his business for $1.0 million during 1994, and, in exchange for receiving the sum of $200,000 in 1995 and the four succeeding years, covenants not to compete with the purchaser in the home appliance business firm in New York or Connecticut during the next ten years. Z has not previously been required to file a Form CT-1040NR/PY on account of the home appliance business. None of the income that is received by Z either from the sale of the business or from the covenant not to compete is Connecticut adjusted gross income derived from or connected with Connecticut sources, even though Z has covenanted not to compete in Connecticut.

(c) While this section pertains to Section 12-711(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(c)-1. Income and deductions partly from Connecticut sources

Because Connecticut adjusted gross income derived from or connected with sources within this state takes into account only items of income, gain, loss and deduction derived from or connected with Connecticut sources, an apportionment or allocation of items of income, gain, loss and deduction is required when a nonresident individual, or a partnership in which a nonresident individual is a member, carries on a business, trade, profession or occupation partly within and partly without Connecticut.

(Effective November 18, 1994)

Sec. 12-711(c)-2. Business, trade, profession or occupation carried on wholly within Connecticut

A business, trade, profession or occupation (as distinguished from personal services as an employee) is carried on by a nonresident individual wholly within Connecticut when the activities described in § 12-711(b)-4(a) of this Part are carried on solely within this state, and no such activities are carried on outside Connecticut. This is so even though the nonresident individual or such nonresident's representative travels outside Connecticut for purposes of buying, selling, financing or performing any duties in connection with the business, and even though sales may be made to, or services performed for, or on behalf of, persons or corporations located outside Connecticut. If a nonresident individual carries on a business, trade, profession or occupation wholly within Connecticut, all of such nonresident's items of income, gain, loss and deduction attributable to the business are derived from or connected with Connecticut sources.

(Effective November 18, 1994)

Sec. 12-711(c)-3. Business, trade, profession or occupation carried on partly within and partly without Connecticut

A business, trade, profession or occupation (as distinguished from personal services as an employee) is carried on partly within and partly without Connecticut when one or more of the activities described in § 12-711(b)-4(a) of this Part is systematically and regularly carried on within Connecticut and one or more of such activities is systematically and regularly carried on outside of Connecticut, or when one or more of such activities is regularly and systematically carried on both within and without Connecticut.

(Effective November 18, 1994)

Sec. 12-711(c)-4. Allocation and apportionment of income from a business, trade, profession or occupation carried on partly within and partly without Connecticut

(a) **General.** If a nonresident individual, or a partnership of which a nonresident individual is a member, carries on a business, trade, profession or occupation (as distinguished from personal services as an employee) both within and without Connecticut, the items of income, gain, loss and deduction attributable to such business, trade, profession or occupation shall be allocated (as provided in subsection (b) of this section) or apportioned (as provided in subsection (c) of this section) to Connecticut on a fair and equitable basis in accordance with generally accepted accounting principles. Once an individual uses either method (allocation or apportionment), he or she shall continue to use that method unless, after application in writing to the Commissioner, the Commissioner determines that the method used no longer reflects income which is fairly attributable to Connecticut. See § 12-711(c)-5 of this Part for rules regarding the allocation and apportionment of compensation paid to nonresident employees and officers.

(b) **Allocation by books and records.** If the books of the business are kept so as regularly to disclose, to the satisfaction of the Commissioner, the proportion of the net amount of the items of income, gain, loss and deduction derived from or connected with Connecticut sources, the Connecticut nonresident income tax return of the nonresident individual shall disclose the total amount of such items, the net amount of such items allocated to Connecticut, and the basis upon which such allocation is made. If income is reported using this method, such individual shall consistently allocate the amounts of income on returns filed with any other states in which such individual carries on business, where such states permit allocation on the basis of separate books and records.

Example: A plumber, who is a resident of Rhode Island, carries on his business from an office in Danielson, Connecticut. He has maintenance contracts with housing authorities in the Worcester, Massachusetts area which require him to regularly perform his services at various locations in and around Worcester. Assume that this taxpayer allocated, on the basis of separate books and records, the income derived from his plumbing business on his Connecticut nonresident return as follows: 60% to Connecticut and 40% to Massachusetts. Therefore, on his Massachusetts return, this taxpayer shall also allocate 60% of this income to Connecticut and 40% to Massachusetts, since Massachusetts permits allocation on the basis of separate books and records.

(c) **Apportionment.** If the books and records of the business do not disclose, to the satisfaction of the Commissioner, the proportion of the net amount of the items of income, gain, loss and deduction attributable to the activities of the business

carried on in Connecticut, such proportion shall, except as provided in § 12-711(b)-8 of this Part, be determined by multiplying the net amount of the items of income, gain, loss and deduction of the business by the average of the percentages described in subsections (d) to (f), inclusive, of this section.

(d) **Property percentage.** (1) General. The property percentage is computed by dividing the average of the values, at the beginning and end of the taxable year, of real and tangible personal property connected with the business and located within Connecticut, by the average of the values, at the beginning and end of the taxable year, of all real and tangible personal property connected with the business and located both within and without Connecticut. Property, the income or gain from the sale, exchange or other disposition of which is allocated pursuant to § 12-711(b)-8 of this Part, is disregarded in computing the property percentage described in this subsection. For purposes of this subsection, the term ''property'' includes real and tangible personal property rented to the taxpayer and used in the business, and, except as provided in subdivision (2) of this subsection, the term ''value'' means fair market value for real property and book value for tangible personal property.

(2) Rented Property. (A) The value of property, both within and without Connecticut, which is rented to the nonresident individual is determined by multiplying the gross rents payable during the taxable year by eight.

(B) ''Gross rent,'' as used in this subdivision, is the actual sum of money or other consideration payable directly or indirectly by, or for the benefit of, the nonresident individual for the use or possession of the property, and includes:

(i) any amount payable for the use or possession of property, or any part thereof, whether designated as a fixed sum of money or as a percentage of sales, profits or otherwise;

(ii) any amount payable as additional rent or in lieu of rent, such as interest, taxes, insurance, repairs or any other amount required to be paid by the terms of a lease or other arrangement; and

(iii) a proportionate part of the cost of any improvement to real property made by or on behalf of the nonresident individual which reverts to the owner or lessor upon termination of a lease or other arrangement, based on the unexpired term of the lease commencing with the date the improvement is completed (or the life of the improvement if its life expectancy is less than the unexpired term of the lease); provided, however, that where a building is erected on leased land by or on behalf of the nonresident individual, the value of the land is determined by multiplying the gross rent by eight, and the value of the building is determined in the same manner as if owned by such individual. The proportionate part of the cost of an improvement (other than a building on leased land) is generally equal to the amount of amortization allowed in computing Connecticut adjusted gross income, whether the lease does or does not contain an option of renewal.

(C) ''Gross rent'' does not include:

(i) any portion of a payment or credit, to the nonresident individual as the proprietor of the business or as a partner in the partnership conducting the business, for the use of property;

(ii) amounts payable by the nonresident individual as separate charges for water and electric service furnished by the lessor;

(iii) amounts payable by the nonresident individual for storage, where no designated space under the control of such individual as a tenant is rented for storage purposes; or

(iv) that portion of any rental payment which is applicable to property subleased by the nonresident individual and not used by such individual in the carrying on of the business.

(3) The method that is provided in subdivision (1) of this subsection is presumed to result in fair and equitable valuations, and any nonresident individual, proposing an alternate method of valuation, shall bear the burden of establishing that the method that is provided in subdivision (1) of this subsection results in unfair and inequitable valuations. A request for an alternative method may be made at the time the Connecticut nonresident income tax return to which the request relates is filed. A request is made by using, and fully explaining, the proposed method in the income tax return. Any request shall contain all facts with respect to the property forming the basis for the proposed valuation and also a computation of the value of the rented property based on gross rents in accordance with subdivision (2) of this subsection. Once approved by the Commissioner, such basis or such other method shall be used for subsequent years until the facts upon which it is based are materially changed.

(e) **Payroll percentage.** The payroll percentage is computed by dividing the total wages, salaries and other personal service compensation paid or incurred during the taxable year to employees in connection with business carried on within Connecticut, by the total of all wages, salaries and other personal service compensation paid or incurred during the taxable year to employees in connection with the business carried on both within and without Connecticut.

(f) **Gross income percentage.** The gross income percentage is computed by dividing the gross sales or charges for services performed by or through an office, branch, agency or other location of the business within Connecticut, by the total of all gross sales or charges for services performed within and without Connecticut. The sales or charges to be allocated to Connecticut include all sales negotiated or consummated, and charges for services performed, by an employee, agent, agency or independent contractor chiefly situated at, connected by contract or otherwise with, or sent out from, offices or branches of the business, or other agencies or locations, situated within Connecticut.

(Effective November 18, 1994)

Sec. 12-711(c)-5. Earnings of nonresident employees and officers rendering personal services within Connecticut

(a)(1) When a nonresident employee who is compensated on an hourly, daily, weekly or monthly basis is able to establish the exact amount of pay received for services performed in Connecticut, such amount is included in Connecticut adjusted gross income derived from or connected with sources within this state.

(2) When no such exact determination of pay received for services performed in Connecticut is possible, the income of employees who are compensated on an hourly, daily, weekly or monthly basis shall be apportioned to Connecticut by multiplying the total compensation, wherever earned, from the employment, by a fraction the numerator of which is the number of days spent working in Connecticut and the denominator of which is the total working days both within and without Connecticut. The product is included in Connecticut adjusted gross income derived from or connected with sources within this state. The term ''total working days'' does not include days on which the employee was not required to work, such as holidays, sick days, vacations and paid or unpaid leave. For purposes of this section, when a working day is spent working partly in Connecticut and partly elsewhere,

it is considered one-half of a day spent working in Connecticut.

Example: An auditor living in Massachusetts is employed by an accounting firm in Hartford at an annual salary of $33,000. She is not able to establish the exact amount of pay received for services performed in Connecticut. She works a total of 240 days in 1992, performing field audits in Rhode Island on 160 days of the year and working 80 days in Hartford. Her Connecticut adjusted gross income derived from or connected with sources within this state is $11,000, computed as follows:

$$\$33{,}000 \times {}^{80}/_{240} = \$11{,}000$$

(b) If a nonresident employee performs services for more than one employer both within and without Connecticut and is unable to determine the exact amounts earned or derived in Connecticut, such employee shall determine separately for each employer the compensation attributable to Connecticut sources. The sum of the amounts of compensation attributable to Connecticut sources shall be included in determining the Connecticut adjusted gross income derived from or connected with sources within this state.

(c) While this section pertains to Section 12-711(c) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(c)-6. Special rules for security and commodity brokers

(a) Security and commodity brokers doing business both within and without Connecticut, as determined under § 12-711(c)-3 of this Part, may apportion the income from such business in accordance with § 12-711(c)-4(c) of this Part, in lieu of § 12-711(c)-4(b) of this Part. Once the broker uses the method prescribed by § 12-711(c)-4(b) of this Part, or apportions in accordance with § 12-711(c)-4(c) of this Part, the broker shall continue to use the method implemented unless, after application in writing to the Commissioner, the Commissioner determines that the method used no longer reflects income which is fairly attributable to Connecticut. If the Commissioner permits the broker to change the method used under this section, proof thereof shall be attached to the Connecticut nonresident income tax return for the first taxable year to which such change applies.

(b) In any method of allocation or apportionment permitted or required under § 12-711(c)-4 of this Part, the commissions derived from the execution of purchase or sales orders for the account of customers shall be allocated or apportioned as follows:

(1) If the order originates at the Connecticut place of business of a broker and is transmitted to a bona fide established office of the broker located outside Connecticut for execution on an exchange located outside Connecticut, 80% of the commission in the case of stocks, bonds and commodities shall be allocated or apportioned to Connecticut and constitutes income derived from or connected with Connecticut sources in the taxable year in which such order is executed. The broker may allocate commission income on the basis of actual experience if such broker can demonstrate to the satisfaction of the Commissioner that the allocation pursuant to this subsection does not fairly reflect the amount of commission income attributable to Connecticut.

(2) If commission income is derived from over-the-counter transactions where the order originates at or through a Connecticut place of business of the broker, the

entire amount shall be allocated to Connecticut. However, if the order originates at or through a bona fide established office of the broker located outside Connecticut, no portion of the commission income is to be allocated to Connecticut.

(Effective November 18, 1994)

Sec. 12-711(c)-7. Professional athletes and entertainers

(a) **Members of professional athletic team.** (1) The Connecticut adjusted gross income derived from or connected with sources within Connecticut of a nonresident member of a professional athletic team includes that proportion of such individual's compensation received for services rendered as a member of such team that the duty days spent within Connecticut rendering services for such team in any manner during the taxable year bears to the duty days rendering services for such team in any manner during the taxable year. In determining whether duty days are spent within Connecticut, travel days are duty days spent within Connecticut if Connecticut is the travel destination and are not duty days spent within Connecticut if Connecticut is not the travel destination, provided, when a game is scheduled to be played on a travel day, the duty day is considered to be spent where the game is scheduled to be played.

(2) Definitions. (A) ''Professional athletic team'' includes, but is not limited to, any professional hockey, football, basketball, soccer or baseball team.

(B) ''Member of a professional athletic team'' includes, but is not limited to, active players, players on the disabled list and any other persons who are required to travel with and perform services on behalf of a professional athletic team, on a regular basis, including coaches, managers, trainers and equipment managers.

(C) ''Duty days'' mean all days, from the first day of the official pre-season training period of the professional athletic team through the day of the last game, including post-season games, in which such team competes or is scheduled to compete during the taxable year. ''Duty days'' include game days, travel days and practice days. For a member of a professional athletic team who renders services for a team on a day that is not otherwise a ''duty day'' (e.g., representing a team at an all-star game), his ''duty days'' include such a day. ''Duty days'' for any member joining a team during the season shall begin on the day such person becomes a member and for any member leaving a team during the season shall end on the day such person ceases to be a member. ''Duty days'' do not include any try-out or pre-season cut days that a player shall survive in order to obtain a contract or any days for which a member is not compensated and is not rendering services for the team in any manner because such person has been suspended without pay and prohibited from performing any services for the team.

(D) ''Duty days spent within Connecticut'' mean duty days on which a member of a professional athletic team renders services, or is available to render services, for his team, within Connecticut. Days when a member is not available to render services for his team because of an injury are ''duty days'' for that member, but are not ''duty days spent within Connecticut'' for that member unless the team is based in Connecticut.

(E) ''Compensation received for services rendered as a member of a professional athletic team'' means the total compensation received for the official pre-season training period through the last game in which the team competes or is scheduled to compete during the taxable year, plus any additional compensation received for rendering services for the team on a date that is not otherwise a ''duty day'' (e.g., compensation for representing a team at an all-star game) during the taxable year.

''Compensation received for services rendered as a member of a professional athletic team'' includes, but is not limited to, salaries; wages; guaranteed payments; except as otherwise provided herein, bonuses; strike benefits; severance pay; and termination pay. Bonuses are includable in ''compensation received for services rendered as a member of a professional athletic team'' if they are earned as a result of play during the season or for playing in championship, playoff or ''all star'' games. Bonuses are also so includable if paid for signing a contract, unless all of the following conditions are met: payment of the signing bonus by a team (i) is solely in consideration of a nonresident athlete giving up his amateur and free agent status and for agreeing to be the exclusive property of the team; (ii) is not conditional upon the athlete playing any games, or performing any subsequent services, for the team, or even making the team; (iii) is separate from the payment of salary or any other compensation; and (iv) is nonrefundable.

(3) The portion of compensation received for services rendered as a member of a professional athletic team that is derived from or connected with sources within Connecticut may be determined on the basis of a method other than that provided under this subsection, if (A) the member establishes, to the satisfaction of the Commissioner, that another method is fairer and more equitable or (B) in the discretion of the Commissioner, the Commissioner determines that the method provided under this subsection does not fairly and equitably reflect the proportion of compensation received for services rendered as a member of a professional athletic team that is derived from or connected with sources within Connecticut. It shall be presumed, however, that the method provided under this subsection is a fair and equitable method of determining the proportion of compensation received for services rendered as a member of a professional athletic team that is derived from or connected with sources within Connecticut.

(4) Examples.

Example 1: Player A, a nonresident individual, is a member of a professional athletic team. His accounting period for federal income tax purposes (and, hence, for Connecticut income tax purposes) is the calendar year. Player A's contract with the team requires Player A to report to his team's training camp and to participate in all exhibition, regular season and playoff games. This two-season contract covers an athletic season that begins during calendar year 1993 and ends during calendar year 1994 (for which season, Player A shall be paid $400,000) and an athletic season that begins during calendar year 1994 and ends during calendar year 1995 (for which season, Player A shall be paid $600,000). Assuming that Player A is paid $500,000 during 1994 (50% of his salary for the 1993-1994 season and 50% of his salary for the 1994-1995 season), the proportion of such compensation received by Player A for calendar year 1994 that is derived from or connected with Connecticut sources is that proportion of the $500,000 that the duty days spent within Connecticut for Player A during calendar year 1994 (in both the 1993-1994 and 1994-1995 seasons) bears to the duty days for Player A during calendar year 1994 (in both the 1993-1994 and 1994-1995 seasons).

Example 2: Player B, a nonresident individual, is a member of a professional athletic team. During the season, Player B is injured and is unable to render services for his team. While Player B is undergoing medical treatment for this injury at a Connecticut clinic, his team, which is not based in Connecticut, travels to Connecticut for a game. The days that Player B's team spends in Connecticut for travel, practice and the game while Player B is at the clinic are not considered to be duty days spent within Connecticut for Player B for that taxable year but are included in duty days for Player B for that taxable year.

Example 3: Player C, a nonresident individual, is a member of a professional athletic team. During the season, Player C travels to Connecticut to participate in the annual all-star game as a representative of his team. The days that Player C spends in Connecticut for travel, practice and the game are considered to be duty days spent within Connecticut by Player C during the taxable year and are included in duty days for Player C during the taxable year.

Example 4: Assume that the facts are the same as in Example 3, except that Player C is not participating in the all-star game and is not rendering services for his team in any manner. Player C is travelling to and attending the game solely as a spectator. If Player C is not required to render services for the team during the all-star game break, then the days that Player C spends in Connecticut during the break are not considered to be duty days spent within Connecticut by Player C during the taxable year and are not included in duty days for Player C during the taxable year.

(b) **Entertainers and professional athletes** (other than members of professional athletic teams). (1) In the case of a nonresident entertainer or athlete (other than a member of a professional athletic team) who is paid specifically for a performance or athletic event in Connecticut, the entire amount received is included in Connecticut adjusted gross income derived from or connected with sources within Connecticut if the entertainer or athlete is carrying on a business, trade, profession or occupation in Connecticut (and his or her presence for business in Connecticut is not considered to be casual, isolated and inconsequential under § 12-711(b)-4 of this Part).

(2)(A) In the case of a nonresident entertainer who is not paid specifically for a performance in Connecticut, such entertainer's Connecticut adjusted gross income derived from or connected with sources within Connecticut includes that proportion of such entertainer's income received from performances within and without Connecticut that the number of performances that the entertainer gave (or, in the case of an understudy, was available to give) within Connecticut during the taxable year bears to the total number of performances that the entertainer was obligated to perform (or, in the case of an understudy, was obligated to be available to perform), under contract or otherwise, within and without Connecticut during the taxable year.

(B) In the case of a nonresident athlete (other than a member of a professional athletic team) who is not paid specifically for athletic events in Connecticut, such athlete's Connecticut adjusted gross income derived from or connected with sources within Connecticut includes that proportion of such athlete's income received from athletic events within and without Connecticut that the number of athletic events that the athlete played in within Connecticut during the taxable year bears to the total number of athletic events that the athlete played in within and without Connecticut during the taxable year.

(3) Examples:

Example 1: A nonresident professional tennis player plays in one tournament in Connecticut during 1994. She is specifically paid for playing in the tournament and wins $75,000. The entire $75,000 is includible in Connecticut adjusted gross income derived from or connected with sources within this state.

Example 2: A nonresident professional boxer fights in one boxing match in Connecticut during 1993. He is specifically paid $5000 for fighting that match and has no other income derived from or connected with Connecticut sources. Because the gross income from his presence in Connecticut did not exceed $6,000, his presence for business in Connecticut is casual, isolated and inconsequential under § 12-711(b)-4 of this Part), and he is not considered to be carrying on a business, trade, profession or occupation in Connecticut.

(c) While this section pertains to Sections 12-701(c) and 12-711(c) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Sections 12-701(c) and 12-711(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(d)-1. Military pay

(a) Compensation paid by the United States for active service in the armed forces of the United States, performed by an individual not domiciled in Connecticut, does not constitute income derived from Connecticut sources. Accordingly, where an individual not domiciled in Connecticut is paid compensation by the United States for active service in the armed forces of the United States, such compensation does not constitute income derived from Connecticut sources even though the service is performed in whole or in part within Connecticut.

(b) Unlike a member of the armed forces of the United States, the civilian spouse of such member may not claim the benefits of the Soldiers' and Sailors' Civil Relief Act (see 50 U.S.C. App. § 574). The civilian spouse's residency or nonresidency may be affected by where the military spouse is stationed, if the spouses reside together. If the civilian spouse is a resident individual, the provisions of Part I apply. If the civilian spouse is a nonresident individual, the provisions of this Part apply.

(c) Spouses of members of the armed forces may be subject to the Connecticut income tax, either as residents or nonresidents of this state. The civilian spouse may not claim the benefits of the Soldiers' and Sailors' Civil Relief Act (see 50 U.S.C. App. § 574). A civilian spouse who is a resident of Connecticut is taxable on all Connecticut adjusted gross income, while a civilian spouse who is a nonresident of Connecticut is taxable only on that portion of Connecticut adjusted gross income that is derived from or connected with sources within this state.

(d) While this section pertains to Section 12-711(d) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-711(f)-1. Purchase and sale for own account

(a) Where a nonresident individual who is not a dealer buys and sells property, or buys, sells or writes stock option contracts, or both, for his or her own account, such nonresident individual is not deemed to be carrying on a business, trade, profession or occupation within Connecticut. If the nonresident individual is otherwise carrying on a business, trade, profession or occupation within Connecticut, his or her income from buying and selling property, or buying, selling or writing stock option contracts, or both, for his or her own account, shall not be included in Connecticut adjusted gross income derived from or connected with sources within this state.

(b) While this section pertains to Section 12-711(f) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-712(d)-1. Alternate method of allocation

(a) Regulations under Section 12-711(b) and (c) of the general statutes are presumed to result in fair and equitable allocation and apportionment to Connecticut

of a nonresident individual partner's items of income, gain, loss, and deduction that are attributable to a business, trade, profession or occupation carried on partly within and partly without Connecticut. Any nonresident individual partner, proposing an alternate method of allocation and apportionment, shall bear the burden of establishing that the methods provided in the regulations under Section 12-711(b) and (c) of the general statutes unfairly and inequitably attribute partnership items of income, gain, loss or deduction to Connecticut. The proposed alternate method of allocation and apportionment shall be explained by the nonresident individual partner in his or her Form CT-1040NR/PY. Where the Commissioner is satisfied that such partner has met this burden, the commissioner may permit such partner to use an alternate method of apportionment and allocation with respect to such partnership items in lieu of the applicable method prescribed by the regulations under Section 12-711(b) and (c) of the general statutes.

(b) While this section pertains to Section 12-712(d) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-712(a)(1) of the general statutes.

(Effective November 18, 1994)

PART III. Part-year Resident individuals & trusts

Sec. 12-700(c)-1. Part-year resident individuals

(a) Individuals who change their resident status from resident to nonresident or from nonresident to resident shall compute their tentative Connecticut income tax liability as if they were resident individuals, except that, if they are required to accrue items under Section 12-717(c)(1) or (2) of the general statutes, those items, in accordance with this section, are added to or subtracted from, as the case may be, their Connecticut adjusted gross income before the computation of their tentative Connecticut income tax liability as if they were resident individuals. Thus, the modifications to federal adjusted gross income which are made by a resident individual in determining Connecticut adjusted gross income are also made by a part-year individual, but the Connecticut adjusted gross income of part-year resident individuals (1) changing their status from resident to nonresident is increased or decreased, as the case may be, by the items accrued under Section 12-717(c)(1) of the general statutes, to the extent not otherwise includible in Connecticut adjusted gross income for the taxable year and (2) changing their status from nonresident to resident is decreased or increased, as the case may be, by the items accrued under Section 12-717(c)(2) of the general statutes, to the extent included in Connecticut adjusted gross income for the taxable year. Then, after Connecticut adjusted gross income is so increased or decreased, any exemption allowed under Section 12-702 of the general statutes is taken, and the tax rate is applied, resulting in a tentative tax. After deduction of any credit allowed under Section 12-703 of the general statutes, the tentative tax is prorated by multiplying the tentative tax by a fraction, the numerator of which is the part-year resident's Connecticut adjusted gross income derived from or connected with sources within this state (see § 12-717(a)-1 of this Part) and the denominator of which is the part-year resident's Connecticut adjusted gross income from all sources, as increased or decreased under this subsection.

(b) In cases where a part-year resident individual's Connecticut adjusted gross income derived from sources everywhere, as increased or decreased under subsection (a) of this section, is less than his or her Connecticut adjusted gross income derived

from or connected with sources within this state, then (1) such individual's Connecticut adjusted gross income derived from or connected with sources within this state, reduced by the amount of the exemption allowed under section 12-702 of the General Statutes, shall be such individual's Connecticut taxable income derived from or connected with sources within this state (to which amount the tax rate is applied) and (2) such individual's Connecticut adjusted gross income derived from or connected with sources within this state shall be such individual's Connecticut adjusted gross income for the purpose of determining the credit allowed under section 12-703 of the General Statutes (which credit is then subtracted from the amount to which the tax rate is applied).

(c) Examples: The following examples illustrate the application of this section. In each example, assume that, for federal income tax purposes, the taxpayer uses the cash receipts and disbursements method of accounting and uses the calendar year as his or her accounting period:

Example 1: On September 15, 1993, Taxpayer X, a resident unmarried individual, quits his job in Connecticut in anticipation of moving to Montana. X's 1993 wages from this job amount to $60,000, $55,000 of which X has received by the time that he moves. (The other $5,000 X receives after he has moved.) On September 10, 1992, X had sold undeveloped land that he held for investment purposes, taking back from the purchaser a purchase money mortgage calling for five equal installment payments on September 10, 1992, 1993, 1994, 1995 and 1996. By reason of X's use for federal income tax purposes of the installment method of accounting with respect to the recognition of gain from the sale of this land, X shall realize a capital gain of $10,000 each year for five years, or $50,000 in total. X moves to Montana on October 1, 1993, finds a job there and receives $20,000 therefrom during the rest of the taxable year. X does not post a bond or other security acceptable to the Commissioner under Section 12-717(c)(4) of the general statutes.

X's federal adjusted gross income (and his Connecticut adjusted gross income, before special accruals) for his 1993 taxable year is $90,000. In determining X's Connecticut adjusted gross income as a part-year resident individual, the amount required to be specially accrued under Section 12-700(c)(2)(A) of the general statutes is the $30,000 gain, which is added to X's Connecticut adjusted gross income. (Any deduction or loss required to be specially accrued would have been subtracted from X's Connecticut adjusted gross income.) This is the amount of the $50,000 gain that accrued prior to X's change of status not otherwise includible in X's Connecticut adjusted gross income for the 1993 taxable year. X's Connecticut adjusted gross income, as increased by the item of gain accrued under Section 12-717(c)(1) of the general statutes, is $120,000.

X's Connecticut adjusted gross income derived from or connected with Connecticut sources consists of three elements:

(1) X's Connecticut adjusted gross income during the period of residence (January 1, 1993 to September 30, 1993) is $65,000.

(2) X's Connecticut adjusted gross income derived from or connected with sources within Connecticut during the period of nonresidence (October 1, 1993 to December 31, 1993) is $0. (No item that is accrued to the portion of the taxable year prior to the change of status is taken into account in determining Connecticut adjusted gross income derived from or connected with Connecticut sources for the portion of the taxable year after the change of status.)

(3) The amount of the special accruals that are required by Section 12-717(c)(1) of the general statutes and that are added to X's Connecticut adjusted gross income

during the period of residence is $35,000—the $30,000 gain and the $5,000 wages. This is the amount of the $50,000 gain and the amount of the wages that accrued prior to X's change of status and that did not otherwise properly enter into X's federal adjusted gross income for the portion of the taxable year prior to such change of status or a prior taxable year under X's method of accounting.

X's tentative tax is $5,400 ($120,000 multiplied by 4.5%). X's tentative tax is multiplied by a fraction, the numerator of which is $100,000—X's Connecticut adjusted gross income derived from or connected with Connecticut sources, and the denominator of which is $120,000—X's Connecticut adjusted gross income, as modified by Section 12-700(c)(2)(A) of the general statutes. Thus, X's tax is $4,500.

Example 2: On February 1, 1993, Taxpayer Y, a nonresident unmarried individual, in anticipation of moving to Connecticut, closes her Florida business that she has conducted as a sole proprietor. Y's only income received to that point in the taxable year has been derived from this business and amounts to $30,000. This does not include one large account receivable from 1992 in the amount of $40,000. Y moves from Florida on February 15, 1993, still not having collected the account receivable and still owing $5,000 for the December 1992 rent and $5,000 for the January 1993 rent to the proprietorship's landlord. Y obtains a job in Connecticut and receives $80,000 therefrom during the rest of her 1993 taxable year. On July 1, 1993, the full amount of the receivable is paid to Y who then immediately pays her Florida landlord the $10,000 rent due.

Y's federal adjusted gross income (and her Connecticut adjusted gross income, before special accruals) for her 1993 taxable year is $140,000 (consisting of the profit from the Florida proprietorship of $60,000 and the earnings of $80,000 from her Connecticut job). In determining Y's Connecticut adjusted gross income as a part-year resident individual, the amount required to be specially accrued under Section 12-700(c)(2)(B) of the general statutes is the $40,000 account receivable, which is subtracted from Y's Connecticut adjusted gross income, and the $10,000 rental expense, which is added to Y's Connecticut adjusted gross income. The $40,000 account receivable accrued prior to Y's change of status and is included in Y's Connecticut adjusted gross income for her 1993 taxable year. The $10,000 rental expense also accrued prior to Y's change of status and is included in Y's Connecticut adjusted gross income for her 1993 taxable year. Y's Connecticut adjusted gross income, as increased and decreased by the items of income and deduction accrued under Section 12-717(c)(2) of the general statutes, is $110,000.

Y's Connecticut adjusted gross income derived from or connected with Connecticut sources consists of three elements:

(1) Y's Connecticut adjusted gross income derived from or connected with sources within Connecticut during the period of nonresidence (January 1, 1993 to February 14, 1993) is $0.

(2) Y's Connecticut adjusted gross income during the period of residence (February 15, 1993 to December 31, 1993) is $110,000.

(3) The amount of the special accruals that are required by Section 12-717(c)(2) of the general statutes and that are subtracted from Y's Connecticut adjusted gross income during the period of nonresidence is $30,000—the $40,000 account receivable is subtracted therefrom and the $10,000 rental expense is added thereto. This is the amount of the $40,000 receivable and the amount of the $10,000 rental expense that accrued prior to Y's change of status and that did not otherwise properly enter into Y's federal adjusted gross income for the portion of the taxable year prior to such change of status or a prior taxable year under Y's method of accounting.

Y's tentative tax is $4,950 ($110,000 multiplied by 4.5%). Y's tentative tax is multiplied by a fraction, the numerator of which is $80,000—Y's Connecticut adjusted gross income derived from or connected with Connecticut sources, and the denominator of which is $110,000--Y's Connecticut adjusted gross income, as modified by Section 12-700(c)(2)(B) of the general statutes. Thus, Y's tax is $3,600.

(d) While this section pertains to Section 12-700(c) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-700(c)-2. Part-year resident trusts

(a) Where the resident status of a trust is changed from resident to nonresident or from nonresident to resident (see § 12-701(a)(6)-1 of this Part), its tentative Connecticut income tax is computed in the same manner as a resident trust, except that, if the trust is required to accrue items under Section 12-717(c)(1) or (2) of the general statutes, those items, in accordance with this section, are added to or subtracted from, as the case may be, its Connecticut taxable income before the computation of its tentative Connecticut income tax liability as if it were a resident trust. Thus, the modification to federal taxable income that are made by a resident trust in determining Connecticut taxable income are also made by a part-year resident trust, but the Connecticut taxable income of a part-year resident trust (1) the resident status of which has changed from resident to nonresident is increased or decreased, as the case may be, by the items accrued under Section 12-717(c)(1) of the general statutes, to the extent not otherwise includible in Connecticut taxable income for the taxable year and (2) the resident status of which has changed from nonresident to resident is decreased or increased, as the case may be, by the items accrued under Section 12-717(c)(2) of the general statutes, to the extent included in Connecticut taxable income for the taxable year. Then, after Connecticut taxable income is so increased or decreased, the tax rate is applied, resulting in a tentative tax. The tentative tax is then multiplied by a fraction, the numerator of which is the part-year resident trust's Connecticut taxable income derived from or connected with sources within this state (see § 12-727(b)-1 of this Part) and the denominator of which is such trust's Connecticut taxable income from all sources, as increased or decreased under this subsection.

(b) In cases where a part-year resident trust's Connecticut taxable income from sources everywhere, as increased or decreased under subsection (a) of this section, is less than its Connecticut taxable income derived from or connected with sources within this state, the part-year resident trust's income tax liability is based on its Connecticut taxable income derived from or connected with sources within Connecticut.

(c) While this section pertains to Section 12-700(c) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-701(a)(6)-1. Change of residence of trust

(a) A change of residence of a revocable inter vivos trust or a portion thereof is deemed to have occurred if:

(1) the revocable inter vivos trust becomes irrevocable, and

(2) prior to the time such trust becomes irrevocable, the domicile of the person or persons whose property constitutes the trust or portion thereof is different from the domicile of such person or persons at the time the property was transferred to the trust.

(b) The date on which the change of residence is deemed to have occurred is the date on which the revocable inter vivos trust became irrevocable, provided that all the conditions set forth in this section have been satisfied.

(c) If the property of more than one grantor constitutes the trust and only one of the grantors satisfies the provisions of subsection (a) of this section, the respective portions of the property transferred to the trust by each such grantor shall be treated as if separate trusts had been created by the grantors. Accordingly, the portion of the trust which changed its resident status during the taxable year would be required to file a part-year Connecticut fiduciary return. However, the portion of the trust which did not change its resident status shall file a Connecticut fiduciary return for the entire taxable year as either a resident trust or nonresident trust, as the case may be.

(d) A trust which is created as an irrevocable trust or as a testamentary trust may not change its resident status.

(e) While this section pertains to Section 12-701(a)(6) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-717(a)-1. Part-year resident individuals: income derived from or connected with sources within Connecticut

(a) For purposes of determining the Connecticut income tax liability of a part-year resident individual, the term ''income derived from or connected with sources within this state'' means the sum of: (1) such individual's Connecticut adjusted gross income for the period of residence, computed as if the taxable year for federal income tax purposes were limited to the period of residence, (2) such individual's income derived from or connected with sources within Connecticut for the period of nonresidence, computed as if the taxable year for federal income tax purposes were limited to the period of nonresidence, and determined under Part II as if the part-year resident were a nonresident and (3) the special accruals required under this Part.

(b) While this section pertains to Section 12-717(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-717(b)-1. Part-year resident trusts: income derived from or connected with sources within Connecticut

(a) For purposes of determining the Connecticut income tax liability of a part-year resident trust, the term ''income derived from or connected with sources within this state'' means the sum of: (1) the trust's Connecticut taxable income for the period of residence, computed as if the taxable year for federal income tax purposes were limited to the period of residence, and determined under § 12-701(a)(9)-1 of Part IV as if the part-year resident trust were a resident trust, (2) the trust's income derived from or connected with sources within Connecticut for the period of nonresidence, computed as if the taxable year for federal income tax purposes were limited

to the period of nonresidence, and determined under §§ 12-713(a)-1 through 12-713(a)-4, inclusive, of Part IV as if the part-year resident trust were a nonresident trust and (3) the special accruals required by this Part.

(b) While this section pertains to Section 12-717(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-717(c)(1)-1. Special accruals: change from resident to nonresident

(a) Where the resident status of an individual changes from resident to nonresident, such individual shall, regardless of the method of accounting normally employed, accrue and include for the portion of the year prior to the change of resident status any items of income, gain, loss or deduction accruing prior to the change of residence, if not otherwise properly includible or allowable for Connecticut income tax purposes for such portion of the taxable year or for a prior taxable year. That is, in computing Connecticut adjusted gross income for the period of residence, such individual shall include in Connecticut adjusted gross income derived from or connected with Connecticut sources all items required to be included if a federal income tax return were being filed for the same period on the accrual basis, together with any other accruals, such as deferred gain on installment obligations, which are not otherwise includible or deductible for federal or Connecticut income tax purposes either for such resident period or for a prior taxable period. See § 12-717(c)(4)-1 of this Part for relief from the special accrual requirements of this section.

(b) The provisions of this section also apply to part-year resident trusts, and wherever reference is made in this section to a part-year resident individual, such reference shall be construed to include a part-year resident trust, and any reference to a part-year resident individual's Connecticut adjusted gross income derived from or connected with Connecticut sources shall be construed to include a part-year resident trust's Connecticut taxable income derived from or connected with Connecticut sources.

(c) Examples.

Example 1: If an individual sells her business at a gain under a contract whereby the purchase price is to be paid in installments, and later changes her status from resident to nonresident, she shall accrue to the period of residence the entire amount of gain remaining unpaid from such installment obligations, regardless of the method of accounting she normally uses in reporting her transactions.

Example 2: If a trust sells its business or assets at a gain under a contract whereby the purchase price is to be paid in installments, and the trust later changes its status from resident to nonresident, the fiduciary of the trust shall accrue to the period of residence the entire amount of the gain remaining unpaid from such installment obligations, regardless of the method of accounting the trust normally uses in reporting such transactions.

Example 3: Where a beneficiary of a trust or estate changes status during the taxable year from resident to nonresident, such beneficiary shall accrue to the period of residence any trust or estate income credited, distributed, payable or required to be distributed to such beneficiary as of the date of such beneficiary's change of residence.

(d) A gain, the recognition of which is deferred for federal income tax purposes, need not be accrued for Connecticut income tax purposes solely because of the

change of residence. For instance, a gain realized on sale of an individual's principal residence, the recognition of which gain for federal income tax purposes is properly deferred under section 1034 of the Internal Revenue Code, need not be accrued to the period prior to such individual's change of residence.

(e) The amounts of the accrued items of an individual to be reported for the period of Connecticut residence are determined with the applicable modifications described in §§ 12-701(a)(20)-2 and 12-701(a)(20)-3 of Part I as if such accrued items were includible or allowable for federal income tax purposes. Similarly, the amounts of the accrued items of a trust to be reported for its period of Connecticut residence are determined with the applicable modifications of §§ 12-701(a)(10)-2 and 12-701(a)(10)-3 of Part IV as if such accrued items were includible or allowable for federal income tax purposes.

Example: On September 10, 1992, B, a resident individual who, for federal income tax purposes, uses the cash receipts and disbursements method of accounting and uses the calendar year as his accounting period, retires from employment in Connecticut and moves to Florida. B's salary up to the date of termination amounts to $18,000. On September 1, B's employer notifies him that, under his employment contract, B shall receive on October 1, 1992 a bonus of $1,000, subject to no contingencies.

Dividend income received before the change of residence amounted to $550, and on August 15, 1992, the XYZ Corporation declares a dividend of $600, payable to B on September 20, 1992 if he is a stockholder of record on September 6, 1992. B also holds State of California bonds on which interest in the amount of $300 is received on the first day of each calendar quarter (January 1, April 1, July 1 and October 1, 1992).

On January 2, 1992, B closed title with C on a tract of vacant land in Pennsylvania, taking back from C a purchase money mortgage that calls for annual payments on July 1 of each year. By reason of B's use for federal tax purposes of the installment method of accounting with respect to this transaction, B shall realize a capital gain of $1,000 each year for five years, or $5,000.

On September 1, 1992, B enters into a contract with D to sell B's beach property in Connecticut to D, subject to D's investigation of title and obtaining a stipulated mortgage. The property to be sold is not B's principal place of residence and is not used for rental purposes. The closing of title on this property is held on October 20, 1992. B realizes a capital gain of $20,000 which is included in determining the gain from the sale or exchange of property reported on B's 1992 federal income tax return.

On B's 1992 Connecticut part-year resident income tax return, B includes in his Connecticut adjusted gross income for the period of residence the following items:

Regular salary	$18,000
Bonus—not forfeitable	1,000
Dividends received before change of residence	550
Dividends accrued as of record date	600
Gain on sale of Pennsylvania property ($1,000 from 1992 payment; $4,000 accrued)	5,000
Modification under § 12-701(a)(20)-2 for California bond interest ($900 received on January 1, April 1 and July 1, plus $233 accrued on account of interest payable October 1)	1,133

For the period of nonresidence, B includes in Connecticut adjusted gross income derived from or connected with Connecticut sources the capital gain on the sale of

the Connecticut beach property ($20,000). Such gain is not accruable to the period of residence during the taxable year because of the conditions stated in the contract of sale.

Because B accrues the bonus payment to his period of residence during 1992, he is not required to take it into account in his period of nonresidence during 1992 as an item of income derived from Connecticut sources, even though B actually receives it when he is a nonresident. See § 12-717(c)(3)-1 of this Part.

(f) While this section pertains to Section 12-717(c)(1) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-717(c)(2)-1. Special accruals: change from nonresident to resident

(a) Where the resident status of an individual changes from nonresident to resident, such individual shall, regardless of the method of accounting normally employed, accrue to the portion of the year prior to such change any items of income, gain, loss or deduction accruing prior to the change of resident status, other than those items of income, gain, loss or deduction which are derived from or connected with Connecticut sources, if not otherwise properly includible (whether or not the installment method is used) or allowable for federal income tax purposes for such portion of the taxable year or for a prior taxable year. For example, a dividend with a record date prior to the change of residence shall be accrued to the period prior to the change of residence, even though it is not actually paid until after the change of residence has occurred. The amounts of accrued items of an individual are determined, with the applicable modifications required by §§ 12-701(a)(20)-2 and 12-701(a)(20)-3 of Part I, as if such accrued items were includible or allowable for federal income tax purposes.

(b) The provisions of this section also apply to part-year resident trusts, and wherever reference is made in this section to a part-year resident individual, such reference shall be construed to include a part-year resident trust, and any reference to modifications required to an individual's Connecticut adjusted gross income by §§ 12-701(a)(20)-2 and 12-701(a)(20)-3 of Part I shall be construed to mean modifications required to a trust's Connecticut taxable income by §§ 12-701(a)(10)-2 and 12-701(a)(10)-3 of Part IV.

(c) While this section pertains to Section 12-717(c)(2) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-717(c)(3)-1. Accrued items not to be included in subsequent taxable periods

(a) No items of income, gain, loss or deduction accrued under this section by a part-year resident individual for the portion of the taxable year prior to a change of resident status are to be taken into account in determining the Connecticut adjusted gross income of the individual (or, with respect to the same items of income, gain, loss or deduction, any other individual) for any subsequent taxable period.

(b) The provisions of this section also apply to part-year resident trusts, and wherever reference is made in this section to a part-year resident individual, such reference shall be construed to include a part-year resident trust, and any reference

to an individual's Connecticut adjusted gross income shall be construed to mean a trust's Connecticut taxable income.

(c) Example:

F, a resident of California, who, for federal income tax purposes, uses the cash receipts and disbursements method of accounting and uses the calendar year as her accounting period, performs services as an employee in California in July 1993, for which she is paid $10,000 in September 1993. F also owns Connecticut real estate which she leases for $500 per month. The rent is paid to her for the first four months of 1993 but no rent is paid from May 1, 1993 to December 31, 1993, when all arrears are paid up. The taxpayer, away from home on business in July, has travel expenses of $1,000 which were billed to her on August 1, 1993.

On August 10, 1993, F moves to Connecticut where, on September 1, 1993, she receives the $10,000 payable for her services performed in California and pays the travel expense bill. She has no other income or deduction for the year 1993.

F shall file a Connecticut part-year resident income tax return for 1993. The $10,000 compensation and the $1,000 travel expenses are accrued as of the change of residence, and are not includible or allowable in computing F's Connecticut adjusted gross income during the residency portion of the taxable year because they accrued prior to the change of residence and are not derived from or connected with Connecticut sources. The rental payments from Connecticut real estate remaining unpaid as of the change of residence are not accrued because they are derived from Connecticut sources (see § 12-717(c)(2)-1 of this Part). Accordingly, on her 1993 Connecticut part-year resident income tax return, F shall include in her Connecticut adjusted gross income derived from or connected with Connecticut sources during the nonresidency portion of the taxable year the $2,000 rent from the Connecticut real estate actually received during this period. She shall include in her Connecticut adjusted gross income during the residency portion of the taxable year the balance of the rent ($4,000) received after her change of residence, but not the amount received for her services in California or the related travel expenses, which were accrued as of her change of residence to the nonresidency portion of the taxable year.

(c) While this section pertains to Section 12-717(c)(3) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-717(c)(4)-1. Special accruals not required in certain cases

(a) **General.**

(1) The special accruals required by this Part for a part-year resident individual changing his or her status from resident to nonresident need not be made if the individual elects to defer Connecticut income tax by filing with the Department a surety bond or other security as provided herein. Except with regard to withholding from Connecticut lottery winnings (see subdivision (c)(5) below), such surety bond or other security shall be in an amount not less than the amount of additional Connecticut income tax which would be payable if no surety bond or other security were filed. The filing of a surety bond or other security is conditioned upon the filing for one or more subsequent taxable years of Connecticut nonresident individual income tax returns and the inclusion therein of amounts accruable in Connecticut adjusted gross income for one or more subsequent taxable years as if such individual had not changed resident status (i.e., such accruable amounts shall be reported as

amounts derived from or connected with Connecticut sources during those one or more subsequent taxable years). The additional Connecticut income tax which is considered in determining the amount of the surety bond or other security (except in the case of withholding from Connecticut lottery winnings) which the individual would be required to furnish is based on the amount on which the individual would have been obliged to pay tax if no bond or other security had been filed, taking into account all accrued items of income, gain, loss, deduction and any of the modifications of §§ 12-701(a)(20)-2 and 12-701(a)(20)-3 of Part I.

(2) If a part-year resident individual elects to defer Connecticut income tax in accordance with the provisions of this section, such taxpayer shall forward with the Connecticut part-year resident income tax return a separate statement showing the nature and amount of each item of accrued income, gain, loss and deduction as of the date of the change of residence, together with a computation of the additional Connecticut income tax which would be due if the election provided by this section had not been made and if the accrued items were properly included in Connecticut adjusted gross income during the residency portion of the taxable year on the Connecticut part-year resident income tax return. In making such election, which shall be binding upon the part-year resident individual's heirs, representatives, assigns, successors, executors and administrators, the part-year resident individual expressly agrees to file the Connecticut nonresident income tax return or returns as required by this section and to include thereon the amounts so accruable under this section as amounts derived from or connected with Connecticut sources and consents to personal jurisdiction in Connecticut for Connecticut income tax purposes.

(3) A part-year resident trust is also entitled to file a surety bond or other security as provided in this section. Wherever reference is made in this section to a part-year resident individual, such reference shall be construed to include a part-year resident trust, provided any reference to a part-year resident individual's Connecticut adjusted gross income shall be construed to mean a resident trust's Connecticut taxable income.

(b) **Surety bond**. If an individual makes the election described in subsection (a) of this section and chooses to file a surety bond with the Department, the individual shall use Form CT-12-717A. The form shall be executed by a surety company which is registered with, and under the supervision of, the Insurance Department of the State of Connecticut; in an amount not less than the amount of deferred Connecticut income tax determined under subsection (a) of this section; sent by registered mail to the Director, Operations Division, Department of Revenue Services, 25 Sigourney Street, Hartford, CT 06106; and accompanied by the statement referred to in subdivision (a)(2) of this section. The individual shall also attach a copy of Form CT-12-717A and the statement referred to in subdivision (a)(2) of this section to his or her Connecticut part-year resident income tax return.

(c) **Security.**

(1) If an individual makes the election described in subsection (a) of this section and offers security to the Department as collateral in lieu of a surety bond, the individual shall use Form CT-12-717B to describe the collateral. The following types of security shall be accepted as collateral:

(A) bank passbooks and certificates of deposit;

(B) irrevocable standby letters of credit made payable to the Connecticut Department of Revenue Services; and

(C) evidence of withholding of Connecticut income tax from Connecticut lottery winnings payments (see subdivision (c)(5) below).

(2) The security offered as collateral by the individual shall be sent by registered mail to the Director, Operations Division, Department of Revenue Services, 25 Sigourney Street, Hartford, CT 06106, with the following items applicable to the taxable year that the change of residence occurred: a copy of the Connecticut part-year resident income tax return; any schedule required to be filed with such return; and the statement referred to in subdivision (a)(2) of this section. The individual shall also attach a copy of Form CT-12-717B and the statement referred to in subdivision (a)(2) of this section to his or her Connecticut part-year resident income tax return.

(3) Bank passbooks and certificates of deposit offered as collateral under this section shall be in an amount not less than the amount of deferred Connecticut income tax, as determined under subsection (a) of this section. Such bank passbooks and certificates of deposit shall represent money on deposit with a financial institution approved by the Department. Certificates of deposit shall have maturity dates at least one year subsequent to the date of filing with the Department. Additionally, bank passbooks and certificates of deposit offered under this section shall be:

(A) prepared in the name of the taxpayer making the election described in subsection (a) of this section;

(B) accompanied by a signed undated withdrawal slip;

(C) accompanied by a letter prepared on the letterhead of the bank and signed by an officer of the bank:

(i) identifying the passbooks or certificates of deposit by account number and confirming that withdrawal of principal from the passbook or certificate of deposit offered as collateral shall not be permitted without written consent from the Connecticut Department of Revenue Services, and

(ii) stating that any right of setoff which the bank may possess against the taxpayer resulting from a defaulted obligation of such taxpayer shall be subordinated to the interest of the Department in the passbook or certificate of deposit offered as collateral; and

(D) accompanied by a properly completed letter of transmittal in such form as the Department may require, advising that the proceeds of such passbook accounts or certificates of deposit may be withdrawn by the Department and applied against the taxes due; provided, however, that any interest accruing on such accounts or certificates shall belong to the taxpayer.

(4) Standby letters of credit offered as collateral under this section shall:

(A) be irrevocable for such period of time as the Department determines;

(B) be made payable to the Connecticut Department of Revenue Services;

(C) be for the amount of the deferred Connecticut income tax rounded up to the next higher thousand dollars;

(D) be issued or confirmed by a financial institution approved by the Department; and

(E) contain such other payment terms as are acceptable to the Department.

(5) **Lottery winnings.** Where Connecticut lottery winnings are subject to the special accrual rules of section 12-717 of the general statutes and a payee submits verifiable information from the Connecticut Lottery Corporation which shows the proper amount of income tax withholding to the Department of Revenue Services, in addition to Form CT-12-717B and the information required by subdivision (a)(2) of this section, such withholding serves as collateral, in lieu of the special accruals otherwise required, but only with respect to those same Connecticut lottery winnings.

(d) **Exception to requirement of surety bond or security.** If all of the amounts ordinarily accruable, as provided in this Part, are received by an individual during the portion of the year subsequent to the change of resident status, such taxpayer may, instead of accruing to the portion of the year prior to the change of status, include such amounts in Connecticut adjusted gross income derived from or connected with Connecticut sources for the portion of the year subsequent to the change of status. If the taxpayer does this, no surety bond or other security is required.

(e) While this section pertains to Section 12-717(c)(4) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended July 3, 2003)

Sec. 12-717-1. Part-year residents: capital losses and passive activity losses

(a) Where an individual changes resident status during the taxable year, the capital gains or losses or passive activity income or loss attributable to such individual are to be computed separately for the period of residence and for the period of nonresidence. In each case the computation of the capital gain or loss or passive activity income or loss to be computed as if separate federal income tax returns had been filed for the period of residence and for the period of nonresidence, except that:

(1) the separate computations applicable to the respective periods of residence and nonresidence shall include any special accruals required in this Part; and

(2) the capital gain or loss or passive activity income or loss to be reported on the Connecticut part-year resident income tax return for the period of nonresidence includes only those capital gains and losses or passive activity income and losses reported for federal income tax purposes which are derived from or connected with Connecticut sources during the nonresident period.

(b)(1) A capital loss carryforward or suspended passive activity loss from a Connecticut taxable year preceding the taxable year in which the change of residence occurred shall retain its original character and be treated in the same manner as for federal income tax purposes in determining the net capital gain or loss or passive activity income or loss attributable to the respective periods of residence or nonresidence.

(2) The amount available as a carryforward loss from a preceding Connecticut taxable year to the taxable year that the change of residence occurred shall be applied, as for federal income tax purposes, in chronological order as if separate federal income tax returns had been filed for the period of residence and for the period of nonresidence, except that where the change of residence is from nonresident to resident, effect shall be given in any subsequent year to any capital loss carryforward or suspended passive activity loss computed on the Connecticut income tax return for the period subsequent to the change of residence only to the extent such capital loss carryforward or suspended passive activity loss is includible in computing federal adjusted gross income of the individual for the subsequent year or years.

(3) The amount available as a carryforward to the resident period in the taxable year that the change of residence occurred is the same amount which would be available as a capital loss carryforward or suspended passive activity loss if a federal income tax return were being filed for the period of residence.

(4) The provisions of § 12-711(b)-6 of Part II apply in determining the Connecticut adjusted gross income derived from or connected with Connecticut sources of an individual for the period of nonresidence.

(5) Anything to the contrary in this section notwithstanding, no loss sustained in a taxable year that was not a Connecticut taxable year may be carried forward to a succeeding Connecticut taxable year. In addition, no loss sustained in a Connecticut taxable year may be carried back to a preceding taxable year that was not a Connecticut taxable year.

(6) For purposes of this section, ''Connecticut taxable year'' means a taxable year beginning on or after January 1, 1991 (the effective date of the Connecticut Income Tax Act).

(c) The provisions of this section also apply to part-year resident trusts, and wherever reference is made in this section to a part-year resident individual, such reference shall be construed to include a part-year resident trust, and any reference to a part-year resident individual's Connecticut adjusted gross income, Connecticut adjusted gross income for the period of residence or Connecticut adjusted gross income derived from or connected with Connecticut sources for the period of nonresidence shall be construed to mean a part-year resident trust's Connecticut taxable income, Connecticut taxable income for the period of residence or Connecticut taxable income derived from or connected with Connecticut sources for the period of nonresidence, respectively. The provisions of §§ 12-713(a)-1 through 12-714(a)-2 of Part IV shall apply in determining the income derived from or connected with sources within Connecticut of a part-year resident trust for the period of nonresidence.

(d) While this section pertains to Section 12-717 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-711(b)(3) of the general statutes.

(Effective November 18, 1994)

Sec. 12-717-2. Part-year residents: net operating loss deduction

(a) **Change of status from resident to nonresident.** Where the federal income tax return of an individual for a taxable year in which such taxpayer changes resident status from resident to nonresident includes a net operating loss deduction, the amount of such deduction used for federal income tax purposes for the period of residence shall be taken into account on the Connecticut income tax return for the period of residence. Any excess of the amount of the net operating loss deduction not used for the period of residence may be used for the period of nonresidence, but only to the extent that such excess is based solely on items of income, gain, loss and deduction derived from or connected with Connecticut sources.

(b) **Change of status from nonresident to resident.** In computing the Connecticut adjusted gross income derived from or connected with Connecticut sources of an individual for the period of nonresidence, any net operating loss deduction shall be based solely on items of income, gain, loss and deduction derived from or connected with Connecticut sources. For purposes of this subsection, the source of the net operating loss shall be determined by reference to the source of the items of income, gain, loss and deduction for the taxable year or years in which the net operating loss was sustained. A net operating loss deduction may be applied to the period of residence in the amount which would be allowed as a net operating loss deduction for federal income tax purposes, if a federal income tax return had been filed for the period of residence.

(c) **Carryback and carryforward of net operating loss.** A net operating loss sustained in the taxable year in which the change of resident status occurs may be a carryback or carryforward to another taxable year under the following conditions:

(1) If the taxable year to which the carryback or carryforward is to be applied is a taxable year in which an individual is a resident, such carryback or carryforward may be applied for the period of residence to the extent such carryback or carryforward is includible as a carryback or carryforward in the computation of federal adjusted gross income of an individual for the carryback or carryforward year.

(2) If the taxable year to which the carryback or carryforward is to be applied is a taxable year in which an individual is a nonresident, such carryback or carryforward may be applied for the period of nonresidence to the extent that such carryback or carryforward is based solely on items of income, gain, loss or deduction derived from or connected with Connecticut sources.

(3) Anything to the contrary in this section notwithstanding, no loss sustained in a taxable year that was not a Connecticut taxable year may be carried forward to a succeeding taxable year. In addition, no loss sustained in a Connecticut taxable year may be carried back to a preceding taxable year that was not a Connecticut taxable year.

(4) For purposes of this section, ''Connecticut taxable year'' means a taxable year beginning on or after January 1, 1991 (the effective date of the Connecticut Income Tax Act).

(d) The provisions of this section also apply to part-year resident trusts, and wherever reference is made in this section to a part-year resident individual, such reference shall be construed to include a part-year resident trust, and any reference to a part-year resident individual's Connecticut adjusted gross income, Connecticut adjusted gross income for the period of residence or Connecticut adjusted gross income derived from or connected with Connecticut sources for the period of nonresidence shall be construed to mean a resident trust's Connecticut taxable income, Connecticut taxable income for the period of residence or Connecticut taxable income derived from or connected with Connecticut sources for the period of nonresidence, respectively.

(e) While this section pertains to Section 12-717 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-711(b)(3) of the general statutes.

(Effective November 18, 1994)

Sec. 12-717-3. Part-year residents: income or loss from business, trade, profession or occupation

(a) Where the federal income tax return of an individual for a taxable year in which a change of resident status occurs includes net income or net loss from the operation of a business, trade, profession or occupation (as distinguished from personal services rendered as an employee), a separate computation of the business net income or net loss shall be made with respect to each portion of the year in which the change of residence occurred. If it is not practicable to compute separate amounts of business net income or net loss attributable to such portions of the taxable year, the amount reportable on the federal income tax return for the entire taxable year may be allocated to the portion prior to and the portion subsequent to the change of residence on the basis of the federal gross income or gross receipts of the business, trade, profession or occupation attributable to each portion, provided that the results of such allocation are consistent with the business or professional activities actually carried on during the taxable year. The amount computed in accordance with this subsection is subject to the provisions of this Part regarding

special accruals, to the extent such accruals relate to the conduct of the business, trade, profession or occupation.

(b) The provisions of this section also apply to part-year resident trusts, and wherever reference is made in this section to a part-year resident individual carrying on a business, trade, profession or occupation, such reference shall be construed to include a part-year resident trust carrying on a business, trade, profession or occupation.

(c) While this section pertains to Section 12-717 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-711(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-717-4. Part-year residents: distributive or pro rata share of partners and S corporation shareholders

(a) **Partners**. Where an individual is a partner in a partnership and such individual changes resident status during the taxable year, the partner's distributive share of partnership income, gain, loss and deduction, and any modifications relating thereto described in § 12-715(a)-1 of Part VII, to be included in the determination of the numerator of the partner's Connecticut source fraction under § 12-700(c)-1 of this Part shall be the total of:

(1) the partner's distributive share of partnership income, gain, loss and deduction included in the partner's Connecticut adjusted gross income prorated to the partner's period of residence in accordance with the number of days such individual was a resident of Connecticut; and

(2) the partner's distributive share of partnership income, gain, loss and deduction included in the partner's Connecticut adjusted gross income prorated to the partner's period of nonresidence in accordance with the number of days such individual was a nonresident of Connecticut, but only to the extent such prorated amount of income, gain, loss and deduction is derived from or connected with Connecticut sources.

(3) Examples.

Example 1: D, an unmarried cash basis taxpayer, filed a 2001 federal income tax return on a calendar year basis and properly reported thereon federal adjusted gross income of $50,000, $40,000 of which was from the R Partnership, whose taxable year ended on December 31, 2001. The R Partnership carried on business both within and without Connecticut and 60% of its income, gain, loss and deduction for such year was derived from or connected with Connecticut sources. D was a resident of Connecticut from January 1, 2001 through July 31, 2001 and became a nonresident on August 1, 2001. The balance ($10,000) of D's federal adjusted gross income was attributable to his period of nonresidence and was not derived from or connected with Connecticut sources. D's Connecticut adjusted gross income equals his federal adjusted gross income.

Based on the foregoing, D shall file a Connecticut part-year resident income tax return for the taxable year. D's tentative Connecticut income tax liability under § 12-700(c)-1, determined as if D were a resident, is $1,932 (based on Connecticut adjusted gross income of $50,000). The numerator of the Connecticut source fraction is the sum of (i) D's distributive share of partnership income, gain, loss and deduction included in his Connecticut adjusted gross income prorated to the period of D's residence in accordance with the number of days (212) D was a resident ($40,000 multiplied by 212/365) and (ii) D's distributive share of partnership income, gain, loss and deduction included in his Connecticut adjusted gross income prorated to

the period of D's nonresidence in accordance with the number of days (153) D was a nonresident, but only to the extent such prorated amount of income, gain, loss and deduction was derived from or connected with Connecticut sources ($40,000 multiplied by 153/365 multiplied by 60%), and the denominator is D's Connecticut adjusted gross income ($50,000). D's Connecticut income tax is $1,286, determined by multiplying the tentative Connecticut income tax ($1,932) by the Connecticut source fraction ($33,293/$50,000).

Example 2: Assume the same facts as in Example 1 except that the R partnership's taxable year ended on May 31, 2001 and E, an unmarried cash basis taxpayer who was also a partner in the R Partnership and who filed a 2001 federal income tax return on a calendar year basis and properly reported thereon federal adjusted gross income of $50,000, $40,000 of which was from the R Partnership, was a nonresident of Connecticut from January 1, 2001 through September 30, 2001 and became a resident on October 1, 2001. The balance ($10,000) of E's federal adjusted gross income was attributable to her period of nonresidence and was not derived from or connected with Connecticut sources. E's Connecticut adjusted gross income equals her federal adjusted gross income.

Based on the foregoing, E's tentative Connecticut income tax liability under § 12-700(c)-1, determined as if E were a resident, is the same as in Example 1 $1,932. The denominator of the Connecticut source fraction is also the same as in Example 1 (Connecticut adjusted gross income of $50,000). The numerator of the Connecticut source fraction is the sum of (i) E's distributive share of partnership income, gain, loss and deduction included in her Connecticut adjusted gross income prorated to the period of E's residence in accordance with the number of days (92) E was a resident ($40,000 multiplied by 92/365) and (ii) E's distributive share of partnership income, gain, loss and deduction included in her Connecticut adjusted gross income prorated to the period of E's nonresidence in accordance with the number of days (273) E was a nonresident, but only to the extent such prorated amount of income, gain, loss and deduction was derived from or connected with Connecticut sources ($40,000 multiplied by 273/365 multiplied by 60%). E's Connecticut income tax is $1,083, determined by multiplying the tentative Connecticut income tax ($1,932) by the Connecticut source fraction ($28,033/$50,000).

(b) **S corporation shareholders.** Where an individual is a shareholder of an S corporation and such individual changes resident status during the taxable year, the provisions of subsection (a) of this section apply with respect to such shareholder's pro rata share of S Corporation income, gain, loss and deduction, and any modifications relating thereto described in § 12-715(a)-2 of Part VII.

(c) **Part-year resident trusts.** The provisions of this section also apply to part-year resident trusts, and wherever reference is made in this section to a part-year resident individual who is a partner or a shareholder of an S corporation, such reference shall be construed to include a part-year resident trust that is a partner or a shareholder of an S corporation, and any reference to an individual's Connecticut adjusted gross income and Connecticut adjusted gross income derived from or connected with Connecticut sources shall be construed to include a trust's Connecticut taxable income and Connecticut taxable income derived from or connected with Connecticut sources, respectively.

(d) While this section pertains to Section 12-717 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994; amended June 29, 2001, applicable to taxable years beginning on or after January 1, 2001)

Sec. 12-717-5. Taxpayers to whom the special accrual rules apply

(a) The special accrual rules set forth in this Part apply to taxpayers who are part-year residents in a taxable year beginning on or after January 1, 1991, and do not apply to taxpayers who are part-year residents in a taxable year beginning prior to January 1, 1991.

(b) Examples.

Example 1: B is a part-year resident in his taxable year beginning January 1, 1991, having moved out-of-state in October 1991. B sold shares of stock in November 1990 and, for federal income tax purposes, recognized gain on the installment basis. B is subject to the special accrual rules of this Part and shall either accrue the remaining installments to his period of residence in 1991 or file a surety bond or other security with the Department. See § 12-717(c)(1)-1.

Example 2: Assume the same facts, including the fact that B is a part-year resident in his taxable year beginning January 1, 1991, but he moved into Connecticut in October 1991. B is subject to the special accrual rules of this Part and shall accrue the remaining installments to his period of nonresidence in 1991. See § 12-717(c)(2)-1. The gain accrued under this section for the portion of the taxable year prior to a change of residence is not to be taken into account in determining the Connecticut adjusted gross of B for any subsequent taxable period. See § 12-717(c)(3)-1.

Example 3: C was a part-year resident in her taxable year beginning January 1, 1990, having moved out-of-state in June 1990. She had won the Connecticut lottery in 1989 when she was a resident individual. C is not subject to the special accrual rules of this Part and is not required to accrue any portion of her lottery winnings (paid in installments) to Connecticut because the year in which she was a part-year resident was a taxable year beginning prior to January 1, 1991. (If C was a part-year resident in her taxable year beginning January 1, 1991, she would have the option of accruing the remaining installments to her period of residence or, in lieu of offering security for payment of the tax, having income tax withheld by the Division of Special Revenue. See § 12-717(c)(4)-1.)

Example 4: D was a part-year resident in her taxable year beginning on January 1, 1989, having moved into Connecticut in July 1989. In 1988, while a nonresident, D sold real property located in Connecticut and, for federal income tax purposes, recognized gain on the installment basis. D is not subject to the special accrual rules of this Part because the year in which she was a part-year resident was a taxable year beginning prior to January 1, 1991. D shall pay Connecticut income tax on each installment payment received after becoming a resident individual. (If D was a part-year resident in her taxable year beginning January 1, 1991, she would be subject to the special accrual rules but would not accrue items of income, gain, loss or deduction which are derived from or connected with Connecticut sources. (Such items are to be includable or allowable for Connecticut income tax purposes when properly includable or allowable for federal income tax purposes.) See § 12-717(c)(2)-1.)

(c) While this section pertains to Section 12-717 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

PART IV. Resident and nonresident trusts and estates

Sec. 12-701(a)(4)-1. Resident trust or estate

(a) The term ''resident trust or estate'' includes:

(1) the estate of a decedent who, at the time of death, was a resident individual;

(2) the estate of a person who, at the time of commencement of a case in bankruptcy under Title 11 of the United States Code, was a resident individual, but shall not include the estate of such a person in a case under chapter 7 of Title 11 of the United States Code unless such estate has net taxable income, as the term is used in 11 U.S.C. § 728(b), for the entire period after the order for relief under said chapter 7 during which said case is pending;

(3) a trust, or portion of a trust, consisting of property transferred by will of a decedent who, at the time of death, was a resident individual; or

(4) a trust, or portion of a trust, consisting of the property of:

(A) a person who was a resident individual at the time such property was transferred to the trust, if such trust or portion of a trust was then irrevocable, or if it was then revocable and has not subsequently become irrevocable; or

(B) a person who was a resident individual at the time such trust, or portion of a trust, became irrevocable, if it was revocable when such property was transferred to the trust but has subsequently become irrevocable.

Example: B, who is domiciled in Canada, creates a trust with the X Trust Company in Connecticut as trustee. The entire corpus of the trust consists of securities of United States corporations, which are actively traded by the trustee on the New York Stock Exchange. The beneficiaries of the trust are all Connecticut residents. Regardless of whether the trust is deemed to be a resident of the United States for federal income tax purposes, it is, for Connecticut income tax purposes, a nonresident trust.

(b) For purposes of subsection (a) of this section, a trust or portion of a trust is revocable if it is subject to a power in the grantor, exercisable immediately or at any future time, to revest title in the person whose property constitutes such trust or portion of a trust, and a trust or portion of a trust becomes irrevocable when the possibility that such power may be exercised has been terminated.

(c) The determination of whether a trust is a resident trust does not depend on the location of the trustee or the corpus of the trust or the source of income.

(d)(1) Where there is more than one grantor, at least one of whom is a resident individual and at least one of whom is a nonresident individual, the term ''portion of a trust'' means property that was contributed by the resident individual or individuals and that has not been commingled with, and has maintained its separate identity from, property that was contributed by a nonresident individual or individuals.

(2) The term ''portion of a trust'' also includes property that was contributed by the resident individual or individuals that has been commingled with, and has not maintained its separate identity from, property that was contributed by a nonresident individual or individuals, and, where property has been so commingled, the term ''portion of a trust'' includes that percentage of the commingled property that the fair market value of the commingled property contributed by the resident individual or individuals, at the time of its contribution (or, if not immediately commingled after being contributed, at the time of its commingling), bears to the fair market value, at that same time, of the commingled property contributed then or earlier by all individuals, resident or nonresident. Where commingled property was contributed at different times, the percentage of the commingled property that is in the resident

portion of the trust shall be recalculated as of the time of the most recent contribution of commingled property.

(3) The provisions of this subsection also apply to grantors that are trusts or estates, and wherever reference is made in this subsection to a resident individual or to a nonresident individual, such reference shall be construed to include a resident trust or estate or a nonresident trust or estate, respectively.

(e) While this section pertains to Section 12-701(a)(4) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-701(a)(9)-1. Connecticut taxable income of a resident trust or estate

(a) The Connecticut taxable income of a resident trust (other than a nontestamentary trust with one or more nonresident noncontingent beneficiaries) or resident estate (other than a bankruptcy estate in a case under chapter 7 or chapter 11 of title 11 of the United States Code in which the debtor is an individual) is the federal taxable income of the fiduciary of such trust or estate to which shall be added or subtracted, as the case may be, such trust or estate's share of the Connecticut fiduciary adjustment, as defined in this Part. Additionally, with respect to a trust which sells appreciated property within two years of the receipt of such property, there shall be added to federal taxable income the amount of any includible gain, as that term is defined in section 644 of the Internal Revenue Code.

(b)(1) The Connecticut taxable income of a resident nontestamentary trust with one or more nonresident noncontingent beneficiaries shall be the sum of:

(A) all of the Connecticut taxable income of the trust that is derived from or connected with sources within this state, and

(B) the Connecticut taxable income of the trust that is derived from or connected with all other sources multiplied by a fraction, the numerator of which is the number of resident noncontingent beneficiaries, if any, and the denominator of which is the total number of noncontingent beneficiaries, whether resident or nonresident.

(2) ''Derived from or connected with sources within this state'' is to be so construed so as to accord with the definition of the term ''derived from or connected with sources within this state'' set forth in Part II in relation to the adjusted gross income of a nonresident individual.

(3) For purposes of this subsection, ''noncontingent beneficiary'' means every beneficiary whose interest is not subject to a condition precedent and includes every individual to whom a trustee of a nontestamentary trust during the taxable year (i) is required to distribute currently income or corpus (or both) or (ii) properly pays or credits income or corpus (or both) or (iii) may, in the trustee's discretion, distribute income or corpus (or both). ''Noncontingent beneficiary'' includes every beneficiary to whom or to whose estate any of the trust's income for the taxable year is required to be distributed at a specified future date or event and every beneficiary who has the unrestricted lifetime or testamentary power, exercisable currently or at some future specified date or event, to withdraw any of the trust's income for the taxable year or to appoint such income to any person, including the estate of such beneficiary. The provisions of this subsection also apply to a noncontingent beneficiary which is a trust or an estate, and wherever reference is made in this subsection to an individual who is a noncontingent beneficiary, such reference shall be construed to include a trust or estate which is a noncontingent beneficiary, but shall not be construed to include a corporation which is a noncontingent beneficiary.

(c) Where the grantor of a trust or another person is treated for federal income tax purposes as the owner of any portion of the trust, and, in computing, for federal income tax purposes, the taxable income of such grantor or other person, those items of income or deduction that are attributable to that portion of the trust are taken into account, the same items of income or deduction are not taken into account in determining the federal taxable income of the fiduciary of the trust or, accordingly, the Connecticut taxable income of the trust.

(d)(1) Where there is more than one grantor of a trust, at least one of whom is a resident individual and at least one of whom is a nonresident individual, the Connecticut taxable income of the resident portion of the trust is the sum of:

(A) that portion of the federal taxable income of the fiduciary of such trust that is derived from property that was contributed by the resident individual or individuals and that has not been commingled with, and has maintained its separate identity from, property that was contributed by a nonresident individual or individuals.

(B) that portion of the amount of any includible gain, as that term is defined in section 644 of the Internal Revenue Code, that is derived from the sale or other disposition of property that was contributed by the resident individual or individuals and that has not been commingled with, and has maintained its separate identity from, property that was contributed by a nonresident individual or individuals.

(C) that portion of the trust's share of the Connecticut fiduciary adjustment that is derived from property that was contributed by the resident individual or individuals and that has not been commingled with, and has maintained its separate identity from, property that was contributed by a nonresident individual or individuals.

(2) Where property that was contributed by a resident individual or individuals has been commingled with, and has not maintained its separate identity from, property that was contributed by a nonresident individual or individuals, the Connecticut taxable income of the resident portion of the trust is the product of (A) the sum of (i) the federal taxable income of the trust, (ii) the amount of any includible gain, as that term is defined in section 644 of the Internal Revenue Code, and (iii) the trust's share of the Connecticut fiduciary adjustment, multiplied by (B) the percentage that is determined under § 12-701(a)(4)-1(d)(2).

(3) If the trust consists of both commingled and noncommingled property, the Connecticut taxable income of the resident portion of the trust is the sum of (A) the amount that is determined under subdivision (1) of this subsection and (B) the amount that is determined under subdivision (2) of this subsection.

(e)(1) Where there is more than one grantor of a trust, at least one of whom is a resident individual and at least one of whom is a nonresident individual, the Connecticut taxable income derived from or connected with sources within Connecticut of the nonresident portion of the trust is the sum of:

(A) that portion of the federal taxable income of the fiduciary of such trust (i) that is derived from property that was contributed by the nonresident individual or individuals and that has not been commingled with, and has maintained its separate identity from, property that was contributed by a resident individual or individuals and (ii) that is derived from or connected with Connecticut sources, in accordance with § 12-713(a)-4.

(B) that portion of the amount of any includible gain, as that term is defined in section 644 of the Internal Revenue Code, (i) that is derived from the sale or other disposition of property that was contributed by the nonresident individual or individuals and that has not been commingled with, and has maintained its separate identity from, property that was contributed by a resident individual or individuals

and (ii) that is derived from or connected with Connecticut sources, in accordance with § 12-713(a)-4.

(C) that portion of the trust's share of the Connecticut fiduciary adjustment (i) that is derived from property that was contributed by the nonresident individual or individuals has not been commingled with, and has maintained its separate identity from, property that was contributed by a resident individual or individuals and (ii) that is derived from or connected with Connecticut sources, in accordance with § 12-713(a)-4.

(2) Where property that was contributed by a nonresident individual or individuals has been commingled with, and has not maintained its separate identity from, property that was contributed by a resident individual or individuals, the Connecticut taxable income derived from or connected with sources within Connecticut of the nonresident portion of the trust is the product of (A) the sum of (i) the federal taxable income of the trust, (ii) the amount of any includible gain, as that term is defined in section 644 of the Internal Revenue Code, and (iii) the trust's share of the Connecticut fiduciary adjustment, multiplied by (B) the difference after subtracting (i) the percentage that is determined under § 12-701(a)(4)-1(d)(2) from (ii) one, multiplied by (C) the percentage of Connecticut taxable income that is derived from or connected with Connecticut sources, determined in accordance with § 12-713(a)-4.

(3) If the trust consists of both commingled and noncommingled property, the Connecticut taxable income derived from or connected with sources within Connecticut of the nonresident portion of the trust is the sum of (A) the amount that is determined under subdivision (1) of this subsection and (B) the amount that is determined under subdivision (2) of this subsection.

(f) The provisions of subsections (d) and (e) of this section also apply to grantors that are trusts or estates, and wherever reference is made in such subsections to a resident individual or to a nonresident individual, such reference shall be construed to include a resident trust or estate or a nonresident trust or estate, respectively.

(g)(1) The Connecticut taxable income of a bankruptcy estate in a case under chapter 7 or chapter 11 of title 11 of the United States Code in which the debtor is a resident individual is, as required by 11 U.S.C. § 346(b)(2), computed in the same manner as the Connecticut taxable income of any other estate. Therefore, the estate is not entitled to an exemption under Section 12-702 of the general statutes or to a credit under Section 12-703 of the general statutes.

(2) In the computation of Connecticut adjusted gross income of a resident individual who is a debtor in a case under chapter 7 or chapter 11 of title 11 of the United States Code, the provisions of section 1398 of the Internal Revenue Code affecting the computation of such individual's federal adjusted gross income shall apply, to the extent they are not superseded by the provisions of 11 U.S.C. §§ 346 and 728. In general, such individual shall compute his or her Connecticut adjusted gross income in the same manner as other individuals (using his or her federal adjusted gross income as the starting point), and may or may not, as the case may be, be entitled to an exemption under Section 12-702 of the general statutes or to a credit under Section 12-703 of the general statutes.

(h) While this section pertains to Section 12-701(a)(9) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-701(a)(10)-1. Definition of Connecticut fiduciary adjustment

(a) The ''Connecticut fiduciary adjustment'' is the net amount of the modifications described in §§ 12-701(a)(10)-2 and 12-701(a)(10)-3 of this Part which relate to items of income, gain, loss or deduction of the trust or estate.

(b) *Example:* A resident trust has the following modifications for 1992:

Additions:	
(1) Interest income received on bonds of the State of California.	$1000
(2) Exempt interest dividends (as defined in section 852(b)(5) of the Internal Revenue Code) on obligations issued by the State of California	350
Total additions:	$1350
Subtractions:	
(3) Interest income received on U.S. government bonds	$ 600
(4) Exempt dividends paid by a regulated investment company	400
Total subtractions.	$1000
Connecticut fiduciary adjustment	$ 350

Since the total of the items to be added to federal taxable income is more than the total of the items to be subtracted, the share of the trust in the fiduciary adjustment is added to its federal taxable income, and the share of its beneficiaries in the fiduciary adjustment shall be added to their federal adjusted gross incomes. If the total of the items to be added to federal taxable income were less than the total of items to be subtracted, the share of the trust would be subtracted from its federal taxable income and the share of its beneficiaries in the fiduciary adjustment would be subtracted from their federal adjusted gross incomes.

(c) While this section pertains to Section 12-701(a)(10) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-701(a)(10)-2. Modifications comprising the Connecticut fiduciary adjustment: additions

(a) The following items are to be added in computing the Connecticut fiduciary adjustment of a trust or estate:

(1) Interest income on obligations issued by or on behalf of any state or of a political subdivision, or public instrumentality, state or local authority, district or similar public entity of such state, and interest income on obligations issued by or on behalf of the District of Columbia. However, interest income on Connecticut obligations is not to be added to federal taxable income of the trust or estate. Furthermore, interest income on obligations issued by or on behalf of any territory or possession of the United States (such as Puerto Rico, Guam and the Virgin Islands), or a political subdivision or public instrumentality, authority, district or similar public entity thereof, the taxation of which by any state is prohibited by federal law, is not be added to federal taxable income.

(2)(A) Any exempt-interest dividends, as defined in section 852(b)(5) of the Internal Revenue Code. However, exempt-interest dividends derived from Connecticut obligations are not to be added to federal taxable income. Furthermore, exempt-interest dividends derived from obligations issued by or on behalf of any territory or possession of the United States (such as Puerto Rico, Guam and the Virgin Islands), or a political subdivision or public instrumentality, authority, district or

similar public entity thereof, the direct taxation of which by any state is prohibited by federal law, are not to be added to federal taxable income.

(B) *Example:* A resident trust receives $1,000 in exempt-interest dividends from a mutual fund that owns governmental obligations issued by or on behalf of various states, including Connecticut, and by or on behalf of the territory of Guam. If 45% of the exempt-interest dividends was derived from Connecticut obligations, 20% from New York obligations, 10% from Massachusetts obligations and 25% from Guam obligations, then the amount that is to be added to federal taxable income is $300 (that is, the percentage of exempt-interest dividends that is not derived from Connecticut obligations and other obligations, the direct taxation of which by any state is prohibited by federal law). The percentage of exempt-interest dividends derived from Connecticut obligations and Guam obligations is not to be added to federal taxable income.

(3) Interest or dividend income on obligations or securities of any authority, commission or instrumentality issued by or on behalf of the United States, which the laws of the United States exempt from federal income tax but not from state income taxes.

(4)(A) To the extent properly includible in determining the net gain or loss from sales or other dispositions of capital assets for federal income tax purposes, any loss from the sale or exchange of Connecticut obligations, in the taxable year such loss was recognized, whether or not, for federal income tax purposes, gains from sales or other dispositions of capital assets exceed losses therefrom.

(B) *Example:* For taxable year 1992, a resident trust has $4,000 of loss arising from the sale of Connecticut obligations and $3,000 of loss arising from the sale of bonds issued by the State of Florida. Such trust's federal gross income shall be increased by $4,000, the amount of loss derived from the sale of the Connecticut obligations, even though this amount exceeds the losses allowable under section 1211(b) of the Internal Revenue Code.

(5) To the extent deductible in determining federal taxable income prior to deductions relating to distributions to beneficiaries, the amount of Connecticut income tax paid or accrued.

(6)(A) Interest expenses on indebtedness incurred or continued to purchase or carry obligations or securities, the interest on which is exempt from Connecticut income tax, to the extent that such expenses are deductible in determining federal taxable income prior to deductions relating to distributions to beneficiaries.

(B) *Example:* The fiduciary of a trust borrows money to purchase United States treasury certificates, the income from which is subject to federal income tax but exempt from Connecticut income tax. To the extent that this borrowing expense is deductible in determining federal taxable income prior to deductions relating to distributions to beneficiaries, the fiduciary shall add this expense back in computing the trust's Connecticut taxable income.

(7)(A) Expenses paid or incurred during the taxable year for (i) the production or collection of income exempt from Connecticut income tax or (ii) the management, conservation or maintenance of property held for the production of income exempt from Connecticut income tax or (iii) the amortizable bond premium on any bond, the interest on which is exempt from Connecticut income tax, to the extent such expenses and premiums are deductible in determining federal taxable income prior to deductions relating to distributions to beneficiaries.

If the trust or estate's miscellaneous itemized deductions, as defined in section 67(b) of the Internal Revenue Code, exceed 2% of its federal adjusted gross income,

as computed under section 67(e) of the Internal Revenue Code, and the expenses and premiums described herein are deducted as miscellaneous itemized deductions, the portion of the excess that such expenses and premiums bear to the total miscellaneous itemized deductions shall be added to federal taxable income under this section.

If the expenses and premiums described herein are deducted under section 67(e)(1) of the Internal Revenue Code, they shall be added to federal taxable income under this section.

(B) *Example:* The fiduciary of a trust purchases shares in a mutual fund that invests solely in United States government obligations. The income therefrom is fully taxable for federal income tax purposes. The trust incurs expenses in connection with the production of such interest income. The trust has adjusted gross income of $10,000 and the amount of its miscellaneous itemized deductions, including the $400 of collection expenses, is $800. The interest income on the United States bonds is includible in the trust's federal taxable income but is subtracted from federal taxable income under § 12-701(a)(10)-3 of this Part. The miscellaneous itemized deductions ($800) exceed 2% of the trust's federal adjusted gross income ($200). The portion of the excess ($600) that the $400 paid or incurred to collect such U.S. bonds interest income bears to the miscellaneous itemized deductions ($800) is added to federal taxable income in computing Connecticut taxable income under this section. Therefore, $300 is added to federal taxable income. If miscellaneous itemized deductions had not exceeded 2% of federal adjusted gross income, no portion of the $400 of expenses would have been added to federal taxable income under this section.

(8) With respect to a trust or estate that is a shareholder of an S corporation carrying on business in Connecticut (as the term is used in Section 12-214 of the general statutes, and as defined in Conn. Agencies Regs. § 12-214-1), the amount of such trust or estate's pro rata share of the corporation's nonseparately computed loss (as defined in § 12-701(b)-1 of Part XIV), to the extent such loss is included in computing such trust or estate's federal gross income, multiplied by the corporation's apportionment fraction, if any, as determined under Section 12-218 of the general statutes (irrespective of whether the S corporation shall pay the additional tax under Section 12-219 of the general statutes).

(b) While this section pertains to Section 12-701(a)(10) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-701(a)(10)-3. Modifications comprising the Connecticut fiduciary adjustment: subtractions

(a) The following items are to be subtracted in computing the Connecticut fiduciary adjustment of a trust or estate:

(1) Any income with respect to which taxation by any state is prohibited by federal law, to the extent properly includible in gross income for federal income tax purposes. The provisions of § 12-701(a)(20)-3(a)(1) of Part I are incorporated by reference herein.

(2)(A) Exempt dividends paid by a qualified regulated investment company. As provided in Section 12-718 of the general statutes, a regulated investment company is a qualified regulated investment company if, at the close of each quarter of its taxable year, at least 50% of the value of its total assets (as defined in section

851(c)(4) of the Internal Revenue Code) is invested in obligations the taxation of which by any state is prohibited by federal law.

(B) The portion of the dividends received by a shareholder of a qualified regulated investment company that may be subtracted in computing the Connecticut fiduciary adjustment is based upon the portion of income received by such company that is derived from obligations which states are prohibited from taxing by federal law. Where all of the income of the company is derived from interest on obligations that states are prohibited from taxing by federal law, the full amount of the dividends received by the shareholders may be subtracted. Where less than the full amount is derived from such interest, the amount to be subtracted is determined as follows:

$$\frac{\text{Interest income on obligations which states are prohibited from taxing by federal law less expenses attributable to such income}}{\text{Regulated investment company's taxable income}} = \text{Percent of dividends received by shareholders that qualifies as exempt dividends}$$

(C) In the case of a series fund, the portion of the dividends paid that is exempt from Connecticut income tax shall be determined on a fund-by-fund basis.

(D) Dividends attributable to obligations which states are prohibited from taxing by federal law that are distributed by nonqualified regulated investment companies are fully taxable for Connecticut purposes and may not be subtracted under this section.

(E) *Example:* (i) Computation for regulated investment company. A qualified regulated investment company receives income from the following sources:

Capital gains from the sale of stock	$ 20,000
Interest income from federal obligations	70,000
Dividends from a corporation	+ 10,000
Total:	$100,000
Expenses ($10,000 of which are directly related to interest income on federal obligations)	– 20,000
Taxable income:	$ 80,000

The regulated investment company distributed the entire $80,000 to its shareholders. The percentage of this distribution that may be subtracted from federal taxable income under this section is computed as follows:

$$\frac{\$70{,}000 - \$10{,}000}{\$80{,}000} = 75\% \quad \text{(percentage of dividends that qualifies as exempt dividends)}$$

(ii) Computation for shareholder. A shareholder receives dividend distributions of $2,000 in 1992 from the above regulated investment company. The amount of these dividends qualifying as exempt dividends is 75% of $2,000, or $1,500.

(3) Interest income on Connecticut obligations, to the extent properly included in gross income for federal tax purposes.

(4)(A) To the extent properly includible in determining the net gain or loss from sales or other dispositions of capital assets for federal income tax purposes, any gain (or amount that is properly treated as a capital gain dividend, as defined in section 852(b)(3) of the Internal Revenue Code) from the sale or exchange of Connecticut obligations, in the taxable year such gain was recognized, whether or

not, for federal income tax purposes, gains from sales or other dispositions of capital assets exceed losses therefrom.

(B) *Example:* A resident trust has, for federal income tax purposes, a long-term capital gain of $3,000 arising from the sale of Connecticut obligations and a long-term capital loss of $2,000 arising from the sale of bonds issued by or on behalf of the Commonwealth of Massachusetts. Such trust's federal gross income shall be reduced by $3,000, the amount of the gain derived from the sale of the Connecticut obligations.

(5)(A) Interest expenses on indebtedness incurred or continued to purchase or carry obligations or securities, the interest income from which is subject to Connecticut income tax but exempt from federal income tax, to the extent such expenses would be deductible in determining federal taxable income prior to deductions relating to distributions to beneficiaries if the interest income were subject to federal income tax.

(B) *Example:* A trust borrows $100,000 from a bank to purchase bonds issued by or on behalf of the State of California. In computing the trust's federal taxable income, income from these bonds is not includible in federal gross income, and the borrowing expense is not deductible. However, income received from these bonds is subject to Connecticut income tax and is therefore added to federal taxable income in computing the trust's Connecticut taxable income under § 12-701(a)(10)-2 of this Part. In addition, the borrowing expense shall be subtracted from the trust's federal taxable income prior to deductions relating to distributions to beneficiaries to the extent such expenses would have been deductible if the interest income were subject to federal income tax.

(6)(A) Ordinary and necessary expenses paid or incurred during the taxable year for (i) the production or collection of income which is subject to Connecticut income tax but exempt from federal income tax or (ii) the management, conservation or maintenance of property held for the production of income which is subject to Connecticut income tax but exempt from federal income tax or (iii) the amortizable bond premium on any bond, the interest income from which is subject to Connecticut income tax but exempt from federal income tax, but only to the extent that such expenses and premiums would be deductible in determining federal taxable income prior to deductions relating to distributions to beneficiaries if such income were subject to federal income tax.

If the sum of the trust or estate's miscellaneous itemized deductions, as defined in section 67(b) of the Internal Revenue Code, plus the expenses and premiums described herein, exceed 2% of the sum of its federal adjusted gross income, as computed under section 67(e) of the Internal Revenue Code, plus the income described herein which is subject to Connecticut income tax but exempt from federal income tax, the portion of the excess that such expenses and premiums described herein bear to the sum of the trust or estate's miscellaneous itemized deductions, as defined in section 67(b) of the Internal Revenue Code, plus the expenses and premiums described herein shall be subtracted from federal taxable income under this section.

If the expenses and premiums described herein would be deductible in determining federal taxable income prior to deductions relating to distributions to beneficiaries under section 67(e)(1) of the Internal Revenue Code, were such income described herein subject to federal income tax, then such expenses and premiums shall be subtracted from federal taxable income under this section.

(B) *Example:* If a trust pays or incurs $150 of ordinary and necessary expenses in connection with the production of income from its California bonds and amortizes

$50 of a premium paid on such bonds, the amount of such expenses and premiums which are not deductible for federal income tax purposes shall be subtracted from the federal taxable income of the trust under this section, to the extent such expenses and premiums would have been deductible if such income were subject to federal income tax. The trust has adjusted gross income of $19,000. The amount of its miscellaneous itemized deductions is $800. The California bond expenses and premiums ($200) plus the miscellaneous itemized deductions ($800) exceed 2% of (i) the trust or estate's federal adjusted gross income ($19,000) plus (ii) the interest income on California bonds ($1,000). The portion of the excess ($600) that such expenses and premiums ($200) bears to the sum of miscellaneous itemized deductions ($800) plus such expenses and premiums ($200) is to be subtracted from federal taxable income in computing the trust's Connecticut taxable income under this section. Therefore, $120 is subtracted from federal taxable income. If such expenses and premiums plus the miscellaneous itemized deductions had not exceeded 2% of (i) federal adjusted gross income plus (ii) the interest income on California bonds, no portion of the $200 would have been subtracted from federal taxable income under this section.

(7) With respect to a trust or estate that is a shareholder of an S corporation carrying on business in Connecticut (as the term is used in Section 12-214 of the general statutes, and as defined in Conn. Agencies Regs. § 12-214-1), the amount of such trust or estate's pro rata share of the corporation's nonseparately computed income (as defined in § 12-701(b)-1 of Part XIV), multiplied by the corporation's apportionment fraction, if any, as determined under Section 12-218 of the general statutes (irrespective of whether the S corporation shall pay the additional tax under Section 12-219 of the general statutes).

(b) While this section pertains to Section 12-701(a)(10) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-701(a)(10)-4. Treatment of set-asides for charitable purposes

(a) The Connecticut fiduciary adjustment does not include any modification or portion thereof attributable to any amount which is paid or permanently set aside during the taxable year for a charitable purpose specified in section 170(c) of the Internal Revenue Code to a charitable or governmental organization in accordance with the terms of the governing instrument of the trust or estate. If the charitable organization is specifically designated in the governing instrument as a distributee of a particular item of income, or portion thereof, in respect of which a modification would ordinarily be required under § 12-701(a)(10)-2 or § 12-701(a)(10)-3 of this Part, (1) no part of such modification is to be included in the Connecticut fiduciary adjustment; (2) the excluded portion of such modification is that proportion of the modification as the amount paid or payable to the charitable organization bears to the total income of the trust or estate; and (3) no fiduciary adjustment is thereafter allocated to the charitable beneficiary.

(b) *Example:*

The governing instrument of a resident trust provides that the income of the trust is to be divided as follows: one-third to a charitable organization, one-third to a designated beneficiary, and the remaining one-third to be accumulated for later distribution to a minor. The income of the trust for the 1992 taxable year includes interest on California bonds of $9,000 and ordinary dividend income of $15,000.

Based on these facts, the Connecticut fiduciary adjustment and the modification under this section would be determined in the following manner:

Connecticut fiduciary adjustment before modification under this section (total California bond interest)						$9,000
Less: Portion attributable to the charitable payment or set-aside computed as follows:						
(Total income paid or set aside for the charitable organization) / (Total income of the trust)	$ 8,000 / $24,000	x	$9,000	(Charitable payment or set aside)	=	$3,000
Connecticut fiduciary adjustment after modification under this section .						$6,000

(c) While this section pertains to Section 12-701(a)(10) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

Sec. 12-713(a)-1. Connecticut taxable income derived from or connected with sources within Connecticut of a nonresident trust or estate

(a) The Connecticut taxable income derived from or connected with sources within this state of a nonresident trust or estate is (1) its share of the items of income, gain, loss and deduction derived from or connected with Connecticut sources, as determined under § 12-714(a)-1 or § 12-714(b)-1 of this Part, plus or minus (2) the sum of the items of income, gain, loss and deduction derived from or connected with Connecticut sources, as determined under § 12-713(a)-3 of this Part, which would be included in federal adjusted gross income if the trust or estate were an individual but which are excluded from federal distributable net income, plus (3) in the case of a trust, includible gain (as defined under section 644 of the Internal Revenue Code) derived from or connected with Connecticut sources.

(b) The source of such items of income, gain, loss and deduction shall be determined as if the trust or estate were a nonresident individual. (See Part II.)

(c) While this section pertains to Section 12-713(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

Sec. 12-713(a)-2. Share of a nonresident trust or estate in distributable net income

(a) The share of a nonresident trust or estate in its distributable net income from Connecticut sources is the amount, if any, by which the distributable net income from Connecticut sources exceeds the aggregate of the shares therein of all its beneficiaries. Such share of the trust or estate is determined under §§ 12-714(a)-1 and 12-714(a)-2 of this Part.

(b) While this section pertains to Section 12-713(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-713(a)-3. Items not in distributable net income of a nonresident trust or estate

(a) In determining a nonresident trust or estate's Connecticut taxable income derived from or connected with sources within this state, there shall be added or subtracted, as the case may be, any other items of income, gain, loss or deduction of the trust or estate recognized for federal income tax purposes but not reflected in distributable net income as provided in § 12-713(a)-2 of this Part, to the extent such items are derived from or connected with Connecticut sources, as determined in accordance with the applicable regulations of Part II as in the case of a nonresident individual.

(b) While this section pertains to Section 12-713(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-713(a)-4. Items derived from or connected with Connecticut sources of a nonresident trust or estate

(a) The source of items of income, gain, loss and deduction of a nonresident trust or estate is determined in accordance with the applicable regulations of Part II as in the case of a nonresident individual. Thus, an item of income, gain, loss or deduction, including any item comprising income in respect of a decedent, is considered derived from or connected with Connecticut sources when the item is attributable to (1) the ownership by the trust or estate of any interest in real or tangible personal property in Connecticut; (2) a business, trade, profession or occupation carried on in Connecticut by the trust or estate; or (3) the ownership of shares in an S corporation by the trust or estate, to the extent determined under § 12-712(a)(2)-1 of Part VII.

(b) While this section pertains to Section 12-713(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-701(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-714(a)-1. Share of a nonresident trust, estate or beneficiary in income from Connecticut sources

(a) A nonresident trust or estate's taxable income derived from or connected with sources within this state includes its share of federal distributable net income, after taking into consideration any applicable Connecticut modifications described in §§ 12-701(a)(10)-2 and 12-701(a)(10)-3 of this Part, to the extent such share is derived from or connected with sources within this state. Such share is in proportion to such trust or estate's share of federal distributable net income.

(b) The share of a nonresident beneficiary in items of trust or estate income, gain, loss and deduction derived from or connected with sources within this state is in proportion to such beneficiary's share of federal distributable net income.

(c) The share of a trust or estate in federal distributable net income is the amount, if any, by which the federal distributable net income exceeds the aggregate of the shares therein of all its beneficiaries.

(d) A nonresident trust or estate shall determine those items of income, gain, loss and deduction entering into the definition of federal distributable net income which are derived from or connected with sources within Connecticut under the applicable regulations of Part II. Such distributable net income from Connecticut sources

includes Connecticut modifications to the extent the modified amount has not been included in federal distributable net income. (For example, tax exempt interest is included in determining federal distributable net income, thus eliminating the need to make a Connecticut modification as to this amount.)

(e) While this section pertains to Section 12-714(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-714(a)-2. Character of items

(a) Each of the trust or estate items of income, gain, loss or deduction has the same character for Connecticut income tax purposes as for federal income tax purposes. Where an item is not characterized for federal income tax purposes, the item has the same character as if realized directly from the source from which realized by the trust or estate, or incurred in the same manner as incurred by the trust or estate. The same is true if a trust or estate item is not required to be taken into account for federal tax purposes (such as interest on bonds of the State of California).

(b) While this section pertains to Section 12-714(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-714(b)-1. Special rule where a trust or estate has no federal distributable net income

(a) If a trust or estate has no federal distributable net income for a taxable year, the share of each beneficiary (including, solely for the purpose of this allocation, resident beneficiaries) in the items derived from or connected with Connecticut sources which enter into the definition of federal distributable net income shall be in proportion to such beneficiary's share of the trust or estate income for such year, under local law or the governing instrument, which is required to be distributed currently, and any other amounts which are properly paid or credited or required to be distributed during the taxable year. Any balance of such net amount shall be allocated to the trust or estate.

(b) While this section pertains to Section 12-714(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-716(a)-1. Allocating the Connecticut fiduciary adjustment among trust or estate and its beneficiaries

(a) **General.** Ordinarily, the Connecticut fiduciary adjustment is allocated among a trust or estate and its beneficiaries in proportion to their respective shares of the distributable net income, as defined in the Internal Revenue Code, of the trust or estate.

(1) The allocation of the Connecticut fiduciary adjustment is unaffected by (A) whether a trust or estate is a resident, and (B) whether any or all of the beneficiaries are residents. A beneficiary, in computing Connecticut adjusted gross income, shall

add to or subtract from, as the case may be, federal adjusted gross income such beneficiary's share of the fiduciary adjustment.

(2) Allocation of the fiduciary adjustment according to the general rule stated in subdivision (1) of this subsection is illustrated by the following example:

Example: The Connecticut fiduciary adjustment of an estate is $1,000. The estate has federal distributable net income of $5,000, out of which it distributes $3,000 to B, a resident beneficiary, and $1,500 to C, a nonresident beneficiary. B's share is 60% of federal distributable net income, and so 60% of the fiduciary adjustment ($600) is allocated to him and shall be added to his federal adjusted gross income in determining his Connecticut adjusted gross income. C's share of the distributable net income is 30%, and so 30% of the Connecticut fiduciary adjustment ($300) is allocated to her. Ten percent of the distributable net income was not distributed by the estate to any beneficiary, and so 10% of the fiduciary adjustment ($100) is allocated to the estate and shall be added to the federal taxable income of the estate in determining its Connecticut taxable income.

(b) Special rule where trust or estate has no distributable net income. If the distributable net income of a trust or estate for the taxable year is zero or less than zero, the share of each beneficiary in the Connecticut fiduciary adjustment is in proportion to such beneficiary's share of the income of the trust or estate for the taxable year, determined under local law or the governing instrument, which is required to be distributed currently, plus any other amounts which are properly paid or credited or required to be distributed during the taxable year. Any balance of the fiduciary adjustment not allocable to any beneficiary is allocated to the trust or estate.

Example 1: A trust has income, for trust accounting purposes, of $10,000, and its Connecticut fiduciary adjustment is $5,000. Certain expenses paid by the trustee are chargeable to principal under the terms of the trust instrument but are nevertheless deductible for federal income tax purposes and have the effect of reducing distributable net income to zero.

The trust instrument requires that $4,000 of income be distributed to D. An additional $3,000 is paid to D pursuant to the discretionary authority of the trustee, and the remaining $3,000 of income is accumulated by the trust. D's $7,000 share is 70% of the total income for trust accounting purposes, so that 70% of the fiduciary adjustment ($3,500) is allocated to her. If she is a resident, D shall add this amount to her federal adjusted gross income in determining Connecticut adjusted gross income. The remaining $1,500 is the trust's share in the fiduciary adjustment, which shall be added to the federal taxable income of the trust in determining its Connecticut taxable income.

Example 2: The facts are the same as in Example 1, except that the fiduciary adjustment is a negative figure of ($5,000). In computing her Connecticut adjusted gross income, D may therefore subtract $3,500, which is her share in the fiduciary adjustment, from her federal adjusted gross income, and the trust may subtract $1,500, its share of the fiduciary adjustment, from its federal taxable income.

(c) While this section pertains to Section 12-716(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-716(b)-1. Method of attributing certain modifications among trust or estate and beneficiaries

(a) **General.** (1) Where the Connecticut fiduciary adjustment consists of or relates to items of income, gain, loss, or deduction which are charged or credited to corpus

or principal for probate or trust accounting purposes, under local law or the governing instrument, as described in subdivision (2) of this subsection, or items in which income beneficiaries do not share pro rata, as described in subdivision (3) of this subsection, the fiduciary shall, in lieu of determining the share of the fiduciary adjustment under § 12-716(a)-1 of this Part, attribute the respective shares of a trust or estate and its beneficiaries in such fiduciary adjustment:

(A) by attributing the modifications described in §§ 12-701(a)(10)-2 and 12-701(a)(10)-3 of this Part to the trust, estate, or beneficiaries, as the case may be, in the same manner in which the items of income, gain, loss, or deduction which gave rise to such modifications are attributed to the trust, estate, or beneficiaries under local law or the governing instrument, and

(B) by allocating the remainder of the modifications which comprise the fiduciary adjustment in accordance with subsections (a) or (b) of § 12-716(a)-1 of this Part.

(2) Items of income, gain, loss or deduction charged or credited to corpus or principal for probate or trust accounting purposes include, but are not limited to:

(A) nondistributable capital gains and losses from the sale or exchange of bonds issued by the State of Connecticut or its political subdivisions;

(B) income in respect of a decedent under section 691 of the Internal Revenue Code, e.g., the portion of any interest income on obligations of the United States, or of states other than Connecticut or their instrumentalities, which became payable after death but accrued before death; and

(C) Connecticut income tax paid or incurred during the taxable year, to the extent allowed as a deduction for federal income tax purposes and attributable either to nondistributable capital gains or to income in respect of a decedent.

(3) Items in which income beneficiaries do not share pro rata include, but are not limited to, amounts with respect to which the governing instrument provides:

(A) that all interest income received from tax-exempt state or municipal bonds, including bonds of states other than Connecticut and their instrumentalities, be paid to a designated beneficiary, with all other income to be divided equally among the designated beneficiary and the other beneficiaries;

(B) that all dividends and interest be paid to a designated beneficiary, with all capital gains distributable to a different beneficiary;

(C) that a fixed annuity be paid out of the income to a designated beneficiary, with the remainder of the income to be accumulated or distributed to other beneficiaries; or

(D) any combination of the foregoing.

(4) Where a modification is subject in part to the method described in subdivision (1)(A) of this subsection, and in part to the provisions of subdivision (1)(B) of this subsection, the amount to be allocated in accordance with subdivision (1)(A) is the proportion of the total modification which the amount of income, gain, loss or deduction attributable to corpus or principal, or to a specially designated beneficiary under local law or governing instrument, bears to the total amount of such income, gain, loss or deduction.

(5) If a modification allocable in accordance with subdivision (1)(A) and subdivision (1)(B) of this subsection applies to two or more beneficiaries, the amount attributed to each is the proportion of the modification which the related item of income, gain, loss or deduction allocated to each beneficiary bears to the total amount of income, gain, loss or deduction attributable to all beneficiaries who share therein.

(b) **Schedule to be attached.** (1) A fiduciary required to use the method prescribed by this section shall file a schedule as part of the Connecticut fiduciary income tax return (Form CT-1041) setting forth the following information:

(1) A statement that the fiduciary is required to use the method prescribed in this section, rather than the method prescribed in § 12-716(a)-1, in determining to whom the items of modification comprising the Connecticut fiduciary adjustment shall be attributed;

(2) The amount of each modification relating to an item of income, gain, loss or deduction of the trust or estate;

(3) The amount of the Connecticut fiduciary adjustment as determined pursuant to § 12-701(a)(10)-1 of this Part, and of the respective shares therein of the trust or estate and each of its beneficiaries as determined under § 12-716(a)-1 of this Part;

(4) The respective shares of the trust or estate and each of its beneficiaries in the Connecticut fiduciary adjustment as determined under this section;

(5) The name and address of each beneficiary, if not otherwise set forth in the Form CT-1041, who is or would be required to report a share of one or more items of modification, or a portion thereof, either pursuant to the method provided in this section or as a component of the Connecticut fiduciary adjustment allocated pursuant to § 12-716(a)-1 of this Part;

(6) A statement that each beneficiary, whether or not otherwise identified in the Form CT-1041, was furnished with a copy of the schedule filed by the fiduciary pursuant to this section; and

(7) A statement setting forth the provisions of the will or trust, one of the consequences of which is that the fiduciary is required to use the method prescribed in this section in determining to whom the items of modification comprising the Connecticut fiduciary adjustment are to be attributed.

(c) **The following example illustrates the application of this section:**

Example: The 1992 federal fiduciary income tax return of a trust consists of the following items of income which constitute modifications required by §§ 12-701(a)(10)-2 and 12-701(a)(10)-3 of this Part:

United States bond interest (decrease).	$15,000
California bond interest (increase).	10,000
Connecticut fiduciary adjustment	$(5,000)

The trust has two beneficiaries (A and B). Under the trust agreement, beneficiary A receives all the interest on the United States bonds. Beneficiary B receives all the California bond interest. Pursuant to § 12-716(a)-1 of this Part, the Connecticut fiduciary adjustment is allocated on the basis of the federal distributable net income (which is $25,000). This results in attributing ($3,000) of the net Connecticut fiduciary adjustment of ($5,000) to A [15,000/25,000 X (5,000) = (3,000)] and ($2,000) to B [10,000/25,000 X (5,000) = (2,000)].

The method required by this section decreases A's Connecticut adjusted gross income by $15,000, and increases B's Connecticut adjusted gross income by $10,000.

(d) While this section pertains to Section 12-716(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

PART V. Filing status

Sec. 12-702(c)(1)-1. Connecticut income tax returns of husband and wife

(a) **Separate federal income tax returns.** If a husband and wife file federal income tax returns as married individuals filing separately, they shall also determine

their Connecticut taxable income on separate Connecticut income tax returns as married individuals filing separately. Each spouse, in computing his or her federal tentative minimum tax for Connecticut alternative minimum tax purposes, shall compute it as a married individual filing separately.

(b) **Joint federal income tax returns.** The federal rules for determining whether a husband and wife qualify for filing a joint federal income tax return also apply for Connecticut income tax purposes. If a husband and wife (other than a husband and wife described in subsection (c) or (d) of this section) file a joint federal income tax return, or if neither spouse files a federal income tax return, they shall file a joint Connecticut income tax return even though one spouse has no income, in which event their income tax liabilities shall be joint and several and each shall be liable for the entire income tax on such joint return. The provisions of this subsection also apply to a husband and wife where each is a part-year resident and has the same period of residence.

(c) **Husband and wife with different resident status.** (1) Resident or nonresident married to part-year resident. If one spouse is a resident and the other spouse is a part-year resident, the resident spouse and the part-year resident spouse shall each file a separate Connecticut income tax return as a married individual filing separately, regardless of whether the spouses file joint or separate federal income tax returns. If one spouse is a nonresident and the other spouse is a part-year resident, the part-year resident spouse (and the nonresident spouse, if otherwise required to file a Connecticut income tax return) shall file a separate Connecticut income tax return as a married individual filing separately, regardless of whether the spouses file joint or separate federal income tax returns. The provisions of this subsection also apply to a husband and wife where each is a part-year resident but each has a different period of residence.

(2) Resident married to nonresident. If one spouse is a resident and the other spouse is a nonresident, the resident spouse (and the nonresident spouse, if otherwise required to file a Connecticut income tax return) shall file a separate Connecticut income tax return as a married individual filing separately, unless the spouses file a joint federal income tax return, and they elect to file a joint Connecticut resident income tax return in which their joint Connecticut taxable income is determined as if both were residents. If the spouses file such a joint Connecticut resident income tax return, they shall be jointly and severally liable for the entire Connecticut income tax on such return. Such spouses may revoke their election to file a joint Connecticut income tax return, even if they have not or cannot revoke their election to file a joint federal income tax return. If they file separate Connecticut income tax returns, their income tax liabilities shall be separate.

(d) **Nonresident husband and wife where only one spouse has Connecticut-sourced income.** If both spouses are nonresidents and they file a joint federal income tax return, but only one spouse had income derived from or connected with sources within this state during the taxable year, only that spouse is required to file a Connecticut income tax return as a married individual filing separately, and only that spouse's income is used as the basis for the calculation of Connecticut income tax liability. However, the spouses may both elect to file a joint Connecticut nonresident income tax return, in which case their joint income shall be used to determine their Connecticut taxable income. If the spouses file such a joint Connecticut nonresident income tax return, they shall be jointly and severally liable for the entire Connecticut income tax on such return. Such spouses may revoke their election to file a joint Connecticut income tax return, even if they have not or cannot revoke their election to file a joint federal income tax return.

(e) **Member of the armed forces.** Every married member of the armed forces of the United States who:

(1) files a federal income tax return as a married individual filing separately, is subject to the provisions of subsection (a) of this section (separate Connecticut income tax returns); or

(2) files a joint federal income tax return and is a resident individual married to a nonresident individual, is subject to the provisions of subsection (c) of this section (husband and wife with different resident status); or

(3) files a joint federal income tax return and is a nonresident individual married to a resident individual, is subject to the provisions of subsection (c) of this section (husband and wife with different resident status); or

(4) files a joint federal income tax return and is a nonresident individual married to a nonresident individual, is subject to the provisions of subsection (d) of this section (nonresident spouses, where only one spouse has Connecticut-sourced income).

(f) While this section pertains to Section 12-702(c)(1) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-702(c)(1)-2. Relief of spouse from Connecticut income tax liability on joint Connecticut income tax return

(a) If a joint Connecticut income tax return was filed, pursuant to § 12-702(c)(1)-1 of this Part, on which there is a substantial understatement of Connecticut income tax attributable to grossly erroneous items of one spouse, the other spouse (the ''innocent spouse'') shall be relieved of liability for such understated Connecticut income tax (including interest, penalties and other amounts) for such taxable year if:

(1) the spouse seeking relief establishes that, in signing such return, he or she did not know, and had no reason to know, that there was such substantial understatement; and

(2) taking into account all the facts and circumstances, including whether or not the spouse seeking relief benefited directly or indirectly from the grossly erroneous items, it is inequitable to hold such spouse liable for the understated Connecticut income tax for such taxable year.

(b) A spouse may make application for the relief provided for in this section by filing with the Commissioner a sworn statement stating all the facts and circumstances set forth in subdivisions (a)(1) and (2) of this section in support of such application. The Commissioner may request additional sworn statements, testimony under oath or any other proof required to determine whether the applicant should be relieved of liability for Connecticut income tax as provided in this section.

(c) For the purposes of this section:

(1) the term ''grossly erroneous items'' means, with respect to any spouse, any item of Connecticut adjusted gross income attributable to such spouse which is omitted from Connecticut adjusted gross income and any claim for Connecticut income tax purposes of a deduction, exemption, credit or basis by such spouse in an amount for which there is no basis in fact or law;

(2) the term ''substantial understatement'' means a difference between the amount of the Connecticut income tax required to be reported on the Connecticut income tax return for the taxable year and the amount of Connecticut income tax actually reported on the Connecticut income tax return that exceeds $500; and

(3) the determination of the spouse to whom items of Connecticut adjusted gross income (other than Connecticut adjusted gross income derived from property) are attributable shall be made without regard to community property laws.

(d) Connecticut income tax liability attributable to a substantial understatement shall exceed the specified percentage (as provided in subdivision (1) of this subsection) of the innocent spouse's Connecticut adjusted gross income.

(1) Except as provided in subdivision (3) of this subsection, the provisions of this section apply:

(A) if the innocent spouse's Connecticut adjusted gross income for the most recent taxable year ending before the date the deficiency notice is mailed is $20,000 or less, only if the liability for Connecticut income tax described in subsection (a) of this section (including interest, penalties and other amounts) attributable to the substantial understatement is greater than 10% of such Connecticut adjusted gross income; or

(B) if the innocent spouse's Connecticut adjusted gross income for the most recent taxable year ending before the date the deficiency notice is mailed is more than $20,000, only if the liability for Connecticut income tax described in subsection (a) of this section (including interest, penalties and other amounts) attributable to the substantial understatement is greater than 25% of such Connecticut adjusted gross income.

(2) For purposes of this subsection, if the innocent spouse is married to another spouse at the close of such year, the innocent spouse's Connecticut adjusted gross income shall include the Connecticut adjusted gross income of the new spouse, whether or not they file a joint Connecticut income tax return.

(3) The requirements contained in subdivision (1) of this subsection do not apply to a substantial understatement attributable to an omission from Connecticut adjusted gross income. Therefore, the relief provided by this section shall be available without the need to meet the applicable percentage limitation specified in this subsection where there is a substantial understatement attributable to an omission from Connecticut adjusted gross income.

(f) While this section pertains to Section 12-702(c)(1) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-702(c)(1)-3. Enrolled member of federally recognized tribe

(a) **In general.** Income of an enrolled member of a federally recognized tribe is exempt from Connecticut income tax as long as the member (i) resides in Indian country and (ii) only has income that is derived from or connected with sources within Indian country. Income of an enrolled member of a federally recognized tribe is subject to Connecticut income tax in the same manner as if the person were not an enrolled member if the member does not reside in Indian country. See *McClanahan* v. *State Tax Commission*, 411 U.S. 164 (1973), *White Mountain Apache Tribe* v. *Bracker*, 448 U.S. 136 (1980) and *Oklahoma Tax Commission* v. *Sac and Fox Nation*, 508 U.S. , 124 L. Ed. 2d 30 (1993).

(b) **Unmarried member residing in Indian country.** Every enrolled member who is unmarried and who resides in Indian country located within Connecticut—

(1) all of whose Connecticut adjusted gross income is derived from or connected with sources within Indian country, shall be exempt from Connecticut income tax.

Such member shall file a Connecticut income tax return and write ''exempt under section 12-702(c)(1)-3(b)'' thereon.

(2) only some of whose Connecticut adjusted gross income is derived from or connected with sources within Indian country, shall be subject to Connecticut income tax. His or her Connecticut income tax liability shall be determined by multiplying his or her Connecticut income tax liability calculated as if he or she were not an enrolled member by a fraction, the numerator of which is Connecticut adjusted gross income that is not derived from or connected with sources within Indian country and the denominator of which is Connecticut adjusted gross income. Such member shall write ''subject to tax under section 12-702(c)(1)-3(b)'' on his or her Connecticut income tax return.

(c) **Unmarried member not residing in Indian country.** Every enrolled member who is unmarried and who does not reside in Indian country, shall be subject to Connecticut income tax in the same manner as if he or she were not an enrolled member of a federally recognized tribe.

(d) **Member residing in Indian country and married to nonmember.** Every enrolled member residing in Indian country and married to a person who is not an enrolled member shall file a separate Connecticut income tax return or a joint Connecticut income tax return in accordance with the provisions of section 12-702(c)(1)-1.

(1) If a joint Connecticut income tax return is required or permitted to be filed and the enrolled member's spouse has no income, and—

(A) all of the enrolled member's Connecticut adjusted gross income is derived from or connected with sources within Indian country, such member and his or her spouse shall be exempt from Connecticut income tax. They shall file a joint Connecticut income tax return and write ''exempt under section 12-702(c)(1)-3(d)(1)'' thereon.

(B) only some of the enrolled member's Connecticut adjusted gross income is derived from or connected with sources within Indian country, such member and his or her spouse shall be subject to Connecticut income tax. Their Connecticut income tax liability shall be determined by multiplying their Connecticut income tax liability calculated as if neither of them were an enrolled member by a fraction, the numerator of which is their Connecticut adjusted gross income that is not derived from or connected with sources within Indian country and the denominator of which is their Connecticut adjusted gross income. They shall write ''subject to tax under section 12-702(c)(1)-3(d)(1)'' on their Connecticut income tax return.

(2) If a joint Connecticut income tax return is required or permitted to be filed and the enrolled member's spouse has income, the enrolled member and his or her spouse shall be subject to Connecticut income tax. Their Connecticut income tax liability shall be determined by multiplying their Connecticut income tax liability calculated as if neither of them were an enrolled member by a fraction, the numerator of which is their Connecticut adjusted gross income that is not derived from or connected with sources within Indian country and the denominator of which is their Connecticut adjusted gross income. They shall write ''subject to tax under section 12-702(c)(1)-3(d)(2)'' on their Connecticut income tax return.

(3) If a separate Connecticut income tax return is required to be filed, the provisions of subsection (a) of this section shall apply to the enrolled member and the provisions of § 12-702(c)(1)-1(a) shall apply to his or her spouse.

(d) **Member not residing in Indian country and married to nonmember.** Every enrolled member not residing in Indian country and married to a person who is not an enrolled member shall be subject to Connecticut income tax in the same

manner as if neither of them were an enrolled member. Each shall file a separate Connecticut income tax return or a joint Connecticut income tax return in accordance with the provisions of § 12-702(c)(1)-1.

(e) **Member residing in Indian country and married to member.** Every enrolled member residing in Indian country and married to an enrolled member of the same tribe shall file a separate Connecticut income tax return or a joint Connecticut income tax return in accordance with the provisions of § 12-702(c)(1)-1.

(1) If a joint Connecticut income tax return is required or permitted to be filed by them, and—

(A) all of their Connecticut adjusted gross income is derived from or connected with sources within Indian country, they shall be exempt from Connecticut income tax. They shall file a joint Connecticut income tax return and write ''exempt under section 12-702(c)(1)-3(e)(1)'' thereon.

(B) only some of their Connecticut adjusted gross income is derived from or connected with sources within Indian country, they shall be subject to Connecticut income tax.

Their Connecticut income tax liability shall be determined by multiplying their Connecticut income tax liability calculated as if neither of them were an enrolled member by a fraction, the numerator of which is their Connecticut adjusted gross income that is not derived from or connected with sources within Indian country and the denominator of which is their Connecticut adjusted gross income. They shall write ''subject to tax under section 12-702(c)(1)-3(e)(1)'' on their Connecticut income tax return.

(2) If a separate Connecticut income tax return is required to be filed, and—

(A) all of a spouse's Connecticut adjusted gross income is derived from or connected with sources within Indian country, the spouse shall be exempt from Connecticut income tax. The spouse shall file a separate Connecticut income tax return and write ''exempt under section 12-702(c)(1)-3(e)(2)'' thereon.

(B) only some of a spouse's Connecticut adjusted gross income is derived from or connected with sources within Indian country, the spouse shall be subject to Connecticut income tax. The spouse's Connecticut income tax liability shall be determined by multiplying his or her Connecticut income tax liability calculated as if he or she were not an enrolled member by a fraction, the numerator of which is his or her Connecticut adjusted gross income that is not derived from or connected with sources within Indian country and the denominator of which is his or her Connecticut adjusted gross income. The spouse shall write ''subject to tax under section 12-702(c)(1)-3(e)(2)'' on his or her Connecticut income tax return.

(f) **Member not residing in Indian country and married to member.** Every enrolled member not residing in Indian country and married to an enrolled member of the same tribe shall be subject to Connecticut income tax in the same manner as if neither of them were an enrolled member. Each shall file a separate Connecticut income tax return or a joint Connecticut income tax return in accordance with the provisions of § 12-702(c)(1)-1.

(g) **Definitions.** For purposes of this section:

(1) ''Enrolled member'' means an enrolled member of a federally recognized tribe.

(2) ''Indian country'' means Indian country, as defined in 18 U.S.C. § 1151.

(3) ''Derived from or connected with sources within Indian country'' is to be so construed so as to accord with the definition of the term ''derived from or connected with sources within this state'' set forth in Part II in relation to the adjusted gross income of a nonresident individual.

(4) ''Connecticut adjusted gross income that is not derived from or connected with sources within Indian country'' means the difference remaining after Connecticut adjusted gross income derived from or connected with sources within Indian country is subtracted from Connecticut adjusted gross income.

(h) While this section pertains to Section 12-702(c)(1) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

PART VI. Credit for income taxes paid to another jurisdiction

Sec. 12-704(a)-1. Resident or part-year resident credit for taxes paid to another state, political subdivision of another state, the District of Columbia, a province of Canada or political subdivision of a province of Canada

(a) **Individuals.** (1) Where a resident or part-year resident individual has paid income tax to a qualifying jurisdiction (as defined in § 12-704(a)-4 of this Part) on income derived from or connected with sources therein, such individual is allowed a credit against the Connecticut income tax on account of the income tax paid to such qualifying jurisdiction to the extent permitted by this Part.

(2) If a resident or part-year resident individual claims a credit against Connecticut income tax under this Part, such person shall attach to the Connecticut income tax return a copy of the income tax return filed with the qualifying jurisdiction(s).

(b) **Trusts and estates.** A resident trust or estate, or a part-year resident trust, is entitled to a similar credit against Connecticut income tax, computed in the same way and subject to the same exceptions and limitations set forth in this Part. Wherever reference is made in this Part to resident individuals and part-year resident individuals, such reference shall be construed to include resident trusts and estates and part-year resident trusts, respectively, provided any reference to a resident individual's Connecticut adjusted gross income or Connecticut adjusted gross income derived from or connected with sources in a qualifying jurisdiction shall be construed to mean a resident trust or estate's Connecticut taxable income or Connecticut taxable income derived from or connected with sources in a qualifying jurisdiction, respectively.

(c) While this section pertains to Section 12-704(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-704(a)-2. Limitations—general

(a) The amount of the credit against Connecticut income tax for income taxes paid to a qualifying jurisdiction(s) is subject to the limitations provided in subsections (b), (c), (d), and (e) of this section and in § 12-704(c)-1 of this Part. Where the credit is claimed for income taxes paid to two or more qualifying jurisdictions, other than income taxes paid to a state and one or more of its political subdivisions, these limitations shall be applied separately in accordance with this section to each such jurisdiction. Where the credit is claimed for income taxes paid to a state and one or more of its political subdivisions, the credit is subject to the limitations provided in § 12-704(a)-3 and in § 12-704(c)-1 of this Part (and not to the limitations provided in this section).

(b) The credit for income tax paid to a qualifying jurisdiction cannot exceed the income tax paid to a qualifying jurisdiction.

(c) The credit for income tax paid to a qualifying jurisdiction cannot exceed the ratio of the Connecticut tax liability that a taxpayer's Connecticut adjusted gross income derived from or connected with sources in such qualifying jurisdiction bears to such taxpayer's Connecticut adjusted gross income. In the case of a part-year resident, the credit for income tax paid to a qualifying jurisdiction cannot exceed that ratio of the Connecticut tax liability during the residence portion of the taxable year that the taxpayer's Connecticut adjusted gross income derived from or connected with sources in the qualifying jurisdiction during the residence portion of the taxable year bears to the taxpayer's Connecticut adjusted gross income during such portion of the year.

(d) Where a taxpayer is subject to income taxation in more than one qualifying jurisdiction, and a net loss derived from or connected with sources within one such jurisdiction has reduced the taxpayer's Connecticut adjusted gross income, the credit for income tax paid to a qualifying jurisdiction cannot reduce the Connecticut tax payable to an amount less than would have been due if the net loss were excluded from the taxpayer's Connecticut adjusted gross income. In such event, the net loss shall be added back to Connecticut adjusted gross income in applying the provisions of subsection (c) of this section.

(e) The credit for income tax paid to a qualifying jurisdiction(s) cannot exceed the Connecticut tax liability.

(f) The following examples illustrate the application of subsections (b), (c) and (d) of this section:

Example 1. For taxable year 1992, Taxpayer B, a resident trust, has Connecticut taxable income derived from or connected with sources in qualifying jurisdiction U of $80,000. B's Connecticut taxable income is $160,000. B paid income tax of $4,800 to jurisdiction U. B's Connecticut tax liability before the credit is $7,200. B is allowed a credit for income tax paid to jurisdiction U of $3,600 ((80,000/160,000) x 7,200).

Example 2. For taxable year 1992, Taxpayers C and D, married resident individuals filing a joint Connecticut income tax return, have the following items included in Connecticut adjusted gross income:

Income from jurisdiction V	$100,000
Net loss from jurisdiction W	(100,000)
Other income	100,000
Connecticut adjusted gross income	$100,000

C and D paid income tax of $6,000 to jurisdiction V, but, although they filed an income tax return with jurisdiction W, they did not owe any income tax thereto for taxable year 1992. C and D's Connecticut tax liability before the credit is $4,500. They are allowed a credit for income tax paid to jurisdiction V of $2,250 ((100,000/(100,000 + 100,000)) x 4,500).

Example 3. For taxable year 1992 Taxpayer E, a single individual, was a resident of Connecticut until September 30, 1992 when he became a resident of jurisdiction X. During the resident period, E worked in qualifying jurisdiction Y, earning $50,000 from jurisdiction Y sources. E's total Connecticut adjusted gross income for his resident period was $75,000, and for the entire taxable year was $100,000. E paid income tax to jurisdiction Y in the amount of $3,000. The Connecticut income tax before the credit for E's period of residence was $3,375 (75,000 x 4.5%). E is

allowed a credit for income tax paid to jurisdiction Y of $2,250 ((50,000/75,000) x 3,375).

(g) While this section pertains to Section 12-704(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended July 3, 2003)

Sec. 12-704(a)-3. Limitations where credit is claimed for income taxes paid both to a qualifying jurisdiction and also to one or more of its political subdivisions

(a) When a state of the United States imposes an income tax on income derived from sources within such state and one or more of its political subdivisions imposes income tax on the same income (or a portion thereof), the amount of the credit against Connecticut income tax for income taxes paid to that state and its political subdivision(s) is subject to the limitations provided in subsections (b), (c), (d) and (e) of this section and in § 12-704(c)-1 of this Part. When a state does not impose an income tax on income derived from sources within such state but two or more of its political subdivisions impose an income tax on income derived from sources within those respective political subdivisions, the amount of the credit against Connecticut income tax on income taxes paid to those political subdivisions is subject to the limitations provided in § 12-704(a)-2 of this Part (and not to the limitations provided in this section).

(b) Except as further limited by subdivision (3) of subsection (c) of this section, the credit for income tax paid to another state and its political subdivision(s) cannot exceed the total of the income taxes paid to those qualifying jurisdictions.

(c)(1) The credit for income tax paid to another state and its political subdivision(s) cannot exceed the proportion of the Connecticut tax liability that is described in this subsection.

(2) Where the amount of income subject to tax in another state is equal to (and not more or less than) the amount of income subject to tax in a political subdivision of such state, that common amount of income is to be included only once in the numerator, and the credit for income tax paid to a state and its political subdivision cannot exceed the proportion of the Connecticut tax liability that the common amount (the numerator) bears to the taxpayer's Connecticut adjusted gross income (the denominator).

(3) Where the amount of income subject to tax in another state is not equal to (but is more or less than) the amount of income subject to tax in a political subdivision of such state, the credit for income tax paid to a state and its political subdivision cannot exceed the aggregate limitation described in subparagraphs (A) and (B) of this subdivision.

(A) With respect to the common amount subject to tax in both the other state and a political subdivision of such state (the common amount), the credit for income tax paid on the common amount cannot exceed the proportion of the Connecticut tax liability that such common amount (the numerator) bears to the taxpayer's Connecticut adjusted gross income (the denominator). For purposes of the limitation provided in subsection (b) of this section, the income tax considered to have been paid to the qualifying jurisdiction in which the larger amount of income is subject to tax (the larger income jurisdiction) on the common amount is that percentage of the income tax actually paid to the larger income jurisdiction that the common amount bears to the amount of income subject to tax in the larger income jurisdiction.

(B) With respect to the amount in excess of such common amount (the excess amount), the credit for income tax paid on the excess amount cannot exceed the proportion of the Connecticut tax liability that such excess amount (the numerator) bears to the taxpayer's Connecticut adjusted gross income (the denominator). (For purposes of the limitation provided in subsection (b) of this section, the income tax considered to have been paid to the larger income jurisdiction on the excess amount is that percentage of the income tax actually paid to the larger income jurisdiction that the excess amount bears to the amount of income subject to tax in the larger income jurisdiction.)

(d) If a taxpayer is required, under § 12-704(a)-2(d), to add back to Connecticut adjusted gross income a net loss derived from or connected with sources within a qualifying jurisdiction, the same addback shall be made in calculating the credit limitation under subsection (c) of this section.

(e) The credit for income tax paid to another state and its political subdivision(s) cannot exceed the Connecticut tax liability.

(f) The following examples illustrate the application of subsections (b) and (c) of this section.

Example 1: Taxpayer A is a resident of Connecticut and has the following income on which he paid the following amounts of tax: (The amounts of New York State and New York City tax indicated are solely for purposes of illustration.)

(1) Connecticut adjusted gross income	$160,000
(2) New York State income	80,000
(3) New York City income	80,000
(4) Common amount of income subject to tax in both jurisdictions	80,000
(5) New York State tax	4,800
(6) New York City tax	360
(7) Connecticut tax	7,200

The following entries shall be made on A's Connecticut income tax return (CT-1040, Schedule 2--Credit for Income Taxes Paid to Other Jurisdictions), assuming no addback is required under subsection (d) of this section:

COLUMN A (New York State and New York City)

Line A:	Modified Connecticut AGI	$160,000
Line B:	Non-Connecticut income included on Line A and reported on another jurisdiction's income tax return (NY State and NY City)	80,000
Line C:	Divide Line B by Line A	.50
Line D:	Connecticut income tax liability	7,200
Line E:	Multiply Line C by Line D	3,600
Line F:	Income tax paid to another jurisdiction (New York State & New York City)	5,160
Line G:	Enter smaller of Line E or Line F	3,600
Line H:	Total credit allowed	$3,600

Example 2: Taxpayer B is a Connecticut resident and has the following income on which he paid the following amounts of tax: (The amounts of New York State and New York City tax indicated are solely for purposes of illustration.)

(1) Connecticut adjusted gross income	$100,000
(2) New York State income	40,000

(3)	New York City income	50,000
(4)	Common amount of income subject to tax in both jurisdictions	40,000
(5)	New York State tax	2,400
(6)	New York City tax	225
(7)	Connecticut tax	4,500

The following entries shall be made on B's Connecticut income tax return (CT-1040, Schedule 2--Credit for Income Taxes Paid to Other Jurisdictions), assuming no addback is required under subsection (d) of this section:

Step 1:

COLUMN A (New York State and New York City)

Line A:	Modified Connecticut AGI	$100,000
Line B:	Non-Connecticut income included on Line A and reported on another jurisdiction's income tax return	40,000
Line C:	Divide Line B by Line A	.40
Line D:	Connecticut income tax liability	4,500
Line E:	Multiply Line C by Line D	1,800
Line F:	Income tax paid to another jurisdiction:	
	New York State tax 2,400	
	Prorated New York City tax (40,000/50,000 x 225)* + 180	2,580
Line G:	Enter smaller of Line E or Line F	1,800
Line H:	Credit allowed	$1,800

Step 2:

COLUMN B (New York City excess)

Line A:	Modified Connecticut AGI	100,000
Line B:	Non-Connecticut income included on Line A and reported on another jurisdiction's income tax return (the portion of New York City income on which no tax was imposed by New York State)	10,000
Line C:	Divide Line B by Line A	.10
Line D:	Connecticut income tax liability	4,500
Line E:	Multiply Line C by Line D	450
Line F:	Income tax paid to another jurisdiction:	
	Prorated New York City Tax (10,000/50,000 x 225)*	45
Line G:	Enter smaller of Line E or Line F	45
Line H:	Credit allowed	$45

Step 3:

Total credit allowed:

Step 1	$1,800
Step 2	45
	$1,845

*Line F illustrates the further limitation of subsection (b) by subdivision (c)(3) of this section.

(g) While this section pertains to Section 12-704(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended July 3, 2003)

Sec. 12-704(a)-4. Definitions

(a) As used in this Part, unless the context otherwise requires:

(1) ''Connecticut tax liability'' means the Connecticut income tax determined pursuant to chapter 229, after subtracting any personal credit allowable under Section 12-703 of the general statutes, but before subtracting the credit for taxes paid to other qualifying jurisdictions allowable under Section 12-704 of the general statutes and the regulations of this Part, but does not include any net Connecticut minimum tax, as defined in section 12-701 of the General Statutes.

(2) ''Income tax paid to a qualifying jurisdiction'' means the lesser of (i) the income tax (other than an alternative minimum tax that is similar to that imposed under section 12-700a of the General Statutes) that is actually due to a qualifying jurisdiction for the taxable year, exclusive of any interest and penalties, or (ii) the income tax (other than an alternative minimum tax that is similar to that imposed under section 12-700a of the General Statutes) that is actually paid thereto for the taxable year, exclusive of any penalties or interest.

(3) ''Income derived from or connected with sources within a qualifying jurisdiction'' is to be construed so as to accord with the definition of the term ''derived from or connected with sources within this state'' set forth in Part II in relation to the adjusted gross income of a nonresident individual. Thus, the credit against Connecticut income tax is allowed for income tax imposed by another jurisdiction upon compensation for personal services performed in the other jurisdiction, income from a business, trade or profession carried on in the other jurisdiction, and income from real or tangible personal property situated in the other jurisdiction. On the other hand, the credit is not allowed for tax imposed by another jurisdiction upon income from intangibles, except where such income is from property employed in a business, trade or profession carried on in the other jurisdiction. For example, no credit is allowed for an income tax of another jurisdiction on dividend income not derived from property employed in a business, trade or profession carried on in such jurisdiction.

(4) ''Qualifying jurisdiction'' means a state of the United States, a political subdivision of such a state, or the District of Columbia, but does not mean the United States or any other nation or political subdivision of any other nation.

(b) While this section pertains to Section 12-704(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended June 29, 2001, July 3, 2003)

Sec. 12-704(b)-1. Amended Connecticut income tax return to report any change in the amount of income tax required to be paid to a qualifying jurisdiction

(a) If a taxpayer has claimed a credit under this part for a taxable year for income tax paid to a qualifying jurisdiction, and a change or correction is made to the income tax return of the qualifying jurisdiction by the tax officers or other competent authorities of such jurisdiction for such taxable year in such a manner that the

amount of income tax that the taxpayer is finally required to pay to that jurisdiction is different from the amount used to determine the credit under this part, the taxpayer, on or before the date that is 90 days after the final determination of such amount, shall file an amended Connecticut income tax return for the taxable year affected, irrespective of any otherwise applicable statute of limitations, but only if the change or correction of the income tax return of the qualifying jurisdiction increases or decreases the taxpayer's Connecticut tax liability (by decreasing or increasing the amount of the credit under this part). If such a change or correction so increases the taxpayer's Connecticut tax liability, such taxpayer shall be required to pay the additional tax, plus interest, to the department for the taxable year affected, irrespective of any otherwise applicable statute of limitations. If such a change or correction so decreases the taxpayer's Connecticut tax liability, § 12-732(b)-1(b)(1) of Part XII shall also apply. If the taxpayer has not filed the required return within three months after such final determination, the provisions of § 12-735(b)-1 of Part XII shall also apply.

(b) If a taxpayer who has claimed a credit under this part for a taxable year for income tax paid to a qualifying jurisdiction subsequently files a timely amended income tax return for such taxable year with such jurisdiction in such a manner that the amount of income tax that the taxpayer is required to pay to that jurisdiction is different from the amount used to determine the credit under this part, the taxpayer, on or before the date that is 90 days after the date of filing of such amended return, shall file an amended Connecticut income tax return for the taxable year affected, irrespective of any otherwise applicable statute of limitations, but only if the amendment of the income tax return of the qualifying jurisdiction increases or decreases the taxpayer's Connecticut tax liability (by decreasing or increasing the amount of the credit under this part). If such an amendment so increases the taxpayer's Connecticut tax liability, such taxpayer shall be required to pay the additional tax, plus interest, to the department for the taxable year affected, irrespective of any otherwise applicable statute of limitations. If such an amendment so decreases the taxpayer's Connecticut tax liability, § 12-732(b)-1(b)(2) of Part XII shall also apply. If the taxpayer has not filed the required return within three months after the date of filing of such amended return, the provisions of § 12-735(b)-1 of Part XII shall also apply.

(c) While this section pertains to Section 12-704(b) of the Connecticut General Statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the Connecticut General Statutes, the adoption of this section is authorized by Section 12-740(a) of the Connecticut General Statutes.

(Effective November 18, 1994; amended June 29, 2001)

Sec. 12-704(c)-1. Disallowance where credit is claimed against the income tax imposed by a qualifying jurisdiction for a taxpayer's Connecticut tax liability

(a) No credit for income tax paid to a qualifying jurisdiction shall be allowed if a taxpayer has claimed or shall claim a credit against the income tax imposed by such jurisdiction for the taxpayer's Connecticut tax liability on the same income.

(b) The following example illustrates the application of this section:

Example: Taxpayer H, a resident individual, has Connecticut adjusted gross income derived from or connected with sources within qualifying jurisdiction Z, and files an income tax return with that jurisdiction. Under the laws of jurisdiction Z, credit is allowed against the income tax imposed by that jurisdiction, to persons who are nonresidents of jurisdiction Z, for income tax payable to another jurisdiction on the same income that is subject to the income tax imposed by jurisdiction Z. If

Taxpayer H, in filing his income tax return with jurisdiction Z, claims the credit allowed under the laws of that jurisdiction for income tax payable to Connecticut on the same income, Taxpayer H shall not be allowed a credit against Connecticut income tax for income tax paid to jurisdiction Z.

(c) While this section pertains to Section 12-704(c) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended July 3, 2003)

Sec. 12-704(d)-1.

(Effective November 18, 1994; amended and renumbered to § 12-704 (c)-1, July 3, 2003)

PART VII. Partnerships and S corporations

Sec. 12-712(a)(1)-1. Partnership income and deductions of a nonresident partner derived from Connecticut sources

The Connecticut adjusted gross income derived from or connected with sources within this state of a nonresident partner includes such partner's distributive share of all items of partnership income, gain, loss and deduction entering into federal adjusted gross income to the extent such items are derived from or connected with Connecticut sources, as defined in Part II.

(Effective November 18, 1994)

Sec. 12-712(a)(2)-1. Nonresident shareholder's pro rata share of S corporation income derived from or connected with sources within Connecticut

(a) The Connecticut adjusted gross income derived from or connected with sources within this state of a nonresident individual who is a shareholder of an S corporation that has any income, gain, loss or deduction derived from or connected with sources within Connecticut includes such shareholder's pro rata share of the S corporation's separately and nonseparately computed income or loss entering into federal adjusted gross income to the extent such income or loss is derived from or connected with Connecticut sources, as defined in Part II.

(b) With respect to a nonresident individual who is a shareholder of an S corporation that has any income, gain, loss or deduction derived from or connected with sources within Connecticut, the portion of such shareholder's pro rata share of the modifications described in §§ 12-715(a)-2 and 12-715(b)-2 of this Part relating to the S corporation's separately and nonseparately computed income or loss that is derived from or connected with sources within Connecticut is to be determined so as to accord with the definition of the term ''derived from or connected with sources within this state'' set forth in Part II.

(Effective November 18, 1994; amended March 8, 2006)

Sec. 12-712(b)-1. Special rules as to nonresident partners

(a) In determining whether a nonresident partner's share of partnership income is derived from or connected with Connecticut sources, no effect is given to a provision in a partnership agreement which characterizes payments to a partner as either salary or other compensation paid or distributable for services rendered to the partnership by the partner, or as being interest or other consideration paid or distributable for the use of capital of a partner.

(b) Likewise, no effect is given to a provision in a partnership agreement which allocates to a nonresident partner, as income or gain derived from or connected

with sources outside Connecticut, a greater proportion of such partner's distributive share of partnership income or gain than the ratio of partnership income or gain from sources outside Connecticut to partnership income or gain from all sources. For example, if a nonresident partner's distributive share of partnership income for federal income tax purposes is $5,000 and 60% of the partnership income is derived from or connected with Connecticut sources, the nonresident partner is required to report on the Connecticut nonresident income tax return $3,000 (60% of $5,000) as such partner's distributive share of partnership income derived from or connected with sources within this state, even though, under the partnership agreement, such partner's share of the total Connecticut income of the partnership may have been fixed at less than $3,000.

(c) Likewise, no effect is given to a provision in a partnership agreement which allocates to a nonresident partner a greater proportion of a particular partnership item of loss or deduction derived from or connected with sources within Connecticut than such partner's proportionate share for federal income tax purposes of partnership loss or deduction generally. For example, if a nonresident partner's distributive share of partnership loss for federal income tax purposes is $5,000, and 60% of the partnership loss is derived from or connected with Connecticut sources, the nonresident partner is required to report on the Connecticut nonresident income tax return $3,000 (60% of $5,000) as such partner's distributive share of partnership loss derived from or connected with sources within this state, even though, under the partnership agreement, such partner's share of the total Connecticut loss of the partnership may have been fixed at more than $3,000.

(d) While this section pertains to Section 12-712(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-712(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-715(a)-1. Modification of partnership items in partner's income tax return

(a) In determining the Connecticut adjusted gross income of a resident partner, any of the modifications referred to in §§ 12-701(a)(20)-2 and 12-701(a)(20)-3 of Part I that relate to a partnership item of income, gain, loss or deduction shall be made with respect to the distributive share of the partner in such item as determined for federal income tax purposes. Such modification, if applicable, shall be made regardless of whether, in the partner's federal income tax return, the partnership item is reflected in such partner's distributive share of partnership taxable income or loss reported in accordance with section 702(a)(8) of the Internal Revenue Code or is one of the items separately reported under the other subparagraphs of such section 702(a).

(b) In determining Connecticut adjusted gross income, a resident partner shall combine the modifications relating to such partner's share of any partnership item with the modification relating to any similar item from sources other than the partnership. For example, if some of the partnership income is derived from interest on bonds of another state, not subject to federal income tax, and if the individual income of a resident partner also includes similar bond interest, such partner shall add to federal adjusted gross income both the distributive share of the partnership income from such bonds and the interest from similar bonds that such partner received individually rather than from the partnership.

(c) The amount of any modification to be made by a partner with respect to a partnership item of income, gain, loss or deduction is to be determined as follows:

(1) If a modification relates to any item subject to special allocation among the partners under the partnership agreement, which item is therefore accounted for separately for federal income tax purposes, the amount of each partner's share of the modification is determined by such partner's distributive share of such item for federal income tax purposes.

(2) If a modification relates to an item that is included in computing the partnership's taxable income or loss generally (i.e., that portion of federal adjusted gross income described in section 702(a)(8) of the Internal Revenue Code), other than an item subject to a special allocation among the partners under the partnership agreement that differs from the allocation of partnership taxable income or loss generally, each partner's modification relating to that item is determined by such partner's distributive share for federal income tax purposes of the taxable income or loss of the partnership required to be reported in accordance with said section 702(a)(8).

(3) If a modification relates to an item that is not taken into account for federal income tax purposes (such as interest income on bonds of other states) and such item is not one which is subject to a special allocation among the partners under the partnership agreement that differs from the allocation of partnership taxable income or loss generally, each partner's modification in respect to such an item is determined by such partner's distributive share for federal income tax purposes of the taxable income or loss of the partnership described in section 702(a)(8) of the Internal Revenue Code.

(4) If a modification relates to an item that is not taken into account for federal income tax purposes (such as interest income on bonds of other states) and such item is one which is subject to a special allocation among the partners under the partnership agreement that differs from the allocation of partnership taxable income or loss generally, each partner's modification in respect to such an item is determined by the allocation provided for in the partnership agreement.

(d) The modifications covered by this section do not apply to any item attributable to the partner directly and not reflected on the Connecticut partnership informational return (Form CT-1065), such as a gain that the partner realizes on the sale of the partnership interest.

(e) While this section pertains to Section 12-715(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-715(a)-2. Modification of S corporation items in shareholder's income tax return

(a) In determining the Connecticut adjusted gross income of a resident shareholder of an S corporation, any of the modifications referred to in §§ 12-701(a)(20)-2 and 12-701(a)(20)-3 of Part I that relate to an item of S corporation income or loss shall be made with respect to the pro rata share of the shareholder in such item as determined for federal income tax purposes, whether or not, in the shareholder's federal income tax return, such item is reflected in such shareholder's pro rata share of the separately computed income or loss or in such shareholder's pro rata share of the nonseparately computed income or loss.

(b) In determining Connecticut adjusted gross income, a resident shareholder shall combine the modifications relating to such shareholder's pro rata share of any S corporation item with the modification relating to any similar item from sources other than the S corporation. For example, if some of the S corporation income is derived from interest on bonds of another state, not subject to federal income tax, and if the individual income of a resident shareholder also includes similar bond interest, such shareholder shall add to federal adjusted gross income both the pro rata share of the S corporation income from such bonds and the interest from similar bonds that such shareholder received individually rather than from the S corporation.

(c) The amount of any modification to be made by a shareholder with respect to an S corporation item of income or loss is to be determined in accordance with such shareholder's pro rata share of such item for federal income tax purposes. If a modification relates to an item that is not taken into account for federal income tax purposes (such as interest income on bonds of other states), each shareholder's modification in respect to such an item is determined by such shareholder's pro rata share for federal income tax purposes of the S corporation income or loss.

(d) The modifications covered by this section do not apply to any item attributable to the shareholder directly and not reflected on the Connecticut S corporation informational return (Form CT-1120SI), such as a gain that the shareholder realizes on the sale of shares in the S corporation.

(e) While this section pertains to Section 12-715(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-715(b)-1. Character of partnership items

(a) In order that the modifications described in § 12-715(a)-1 of this Part, and the passive activity loss and capital loss limitations described in § 12-711(b)-6 of Part II, may be properly applied to partnership items of income, gain, loss or deduction, each of such partnership items shall have the same character for a partner for Connecticut income tax purposes as for federal income tax purposes. Where an item is not characterized for federal income tax purposes, the item shall have the same character for a partner as if realized directly from the source from which realized by the partnership or incurred in the same manner as incurred by the partnership. If a partnership item is not required to be taken into account for federal income tax purposes (such as interest on bonds of another state), the character of the item for a partner for Connecticut income tax purposes is the same as if the partner, as an individual, had realized or incurred the item directly.

(b) While this section pertains to Section 12-715(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-715(b)-2. Character of S corporation items

(a) In order that the modifications described in § 12-715(a)-2 of this Part, and the passive activity loss and capital loss limitations described in § 12-711(b)-6 of Part II, may be properly applied to S corporation items of income or loss, each of such S corporation items shall have the same character for a shareholder for Connecticut income tax purposes as for federal income tax purposes. Where an item is not

characterized for federal income tax purposes, the item shall have the same character for a shareholder as if realized directly from the source from which realized by the S corporation or incurred in the same manner as incurred by the S corporation. If an S corporation item is not required to be taken into account for federal income tax purposes (such as interest on bonds of another state), the character of the item for a shareholder for Connecticut income tax purposes is the same as if the shareholder, as an individual, had realized or incurred the item directly.

(b) While this section pertains to Section 12-715(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-715(c)-1. Connecticut income tax avoidance or evasion

(a) If a partnership agreement provides for a special allocation among the partners of any item of partnership income, gain, loss or deduction, federal income tax law requires that such a provision be disregarded for federal income tax purposes, where its principal purpose is the avoidance or evasion of federal income tax. In such a case, each partner's distributive share of such item is determined by such partner's distributive share for federal income tax purposes of the taxable income or loss of the partnership as described in section 702(a)(8) of the Internal Revenue Code. This treatment and distribution of the item is reflected in each partner's federal adjusted gross income and, therefore, in each partner's Connecticut adjusted gross income, even though in a particular case no Connecticut income tax avoidance or evasion may be involved.

(b) In certain cases, however, a provision for special allocation does not have as its principal purpose the avoidance or evasion of federal income tax, but has as its principal purpose the avoidance or evasion of Connecticut income tax. In such an instance, any such provision shall be disregarded and each partner's share of the pertinent item of partnership income, gain, loss or deduction shall also be determined by the partner's distributive share for federal income tax purposes of the taxable income or loss of the partnership as described in section 702(a)(8) of the Internal Revenue Code.

(c) Whether the principal purpose of a special allocation of an item is the avoidance or evasion of Connecticut income tax depends on the surrounding facts and circumstances. Among the relevant facts to be considered are the following: whether the partnership or partner individually has a business purpose for the allocation; whether the allocation has substantial economic effect, as the term is used in section 704(b)(2) of the Internal Revenue Code (i.e., whether the allocation may actually affect the dollar amount of the partners' shares of the total partnership income or loss independently of Connecticut income tax consequences); whether related items of income, gain, loss or deduction from the same source are subject to the same allocation; whether the allocation was made without recognition of normal business factors and only after the amount of the specially allocated item could reasonably be estimated; the duration of the allocation; and the overall Connecticut income tax consequences of the allocation.

Example: A and B are equal partners. The partnership agreement, however, allocates to A, who has a higher effective rate of Connecticut income tax than B, all interest income on bonds of the State of Connecticut held by the partnership and allocates to B all interest income on bonds of other states. The partnership agreement also provides that any difference in the amounts of such interest income

allocated to each partner is to be equalized out of other partnership income. Because the purpose and effect of this allocation is solely to reduce the Connecticut income tax of A without actually affecting the distributive shares of A and B in partnership income, such allocation is not recognized. Accordingly, in determining their respective Connecticut adjusted gross incomes, A and B each shall add to federal adjusted gross income one-half of the interest income from bonds of other states under § 12-701(a)(20)-2 of Part I.

(d) While this section pertains to Section 12-715(c) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-726(a)-1. Informational return required from partnership

(a) A partnership as such is not subject to the income tax, but a partnership which has any income, gain, loss or deduction derived from or connected with sources within Connecticut (as determined under Part II), regardless of the amount, is required by Section 12-726(a) of the Connecticut General Statutes to file Form CT-1065/CT-1120SI. The return shall be filed on or before the fifteenth day of the fourth month following the close of the taxable year of the partnership, irrespective of the taxable years of its partners.

(b) The return shall set forth, for each taxable year of the partnership—

(1) all items of income, gain, loss and deduction;

(2) the complete name and address, taxable year and social security or federal employer identification number of each partner;

(3) the amount of each partner's distributive share of income, gain, loss and deduction (A) derived from or connected with sources within Connecticut and (B) derived from or connected with sources without Connecticut;

(4) the amount of each partner's distributive share of the modifications described in §§ 12-715(a)-1 and 12-715(b)-1 of this Part that relate to partnership items of income, gain, loss or deduction (A) derived from or connected with sources within Connecticut and (B) derived from or connected with sources without Connecticut; and

(5) such other information or schedules as the Department may prescribe on its forms and instructions.

(c) On or before the date on which the return is filed, the partnership shall furnish to each person who was a partner during the taxable year to which the return pertains such information as is shown thereon concerning the amount of such partner's (1) distributive share of income, gain, loss and deduction (A) derived from or connected with sources within Connecticut and (B) derived from or connected with sources without Connecticut and (2) distributive share of the modifications described in §§ 12-715(a)-1 and 12-715(b)-1 of this Part that relate to partnership items of income, gain, loss or deduction (A) derived from or connected with sources within Connecticut and (B) derived from or connected with sources without Connecticut.

(Effective November 18, 1994; amended March 8, 2006)

Sec. 12-726(b)-1. Informational return required from S corporation

(a) An S corporation as such is not subject to the income tax, but an S corporation that has any income, gain, loss or deduction derived from or connected with sources within Connecticut is required by Section 12-726(b) of the Connecticut General Statutes to file Form CT-1065/CT-1120SI. The return shall be filed on or before

the fifteenth day of the fourth month following the close of the taxable year of the S corporation, irrespective of the taxable years of its shareholders.

(b) The return shall set forth, for each taxable year of the S corporation—

(1) all items of income, gain, loss and deduction, and the complete name and address, taxable year and social security or federal employer identification number of each shareholder;

(2) the amount of each shareholder's pro rata share of the S corporation's (A) nonseparately computed income or loss (i) derived from or connected with sources within Connecticut and (ii) derived from or connected with sources without Connecticut, and (B) separately computed income or loss (i) derived from or connected with sources within Connecticut and (ii) derived from or connected with sources without Connecticut.

(3) the amount of each shareholder's pro rata share of (A) the modifications described in §§ 12-715(a)-2 and 12-715(b)-2 of this Part that relate to S corporation items of income or gain derived from or connected with sources within Connecticut and (B) the modifications described in §§ 12-715(a)-2 and 12-715(b)-2 that relate to S corporation items of income or gain derived from or connected with sources without Connecticut.

(4) such other information or schedules as the Department may prescribe on its forms and instructions.

(c) On or before the date on which the return is filed, the S corporation shall furnish to each person who was a shareholder during the taxable year to which the return pertains such information as is shown thereon concerning the amount of such shareholder's (1) pro rata share of separately computed income or loss (A) derived from or connected with sources within Connecticut and (B) derived from or connected with sources without Connecticut, (2) pro rata share of nonseparately computed income or loss. (A) derived from or connected with sources within Connecticut and (B) derived from or connected with sources without Connecticut, and (3) pro rata share of the modifications described in §§ 12-715(a)-2 and 12-715(b)-2 of this Part that relate to S corporation items of income or gain (A) derived from or connected with sources within Connecticut and (B) derived from or connected with sources without Connecticut.

(Effective November 18, 1994; amended March 8, 2006)

PART VIII. Estimated tax

Sec. 12-701(a)(11)-1. Estimated tax

(a) For Connecticut income tax purposes, ''estimated tax'' means the amount which an individual estimates to be his or her income tax for the taxable year less the amount which such individual estimates to be the sum of any credits allowable for tax withheld pursuant to Part IX. In estimating his or her income tax for the taxable year, a resident individual or part-year resident individual shall take into account the credit allowable for income tax paid to a qualifying jurisdiction pursuant to Part VI. A resident trust or estate, or a part-year resident trust, is entitled to estimate its income tax for the taxable year in a similar fashion and is subject to the same exceptions and limitations set forth in Part VI.

(b) While this section pertains to Section 12-701(a)(11) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-701(a)(12)-1. Required annual payment

(a) **General.**

(1) ''Required annual payment'' means the lesser of (A) 90% of the tax shown on the return for the taxable year, or, if no return is filed, 90% of the tax for such year, or (B) if the preceding taxable year was a taxable year of twelve months and (i) the taxpayer filed a return for the preceding taxable year, 100% of the tax shown on the return of the taxpayer for such preceding taxable year or (ii) zero, if no return was filed, the taxpayer did not have any Connecticut income tax liability for such year and throughout such year the taxpayer was (a) a resident individual, or (b) a nonresident or part-year resident individual with Connecticut-sourced income.

(2) ''The tax'' means the income tax, as defined in section 12-701(b)-1(a)(10) of Part XIV, taking into account the credit allowable for income tax or alternative minimum tax paid to a qualifying jurisdiction.

(3) ''The return'' means the originally filed return for the taxable year, provided, if an amended return is filed on or before the due date (determined with regard to any extension of time for filing) of the return for the taxable year, ''the return'' is such amended return (see Rev. Rul. 83-36, 1983-1 C.B. 358); if an amended return is filed as a consequence of a retroactive change in the provisions of law applicable to the taxable year, ''the return'' means the amended return, to the extent that the amendment is due to such retroactive change of law; and if separate returns are originally filed by persons married to each other, although they were eligible to file a return jointly, for the taxable year, and, within the time prescribed by Conn. Gen. Stat. § 12-732 for claiming a refund, they file a return jointly for the taxable year, ''the return'' means such joint return (see Rev. Rul. 80-355, 1980-2 C.B. 374).

(4) In the event that the taxpayer makes a mathematical error, as defined in section 12-731-1, on the return, including but not limited to the making of an incorrect tax computation or the failure to enter a tax computation, ''the tax shown on the return'' means the tax, as correctly computed.

(5) The same principles apply in determining whether a resident individual, a nonresident individual or a part-year resident individual has made the required annual payment. The principles that apply in determining whether a resident individual, a nonresident individual, or a part-year resident individual has made the required annual payment also apply in determining whether a resident trust or estate, a nonresident trust or estate, or a part-year resident trust, respectively, has made the required annual payment.

(b) Change from joint return to separate returns. If separate Connecticut income tax returns are filed by a husband and wife who filed a joint Connecticut income tax return in the preceding taxable year, the required annual payment for each spouse means the lesser of (A) 90% of the tax shown on the return for the taxable year, or, if no return is filed, 90% of the tax for such year, or (B) if the preceding taxable year was a taxable year of twelve months, the product of the joint Connecticut income tax liability for the preceding taxable year multiplied by a fraction, the numerator of which is the spouse's separate Connecticut income tax liability for the preceding taxable year (as if a joint Connecticut income tax return had not been filed for the preceding taxable year) and the denominator of which is the sum of each spouse's separate Connecticut income tax liability for the preceding taxable year (as if a joint Connecticut income tax return had not been filed for the preceding taxable year). The same rule applies where separate Connecticut income tax returns

are filed by unmarried persons who were married to each other and who had filed a joint Connecticut income tax return in the preceding taxable year.

(c) Change from separate returns to joint return. If a joint Connecticut income tax return is filed by a husband and wife who filed separate Connecticut income tax returns (whether as unmarried persons or as married persons filing separately) in the preceding taxable year, the required annual payment of the spouses means the lesser of (A) 90% of the tax shown on the joint return for the taxable year, or (B) if, for each spouse, the preceding taxable year was a taxable year of twelve months, and each spouse filed a return, the sum of 100% of the tax shown on the return of each spouse for such preceding taxable year. If only one of the spouses (whether as an unmarried person or as a married person filing separately) filed a Connecticut income tax return for the preceding taxable year, the required annual payment of the spouses means 90% of the tax shown on the joint return for the taxable year unless the spouse who did not file a Connecticut income tax return for such preceding taxable year did not have any Connecticut income tax liability for such year and was throughout such year (i) a resident individual or (ii) a nonresident or part-year resident individual with Connecticut- sourced income. If neither spouse filed a Connecticut income tax return for the preceding taxable year, the required annual payment of the spouses means 90% of the tax shown on the joint return for the taxable year unless each spouse had no Connecticut income tax liability for such preceding taxable year and each spouse was through such year (i) a resident individual or (ii) a nonresident or part-year resident individual with Connecticut-sourced income.

(d) While this section pertains to Section 12-701(a)(12) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended December 19, 2002)

Secs. 12-720(a)-1—12-720(a)-12.

Repealed, April 6, 2000.

Sec. 12-720(b)-1.

Repealed, April 6, 2000.

Sec. 12-720(c)-1.

Repealed, April 6, 2000.

Sec. 12-720(d)-1.

Repealed, April 6, 2000.

Sec. 12-721(a)-1.

Repealed, April 6, 2000.

Sec. 12-721(b)-1.

Repealed, April 6, 2000.

Sec. 12-722-1. Estimated tax payments by husband and wife. Change of status. Death of a spouse

(a) **General.** A husband and wife may make joint estimated tax payments, as if a joint Connecticut income tax return shall be filed by them for the taxable year, provided that they are eligible to file a joint Connecticut income tax return for the

taxable year. If joint estimated tax payments are made, the liability for estimated tax determined under this Part is joint and several.

(b) **Change of status.**

(1) The fact that joint estimated tax payments are made by a husband and wife shall not preclude them from filing separate Connecticut income tax returns. Where joint estimated tax payments are made for a taxable year but a joint Connecticut income tax return is not filed for the taxable year, the joint payments for such year may be divided between the husband and wife in such manner as they may agree. If the separate Connecticut income tax returns of the husband and of the wife claim, in the aggregate, more than 100% of the joint estimated tax payments, the Department will treat the husband and wife as not having agreed on the division of the joint estimated tax payments.

(2) In the absence of such an agreement, the portion of the joint estimated tax payments allocated to a spouse shall be that portion of the aggregate of all such joint payments made, as the amount of tax shown on the separate Connecticut income tax return of each taxpayer bears to the sum of the taxes shown on the separate Connecticut income tax returns of the taxpayer and such taxpayer's spouse. The allocation shall be final and shall not be affected by any documentation submitted by either spouse purporting to establish that he or she is entitled to be credited with making all or a portion of such joint payments.

(c) **Death of a spouse.**

(1) If joint estimated tax payments are made by a husband and wife for a taxable year and later during that same taxable year one spouse dies, no further estimated tax payments are required from the deceased spouse's estate. The surviving spouse, however, may either continue to make joint estimated tax payments for the remainder of the taxable year or may make his or her own separate estimated tax payments. If a surviving spouse elects to make his or her own separate estimated tax payments and a joint Connecticut income tax return is not filed, the joint estimated tax payments previously made may be divided between the deceased spouse's estate and the surviving spouse in such proportion as the surviving spouse and the legal representative of the deceased spouse's estate may agree. If the separate Connecticut income tax returns of the surviving spouse and of the deceased spouse's estate claim, in the aggregate, more than 100% of the joint estimated tax payments, the Department will treat the surviving spouse and the legal representative of deceased spouse's estate as not having agreed on the division of the joint estimated tax payments.

(2) In the absence of such agreement, if separate Connecticut income tax returns are filed by or on behalf of the deceased spouse's estate and surviving spouse, the joint estimated tax payments made up to the date of death shall be allocated to each Connecticut income tax return in the proportion that the amount of the tax shown on such separate Connecticut income tax return bears to the tax shown on the separate Connecticut income tax returns of the surviving spouse and of the deceased spouse's estate. The allocation shall be final and shall not be affected by any documentation submitted by either the surviving spouse or the representative of the deceased spouse's estate purporting to establish that he or she is entitled to be credited with making all or a portion of such joint payments.

(d) While this section pertains to Section 12-722 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Adopted effective February 10, 2004)

Sec. 12-722(a)-1. Addition to tax not subject to interest or penalty

(a) If an individual is subject to an addition to tax under section 12-722(a) of the Connecticut General Statutes, the addition to tax shall not be subject to interest or penalty, whether or not the individual pays the addition to tax on or before the period of underpayment, as described in section 12-722(b) of the General Statutes, expires.

(b) While this section pertains to Section 12-722(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended February 10, 2004)

Sec. 12-722(a)-2.

Repealed, February 10, 2004.

Sec. 12-722(b)-1.

Repealed, February 10, 2004.

Sec. 12-722(c)-1.

Repealed, April 6, 2000.

Sec. 12-722(d)(2)-1. Annualized income installments

(a) A taxpayer may use the annualized income installment method if the taxpayer's income fluctuates throughout the year due to, for example, the operation of a seasonal business. A taxpayer also may use the annualized income installment method if it becomes apparent during the year that the taxpayer overestimated Connecticut taxable income at the time the taxpayer paid any prior installment of estimated income tax. Using the annualized income installment method may enable the taxpayer to reduce the amount of, or eliminate, one or more required installments. To use the annualized income installment method, the taxpayer should establish, by completing a Form CT-2210 (and the annualized income installment schedule thereto) and attaching such form to the Connecticut income tax return for the taxable year, that, in the case of any required installment, the annualized income installment is less than the required installment, as determined under subdivision (1) of subsection (d) of Section 12-722 of the general statutes. A taxpayer who uses the annualized income installment method for any installment due date shall use it for all installment due dates.

(b) In the case of any required installment, the annualized income installment is the excess, if any, of an amount equal to the applicable percentage of the tax for the taxable year on the annualized Connecticut taxable income for months in the taxable year ending before the due date for the installment, over the aggregate amount of any prior required installments for months in the taxable year ending before the due date for the installment. Such prior required installments shall include, in accordance with subsection (k) of section 12-722 of the General Statutes, any tax withheld under chapter 229 of the General Statutes. Where the annualized income installment is less than any required installment, any reduction in such required installment resulting from the application of subdivision (2) of subsection (d) of section 12-722 of the General Statutes shall be recaptured by increasing the amount of the next required installment by the amount of such reduction and by increasing subsequent required installments to the extent that the reduction has not previously been recaptured under such subdivision.

(c) **Example:** A is an unmarried resident individual whose 1992 Connecticut taxable income was $50,000. The tax shown on A's 1992 Form CT-1040 was $2249. A's 1992 taxable year was a taxable year of twelve months.

First Required Installment. By the end of the third month of A's 1993 taxable year, A has Connecticut taxable income in the amount of $15,000. On the basis of A'S Connecticut taxable income during the first three months of his 1993 taxable year ($15,000), A's annualized income is $60,000 ($15,000 multiplied by the annualization factor of 4). Therefore, when the first required installment for A's 1993 taxable year is due, the tax that will be shown on A's 1993 Form CT-1040, based on A's projected 1993 Connecticut taxable income of $60,000, is $2699. Accordingly, A's required annual payment is the lesser of:

• $2249, which is 100% of the tax shown on A's 1992 Form CT-1040, or

• $2429, which is 90% of the tax that will be shown on A's 1993 Form CT-1040 ($2699), based on A's projected 1993 Connecticut taxable income of $60,000.

Therefore, A's required annual payment is $2249. The amount that A shall pay for the first required installment is $562 (25% of $2249).

Second Required Installment. By the end of the fifth month of A's 1993 taxable year, A has Connecticut taxable income in the amount of $20,000 and decides to use the annualized income installment method. On the basis of A's Connecticut taxable income during the first five months of his 1993 taxable year ($20,000), A's annualized income is $48,000 ($20,000 multiplied by the annualization factor of 2.4). The tax on such annualized income is $1943. The amount that A shall pay for the second required installment is the lesser of:

• $562, which is 25% of A's required annual payment of $2249, or

• $312, which is the tax on the annualized income ($1943) multiplied by the applicable percentage (0.45), from which product ($874) is subtracted the amount of the prior required installment for the taxable year ($562).

The amount that A shall pay for the second required installment is $312. The amount that shall be recaptured in subsequent required installments is $250, which is the amount by which the required installment ($562) is reduced by using the annualized income installment method $312).

Third Required Installment. By the end of the eighth month of A's 1993 taxable year, A has Connecticut taxable income in the amount of $25,000. Because A paid the tax on his annualized income for the second installment, he shall compute the annualized income installment for his third installment. On the basis of A's Connecticut taxable income during the first eight months of his taxable year ($25,000), A's annualized income is $37,500 ($25,000 multiplied by the annualization factor of 1.5). The tax on such annualized income is $1518. The amount that A shall pay for the third required installment is the lesser of:

• $812, which is the sum of $562 (25% of A's required annual payment of $2249) plus $250 (the recaptured reduction in the preceding required installment resulting from annualization), or

• $150, which is the tax on the annualized income amount ($1518) multiplied by the applicable percentage (0.675), from which product ($1024) is subtracted the aggregate amount of any prior required installments for the taxable year ($874).

The amount that A shall pay for the third required installment is $150. The amount that shall be recaptured in subsequent required installment is $662, which is the amount by which the required installment ($812) is reduced by using the annualized income installment method ($150).

Fourth Required Installment. At the end of A's 1993 taxable year, A has Connecticut taxable income in the amount of $75,000. Because A paid the tax on his annualized income for the third installment, he shall compute the annualized income installment for his fourth installment. A's total Connecticut taxable income for the year ($75,000) is the same as his annualized income ($75,000 multiplied by the annualization factor of 1). The tax on $75,000 is $3374. The amount that A shall pay for the fourth required installment is the lesser of:

• $1224, which is the sum of $562 (25% of A's required annual payment of $2249) plus $662 (the recaptured reduction in the preceding required installment resulting from annualization), or

• $2013, which is the tax on the annualized income amount ($3374) multiplied by the applicable percentage (0.9), from which product ($3037) is subtracted the aggregate amount of any prior required installments for the taxable year ($1024).

The amount that A shall pay for the fourth installment is $1224.

If A makes four timely installments in the amounts required, a is not subject to an addition to tax for his 1993 taxable year, and shall pay the balance of tax due ($1126) on or before the fifteenth day of the fourth month following the close of A's 1993 taxable year.

(d) While this section pertains to Section 12-722(d) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Adopted effective February 10, 2004)

Sec. 12-722(f)-1.

Repealed, February 10, 2004.

Sec. 12-722(g)-1.

Repealed, February 10, 2004.

Sec. 12-722(h)-1.

Repealed, February 10, 2004.

Sec. 12-722(i)-1.

Repealed, April 6, 2000.

Sec. 12-722(j)-1.

See § 12-722(d)(2)-1.

Renumbered and amended, February 10, 2004.

Sec. 12-722(n)-1. Installments due after date of death

(a) In the case of a decedent, payments of estimated income tax installments due after the date of death of the decedent and in respect of income that is earned before the death of the decedent and that is taxable to the decedent (and not to the decedent's estate) are not required, and no addition to tax shall be imposed on any such installments. If the decedent had been making joint estimated tax payments with his or her spouse for the taxable year, no further estimated tax payments are required from the decedent's estate. The surviving spouse may continue to make joint estimated tax payments for the remainder of the taxable year or may make his or her own separate estimated tax payments. If, however, the surviving spouse continues to make joint estimated tax payments for the remainder of the taxable year, the

surviving spouse shall be subject to the imposition of an addition to tax in accordance with the provisions of Section 12-722 of Connecticut General Statutes.

(b) While this section pertains to Section 12-722 of the Connecticut General Statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the Connecticut General Statutes, the adoption of this section is authorized by Section 12-740(a) of the Connecticut General Statutes.

(Adopted effective February 10, 2004.)

PART IX. Withholding

Sec. 12-705(a)-1. Requirement of withholding

(a) An employer is required to register with the Department and deduct and withhold Connecticut income tax if such employer maintains an office or transacts business within this state and pays wages subject to Connecticut income tax.

(b) The income tax is to be withheld on the basis of the same payroll period which is used for federal withholding tax purposes. The employer shall deduct and withhold the tax from the wages of its employees as and when paid, either actually or constructively. Wages are constructively paid when they are credited to the account of or set apart for an employee so that they may be drawn upon by such employee at any time, although not then actually reduced to possession. To constitute payment in such a case, the wages shall be credited to or set apart for the employee without any substantial limitation or restriction as to the time or manner of payment or condition upon which payment is to be made, and shall be made available to the employee so that they may be drawn upon at any time, and their payment brought within the employee's own control and disposition.

(c) Except as otherwise provided in this Part, payments that are, or are treated as if they are, wages on which Connecticut income tax shall be deducted and withheld are those payments that are, or are treated as if they are, wages on which federal income tax shall be deducted and withheld.

(d) See § 12-701(b)-1 of Part XIV for the meaning of terms used in this Part.

(Effective November 18, 1994)

Sec. 12-705(a)-2. Determining Connecticut income tax to be deducted and withheld from wages paid to resident employees

(a) Every employer maintaining an office or transacting business in Connecticut and making payments of wages shall, as provided in this section, deduct and withhold from such wages an amount of Connecticut income tax as determined in accordance with the current edition of the Connecticut Circular CT (Employer Tax Guide and Withholding Tables), except that if the department issues income tax withholding tables subsequent to the publication of the current edition of the Connecticut Circular CT, then the employer shall use those income tax withholding tables to determine how much Connecticut income tax to deduct and withhold from wages.

(b)

(1) Except as otherwise provided in subdivision (2) of this subsection, an employer maintaining an office or transacting business in Connecticut shall deduct and withhold Connecticut income tax from all wages paid to an employee who is a resident individual, even if some or all of the services for which the wages are paid were performed outside Connecticut.

(2) (A) Employee working in one qualifying jurisdiction. If an employee who is a resident individual works for an employer solely in one qualifying jurisdiction, as defined in part VI of these sections, and the employer maintains an office or

transacts business both in Connecticut and in that qualifying jurisdiction, the employer shall first deduct and withhold from the wages paid to an employee who is a resident individual working in that qualifying jurisdiction the income tax required to be deducted and withheld from such wages for that qualifying jurisdiction. If the Connecticut income tax otherwise required to be deducted and withheld from such wages exceeds the income tax required to be deducted and withheld from such wages for that qualifying jurisdiction, the employer shall then deduct and withhold from such wages the difference and pay over that difference to the Department. (See examples 1, 2 and 3 in subdivision (3) of this subsection.)

(B) Employee working in more than one qualifying jurisdiction. If an employee who is a resident individual works for an employer in more than one qualifying jurisdiction, but not in Connecticut, and the employer maintains an office or transacts business both in Connecticut and in the same qualifying jurisdictions in which the employee works for the employer, the employer shall first determine the Connecticut income tax that would otherwise be required to be deducted and withheld from the employee's total wages, and shall prorate such amount (''prorated tax amount'') between the qualifying jurisdictions in which the employee works for the employer. The prorated tax amount for a qualifying jurisdiction shall be calculated by multiplying the Connecticut income tax that would otherwise be required to be deducted and withheld from the employee's total wages by a fraction. The numerator of the fraction is the employee's wages for work performed in the qualifying jurisdiction. The denominator of the fraction is the employee's total wages. The employer shall then deduct and withhold from the employee's wages the income tax required to be deducted and withheld for each such qualifying jurisdiction. If the prorated tax amount for a qualifying jurisdiction exceeds the income tax required to be deducted and withheld from such wages for such qualifying jurisdiction, the employer shall then deduct and withhold from such wages the difference and pay over that difference to the department. (See example 4 in subdivision (3) of this subsection.)

(C) Employee working in one or more qualifying jurisdictions and in Connecticut. If an employee who is a resident individual works for an employer in one or more qualifying jurisdictions and in Connecticut, and the employer maintains an office or transacts business both in Connecticut and in the same one or more qualifying jurisdictions in which the employee works for the employer, the employer shall first determine the Connecticut income tax that would otherwise be required to be deducted and withheld from the employee's total wages, and shall prorate such amount (''prorated tax amount''), between Connecticut and the one or more qualifying jurisdictions in which the employee works for the employer. The prorated tax amount for a qualifying jurisdiction shall be calculated by multiplying the Connecticut income tax that would otherwise be required to be deducted and withheld from the employee's total wages by a fraction. The numerator of the fraction is the employee's wages for work performed in the qualifying jurisdiction. The denominator of the fraction is the employee's total wages. The employer shall then deduct and withhold from the employee's wages the income tax required to be deducted and withheld for each such qualifying jurisdiction. If the prorated tax amount for a qualifying jurisdiction exceeds the income tax required to be deducted and withheld from such wages for such qualifying jurisdiction, the employer shall then deduct and withhold from such wages the difference and pay over that difference to the department. The employer shall also deduct and withhold from the employee's wages the prorated tax amount for Connecticut, and pay over that amount to the department. The prorated tax amount for Connecticut shall be calculated by sub-

tracting the prorated tax amount for each qualifying jurisdiction in which the employee works for the employer from the Connecticut income tax that would otherwise be required to be deducted and withheld from the employee's total wages. (See example 5 in subdivision (3) of this subsection.)

(3) The following examples illustrate the application of this section:

Example 1: A resident individual is employed in Rhode Island by an employer maintaining an office or transacting business both in Connecticut and in Rhode Island. Assuming that the Rhode Island income tax required to be deducted and withheld from the employee's wages is $100 and that the Connecticut income tax that would otherwise be required to be deducted and withheld from such wages is $160. The amount of Connecticut income tax that would be required to be deducted and withheld is $60.

Example 2: A resident individual is employed in Massachusetts by an employer maintaining an office or transacting business both in Connecticut and in Massachusetts. Assuming that the Massachusetts income tax required to be deducted and withheld from the employee's wages is $200 and that the Connecticut income tax that would otherwise be required to be deducted and withheld from such wages is $200, no Connecticut income tax would be required to be deducted and withheld from such wages.

Example 3: A resident individual is employed in New York by an employer maintaining an office or transacting business both in Connecticut and in New York. Assuming that the New York income tax required to be deducted and withheld from the employee's wages is $300 and that the Connecticut income tax that would otherwise be required to be deducted and withheld from such wages is $250, no Connecticut income tax would be required to be deducted and withheld from such wages.

Example 4: A resident individual is employed in New York and New Jersey by an employer maintaining an office or transacting business in Connecticut, New York and New Jersey. Assume that the Connecticut income tax that would be required to be deducted and withheld from the employee's total wages for work performed in New York and New Jersey is $500, and that half of the employee's wages are for work performed in New York and the other half are for work performed in New Jersey. Therefore, the prorated tax amount for New York in $250, and the prorated tax amount for New Jersey is $250. Assuming that the New York income tax that would be required to be deducted and withheld from the employee's New York wages is $300, no Connecticut income tax would be required to be deducted and withheld from the employee's New York wages, because the New York income tax required to be deducted and withheld from the employee's wages exceeds the prorated tax amount for New York. Assuming that the New Jersey income tax that would be required to be deducted and withheld from the employee's New Jersey wages is $210, the amount of Connecticut income tax that would be required to be deducted and withheld from the employee's New Jersey wages is $40. (This is the amount by which the prorated tax amount for New Jersey ($250) exceeds the New Jersey income tax required to be deducted and withheld from the employee's wages. Therefore, the amount of Connecticut income tax that would be required to be deducted and withheld from the employee's total wages is $40.

Example 5: A resident individual is employed in Connecticut and New York by an employer maintaining an office or transacting business in Connecticut and New York. Assume that the Connecticut income tax that would otherwise be required to be deducted and withheld from the employee's total wages for work performed in

Connecticut and New York is $450, and that two-thirds of the employee's wages are for work performed in Connecticut and the other one-third are for work performed in New York.

Therefore, the prorated tax amount for New York is $150. The prorated tax amount for New York ($150) is subtracted from the Connecticut income tax that would otherwise be required to be deducted and withheld from the employee's total wages ($450) to calculate the prorated tax amount for Connecticut ($450-$150 = $300).

Assuming that the New York income tax that would be required to be deducted and withheld from the employee's New York wages is $210, no Connecticut income tax would be required to be deducted and withheld from the employee's New York wages, because the New York income tax required to be deducted and withheld from the employee's New York wages exceeds the prorated tax amount for New York. The amount of Connecticut income tax that would be required to be deducted and withheld from the employee's Connecticut wages is $300 (the prorated tax amount for Connecticut). Therefore, the amount of Connecticut income tax that would be required to be deducted and withheld from the employee's total wages is $300.

Example 6: A resident individual is employed in Connecticut, Rhode Island and Massachusetts by an employer maintaining an office or transacting business in Connecticut, Rhode Island and Massachusetts. Assume that the Connecticut income tax that would otherwise be required to be deducted and withheld from the employee's total wages for work performed in Connecticut, Rhode Island and Massachusetts is $800, and that one-fifth of the employee's wages are for work performed in Connecticut, one-fifth of the employee's wages are for work performed in Massachusetts, and the other three-fifths of the employee's wages are for work performed in Rhode Island. Therefore, the prorated tax amount for Massachusetts is $160, and the prorated tax amount for Rhode Island is $480. The prorated tax amount for Massachusetts ($160) and the prorated tax amount for Rhode Island ($480) are subtracted from the Connecticut income tax that would otherwise be required to be deducted and withheld from the employee's total wages ($800) to calculate the prorated tax amount for Connecticut ($800 − ($160 + $480) = $160). Assuming that the Massachusetts income tax that would be required to be deducted and withheld from the employee's massachusetts wages is $200, no Connecticut income tax would be required to be deducted and withheld from the employee's Massachusetts wages, because the Massachusetts income tax required to be deducted and withheld from the employee's Massachusetts wages exceeds the prorated tax amount for Massachusetts. Assuming that the Rhode Island income tax that would be required to be deducted and withheld from the employee's Rhode Island wages is $450, the amount of Connecticut income tax that would be required to be deducted and withheld from the employee's Rhode Island wages is $30. (This is the amount by which the prorated tax amount for Rhode Island ($480) exceeds the Rhode Island income tax required to be deducted and withheld from the employee's Rhode Island wages. Therefore, the amount of Connecticut income tax that would be required to be deducted and withheld from the employee's total wages is $190 ($160 + $30).

(c) To determine the amount required to be deducted and withheld from wages paid to employees who are nonresident individuals, see § 12-705(a)-6.

(Effective November 18, 1994; amended February 28, 2002, applicable to taxable years beginning on or after January 1, 2002)

Sec. 12-705(a)-3. Certain supplemental compensation

(a) **Supplemental compensation.** ''Supplemental compensation'' includes bonuses, commissions and overtime pay, paid at the same or a different time as ordinary wages.

(1) When supplemental compensation is paid at the same time as regular wages, the amount of the tax required to be withheld is determined as if the total of the supplemental and regular wages were a single payment for the regular payroll period. For example, if an employee worked overtime hours during a pay period, the employer shall combine the employee's regular pay and overtime pay in computing the tax to be withheld.

(2) When supplemental compensation is paid at a different time than regular wages, the method of withholding to be used depends on whether the employer withheld income tax from the employee's regular wages:

(A) If the employer did not withhold from the regular wages, the regular and supplemental compensation shall be added together and the tax computed on the total amount.

(B) If the employer did withhold from the regular wages, the employer shall compute the tax on the combined regular and supplemental compensation, with the tax to be withheld from the supplemental compensation to be the difference between the tax so computed less the tax withheld from regular wages.

(b) **Supplemental unemployment compensation benefits.** Withholding of Connecticut income tax is required with respect to payments of supplemental unemployment compensation benefits paid to an individual to the extent of the amount considered to be wages for federal income tax withholding purposes. Where wages are only partially subject to withholding of Connecticut income tax because a nonresident employee performs services within and without Connecticut, supplemental unemployment compensation benefits paid to such individual are subject to Connecticut income tax withholding to the same extent, in accordance with § 12-705(a)-6 of this Part.

(c) **Wages paid by the United States to members of the armed forces.** Connecticut income tax withholding does not apply to payments by the United States to nonresident military personnel stationed or performing services for the United States armed forces in Connecticut.

(d) **Wages exempt from federal income tax withholding.** Connecticut income tax withholding is not required on any compensation paid to an employee which is exempt from federal income tax withholding (see Internal Revenue Service Circular E, Employer's Tax Guide).

(e) **Claims for wages under 11 U.S.C. § 507(a)(3).** To the extent that the payment of an allowed priority claim under 11 U.S.C. § 507(a)(3) is treated as a ''payment of wages'' under section 3402(a)(1) of the Internal Revenue Code by a person who or which is treated as an ''employer'' under section 3401(d) of the Internal Revenue Code, and the wages are Connecticut wages, as defined in § 12-706(b)-1, such person shall be required to (1) withhold Connecticut income tax from such payment at the highest effective rate of withholding, (2) furnish the wage and tax statement, as described in § 12-706(b)-1, to each claimant and the ''state copy'' thereof to the Department, and (3) file a quarterly withholding tax return (Form CT-941) and the annual reconciliation return (Form CT-W3) with the Department. This regulation shall not be construed as limiting the generality of the provisions of this Part, or limiting the applicability of such provisions to persons treated as ''employers'' under section 3401(d) of the Internal Revenue Code.

(f) While this section pertains to Section 12-705(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-705(c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-705(a)-4. Withholding or exemption certificate

(a)

(1) On or before the commencement of employment, an employee shall furnish a completed and signed Form CT-W4 (Employee Withholding or Exemption Certificate) to the employer identifying, by filing status, the personal exemption amount to which such employee is entitled. The employee may not claim a personal exemption amount that is greater than the amount to which such employee is entitled under the existing facts and circumstances, nor may the employee use in determining the proper Connecticut income tax to be withheld the tax shown on the Connecticut income tax return of such employee for the preceding taxable year or 90% of the tax expected to be shown on the Connecticut income tax return for the taxable year.

(2) The employer is required to obtain a Form CT-W4 from the employee. If the employee fails to furnish such form, the employee shall be subject to the highest effective rate of withholding.

(b)

(1) Except as otherwise provided in this section, in cases in which no previous Form CT-W4 is in effect, the employee's Form CT-W4 shall take effect as of the beginning of the first payroll period ending, or the first payment of wages made without regard to a payroll period, on or after the date on which the form is furnished to the employer by the employee. Except as otherwise provided in this section, such form shall remain in effect until another form takes effect.

(2) Except as otherwise provided in this section, in cases in which a previous Form CT-W4 is in effect, the employee's Form CT-W4 shall take effect as of the beginning of the first payroll period ending, or the first payment of wages made without regard to a payroll period, on or after the thirtieth day after the day on which the form is furnished to the employer by the employee.

(3) Except as otherwise provided in this section, such form shall remain in effect until another form takes effect.

(c) If an employee, in completing a Form CT-W4, claims that wages paid are not subject to withholding, the employer shall forward a copy of such form for the quarter during which such claim is made to the Department, along with the employer's Form CT-941 for such quarter, if the employee is employed by that employer on the last day of the quarter and the employer reasonably expects that

(1) in the case of an employee filing a federal income tax return as a married individual filing separately, the employee's annual wages shall exceed $36,000,

(2) in the case of an employee eligible to file, and filing, a federal income tax return as a head of household, the employee's annual wages shall exceed $57,000,

(3) in the case of an employee filing a federal income tax return jointly with his or her spouse, the employee's annual wages shall exceed $72,000, or

(4) in the case of an employee filing a federal income tax return as an unmarried individual, the employee's annual wages shall exceed three times the maximum exemption amount to which an unmarried individual is entitled under section 12-702 of the general statutes.

(d) If an employee claims exemption from the tax during any calendar year, the employer shall obtain a new completed Form CT-W4 for the following year by

February 15 of the following year or, until such time as the employee furnishes a new completed Form CT-W4, the employer shall withhold Connecticut income tax from the employee's wages at the highest effective rate.

(e) An employer is required, upon written request of the Department, to submit a copy of any Form CT-W4 in effect or make the original available for inspection, together with a copy of any written statement received from the employee in support of the information entered on the Form CT-W4. The Department's request may relate either to one or more named employees or to one or more reasonably segregable units of the employer.

(f)

(1) Except as otherwise provided in subsection (d) or (g) of this section, an employer shall withhold on the basis of the information entered on a Form CT-W4 until the employer receives written notice from the Department indicating that the form is defective and the reason that the form is defective, and instructing the employer how Connecticut income tax is to be withheld from the employee's wages.

(2) If the Department notifies the employer that a Form CT-W4 is defective, the Department shall provide the employer with a copy for the employee of such notice. If the employee is still in such employer's employ, the employer shall promptly furnish such copy to the employee and shall deduct and withhold Connecticut income tax from the employee's wages as instructed by the department.

(3) The employer shall continue to withhold as instructed by the Department unless and until the Director of the Audit Division by written notice revokes the earlier instructions and advises the employer that the employer may accept a new Form CT-W4 completed and signed by the employee. The department shall provide the employer with a copy for the employee of such notice. The employer shall promptly furnish such copy to the employee and shall request that the employee complete and sign a new Form CT-W4. After the employee completes and signs a new Form CT-W4, the employer shall withhold on the basis of the information entered on the form.

(g) Where the employee and the department have entered into an agreement providing for payment of the employee's unpaid taxes and the agreement requires that a certain amount of Connecticut income tax be deducted and withheld from the employee's wages, the department shall provide written notice to an employer, instructing the employer to deduct and withhold Connecticut income tax on the basis of the information entered on a Form CT-W4 that is provided by the department. The department shall provide the employer with a copy for the employee of such notice. The employer shall promptly furnish such copy to the employee. The employer shall deduct and withhold Connecticut income tax from the employee's wages as instructed by the department until the employer receives written notice from the department advising the employer that the employer may accept a new Form CT-W4 completed and signed by the employee. The department shall provide the employer with a copy for the employee of such notice. The employer shall promptly furnish such copy to the employee and shall request that the employee complete and sign a new Form CT-W4. After the employee completes and signs a new Form CT-W4, the employer shall withhold on the basis of the information entered on the form.

(h) While this section pertains to Section 12-705(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended February 28, 2002, applicable to taxable years beginning on or after January 1, 2002)

Sec. 12-705(a)-5. Addition to or reduction from withholding

(a) In addition to the tax required to be deducted and withheld under this Part, the employee may request that the employer withhold an additional amount from the employee's wages. An employee with other income in addition to compensation subject to withholding may have additional amounts deducted and withheld in order to avoid the requirement of paying estimated taxes. The additional amount deducted and withheld shall be considered as tax required to be deducted and withheld under the Income Tax Act.

(b) An employee may also request that the employer withhold an amount less than that which would otherwise be withheld from such employee in his or her exemption category. Such request may be made when the employee expects to sustain losses which would reduce federal adjusted gross income and thereby reduce such employee's Connecticut adjusted gross income or expects to make modifications under § 12-701(a)(20)-3 in computing Connecticut adjusted gross income. The employee may not use in determining the proper Connecticut income tax to be withheld the tax shown on the Connecticut income tax return of such employee for the preceding taxable year or 90% of the tax expected to be shown on the Connecticut income tax return for the taxable year.

(Effective November 18, 1994)

Sec. 12-705(a)-6. Determining Connecticut income tax to be withheld on wages paid to nonresident employees

(a) Every employer maintaining an office or transacting business in Connecticut and making payments of wages shall, as provided in this section, deduct and withhold from such wages an amount of Connecticut income tax as determined in accordance with the current edition of the Connecticut Circular CT (Employer Tax Guide and Withholding Tables), except that if the department issues income tax withholding tables subsequent to the publication of the current edition of the Connecticut Circular CT, then the employer shall use those income tax withholding tables to determine how much Connecticut income tax to deduct and withhold from wages.

(b) An employer maintaining an office or transacting business in Connecticut shall deduct and withhold Connecticut income tax from all wages paid to an employee who is a nonresident individual if the services of the employee are performed entirely within Connecticut. No Connecticut income tax is to be deducted and withheld from wages paid to an employee who is a nonresident individual for services performed entirely outside Connecticut. Where wages are paid to an employee who is a nonresident individual for services performed partly within and partly without Connecticut, the employer shall deduct and withhold Connecticut income tax from all wages paid to such employee, except as otherwise provided in subsection (c) of this section.

(c) An employer is required to withhold Connecticut income tax on all wages paid to an employee who is a nonresident individual for services performed partly within and partly without Connecticut unless there is filed with such employer a Form CT-W4NA (Employee Withholding or Exemption Certificate--Nonresident Apportionment) or unless the employer maintains adequate current records to determine accurately the amount of wages that is paid for the performance of services within Connecticut. The employer should withhold Connecticut income tax on the wages paid by such employer to an employee who is a nonresident individual performing services partly within and partly without Connecticut on the basis of the apportionment shown by such employee on the Form CT-W4NA, but shall make necessary adjustments during the year so that the proper amount of Connecticut

income tax is withheld from the employee's wages if the employer knows or has reason to know that the apportionment shown on the Form CT-W4NA is not correct. For purposes of making these adjustments, the proportion of wages that is paid for the performance of services within Connecticut is in the same proportion that such employee's wages derived from or connected with sources within Connecticut (determined under the provisions of Part II) bear to the employee's total wages. The proportion of wages that is paid for the performance of services within Connecticut may be determined by the employer on the basis of the preceding year's experience, if reasonable, except that the employer shall make any necessary adjustments during the year to ensure that the required Connecticut income tax is being withheld for the current year if the employer knows or has reason to know that the apportionment shown on the Form CT-W4NA is no longer correct. If the employee reasonably expects that the preceding year's experience shall not be applicable to the current year, the employee shall furnish a new Form CT-W4NA to the employer, estimating the proportion of wages that shall be paid for the performance of services within this state. Forms CT-W4NA shall be retained by the employer and be available for inspection by the Department.

(d) To determine the amount to be withheld from wages paid to employees who are resident individuals, see § 12-705(a)-2.

(Effective November 18, 1994; amended February 28, 2002, applicable to taxable years beginning on or after January 1, 2002)

Sec. 12-705(a)-7. Wages paid through an agent, fiduciary or other person on behalf of two or more employers

If payment of wages is made by an employer through an agent, fiduciary, or other person who also pays, or has the control, receipt, custody, or disposal of, the wages payable by another employer to the same employee, the amount of the tax required to be withheld on each wage payment to be made through such agent, fiduciary, or other person shall, whether the wages are paid separately on behalf of each employer or in a lump sum on behalf of all such employers, be determined upon the aggregate amount of such wage payment or payments in the same manner as if the aggregate amount had been paid by one employer. In such a case, each employer is liable for the return and payment of a pro rata portion of the tax so determined, such portion to be determined in the ratio which the amount contributed by the particular employer bears to the aggregate of such wages.

(Effective November 18, 1994)

Sec. 12-705(a)-8. Furnishing amended withholding or exemption certificate

(a) If, during the taxable year, an employee who has in effect a Form CT-W4 has a change occur in his or her circumstances that shall result in underwithholding of Connecticut income tax, the employee shall within 10 days of the change furnish to his or her employer a new Form CT-W4 reflecting such change.

(b)

(1) In completing a Form CT-W4, an employee is required to check a filing status.

(A) Filing status ''A'' is to be claimed if an employee is married but filing a federal income tax return separately from his or her spouse; or is married and filing a federal income tax return jointly with his or her spouse who is employed and their combined Connecticut adjusted gross income is $100,500 or less.

(B) Filing status ''B'' is to be claimed if an employee is eligible to file, and filing, a federal income tax return as a head of household.

(C) Filing status ''C'' is to be claimed if an employee is married and filing a federal income tax return jointly with his or her spouse who is not employed.

(D) Filing status ''D'' is to be claimed if an employee is married and filing a federal income tax return jointly with his or her spouse who is employed, and their combined Connecticut adjusted gross income is more than $100,500; or if the employee has significant nonwage income and wishes to avoid having insufficient tax withheld; or if the employee is a nonresident individual and has substantial other income.

(E) Filing status ''E'' is to be claimed if an employee expects a refund of all Connecticut income withheld during the taxable year because he or she expects to have no Connecticut income tax liability for such year.

(F) Filing status ''F'' is to be claimed if an employee is unmarried but is not eligible to file a federal income tax return as a head of household.

(2) Some examples of when a new Form CT-W4 is required to be provided are as follows:

Example 1: X originally indicated filing status ''A'' on her Form CT-W4 because she is married, filing jointly, and the combined income of the spouses was expected to be less than or equal to $100,500. In August, X's spouse changed jobs, and as a result the spouses' combined income for the taxable year is expected to exceed $100,500. Filing status ''A'' would therefore no longer be correct, and X is required to file a new Form CT-W4 within 10 days of the change and check filing status ''D'' on her new Form CT-W4.

Example 2: Y originally indicated filing status ''C'' on his Form CT-W4 because he is married, filing jointly, and his spouse was not employed. In May, Y's spouse became employed. Filing status ''C'' would therefore no longer be correct, and Y is required to file a new Form CT-W4 within 10 days of the change and check either filing status ''A'' on his new Form CT-W4 and use the supplemental table for married couples filing jointly that is attached thereto, if the spouses' combined income for the taxable year is not expected to exceed $100,500, or filing status ''D'' on his new Form CT-W4, if the spouses' combined income for the taxable year is expected to exceed $100,500.

Example 3: Z requested reduced withholding on her original Form CT-W4 because she expected to have a loss passed through to her from a partnership in which she is a partner. In February, however, she learns that the expected loss will be much less than originally anticipated. Z is required to redetermine whether she is entitled to reduced withholding, and, if the adjustment of the loss amount results in a change in the amount to be withheld, file a new Form CT-W4 within 10 days of the change.

(c) While this section pertains to Section 12-705(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended February 28, 2002, applicable to taxable years beginning on or after January 1, 2002)

Sec. 12-705(b)-1. Professional athletes and entertainers

(a)(1) Any person which maintains an office or transacts business within this state and during a calendar year pays compensation, in cash or otherwise, for personal services as an entertainer or professional athlete, in connection with a performance or athletic event, to an entertainer or professional athlete who is not considered an employee for federal withholding tax purposes and who is—

(A) a resident individual, shall withhold Connecticut income tax from such compensation, whether or not the performance or athletic event is held within Connecticut.

(B) a nonresident individual, shall withhold Connecticut income tax from the portion of such compensation that is derived from or connected with sources within this state.

(2) The value of noncash prizes and awards shall be their fair market value. As used in this section, compensation paid for personal services in a performance includes, but is not limited to, compensation paid to actors, singers, musicians, dancers, circus performers, writers, directors, set designers, and any person appearing on television, radio, the stage, in a night club performance or hotel show and any person whose performance is recorded or filmed, and compensation paid for personal services in an athletic event includes, but is not limited to, compensation paid to referees and trainers.

(b) Even though a person whose services are covered by this section is not considered an employee for federal withholding tax purposes, such person shall be treated as an employee, and the person paying compensation to such person, or to the agent thereof, shall be treated as an employer, for purposes of this Part. The person treated as an employer shall (1) register for Connecticut income tax withholding purposes by filing a Form REG-1 (Application for Tax Registration Number) with the Department, (2) deduct and withhold Connecticut income tax on the compensation at the highest marginal rate, (3) depending on whether the person treated as an employer is a weekly remitter, monthly remitter or quarterly remitter, as those terms are used in section 12-707 of the Connecticut General Statutes, pay over the deducted and withheld Connecticut income tax to the Department on or before the date specified in subparagraph (B) of subdivision (3), (4) or (5) of subsection (b) of said section 12-707, and, if not required to pay over such tax by electronic funds transfer pursuant to chapter 228g of the Connecticut General Statutes and the regulations adopted thereunder, file Form CT-8109 with such payment, (4) file with the Department for each calendar year a Form CT-945 on or before the last day of January of the next succeeding calendar year, provided, Form CT-945 may be filed on or before the tenth day of February of the next succeeding calendar year if timely deposits of Connecticut withholding tax have been made in full payment of such taxes due for such year, (5) show the amount of Connecticut income tax deducted and withheld on the Federal Form 1099-MISC that is to be furnished to each person treated as an employee under this section by the person treated as an employer under this section on or before the last day of January of the next succeeding calendar year, and (6) file with the Department a Form CT-1096, with a copy of each Federal Form 1099-MISC, on or before the last day of February of the next succeeding calendar year.

(Effective November 18, 1994; amended August 3, 2001, March 8, 2006)

Sec. 12-705(b)-2. Gambling winnings

(a) **Winnings subject to withholding.** (1) The following winnings are subject to Connecticut income tax withholding:

(A) any payment made by the Connecticut Lottery Corporation of winnings from a wager placed in a lottery conducted by the Connecticut Lottery Corporation to an individual who was a resident on the date that the numbers of such winning Connecticut lottery ticket were drawn (or if no drawing of numbers was conducted, on the date that such winning lottery ticket was purchased), if federal income tax withholding is required under section 3402(q) of the Internal Revenue Code;

(B) any payment of winnings from a wager placed in a pari-mutuel pool with respect to horse or dog races or jai-alai games to an individual who was a resident on the date of the race, if federal income tax withholding is required under section 3402(q) of the Internal Revenue Code; and

(C) any payment of gambling winnings by any other payer who maintains an office or transacts business within Connecticut to an individual who was a resident on the date the wager was made or to someone receiving them on behalf of a Connecticut resident, if such winnings are subject to federal income tax withholding under section 3402(q) of the Internal Revenue Code.

(2) For purposes of this section, the proceeds from a wager are determined by reducing the amount received by the amount of the wager, and the terms ''winnings'' and ''gambling winnings'' shall include both cash and noncash winnings. The value of noncash winnings shall be their fair market value. Where the proceeds from a wager or wagering transaction are subject to Connecticut income tax withholding under this section, the total amount of the proceeds, not merely the portion of the proceeds exceeding $5,000 in the case of proceeds from a wager placed in a lottery described in section 3402(q)(3)(B) of the Internal Revenue Code or from a wager or wagering transaction described in section 3402(q)(2)(A) or (C) of the Internal Revenue Code, is subject to such withholding.

(b) **Other payments subject to withholding.** (1) Any payment of moneys to an assignor, who was a resident individual on the date that the numbers of his or her winning Connecticut lottery ticket were drawn (or if no drawing of numbers was conducted, on the date that such winning lottery ticket was purchased) by an assignee in consideration for the assignment of a Connecticut lottery prize payment or payments is subject to Connecticut income tax withholding. Subsequent to an assignment, the Connecticut Lottery Corporation shall no longer be required to deduct and withhold Connecticut income tax from Connecticut lottery prize payments made to the assignee pursuant to such assignment.

(2) For purposes of this subsection, ''assignor'' means a Connecticut lottery prize winner who makes an assignment of his or her Connecticut lottery prize to an assignee; ''assignee'' means a person to whom an assignor makes an assignment of a Connecticut lottery prize; and ''assignment'' means a contract between an assignor and an assignee, approved by the Superior Court and recognized by the Connecticut Lottery Corporation, in accordance with section 12-831 of the General Statutes, and the rules of operations of the Connecticut Lottery Corporation, whereby the assignee shall be granted the right to receive, to the extent assigned, a Connecticut lottery prize, in installments, that the assignor would otherwise be entitled to receive, and the Connecticut Lottery Corporation shall be discharged from any further liability to the assignor for the Connecticut lottery prize.

(c) **Treatment of payer of winnings or other payments subject to withholding.** (1) Any person making payments of winnings that are subject to Connecticut income tax withholding under subsection (a) of this section and any assignee making payments that are subject to Connecticut income tax withholding under subsection (b) of this section shall be treated in the same manner that an employer making payments of wages that are subject to Connecticut income tax withholding is treated under the regulations of this Part. Therefore, a person not otherwise required to register with the Department to withhold Connecticut income tax shall, by virtue of making payments of winnings that are subject to Connecticut income tax withholding under subsection (a) of this section or such other payments that are subject to Connecticut income tax withholding under subsection (b) of this section, be required to so register

by filing a Form REG-1 (Application For Tax Registration Number). Connecticut income tax deducted and withheld from such winnings by a payer or from such other payments by an assignee shall be treated and paid over to the Department in the same manner as Connecticut income tax deducted and withheld from wages paid by an employer required to deduct and withhold such tax under this Part.

(2) A payer of winnings that are subject to Connecticut income tax withholding under subsection (a) of this section shall give to each payee the ''state copy'' of the federal Form W-2G, showing thereon the amount of Connecticut income tax that was withheld, on or before January 31 of the succeeding taxable year. A payer of such winnings shall file a Form CT-1096, with a duplicate of the ''state copy'' of such federal Form W-2G, with the Department on or before the due date that is specified in § 12-727(a)-2 of Part XI.

(3) An assignee making payments that are subject to Connecticut income tax withholding under subsection (b) of this section shall give to each assignor the ''state copy'' of the federal Form 1099-MISC, showing thereon the amount of Connecticut income tax that was withheld, on or before January 31 of the succeeding taxable year. An assignee making such payments shall file a Form CT-1096, with a duplicate of the ''state copy'' of such federal Form 1099-MISC, with the Department on or before the due date that is specified in § 12-727(a)-2 of Part XI.

(d) **Amount to be withheld.** The amount of Connecticut income tax to be deducted and withheld by the payer from winnings that are subject to Connecticut income tax withholding under subsection (a) of this section and by the assignee from payments that are subject to Connecticut income tax withholding under subsection (b) of this section shall be computed at the highest marginal Connecticut income tax rate for the taxable year.

(e) **Determination of winner's status as a Connecticut resident.** (1) The winner's resident status shall be determined by the payer based on two Forms of identification provided by the winner. Before the payment of any winnings, the payer shall obtain from the winner sufficient information to enable the payer to complete a Federal Form W-2G (Certain Gambling Winnings) pertaining to the winner.

(2) If more than one individual is entitled to a share of the gambling winnings, one federal Form 5754 (Statement by a Person(s) Receiving Gambling Winnings) shall be completed, identifying each of the persons entitled to a share. Form 5754 is also used when the recipient is an individual not entitled to a share. This Form lists the name, address, and taxpayer identification number of all individuals entitled to any share of the winnings. In the event the identity or residence of any individual entitled to share in the winnings cannot be satisfactorily established by the individual receiving the winnings, the share of the winnings to which such individual is entitled shall be considered to have been won by a resident of Connecticut and the income tax shall be withheld. The Form shall be signed, under penalties of perjury, by the individual(s) receiving the winnings.

(f) **Change of resident status by Connecticut Lottery prize winner**. Where a resident payee of Connecticut lottery winnings changes status from a resident individual to a nonresident individual, or where a nonresident payee of Connecticut lottery winnings changes status from a nonresident individual to a resident individual, Connecticut income tax shall continue to be withheld by the Connecticut Lottery Corporation from such winnings.

(Effective November 18, 1994; amended August 3, 2001, July 3, 2003)

Sec. 12-705(b)-3. Withholding for resident individuals who are recipients of pensions or annuities

(a) **General.** Any payer of pensions or annuities maintaining an office or transacting business within this state shall withhold Connecticut income tax from pension or annuity payments that are distributed to a resident individual recipient if requested to do so by such recipient. This requirement applies to all payers, whether public or private, and to all payments, including lump sum distributions, on account of which a federal Form 1099-R is required to be furnished to the payee by the payer, whether or not such payments are made from a Connecticut location.

(b) **To qualify for withholding.** To qualify for withholding of Connecticut income tax, the pension or annuity payment shall be income to the recipient that would be includible in such recipient's Connecticut adjusted gross income.

(c) **Amount to be deducted and withheld.** The request to deduct and withhold Connecticut income tax shall be made in a specific whole dollar amount. This amount shall be at least $10 per payment.

(d) **Manner of making request.** The payer shall provide all resident individuals who are recipients of pension or annuity payments with a Form CT-W4P (Withholding Certificate for Pension or Annuity Payments) or a facsimile thereof. A request to deduct and withhold Connecticut income tax on pension or annuity payments should be made by the payee by completing the Form provided by the payer.

(e) **When request becomes effective.** Upon receipt of a request by a payee to deduct and withhold Connecticut income tax from pension or annuity payments, the payer shall deduct and withhold the amount specified in such request commencing no later than the first payment made on or after the date which occurs:

(1) in a case in which no previous request is in effect, three calendar months after the date on which the request is furnished to such payer; or

(2) in a case in which a previous request is in effect, the first status determination date (January 1, May 1, July 1 and October 1 of each year) which occurs at least 30 days after the date on which such request is so furnished.

(f) **Duration and termination of request.** The request under this section shall remain in effect until terminated by the payee. The payee may terminate the request by furnishing the payer with a signed written notice of termination. Except as otherwise provided, such notice of termination is effective with respect to the first payment of a pension or annuity made on or after the first status determination date (January 1, May 1, July 1 and October 1 of each year) which occurs at least 30 days after the date on which such notice of termination is furnished. However, the payer may elect to terminate withholding of Connecticut income tax with a pension or annuity payment made on or after the date the termination notice is furnished and before the status determination date.

(g) **Effect of request for withholding.** Amounts deducted and withheld from a pension or annuity payment by a payer shall be treated in the same manner as tax deducted and withheld from wages by an employer required to deduct and withhold tax under this Part if, at the time payment is made, a request that such payment be subject to withholding is in effect.

(h) **Reporting the tax withheld.** Except as otherwise provided in this section or in § 12-707-1, payers of pensions or annuities who withhold Connecticut income tax shall report and pay over taxes in the same manner that employers are required to report and pay over Connecticut income tax under this Part. Payers of pensions or annuities shall give to each payee from whom Connecticut income tax was withheld the ''state copy'' of the federal Form 1099-R, showing thereon the amount

of Connecticut income tax that was deducted and withheld, on or before January 31 of the succeeding taxable year. Payers of pensions or annuities shall file a Form CT-1096, with a duplicate of the ''state copy'' of such federal Form 1099-R for each payee from whose pension or annuity Connecticut income tax was deducted and withheld, with the Department on or before the due date that is specified in § 12-727(a)-2 of Part XI.

(Effective November 18, 1994; amended August 3, 2001)

Sec. 12-705(b)-4. Distributions

(a) Any payer that maintains an office or transacts business within this state and that makes a distribution or payment that is, or is treated as if it is, wages on which federal income tax shall be deducted and withheld from a plan to a—

(1) resident individual, shall file a Form CT-W3, with a duplicate of the ''state copy'' of the federal Form W-2, with the Department on or before the due date for filing the federal Form W-2.

(2) nonresident individual from whose wages Connecticut income tax has previously been withheld by the payer, shall file a Form CT-W3, with a duplicate of the ''state copy'' of the federal Form W-2, with the Department on or before the due date for filing the federal Form W-3.

(b) The term ''distribution or payment from a plan'' means a distribution or payment of deferred compensation, and includes, but is not limited to, a supplemental executive retirement (''top hat'') plan distribution, income recognized under section 83 of the Internal Revenue Code, income characterized as compensation upon exercise of nonqualified stock options, and other benefit plans.

(c) The following examples illustrate the application of this section:

Example 1: On January 1, 1991, X Corporation sells to E, a nonresident employee working only in Connecticut during 1991, 100 shares of its stock for $15 per share. At that time, the fair market value of the stock is $20 per share. The stock is subject to a substantial risk of forfeiture: if E terminates her employment within two years, she shall return the stock to X Corporation at her original purchase price of $15 per share. On January 1, 1993, the fair market value of the stock is $30 per share and E's substantial risk of forfeiture has lapsed. At that time, E shall include in her Connecticut adjusted gross income for that taxable year, as compensation, $1,500 ($15 per share). (This is equal to the value of the stock at the time the restriction lapsed ($30 per share) less the amount E paid for the stock ($15 per share).) Because X Corporation had withheld Connecticut income tax from E's wages during 1991, X Corporation shall report the amount of the distribution on its Form CT-W3, and file that form, with a duplicate of the ''state copy'' of the federal Form W-2 (without being required to indicate how much of the payment is Connecticut wages) for E, with the Department, whether or not E is still working for X Corporation in Connecticut. (X Corporation may but is not required to indicate how much of the payment is Connecticut wages.) If E sells her stock three years later for $50 per share, she shall recognize a capital gain of $20 per share that is not derived from or connected with sources within this state.

Example 2: Assume the same facts, except that E elects under section 83(b) of the Internal Revenue Code to include the fair market value of the property in her federal gross income in the taxable year during which such property was transferred. At the time of the initial sale of the stock to E, E shall include in her Connecticut adjusted gross income for that taxable year, as compensation, $500 ($5 per share). (This is equal to the value of the stock at the time of the election ($20 per share) less the amount E paid for the stock ($15 per share).) X Corporation shall report

such amount on its Form CT-W3, and file that form, with a duplicate of the ''state copy'' of the federal Form W-2 for E, with the Department. (X Corporation may but is not required to indicate how much of the payment is Connecticut wages.) If E sells her stock three years later for $50 per share, she shall recognize a capital gain of $30 per share that is not derived from or connected with sources within this state.

Example 3: On January 1, 1985, Y Corporation and F, a nonresident employee, enter into an employment contract, one of the provisions of which is that F, upon terminating his employment with Y Corporation, shall receive an additional $500,000, one-tenth of which shall be payable in 10 equal annual installments, the first such installment to be paid one year after F terminates his employment. F terminates his employment on June 30, 1994. As an employee, F performed services for Y Corporation partly within and partly without Connecticut. Y Corporation shall report such amount on its Form CT-W3, and file that form, with a duplicate of the ''state copy'' of the federal Form W-2 for F, with the Department. (Y Corporation may but is not required to indicate how much of each installment is Connecticut wages.) For those years in which installments are received, F shall include in his Connecticut adjusted gross income derived from or connected with Connecticut sources the percentage of F's deferred compensation that is determined under § 12-711(b)-19 of Part II.

(Effective November 18, 1994)

Sec. 12-705(b)-5. Liability of third parties paying wages

(a)(1) A lender, surety or other person:

(A) who is neither an employer nor a fiduciary, agent or other person authorized to perform acts required of employers with respect to an employee or group of employees; and

(B) who pays wages directly to such employee or group of employees, employed by one or more employers, or to an agent on behalf of such employee or employees, is liable for payment of an amount equal to the sum of the Connecticut income taxes required to be deducted and withheld from those wages by the employer and interest from the due date of the Connecticut employer's return relating to such Connecticut income taxes for the period in which the wages are paid.

Example: Pursuant to a wage claim, a surety company paid an employee of a construction company his net wages. This was done in accordance with the surety company's payment bond covering a private construction job on which such employee was employed by the construction company. If the construction company fails to make timely payment or deposit of the Connecticut income tax required to be deducted and withheld from such employee's wages, the surety company becomes personally liable for the amount equal to the unpaid Connecticut income taxes, plus interest upon such amount from the due date of the construction company's Connecticut withholding tax payment.

(2) As used in this section, the term ''other person'' means any person who directly pays the wages of an employee or group of employees of another employer. It does not include a person acting only as agent of the employer or as agent of the employees.

(b)(1) A lender, surety or other person may satisfy the personal liability imposed by this section by payment of the amount of Connecticut income tax and interest due, accompanied by a letter of explanation. In the event the lender, surety or other person does not satisfy the liability imposed by this section, the Department may collect the liability from the lender, surety or other person in the manner provided

in Section 12-734 of the general statutes after assessment of the Connecticut income tax against the employer.

(2)(A) A lender, surety or other person paying the amounts of Connecticut income tax required to be deducted and withheld pursuant to this section is not required to file quarterly or annual reconciliation of withholding returns with respect to those wages, or furnish annual wage and withholding tax statements to the employees.

(B) Any amounts paid by a lender, surety or other person to the Department pursuant to this section shall be credited against the liability of the employer on whose behalf those payments are made and also reduce the total liability imposed upon the lender, surety or other person under this section.

(C) Any amounts paid to the Department by an employer and applied to such employer's liability reduces the total liability imposed upon that employer. Such payments shall also reduce the liability imposed upon a lender, surety or other person under this section, except that such liability shall not be reduced by any portion of an employer's payment applied against the employer's liability which is in excess of the total liability imposed upon the lender, surety or other person.

(c) This regulation does not relieve the employer of the responsibilities imposed upon him to file the Connecticut employer's returns and supply the statements required under this Part.

(d) The liability under this section of a lender, surety or other person paying or supplying funds for the payment of wages is incurred on the last day prescribed for the filing of the Connecticut employer's return of withheld Connecticut income taxes (determined without regard to any extension of time) in respect of such wages.

(Effective November 18, 1994)

Sec. 12-705(c)-1. Voluntary withholding other than by employers

Any person (other than an employer) who is not otherwise required to register to withhold Connecticut income tax may, pursuant to an agreement between such person and a payee who is a Connecticut resident individual (or a nonresident individual, where payment or payments shall be part of such individual's Connecticut adjusted gross income derived from or connected with sources within Connecticut), register solely for the purpose of withholding Connecticut income tax from payment or payments made to such payee. Where a person so registers, such person shall be treated as an employer required to register under this Part with respect to such payee while such agreement remains in effect.

(Effective November 18, 1994)

Sec. 12-705(c)-2. Voluntary withholding by employers

(a) Any employer that is not otherwise required to register to withhold Connecticut income tax may, pursuant to an agreement between such employer and an employee who is a Connecticut resident individual (or a nonresident individual, where the wages shall be part of such individual's Connecticut adjusted gross income derived from or connected with sources within Connecticut), register solely for the purpose of withholding Connecticut income tax from wages paid to such employee. Where an employer so registers, such employer shall be treated as an employer required to register under this Part with respect to such employee while such agreement remains in effect.

(b) Any household employer that is not otherwise required to register to withhold Connecticut income tax and that, pursuant to an agreement between such employer and a household employee, registers solely for the purpose of withholding Connecticut income tax from wages paid to such household employee may, upon the employ-

er's written request, be permitted by the department to file a Form CT-941, Connecticut quarterly reconciliation of withholding, for only the last calendar quarter of the calendar year for which such employer has agreed to deduct and withhold Connecticut income tax. Such form shall report the Connecticut income tax that such employer agreed to deduct and withheld for the entire calendar year. A household employer may obtain permission to file one Form CT-941 for the last calendar quarter of the calendar year by sending a written request on or before the last day of the first calendar quarter of the calendar year to which the request pertains to the registration section of the operations division of the department. The department shall provide written notice of its decision to grant or deny permission. If permission is granted, permission need not be sought, and no new request need be made, for succeeding calendar years. If permission is not granted, the employer shall be required to file a Form CT-941 for each calendar quarter and shall be subject to the provisions of § 12-735(a)-1 of Part XII if it fails to file such a return for each calendar quarter.

(Effective November 18, 1994; amended February 28, 2002, applicable to taxable years beginning on or after January 1, 2002)

Sec. 12-705(c)-3. Voluntary withholding for military retirees

(a) The United States Department of Defense has entered into an agreement with the Department of Revenue Services under 10 U.S.C. § 1045 and 32 C.F.R. § 78.7 to withhold Connecticut income tax from the monthly retired pay of members who are retired from the regular and reserve components of the Uniformed Services, who are resident individuals, and who request in writing that the Uniformed Services withhold Connecticut income tax from their monthly retired pay.

(b) For purposes of this section:

(1) the term ''Uniformed Services'' refers to the Army, Navy, Air Force, Marine Corps, Coast Guard, commissioned corps of the Public Health Service, and commissioned corps of the National Oceanic and Atmospheric Administration;

(2) the term ''member'' means a person originally appointed or enlisted in, or conscripted into, a Uniformed Service who has retired from such regular or reserve component of such Uniformed Service;

(3) the term ''retired pay'' means retainer pay or pay and benefits received by a member based on conditions of the retirement law, pay grade, years of service, date of retirement, transfer to the Fleet Reserve or Fleet Marine Corps Reserve, or disability.

(c) A member may request voluntary tax withholding by completing a Form CT-W4P and submitting it to the retired pay office of his or her Uniformed Service. The Form CT-W4P shall be signed by the member, or in the case of incompetence, his or her guardian or trustee. The amount to be withheld shall be an even dollar amount, not less than $10.

(Effective November 18, 1994)

Sec. 12-705(c)-4. Voluntary withholding for civil service retirees

(a) The United States Office of Personnel Management (U.S.O.P.M.) has entered into an agreement with the Department of Revenue Services pursuant to 5 U.S.C. § 8345(k) and 5 U.S.C. § 8469 under which agreement Connecticut income tax shall be deducted and withheld by U.S.O.P.M. from the regular, recurring monthly civil service annuity payments of retired civil service employees who are resident individuals and who have made a request to U.S.O.P.M., in the manner specified by

U.S.O.P.M., that Connecticut income tax be deducted and withheld from their regular, recurring monthly civil service annuity payments.

(b) Under the agreement between U.S.O.P.M. and the Department of Revenue Services, income tax may be deducted and withheld for only one state at a time. Annuitants who wish to change the state for which they have income tax deducted and withheld shall make a request to U.S.O.P.M., in the manner specified by U.S.O.P.M., to revoke their prior request and to initiate the deduction and withholding of income tax for a new state. Annuitants may also change the amount of Connecticut income tax being deducted and withheld, or may revoke their prior request to have Connecticut income tax deducted and withheld by making a request to U.S.O.P.M., in the manner specified by U.S.O.P.M., to change or revoke their prior request.

(Effective November 18, 1994; amended February 28, 2002, applicable to taxable years beginning on or after January 1, 2002)

Sec. 12-706(b)-1. Wage and tax statement

(a)

(1) Each employer that paid Connecticut wages to an employee during a calendar year shall furnish to each such employee by January 31 of the succeeding year a federal Form W-2, showing the correct amount of Connecticut wages paid by the employer to the employee and the correct amount of Connecticut income tax deducted and withheld from such wages.

(2) If an employer that paid Connecticut wages to an employee during a calendar year subsequently files a Form CT-941 for a calendar quarter of such calendar year as a final return, the employer shall furnish to the employee, on or before the last day of the month in which the final return is required to be filed, a federal Form W-2, showing the correct amount of Connecticut wages paid by the employer to the employee and the correct amount of Connecticut income tax deducted and withheld from such wages.

(3) If an employee's employment is terminated before the close of a calendar year, the employer, at the employer's option, shall furnish the federal Form W-2 to the employee at any time after the termination but no later than January 31 of the succeeding year, except that if an employee whose employment is terminated before the close of a calendar year requests the employer to furnish the federal Form W-2 to the employee at a time earlier than January 31 of the succeeding year, and if there is no reasonable expectation on the part of both employer and employee of further employment during such calendar year, then the employer shall furnish the federal Form W-2 to the employee on or before (A) the later of (i) the thirtieth day after the date of the request or (ii) the thirtieth day after the date on which the last payment of wages is made, or (B) if the employer files a Form CT-941 for a calendar quarter of such calendar year as a final return, the date that the employer is required to furnish the federal Form W-2 to the employee under subdivision (2) of this subsection, whichever is earlier.

(4) See § 12-735(d)-1 of Part XII for the penalty for failure to timely furnish such correct information.

(b) If an employer who paid Connecticut wages to an employee during a calendar year fails to furnish to each such employee by January 31 of the succeeding year (or, if later, by the time that the employee files his or her Connecticut income tax return) a federal Form W-2, showing the correct amount of Connecticut wages paid by the employer to the employee and the correct amount of Connecticut income tax withheld, the employee shall complete and attach to his or her Connecticut income tax return a Form CT-4852 (Substitute for Form W-2, Wage and Tax

Statement, or Form 1099R, Distribution from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.), indicating thereon the employer's name and address, the correct amount of Connecticut wages paid by the employer to the employee, the correct amount of Connecticut income tax withheld from the employee's Connecticut wages by the employer, the reasons (if known) why the Form W-2 was not furnished by the employer and an explanation of the employee's efforts to obtain the Form W-2.

(c) For purposes of this section, ''Connecticut wages'' means—

(1) with respect to an employee who is a resident individual, all wages paid to such employee, irrespective of the location at which the employee is employed by the employer, and

(2) with respect to an employee who is a nonresident individual,

(A) all wages paid to such employee, where the services of the employee are performed entirely within Connecticut, and

(B) all wages paid to such employee, where the services of the employee are performed both partly within Connecticut and partly without Connecticut.

(d) While this section pertains to Section 12-706(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended February 28, 2002, applicable to taxable years beginning on or after January 1, 2002)

Sec. 12-706(c)-1. Withheld amounts to be credited against income tax liability of employees

(a) If an employee has tax deducted and withheld from his or her wages, such withheld amounts shall be deemed to have been paid to the Commissioner, and the employee shall be credited with having paid such amount of income tax for the taxable year.

(b) While this section pertains to Section 12-706(c) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-707-1. Schedule for filing withholding tax returns and payment of taxes

(a) Each employer required to deduct and withhold Connecticut income tax from wages shall, depending on whether the employer is a weekly remitter, monthly remitter or quarterly remitter, as those terms are used in section 12-707 of the Connecticut General Statutes, pay over the deducted and withheld Connecticut income tax to the department on or before the date specified in subparagraph (A) of subdivision (3), (4) or (5) of subsection (b) of said section 12-707, and, if not required to pay over such tax by electronic funds transfer pursuant to Chapter 228g of the Connecticut General Statutes and the Regulations adopted thereunder, file Form CT-WH with such payment.

(b)

(1) Each employer shall file a Form CT-941, Connecticut quarterly reconciliation of withholding, for the calendar quarters ending March 31, June 30, September 30 and December 31 on or before the last day of the first calendar month following the period for which the return is made (namely, April 30, July 31, October 31 and

January 31, respectively). However, a return may be filed on or before the tenth day of the second calendar month following such period if timely deposits of Connecticut withholding tax have been made in full payment of such taxes due for such period. The employer shall file a Form CT-941 for the first calendar quarter for which the employer is registered with the department to deduct and withhold Connecticut income tax from Connecticut wages, as defined in § 12-706(b)-1(c) of this part, and for each subsequent quarter until the employer in any calendar quarter ceases to pay wages and files a Form CT-941 for such quarter as a final return. An employer that has only temporarily ceased to pay wages, because of seasonal activities or for other reasons, shall not make a final return but shall continue to file returns.

(2) A return made as a final return shall be marked ''final return'' by the employer and shall show the date of the last payment of wages. There shall be executed as a part of each final return a statement showing the address at which the records required by the regulations of this part will be kept, the name of the person keeping such records, and, if the business of an employer has been sold or otherwise transferred to another person, the name and address of such person and the date on which such sale or transfer took place. If no such sale or transfer occurred or the employer does not know the name of the person to whom the business was sold or transferred, that fact should be included in the statement. Such statement shall include all information required by this section regarding the date of the last payment of wages.

(c)(1) Except as otherwise provided in this subsection, each employer shall file a Form CT-W3, Connecticut Annual Reconciliation of Withholding, with the ''State copy'' of all federal Forms W-2 reporting Connecticut wages paid during the preceding calendar year, on or before the last day of February of the next succeeding calendar year. If an employer has filed a Form CT-941, Connecticut Quarterly Reconciliation of Withholding, as a final return for a calendar quarter (''Final Calendar Quarter'') ending prior to December 31, the employer shall file a Form CT-W3, with the ''state copy'' of all federal Forms W-2 reporting Connecticut wages paid during the portion of the calendar year ending on the last day of such final calendar quarter, on or before the last day of the second calendar month next succeeding the final calendar quarter.

(2) Where an employer has filed electronically federal Forms W-2 and the Department has announced that employers may file electronically the ''state copy'' of federal Forms W-2 reporting Connecticut wages paid during the preceding calendar year, and the employer chooses to file electronically the ''state copy'' of those federal Forms W-2 with the Department, such employer shall file electronically the ''state copy'' of those federal Forms W-2 with the Department on or before the last day of March of the next succeeding calendar year.

(d)

(1) A seasonal employer may, upon its written request, be permitted by the Department to file Forms CT-941 for only those calendar quarters in which it is required to deduct and withhold Connecticut income tax. Such employer may obtain permission to file as a seasonal employer by sending a written request on or before the last day of the calendar quarter to which the request pertains to the Registration Section of the Operations Division of the Department. The department shall provide written notice of its decision to grant or deny permission. If permission is granted, then, as long as the employer remains a seasonal employer, permission need not be sought, and no new request need be made, for succeeding calendar quarters. If permission is not granted, the employer shall be required to file a Form CT-941

for each calendar quarter and shall be subject to the provisions of § 12-735(a)-1 of Part XII if it fails to file such a return for each calendar quarter. For purposes of this subsection, the term ''seasonal employer'' means an employer that is required to deduct and withhold Connecticut income tax because it regularly pays Connecticut wages, as defined in § 12-706(b)-1(c), in the same one or more calendar quarters each year, but that also regularly has no withholding tax liability because it pays no Connecticut wages in the same one or more calendar quarters each year.

(2)

(A) An employer that is not required to deduct and withhold any amount of Connecticut income tax from wages of employees for all four calendar quarters of a calendar year may, upon its written request, be permitted by the department to file a Form CT-941 for only the last calendar quarter of each calendar year. Such form shall report Connecticut wages paid by such employer for the entire calendar year. Such employer may obtain permission to file one Form CT-941 for the last calendar quarter of the calendar year by sending a written request on or before the last day of the first calendar quarter of the calendar year to which the request pertains to the registration section of the operations division of the department. The department shall provide written notice of its decision to grant or deny permission. If permission is granted, then, as long as the employer is not required to deduct and withhold any amount of Connecticut income tax from wages of employees for all four calendar quarters of a calendar year, the employer may continue to file one Form CT-941 for the last calendar quarter of each succeeding calendar year, except that if the employer is required to deduct and withhold any amount of Connecticut income tax from wages of employees for one or more calendar quarters of a calendar year, the employer shall be required to file a Form CT-941 for each calendar quarter, and shall be subject to the provisions of § 12-735(a)-1 of part XII if it fails to do so, until such time as it is again permitted, in accordance with this subparagraph and upon its request, or instructed, in accordance with subparagraph (B) of this subdivision, to file one Form CT-941 for only the last calendar quarter of the calendar year. If permission is not granted, the employer shall be required to file a Form CT-941 for each calendar quarter and shall be subject to the provisions of § 12-735(a)-1 of part XII if it fails to file such a return for each calendar quarter.

(B) The department may, on its own initiative, instruct an employer that is not required to deduct and withhold any amount of Connecticut income tax from wages of employees for all four calendar quarters of a calendar year to file a Form CT-941 for only the last calendar quarter of each calendar year. Such form shall report Connecticut wages paid by such employer for such entire calendar year. If the department instructs an employer to file one Form CT-941 for the last calendar quarter of the calendar year, then, as long as the employer is not required to deduct and withhold any amount of Connecticut income tax from wages of employees for all four calendar quarters of a calendar year, the employer shall continue to file one Form CT-941 for the last calendar quarter of each succeeding calendar year, except that if the employer is again required to deduct and withhold any amount of Connecticut income tax from wages of employees for one or more calendar quarters of a calendar year, the employer shall be required to file a Form CT-941 for each calendar quarter and shall be subject to the provisions of § 12-735(a)-1 of part XII if it fails to do so until such time as it is again permitted, in accordance with subparagraph (A) of this subdivision, or instructed, in accordance with this subparagraph, to file one Form CT-941 for only the last calendar quarter of the calendar year.

(e) (1) Each payer, as defined in section 12-707 of the Connecticut General Statutes, required to deduct and withhold Connecticut income tax from nonpayroll

amounts, as defined in said section 12-707, shall, depending on whether the payer is a weekly remitter, monthly remitter or quarterly remitter, as those terms are used in section 12-707 of the Connecticut General Statutes, pay over the deducted and withheld Connecticut income tax to the department on or before the date specified in subparagraph (B) of subdivision (3), (4) or (5) of subsection (b) of said section 12-707, and, if not required to pay over such tax by electronic funds transfer pursuant to Chapter 228g of the Connecticut General Statutes and the Regulations adopted thereunder, file Form CT-8109 with such payment.

(2) Each payer shall file with the department for each calendar year a Form CT-945 on or before the last day of January of the next succeeding calendar year, provided, Form CT-945 may be filed on or before the tenth day of February of the next succeeding calendar year if timely deposits of Connecticut withholding tax have been made in full payment of such taxes due for such year.

(f) While this section pertains to Section 12-707 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended August 3, 2001, February 28, 2002, applicable to taxable years beginning on or after January 1, 2002; amended March 8, 2006)

Sec. 12-707-2. Liability for tax

(a) Every employer required under the Income Tax Act to deduct and withhold tax from the wages of an employee is liable for the payment of such tax whether or not it is collected from the employee. If, for example, an employer deducts less than the correct amount of the tax, or fails to deduct any part of the tax, such employer is nevertheless liable for the correct amount of the tax.

(b) If an employer fails to deduct and withhold the tax as required under the Income Tax Act, and thereafter the income tax against which the withheld tax may be credited is paid by the employee, the employer shall not be liable for the withholding tax. However, despite such payment of the withholding tax, such employer shall still be liable for any penalties and interest (which shall accrue from the time at which the tax was required to be paid over to the department until the time at which the tax is paid either by the employee or by the employer) otherwise attributable to the employer's failure to deduct and withhold. Such employer shall not be relieved of liability for the payment of the tax required to be withheld unless the employer can prove that the tax has been paid.

(c) While this section pertains to Section 12-707 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended February 28, 2002, applicable to taxable years beginning on or after January 1, 2002)

Sec. 12-707-3. Withheld taxes trust fund

(a) Any amount of Connecticut income tax deducted and withheld constitutes a special fund in trust for the State of Connecticut, Department of Revenue Services.

(b) If the Commissioner determines that any person required to collect, account for, and pay over any Connecticut income tax has failed to collect, truthfully account for, or pay over any such tax, or make deposits, payments, or returns on any such tax, at the time and manner prescribed by the Income Tax Act or regulations thereunder, such person, if notified to do so by the Commissioner, shall--

(1) collect, at the times and in the manner provided by the Income Tax Act or regulations thereunder, all taxes which become collectible by such person after receipt of such notice;

(2) deposit the taxes so collected, not later than the end of the second banking day after collection, with a bank, as defined in section 581 of the Internal Revenue Code, in a separate account established in accordance with subsection (c) of this section; and

(3) keep in such account the taxes so deposited until payment thereof is made to the Department as required by the Income Tax Act or regulations thereunder.

The separate bank account requirements of this section are applicable to Connecticut income tax deducted and withheld after receipt of the notice from the Commissioner, irrespective of whether the income on which such tax was deducted and withheld was earned prior to or after receipt of the notice.

(c) The separate bank account shall be established under the designation, "(Name of person required to establish account), Trustee, Special Fund in Trust for the State of Connecticut, Department of Revenue Services under Section 12-707 of the general statutes." The taxes deposited in such account shall constitute a fund in trust for the State of Connecticut payable only to the Department of Revenue Services.

(d) Notice to any person requiring such person's compliance with the provisions of this section shall be in writing and shall be served personally or by certified or registered mail. In the case of a trade or business carried on other than as a sole proprietorship, such as a corporation, partnership, or trust, notice, once served, shall be deemed to have been served on all officers, partners, trustees, and employees thereof.

(e) The Commissioner may relieve a person on whom notice requiring separate bank accounts has been served pursuant to this section from further compliance with such requirement whenever he is satisfied that such person shall comply with all requirements of the Income Tax Act and the regulations thereunder. Notice of cancellation of the requirement for separate bank accounts shall be made in writing and shall take effect at such time as is specified in the notice of cancellation.

(f) While this section pertains to Section 12-707 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

PART X. Extensions

Sec. 12-723-1. Extension of time for filing returns

(a) **General.** Except as set forth herein, no taxpayer shall receive any extension of time for filing a Connecticut income tax return. Any taxpayer who requests an extension of time for filing a return pursuant to this Part can assume that the Commissioner has acquiesced to the request unless otherwise notified. Consequently, a taxpayer shall not receive any confirmation that a request for extension has been accepted, but shall be notified if such request is denied. An extension of time to file shall terminate six months from the original due date of the return. An application for extension of time to file does not extend the time for payment of tax (see § 12-723-3 of this Part). Any person who is granted an extension under the provisions of this section shall attach a copy of the form applying for such extension to the face of the return when filed.

(b) **Federal extension requested.**

(1) Any individual, partnership, S corporation or fiduciary of a trust or estate which has requested an extension of time for filing the federal income tax return for the taxable year shall be granted an extension of time for filing the Connecticut return for such taxable year, if the requirements of either subdivision (2) or subdivision (3) of this subsection are met. The extension of time for filing the Connecticut income tax return for the taxable year shall be for the maximum period allowable under section 6081(a) of the Internal Revenue Code. A further extension of time for filing the Connecticut return for such taxable year shall be granted under subsection (c) of this section, if the taxpayer can demonstrate good cause for still being unable to file the return.

(2) An individual shall be granted an extension of time for filing the Connecticut return for such taxable year, if a tentative tax, as computed under subsection (d) of this section, is due from such individual, provided such individual files an application on the appropriate Form (Form CT-1040 EXT) and pays the tentative tax on or before the original due date of the Connecticut return. A partnership, S Corporation or fiduciary of a trust or estate shall be granted an extension of time for filing the Connecticut return for such taxable year, provided such partnership, S Corporation or fiduciary files an application on the appropriate Form (form CT-1065 EXT, Form CT-1120SI EXT, or Form CT-1041 EXT, respectively), and pays the tentative tax, if any, on or before the original due date of the Connecticut return.

(3) An individual shall be granted an extension of time for filing the Connecticut return for such taxable year without having to file Form CT-1040 EXT if no tentative tax, as computed under subsection (d) of this section, is due from such individual.

(c) **Extension for good cause.** (1) A taxpayer who has not requested or been granted an extension of time for filing a federal income tax return (or who has been granted an extension of time for filing a Connecticut income tax return under subsection (b) of this section but seeks a further extension of time under this subsection) may apply for an extension of time for filing a Connecticut return, provided such taxpayer can demonstrate good cause for being unable to file the return on or before the appropriate due date. Such extension shall be granted only if the taxpayer files an application on the appropriate form (Form CT-1040 EXT, Form CT-1041 EXT, Form CT-1065 EXT or Form CT-1120SI EXT) and pays the tentative tax on or before the original due date of the return. Additional extensions of time for filing the Connecticut return for such taxable year shall be granted, if the taxpayer can demonstrate good cause for still being unable to file the return, and files an application on the appropriate form on or before the date on which the previous extension expires.

(2) The provisions of this subsection apply to an individual who is a United States citizen or resident who (A) lives outside the United States and Puerto Rico, and whose tax home (within the meaning of section 162(a)(2) of the Internal Revenue Code) for federal income tax purposes is outside the United States and Puerto Rico, or (B) is in the armed forces of the United States serving outside the United States and Puerto Rico on the date such individual's federal income tax return is due. Such individual may demonstrate good cause for requesting an extension to file a Connecticut income tax return by stating on the application that he or she qualifies for the automatic extension of time for federal income tax purposes for United States citizens abroad. If such individual has been granted any extension of time for filing a federal income tax return, which extension terminates more than six months after the original due date of his or her Connecticut income tax return, such

individual need not request any further extension of time for filing his or her Connecticut income tax return but, upon its filing, shall attach thereto proof that such federal extension was granted.

(d) **Paying tentative tax.** (1) An individual or a fiduciary of a trust or estate who requests an extension of time for the filing of a Connecticut return as provided in subsections (b) and (c) of this section shall pay a tentative tax on or before the original due date of the return.

(2) The tentative tax is computed by estimating Connecticut taxable income and the tax thereon as though no extension had been requested. In computing the tentative tax due, credit should be taken for estimated tax payments made for the taxable year and Connecticut income tax withheld during the taxable year.

(3)

(A) If the tentative tax paid is less than the tax shown on the tax return for the taxable year, the taxpayer shall be assessed interest on the amount of underpayment at the statutory rate under Section 12-723 of the General Statutes for each month or fraction thereof from the original due date of the return until the date of full payment of the tax due for the taxable year. Except as otherwise provided in subparagraph (B) of this subdivision, a penalty of 10% of the amount by which the tax shown on the tax return for the taxable year exceeds the tentative tax paid shall also apply if the time to pay the tax has not been extended (see § 12-723-3 of this Part). (For the definition of ''month or fraction thereof,'' see § 12-701(b)-1 of Part XIV.)

(B) No penalty shall be imposed if all of the following three conditions are met. First, the excess of the tax shown on the tax return for the taxable year over the tax paid on or before the original due date of such return is no greater than 10% of the tax shown on such tax return. Second, any balance due shown on such return for the taxable year is remitted with such return. Third, such tax return is filed on or before the extended due date thereof.

(e) **Termination of automatic extension to file Connecticut income tax return.** The Commissioner may, in his discretion, terminate at any time an automatic extension by mailing to the taxpayer a notice of termination. Such notice shall be mailed at least ten days prior to the termination date designated in such notice. The notice of termination shall be sufficient for all purposes when mailed to the address shown on the application for extension or to the person who requested such extension for the taxpayer at such person's last known place of business, even if such person is deceased or under a legal disability.

(Effective November 18, 1994; amended December 19, 2002, July 3, 2003)

Sec. 12-723-2. Extension of time for filing group returns

(a) The Commissioner may grant a six month extension of time to file a group return if the following requirements are met:

(1) An application is filed on Form CT-G EXT. The form shall show the partnership name and be signed by a partner having authority to act as an agent for the qualified electing nonresident partners. In addition, the partnership shall attach a list to the application showing each qualified electing nonresident partner's name, address and social security number.

(2) The application shall be filed on or before the date prescribed for filing the Form CT-G.

(b) The provisions of this section also apply to S corporations and trusts or estates, and wherever reference is made herein to partnerships and partners, such reference

shall be construed to mean S corporations and shareholders thereof, and trusts or estates and beneficiaries thereof.

(Effective November 18, 1994; amended March 8, 2006)

Sec. 12-723-3. Extension of time for payment of Connecticut income tax

(a) The Commissioner may, apart from any extension of time to file a Connecticut income or withholding tax return, grant a reasonable extension of time for payment of Connecticut tax upon the filing on or before the original due date of the Connecticut tax return (determined without regard to any extension of time) by the taxpayer of a Form CT-1127 (Application For Extension of Time For Payment of Income Tax) that gives complete information as to the reasons for such taxpayer's inability by reason of undue hardship, as the term is defined in 26 C.F.R. § 1.6161-1(b), to make payment of the tax on or before the original due date of the Connecticut tax return (determined without regard to any extension of time). The period of such extension shall not be in excess of six months from the original due date of the Connecticut tax return (determined without regard to any extension of time). No further extension of time for payment of Connecticut tax shall be granted by the Commissioner.

(b) If an extension of time for payment of Connecticut tax has been granted pursuant to this Section, interest shall be added at the statutory rate under Section 12-723 of the General Statutes for each month or fraction thereof on any balance due from the original due date of the Connecticut tax return (determined without regard to any extension of time) to the date of actual payment. If such balance due is not paid on or before the extended due date for payment, a penalty shall apply to such balance in accordance with Section 12-735 of the General Statutes.

(c) If an extension of time for payment of Connecticut tax has not been granted pursuant to this section, interest shall be added at the statutory rate under Section 12-735 of the General Statutes for each month or fraction thereof on any balance due from the original due date of the Connecticut tax return (determined without regard to any extension of time) to the date of actual payment. Except as otherwise provided in subparagraph (B) of subdivision (3) of subsection (d) of Section 12-723-1 of this part, a penalty shall apply to such balance in accordance with Section 12-735 of the General Statutes.

(d) For the definition of ''month or fraction thereof,'' see § 12-701(b)-1 of Part XIV.

(Effective November 18, 1994; amended December 19, 2002)

Sec. 12-723-4. Extension of time to file informational returns

(a) Any person required to file informational returns, whether on paper or magnetic media, may request an extension of time to file such returns upon demonstrating good cause by filing a Form CT-8809 (Request For Extension of Time to File Informational Returns) on or before the original due date of the returns.

(b) Where an extension is requested for filing federal informational returns, an extension of time to file such returns with the Department may be requested by filing a Form CT-8809, together with a copy of the letter from the Internal Revenue Service approving the request for a federal extension, with the Department.

(c) In general, if a request for extension was granted for federal tax purposes, an extension also shall be granted for Connecticut tax purposes. However, if a federal extension was not applied for or was not granted, good cause for granting an extension of time for Connecticut purposes may be demonstrated by furnishing an explanation on Form CT-8809.

(d) An extension of time to file informational returns shall not be automatically granted. The Department shall notify the applicant whether the application is approved or denied.

(e) The time to file informational returns shall be extended for 30 days from the original due date of the returns. If additional time to file is needed beyond the original extension period, an additional 30 days may be requested by submitting another Form CT-8809 and a copy of the first approval letter from the Department before the end of the original extension period.

(f) Approval of a request for an extension of time to file only extends the due date for filing the returns. It shall not extend the due date for furnishing the required copies or statements to the employees or payees.

(g) For purposes of this section, ''informational returns'' means a duplicate of the ''state copy'' of federal Forms W-2 (reporting payment of Connecticut wages), W-2G (for winnings paid to resident individuals, even if no Connecticut income tax was withheld), 1099-MISC (for payments to resident individuals or, if the payments relate to services performed wholly or partly within Connecticut, payments to nonresident individuals, even if no Connecticut income tax was withheld), 1099-R (for payments or distributions to resident individuals, but only if Connecticut income tax was withheld) and 1099-S (for all Connecticut real estate transactions).

(Effective November 18, 1994)

Sec. 12-723-5. Extension of time to file withholding tax returns

(a) Where, for good cause, a federal Form 941 is filed late, a Connecticut quarterly withholding tax return (Form CT-941) also may be filed late. In such a case, a copy of the statement attached to the late-filed federal Form 941 shall be attached to the late-filed Form CT-941.

(b) Where an extension is requested for filing a federal Form W-3, an extension of time to file a Form CT-W3 may be requested by filing a Form CT-8809 (Request For Extension of Time to File Informational Returns), together with a copy of the letter from the Internal Revenue Service approving or denying the request for a federal extension, with the Department.

(Effective November 18, 1994)

Sec. 12-723-6. Person other than taxpayer requesting extension

(a) **Extension of time to file.** (1) Any person who is authorized by § 12-725-1 of Part XI to sign a return on behalf of another person may request an extension of time for filing a return on behalf of such person, subject to the same conditions that would apply had such other person requested the extension.

(2) Any person standing in a close personal or business relationship, as the term is used in 26 C.F.R. § 1.6081-1(b)(4), to another person may request an extension of time for filing a return on behalf of such other person, subject to the same conditions that would apply had such other person requested the extension.

(b) **Extension of time to pay.** Any person who is authorized by § 12-725-1 of Part XI to sign a return on behalf of another person may request an extension of time for paying the tax that is reported thereon on behalf of such other person, subject to the same conditions that would apply had such other person requested the extension.

(Effective November 18, 1994)

Sec. 12-723-7. Definitions

As used in this Part, unless the context otherwise requires:

(1) ''Return'' includes a return, declaration, statement or other document required or permitted to be made or filed under the Income Tax Act upon which a signature is required pursuant to forms or instructions issued by the Department.

(2) ''Taxpayer'' includes any person required or permitted under the Income Tax Act to file a return.

(3) ''Original due date'' means the date prescribed by law for the filing of a return (determined without regard to any extension of time for filing).

(Effective November 18, 1994)

PART XI. Returns

Secs. 12-719-1—12-719-2.

Repealed, March 8, 2006

Sec. 12-725-1. Signing of Connecticut income tax returns, declarations, statements or other documents

(a) **General.** Except as provided in subsection (b) of this section, any Connecticut return shall be signed by the individual making or filing it. The individual shall sign the return in the manner prescribed in forms, instructions, or other appropriate guidance of the department. The fact that an individual's name is signed to a Connecticut return is prima facie evidence for all purposes that the individual actually signed such return. For purposes of this section, the term ''return'' means any return, statement or other document required or permitted to be made or filed under the Income Tax Act upon which a signature is required pursuant to forms or instructions issued by the Department.

(b) **Signature by agent.** When illness, absence, minority or other good cause prevents the person required or permitted to make or file any Connecticut return from doing so, an agent, or a fiduciary charged with the care of the person or property of such taxpayer, may make and sign such return. The agent or fiduciary shall sign the return in the manner prescribed in forms, instructions, or other appropriate guidance of the department. When a Connecticut return is made and signed by an agent, such agent assumes, and the principal retains, responsibility for making and signing such return, and incurs liability for the penalties provided for erroneous, false or fraudulent Connecticut returns. Whenever a return is made by an agent, the agent shall have obtained and shall retain a power of attorney (or a copy thereof) authorizing the agent to represent the principal in making, executing or filing the return. (A Form LGL-001, properly completed, is sufficient.)

(c) **Husband and wife signatures.** (1) Except as provided below in the case of the death of a spouse, a joint return shall be signed by both the husband and wife unless the return is made by an agent of both spouses, or one spouse signs individually and as the agent of the other. Any spouse who makes a joint return through an agent retains the responsibility for making the return and incurs liability for the penalties provided for erroneous, false or fraudulent returns. One spouse cannot sign as the agent of the other unless the return is accompanied by a power of attorney that is executed by the spouse not signing the return authorizing the other spouse to sign the return therefor. However, if the signature or authorization of either spouse cannot be obtained because of disease or injury, and no power of attorney or written authorization is available for the same reason, a Connecticut return signed by one spouse and offered for filing as a joint return may be accepted as such where the signatures and evidence of authorization required under the applicable provisions of the Internal Revenue Code and regulations thereunder are attached to and made part of the return.

(2) In the case of death of one or both spouses during a taxable year for which a joint return is made under the circumstances referred to in § 12-740-4(c) of this Part, the signatures and evidence of authorization required under the applicable provisions of the Internal Revenue Code and regulations thereunder shall be required for Connecticut income tax purposes.

(Effective November 18, 1994; amended March 8, 2006)

Sec. 12-725-2. Signing of Connecticut returns prepared by a person other than the taxpayer

(a)(1) An individual who is a return preparer (as defined in subsection (b) of this section), with respect to a Connecticut return, shall sign such return in the appropriate space provided on the return after it is completed and before it is presented to the taxpayer (or nontaxable entity) for signature. The preparer shall sign the return in the manner prescribed in forms, instructions, or other appropriate guidance of the department. In addition, any Connecticut return prepared by a return preparer shall bear both a Connecticut tax registration number, if any, and such federal identification number as is necessary for securing proper identification of the preparer, the preparer's employer, or both, as may be required by forms and instructions. If the preparer is unavailable for signature, another preparer shall review the entire preparation of the return, and then shall sign such return and furnish such identifying number(s).

(2) Each Connecticut return which is prepared by one or more return preparers shall have typed or printed the name or names of the individual preparer(s) or the name of the firm (if applicable), and the street address, city, state and postal ZIP code of such preparer's place of business where the preparation of the Connecticut income tax return was completed. If such place of business is not maintained on a year-round basis, the return shall bear the street address, city, state and postal ZIP code of the preparer's principal office or business location which is maintained on a year-round basis, or if none, of the preparer's residence.

(3) If more than one return preparer is involved in the preparation of a Connecticut return, the individual preparer who has the primary responsibility as between or among the preparers for the overall substantive accuracy of the preparation of such return shall be considered to be the return preparer for purposes of this section.

(4) The following examples illustrate the application of the provisions of subdivisions (1) through (3) of this subsection.

Example 1: Assume Y, a lawyer, is an employee of law firm X and is employed to prepare income tax returns. Also, assume law firm X has been hired by taxpayer T to prepare his 1992 Connecticut income tax return. Employee Y is assigned to obtain the information necessary for completing T's Connecticut income tax return and for making determinations with respect to the proper application of the tax laws to such information in order to determine T's Connecticut income tax liability. Employee Y then forwards such information to C, a computer tax service which performs the mathematical computations and prints the Connecticut income tax return form by means of computers. C then sends the completed Connecticut income tax return to Y who reviews its accuracy. Y is the individual preparer who is primarily responsible for the overall accuracy of taxpayer T's Connecticut income tax return. Therefore, employee Y shall sign the Connecticut income tax return as the preparer and indicate on such return the name and address of her employer, law firm X.

Example 2: Assume company A is a national accounting firm which receives compensation for preparation of income tax returns. B and C, who are employees of A, are involved in preparing the 1992 Connecticut partnership return of partnership P. After they complete such return, including the gathering of the necessary information, the proper application of the tax laws to such information, and the performance of the necessary mathematical computations,

D, a supervisory employee of company A, reviews the Connecticut partnership return. As part of this review, D reviews the information provided and the application of the tax laws to this information. The mathematical computations are proved by E, an employee in A's comparing and proving department. The policies and practices of company A require that employee F finally review the Connecticut partnership return. The scope of F's review includes reviewing the information provided by applying to this information F's knowledge of partnership P's affairs, observing that company A's policies and practices have been followed, and making the final determination with respect to the proper application of the tax laws. F may or may not exercise these responsibilities, or may exercise them to a greater or lesser extent, depending on the degree of complexity of the Connecticut income tax return, F's confidence in D (or B and C) and other factors. F is the individual preparer who is primarily responsible for the overall accuracy of partnership P's Connecticut partnership return. Therefore, F shall sign the Connecticut partnership return as the preparer and indicate thereon the name and address of his firm, company A.

Example 3: Assume company C maintains an office in Seattle, Washington for the purpose of preparing income tax returns for compensation. Company C makes compensatory arrangements with individuals (but provides no working facilities) in several states to collect information from taxpayers and to make determinations with respect to the proper application of the tax laws to the information in order to determine the tax liabilities of such taxpayers. Also, assume E, an individual, who has such an arrangement in Connecticut with company C, collects information from T, a taxpayer, regarding T's Connecticut income tax return and completes a worksheet kit supplied by company C which is stamped with E's name and an identification number assigned to E by C. In this process, E classifies this information in appropriate income and deduction categories for the tax determination. The completed worksheet kit signed by E is then mailed to company C. When the worksheet kit is received in company C's office, it is reviewed by D, an employee there, to ensure that the kit was properly completed. Employee D does not review the information obtained from taxpayer T for its validity or accuracy. D may, but does not, make the final determination with respect to the proper application of tax laws to the information. The data from the worksheet is then entered into a computer and the Connecticut income tax return form is completed. Such return is prepared for submission to T with filing instructions. Based on the above facts, E is the individual preparer primarily responsible for the overall accuracy of taxpayer T's Connecticut income tax return. Therefore, E shall sign such return as the preparer and indicate thereon the name and address of company C.

Example 4: Assume company X employs A, B and C to prepare income tax returns for taxpayers. Employees A and B have each been assigned to collect information from taxpayers and apply the tax laws to the information. Such taxpayers' Connecticut income tax return forms are completed by a computer service. On the day the returns are ready for A's and B's signatures as paid preparers, A is out of the city for one week on another assignment and B is on detail to another office for the day. Employee C may sign the Connecticut income tax return prepared by A, provided that C reviews the information obtained by A and the preparation of the return by A. Employee C may not sign the Connecticut income tax return prepared by B because B is available. In addition, each Connecticut income tax return shall indicate thereon the name and address of company X.

(5)(A) After the return is signed by the preparer, no person other than the preparer may alter any entries thereon other than to correct arithmetical errors discernible on the return. The employer of the preparer or the partnership in which the preparer is a partner, or the preparer (if not employed or engaged by a preparer and not a partner of a partnership which is a preparer), shall retain a copy of the return. A record of any arithmetical errors corrected shall be retained by the person required to retain the copy of the Connecticut return and be made available upon request.

(B) If mechanical preparation of the Connecticut return is accomplished by computer not under the control of the individual preparer, then the signature requirement of this subsection may be satisfied by a signed attestation by the individual preparer

attached to such return that all the information contained in the return was obtained from the taxpayer and is true and correct to the best of such preparer's knowledge, but only if such information (including any supplemental written information provided and signed by such preparer) is not altered on the return by another person. For purposes of the preceding sentence, the correction of arithmetical or clerical errors discernible from the information submitted by the preparer does not constitute an alteration. The information submitted by the preparer shall be retained by the employer of the preparer or by the partnership in which the preparer is a partner, or by the preparer (if not employed or engaged by a preparer and not a partner of a partnership which is a preparer). A record of any arithmetical or clerical errors corrected shall be retained by the person required to retain the information submitted by the preparer and made available upon request.

(C) Any items required to be retained and kept available for inspection under subparagraphs (A) and (B) of this subdivision shall be retained and kept available for inspection for a period of six years after the due date of the Connecticut return, including extensions. Any retained items requested by the Department to be submitted for review shall be signed by the return preparer.

(b) For purposes of this section, the term ''return preparer'' has the same meaning as the term ''income tax return preparer'' under the Internal Revenue Code and regulations thereunder, as if the Connecticut return were a federal tax return being prepared by an income tax return preparer.

(c) A return preparer who fails to sign a Connecticut return or retain a copy of a completed return, as required by this section, may be liable for the penalties provided in Sections 12-736(b) and 12-737 of the general statutes.

(Effective November 18, 1994; amended March 8, 2006)

Sec. 12-727(a)-1. Filing on magnetic media

(a) Every person that is required to file with the Internal Revenue Service for a taxable year a number of informational returns that is more than or equal to the number that is specified in section 6011(e)(2) of the Internal Revenue Code is required to furnish those returns to the Department on magnetic media. (A Form CT-4804, Transmittal of Informational Returns Reported Magnetically, shall be completed by the transmitter (who may be the agent of the person that is required to file informational returns) of such magnetic media and shall be filed therewith.) Such persons are not permitted to file these informational returns to the Department using paper forms, including machine-readable paper forms, in lieu of furnishing the information on magnetic media, and filing these returns using paper forms shall be treated as a failure to file that is subject to penalty under § 12-735(d)-1 of Part XII. However, if 24 or fewer informational returns are required to be furnished to the Department, those returns may be furnished to the Department using paper forms, even though those returns are furnished to the Internal Revenue Service on magnetic media. For example, if a payer has made payments to 24 or fewer Connecticut independent contractors, the payer may furnish the ''state copy'' of the federal Form 1099-MISC to the Department using paper forms, even though the payer is required to furnish those returns to the Internal Revenue Service on magnetic media.

(b) The magnetic media specifications, which are available upon request from the Department, are virtually identical to those adopted by the Internal Revenue Service or the Social Security Administration, as the case may be.

(c) The Commissioner may waive the requirements of this section if hardship is shown on a Form CT-8508 (Request for Waiver from Filing Connecticut Informational Returns on Magnetic Media). Such waiver request shall specify the period

to which it applies and shall be subject to such terms and conditions regarding the method of reporting as may be prescribed by the Commissioner. In determining whether hardship has been shown, the principal factor to be taken into account shall be the amount, if any, by which the cost of filing forms on magnetic media in accordance with this section exceeds the cost of filing such forms on other media. Form CT-8508 shall be filed with the Department at least 45 days before the date on which persons are required to furnish information to the Department.

(d) If a waiver is granted, paper forms may be filed for that taxable year. Generally, if a waiver has been granted for federal tax purposes, a waiver shall be granted for Connecticut tax purposes. An approved waiver shall provide exemption from magnetic media filing for the current taxable year only. A new Form CT-8508 shall be submitted for each year a waiver is requested; however, a waiver shall generally not be granted on the same basis for succeeding years.

(e) For purposes of this section, ''informational returns'' means a duplicate of the ''state copy'' of federal Forms W-2 (reporting payment of Connecticut wages), W-2G (for winnings paid to resident individuals, even if no Connecticut income tax was withheld), 1099-MISC (for payments to resident individuals or, if the payments relate to services performed wholly or partly within Connecticut, payments to nonresident individuals, even if no Connecticut income tax was withheld), 1099-R (for payments or distributions to resident individuals, but only if Connecticut income tax was withheld) and 1099-S (for all Connecticut real estate transactions).

(Effective November 18, 1994)

Sec. 12-727(a)-2. Informational reporting by certain employers, payers or real estate reporting persons

(a)(1) Except as otherwise provided in this subsection, where, during a calendar year, an employer pays remuneration which is not subject to federal income tax withholding, but which is subject under federal law to informational reporting on a federal Form W-3, to an employee who is a resident individual, regardless of where the employee's services are performed, or to an employee who is a nonresident individual, where the employee's services are performed entirely or partly within Connecticut, the employer shall file a Form CT-W3, with a duplicate of the ''state copy'' of the federal Form W-2, with the Department on or before the last day of February of the next succeeding calendar year. Some examples of remuneration subject to such informational reporting include remuneration paid to household domestic employees, ministers or members of religious orders.

(2) Where an employer has filed electronically federal Forms W-2 and the Department has announced that employers may file electronically the ''state copy'' of all federal Forms W-2 reporting Connecticut remuneration paid during the preceding calendar year, and the employer chooses to file electronically the ''state copy'' of those federal Forms W-2 with the Department, such employer shall file electronically the ''state copy'' of those federal Forms W-2 with the Department on or before the last day of March of the next succeeding calendar year.

(b)(1) Except as otherwise provided in this subsection, where, during a calendar year, any person makes a payment or payments that are subject under federal law to informational reporting on a federal Form 1099-MISC to a resident individual, or, if payment or payments are made for services that were performed wholly or partly within Connecticut, to a nonresident individual, the payer shall file a Form CT-1096, with a duplicate of the ''state copy'' of such federal Form 1099-MISC, with the Department on or before the the last day of February of the next succeeding calendar year.

(2) Where a payer has filed electronically federal Forms 1099-MISC and the Department has announced that payers may file electronically the ''state copy'' of all federal Forms 1099-MISC reporting Connecticut payments made during the preceding calendar year, and the payer chooses to file electronically the ''state copy'' of those federal Forms 1099-MISC with the Department, such payer shall file electronically the ''state copy'' of those federal Forms 1099-MISC with the Department on or before the last day of March of the next succeeding calendar year.

(c)(1) Except as otherwise provided in this subsection, where, during a calendar year, any person is a real estate reporting person, as defined in section 6045(e) of the Internal Revenue Code, and is subject under federal law to informational reporting on a federal Form 1099-S with respect to a real estate transaction or transactions pertaining to real estate situated in Connecticut, such person shall file a Form CT-1096, with a duplicate of the ''state copy'' of each federal Form 1099-S pertaining to a Connecticut real estate transaction, with the Department on or before the last day of February of the next succeeding calendar year.

(2) Where a real estate reporting person has filed electronically federal Forms 1099-S and the Department has announced that real estate reporting persons may file electronically the ''state copy'' of all federal Forms 1099-S reporting Connecticut real estate transactions during the preceding calendar year, and the real estate reporting person chooses to file electronically the ''state copy'' of those federal Forms 1099-S with the Department, such person shall file electronically the ''state copy'' of those federal Forms 1099-S with the Department on or before the last day of March of the next succeeding calendar year.

(d)(1) Except as otherwise provided in this subsection, where, during a calendar year, any person receives funds from a mortgagor who is an individual with respect to a mortgage on real property situated in Connecticut, which funds are to be held in escrow for payment of property taxes on such property to a Connecticut municipality, the person receiving such funds shall file a Form CT-1096, with a duplicate of the ''state copy'' of federal Form 1098, with the Department on or before the last day of February of the next succeeding calendar year.

(2) Where a person receiving funds from a mortgagor has filed electronically federal Forms 1098 and the Department has announced that persons receiving funds from mortgagors may file electronically the ''state copy'' of all federal Forms 1098 reporting funds so received and held in escrow for payment of property taxes to Connecticut municipalities during the preceding calendar year, and the person receiving funds from a mortgagor chooses to file electronically the ''state copy'' of those federal Forms 1098 with the Department, such person shall file electronically the ''state copy'' of those federal Forms 1098 with the Department on or before the last day of March of the next succeeding calendar year.

(e)(1) Except as otherwise provided in this subsection, where, during a calendar year, any person is subject under federal law to informational reporting on a federal Form W-2G with respect to payment or payments of winnings that are subject to federal income tax withholding, such person shall file a Form CT-1096, with a duplicate of the ''state copy'' of each federal Form W-2G pertaining to Connecticut income tax withholding under § 12-705(b)-2 of part IX, with the Department on or before the last day of February of the next succeeding calendar year.

(2) Where a payer has filed electronically federal Forms W-2G and the Department has announced that payers may file electronically the ''state copy'' of all federal Forms W-2G reporting payments of winnings that are subject to Connecticut income tax withholding made during the preceding calendar year, and the payer chooses to

file electronically the ''state copy'' of those federal Forms W-2G with the Department, such payer shall file electronically the ''state copy'' of those federal Forms W-2G on or before the last day of March of the next succeeding calendar year.

(f)(1) Except as otherwise provided in this subsection, where, during a calendar year, any person is subject under federal law to informational reporting on a federal Form 1099-R with respect to pension or annuity payments that are subject to federal income tax withholding, such person shall file a Form CT-1096, with a duplicate of the ''state copy'' of each federal Form 1099-R pertaining to Connecticut income tax withholding under § 12-705(b)-3 of part IX, with the Department on or before the last day of February of the next succeeding calendar year.

(2) Where a payer has filed electronically federal Forms 1099-R and the Department has announced that payers may file electronically federal Forms 1099-R reporting pension or annuity payments that are subject to Connecticut income tax withholding made during the preceding calendar year, and the payer chooses to file electronically the ''state copy'' of those federal Forms 1099-R with the Department, such payer shall file electronically the ''state copy'' of those federal Forms 1099-R with the Department on or before the last day of March of the next succeeding calendar year.

(Effective November 18, 1994; amended August 3, 2001)

Sec. 12-740-1. Who must file a Connecticut income tax return

(a) Except as otherwise provided in these sections, a Connecticut income tax return shall be made and filed by or for:

(1) every resident individual having federal gross income, increased by any applicable modifications as set forth in § 12-701(a)(20)-2 of Part I, in excess of such individual's Connecticut personal exemption;

(2) every resident trust or estate that either had a federal fiduciary income tax return filed for it or that had any Connecticut income;

(3) every nonresident individual having:

(A)(i) income derived from or connected with Connecticut sources, as determined under Part II, and (ii) federal gross income, increased by any applicable modifications as set forth in § 12-701(a)(20)-2 of Part I, in excess of such individual's Connecticut personal exemption; or

(B) incurred a net operating loss for Connecticut income tax purposes but not for federal income tax purposes; or

(C) incurred a net passive activity loss or net capital loss for Connecticut income tax purposes but did not incur a net passive activity loss or net capital loss, respectively, for federal income tax purposes;

(4) every part-year resident individual meeting any of the following conditions:

(A)(i) such individual has income derived from or connected with sources within Connecticut (as determined under Part III), and (ii) such individual's federal gross income, increased by any applicable modifications as set forth in § 12-701(a)(20)-2 of Part I, exceeds such individual's Connecticut personal exemption; or

(B) such individual is a nonresident of Connecticut at the close of the taxable year and has incurred a net operating loss for Connecticut income tax purposes but did not incur a net operating loss for federal income tax purposes; or

(C) such individual is a nonresident of Connecticut at the close of the taxable year and has incurred a net passive activity loss or net capital loss for Connecticut income tax purposes but did not incur a net passive activity loss or net capital loss, respectively, for federal income tax purposes;

(5) every nonresident trust or estate meeting any of the following conditions:

(A) such trust or estate has income derived from or connected with Connecticut sources, as determined in accordance with the applicable regulations of Parts II and IV as in the case of a nonresident individual; or

(B) such trust or estate incurred a net operating loss for Connecticut income tax purposes, but not for federal income tax purposes; or

(C) such trust or estate incurred a net passive activity loss or net capital loss for Connecticut income tax purposes but did not incur a net passive activity loss or net capital loss, respectively, for federal income tax purposes;

(6) every part-year resident trust meeting any of the following conditions:

(A) such trust had a federal fiduciary income tax return filed for it; or

(B) such trust had any Connecticut income during the residency portion of its taxable year; or

(C) such trust had income derived from or connected with Connecticut sources, as determined under Parts II and IV as in the case of a nonresident individual, during the nonresidency portion of its taxable year; or

(D) such trust is a nonresident of Connecticut at the close of the taxable year and has incurred a net operating loss for Connecticut income tax purposes but did not incur a net operating loss for federal income tax purposes; or

(E) such trust is a nonresident trust at the close of the taxable year and has incurred a net passive activity loss or net capital loss for Connecticut income tax purposes but did not incur a net passive activity loss or net capital loss, respectively, for federal income tax purposes; and

(7) every person seeking a refund, even though a Connecticut income tax return would not otherwise be required under the preceding conditions.

(b) A person who comes within any of the requirements set forth in subsection (a) of this section shall file a return even if such return, after any Connecticut personal exemption and any Connecticut personal credit, discloses no income tax liability.

(c)(1) Every member of the armed forces of the United States who is:

(A) a resident individual, wherever stationed, is subject to the provisions of subdivision (a)(1) of this section;

(B) a nonresident individual stationed in Connecticut is subject to the provisions of subdivision (a)(3) of this section. Thus, if such individual's only income is military pay and other income that is not derived from or connected with sources within Connecticut, no Connecticut income tax return need be filed. However, if such individual has (i) income derived from or connected with sources within Connecticut, as determined under Part II, and (ii) federal gross income, increased by any applicable modifications as set forth in § 12-701(a)(20)-2 of Part I, in excess of such individual's Connecticut personal exemption, then a Connecticut income tax return shall be filed.

(2) Except as otherwise provided in Section 12-724 of the general statutes with respect to a member of the armed forces who is serving in an area properly designated as a combat zone or who is hospitalized as a result of such service, every member of the armed forces who is required to file a Connecticut income tax return shall file at the same time and in the same manner as any other individual.

(Effective November 18, 1994)

Sec. 12-740-2. Returns by or for minors or persons under a disability

For Connecticut income tax purposes, a minor or person under a disability is subject to the same requirements for making Connecticut returns as are other individuals. The Connecticut return required for an individual who is unable to make a return by reason of minority, insanity or other disability shall be made and filed by

such individual's guardian, conservator, fiduciary or other person charged with the care of the individual's person or property or by a duly authorized agent. In such a case, the fiduciary or other person charged with the care of such individual's person or property is liable for any filings and payments required of the individual under the Income Tax Act. For purposes of this section, the term ''return'' means any return, declaration, statement or other document required to be made or filed under the Income Tax Act.

(Effective November 18, 1994)

Sec. 12-740-3. Returns by receivers

A receiver of all the property of a person in receivership shall make an income tax return of, and pay any income tax due on, the income from such property. If the person in receivership is a Connecticut resident individual, the entire income from such property, wherever located, shall be reported. If the person in receivership is a nonresident individual, only income derived from or connected with Connecticut sources shall be reported. If the receiver is not in possession of all of the property, no liability for making or filing a Connecticut income tax return or paying Connecticut income tax rests upon such receiver, and the person in receivership shall make such person's own return.

(Effective November 18, 1994)

Sec. 12-740-4. Returns for decedents

(a) **General.** The executor or administrator of the estate of an individual who died during the taxable year, or any other person charged with the property of such a decedent, shall make and file a Connecticut income tax return for the decedent on the form which would have been appropriate had the decedent lived (Form CT-1040 or CT-1040NR/PY). The decedent's taxable year ends with the date of death and covers the period during which the decedent was alive. If a person other than a surviving spouse files the decedent's Connecticut income tax return, and a refund is claimed thereon, a copy of the completed federal Form 1310 (Statement of Person Claiming Refund Due A Deceased Taxpayer) shall be attached thereto.

(b) **Due date for filing decedent's return.** The due date for filing a Connecticut income tax return for a decedent, covering the period up to the date of death, is the same as if the decedent had lived until the end of his or her usual taxable year. Therefore, if the decedent reported on a calendar year basis, the Connecticut tax return for that year is due on April 15 of the following year, regardless of when his or her death occurred during the taxable year. Such return may be filed at any time after the appointment and qualification of the executor or administrator, without waiting for the close of the decedent's usual taxable year. If a surviving spouse meets the provisions of subsection (c) of this section and properly files a joint Connecticut income tax return with the deceased spouse, the due date for such joint return is the fifteenth day of the fourth month following the close of the taxable year of the surviving spouse.

(c) **Joint Connecticut income tax return after death.** (1) Where one or both spouses die during the year and would have been entitled to file a joint Connecticut income tax return had they lived, a joint Connecticut income tax return may be made if:

(A) a joint federal income tax return was made for the taxable year;

(B) the taxable year of both decedents, or of the decedent and the surviving spouse (as the case may be), began on the same day and ended on different days only because of the death of either or both;

(C) neither taxpayer was reporting for a part of a year as a result of a change in accounting period; and

(D) the surviving spouse did not remarry before the end of the taxable year.

(2) Generally, the executor or administrator and the surviving spouse shall unite in making such a joint return. However, where the surviving spouse, alone, is authorized by the Internal Revenue Code and the regulations thereunder to make a joint federal income tax return for the surviving spouse and the decedent, the survivor may also make a joint Connecticut income tax return.

(Effective November 18, 1994)

Sec. 12-740-5. Filing of fiduciary income tax return

(a) A fiduciary of a trust or estate shall make and file the Connecticut fiduciary income tax return (Form CT-1041). When the fiduciary is a trustee of two or more trusts, the fiduciary shall make a separate Connecticut fiduciary income tax return for each trust, even though such trusts were created by the same grantor for the same beneficiary or beneficiaries. Where a trust or estate has more than one fiduciary, the return may be made and filed by any one of them.

(b)(1) Where the grantor or another person is treated as the owner of a portion of a trust, pursuant to sections 671 through 679 of the Internal Revenue Code, and items of income, deduction and credit attributable to such portion shall, for federal tax purposes, be shown on a separate statement attached to the federal Form 1041, the fiduciary shall, for Connecticut income tax purposes, submit a copy of the federal Form 1041 and a copy of such separate statement with the Form CT-1041 filed with the Department.

(2) Where the same individual is both grantor and trustee or co-trustee of the same trust, and such individual is treated as owner of all of the trust assets pursuant to section 676 of the Internal Revenue Code, and, for federal income tax purposes, all items of income, deduction and credit from the trust are reported on such individual's federal Form 1040, rather than the federal Form 1041, such individual shall, for Connecticut income tax purposes, attach a copy of the grantor's federal Form 1040 with the Form CT-1040 filed with the Department.

(c) The provisions of this section shall not apply to a trustee of a bankruptcy estate in a case under chapter 7 or chapter 11 of title 11 of the United States Code in which the debtor is an individual who would otherwise be required to file a Connecticut income tax return under § 12-740-1.

(Effective November 18, 1994; amended March 8, 2006)

Sec. 12-740-6. Connecticut income tax returns for short taxable periods

(a) **Resident and nonresident individuals.** (1) In determining whether a resident individual who has a short taxable year due to a change in accounting period (as explained in Part XIII) is required to file a Connecticut income tax return for such short taxable period, § 12-740-1(a)(1) of this Part applies, except that the reference to federal gross income and any applicable modifications under § 12-701(a)(20)-2 of Part I shall be limited to federal gross income and such modifications, respectively, for the short taxable period, and the Connecticut personal exemption shall be prorated as provided in subdivision (3) of this subsection.

(2) In determining whether a nonresident individual who has a short taxable year due to a change in accounting period (as explained in Part XIII) is required to file a Connecticut income tax return for such short taxable period, § 12-740-1(a)(3) of this Part applies, except that the reference to federal gross income, any applicable modifications under § 12-701(a)(20)-2 of Part I, and income derived from or con-

nected with Connecticut sources shall be limited to federal gross income, such modifications and such income, respectively, for the short taxable period, and the Connecticut personal exemption shall be prorated as provided in subdivision (3) of this subsection. However, notwithstanding the preceding sentence, a Connecticut nonresident income tax return shall be filed for a short taxable period where a nonresident individual incurs a net operating loss for Connecticut income tax purposes but does not incur such a loss for federal income tax purposes.

(3) Where a resident or nonresident individual has a short taxable period, such individual's Connecticut personal exemption shall be prorated to the same extent that the number of months in such short taxable period bears to twelve months.

(b) **Resident trusts or estates.** The fiduciary of a resident trust or estate shall file a Connecticut fiduciary income tax return for a short taxable period if the trust or estate either had a federal fiduciary income tax return filed for it or had any Connecticut income for such period.

(c) **Nonresident trusts or estates.** The fiduciary of a nonresident trust or estate shall file a Connecticut fiduciary income tax return for a short taxable period if the trust or estate has items of income or gain derived from or connected with sources within Connecticut (as defined in § 12-713(a)-1 of Part IV) for such period. However, notwithstanding the provisions of the preceding sentence, a Connecticut fiduciary income tax return shall be filed for a short taxable period where a nonresident trust or estate incurs a net operating loss for Connecticut income tax purposes but does not incur a net operating loss for federal income tax purposes.

(Effective November 18, 1994)

Sec. 12-740-7. Returns must be made and filed even if not mailed by the department

No person is excused from making and filing a Connecticut income tax return merely because such person does not receive a return from the Department. Copies of the prescribed forms shall, so far as possible, be distributed, but a person who does not receive any form should request it in ample time to have a Connecticut return prepared and filed on or before the due date. For purposes of this section, the term ''return'' means any return, declaration, statement or other document required to be made or filed under the Income Tax Act.

(Effective November 18, 1994)

Sec. 12-740-8. Filing of returns by nonresident aliens or persons who have not been issued a social security number

(a) Nonresident aliens. (1) The fact that a nonresident alien may be illegally earning income in the United States has no bearing on the nonresident alien's obligation to file a Connecticut income tax return or to pay Connecticut income tax. A nonresident alien who is a resident of Connecticut, as defined in Part I, or who is a nonresident of Connecticut but has Connecticut adjusted gross income derived from or connected with sources within this state, as the term is defined in Part II, shall file a Connecticut income tax return and pay Connecticut income tax if the requirements of § 12-740-1 of this Part are met, even though such nonresident alien is not or may not be required to file a federal income tax return or pay federal income tax.

(2) If a nonresident alien files a federal Form 1040NR with the Internal Revenue Service, such person shall attach a copy thereof to his or her Form CT-1040 or Form CT-1040NR/PY, as the case may be. Because the instructions to the Form CT-1040 or Form CT-1040NR/PY do not contain line references from the federal

Form 1040NR, care should be taken when entering amounts from the federal Form 1040NR. The provisions of any income tax treaty between the United States and another country shall be disregarded for Connecticut income tax purposes, because no such treaty prohibits or restricts the imposition of State and local income taxes. Therefore, any federal Form 1040NR instructions referring to an income tax treaty between the United States and another country shall be disregarded in completing a Form CT-1040 or Form CT-1040NR/PY.

(3) If a nonresident alien does not file a federal Form 1040NR with the Internal Revenue Service, whether or not required to do so, he or she shall nonetheless fill in a federal Form 1040NR in order to complete a Form CT-1040 or Form CT-1040NR/PY, as the case may be. Because the instructions to the Form CT-1040 or Form CT-1040NR/PY do not contain line references from the federal Form 1040NR, care should be taken when entering amounts from the federal Form 1040NR. However, because the provisions of any income tax treaty between the United States and any other country do not apply for Connecticut income tax purposes, any instructions referring to an income tax treaty between the United States and another country shall be disregarded in completing a Form CT-1040 or Form CT-1040NR/PY. The nonresident alien shall write ''PRO FORMA RETURN FOR CONNECTICUT INCOME TAX PURPOSES'' at the top of the federal Form 1040NR and attach a copy to the Form CT-1040 or Form CT-1040NR/PY, as the case may be.

(4) If a nonresident alien has not been assigned a social security number and is not entitled to be issued a social security number, he or she shall be required to enter the IRS individual taxpayer identification number assigned to him or her by the Internal Revenue Service in the space provided for a social security number on the Form CT-1040 or Form CT-1040NR/PY, as the case may be.

(5) As used in this section, ''nonresident alien'' means a nonresident alien of the United States, as defined in section 7701(b)(1)(B) of the Internal Revenue Code.

(b) Persons (other than nonresident aliens) not issued a social security number. (1) The fact that a person (other than a nonresident alien) may not be fulfilling his or her obligation to file a federal income tax return or to pay federal income tax has no bearing on his or her obligation to file a Connecticut income tax return or to pay Connecticut income tax.

(2) The fact that a person (other than a nonresident alien) may not be fulfilling his or her obligation to apply for and be issued a social security number has no bearing on his or her obligation to file a Connecticut income tax return or to pay Connecticut income tax. If such a person has not been issued a social security number, the word ''NONE'' shall be entered in the space provided for a social security number on the Form CT-1040 or Form CT-1040NR/PY, as the case may be.

(Effective November 18, 1994; amended March 8, 2006)

Secs. 12-740-9—12-740-10.

Repealed, March 8, 2006.

PART XII. Deficiencies, refunds, interest and penalties

Sec. 12-728(a)-1. Interest on deficiency assessments

(a) If a deficiency is assessed by the Commissioner after examination of a final return pursuant to Section 12-728 of the general statutes, the amount of the deficiency shall bear interest at the statutory rate under Section 12-728 of the General Statutes for each month or fraction thereof from the date when the original tax became due and payable.

(b) For purposes of Section 12-728(a) of the general statutes and this section, the ''date when the original tax became due and payable'' does not mean the due date(s) of any installments of estimated tax required under Part VIII, but means the due date of the final tax return required to be filed by the fifteenth day of the fourth month following the close of the taxable year with respect to which such installments of estimated tax were made, and of such other returns as may be required under the Income Tax Act.

(c) Interest shall accrue pursuant to this section irrespective of whether or not a deficiency assessment has become final for purposes of Section 12-729(a) of the general statutes.

(d) For the definition of ''month or fraction thereof,'' see § 12-701(b)-1 of Part XIV.

(e) While this section pertains to Section 12-728(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended December 19, 2002)

Sec. 12-728(a)-2. Penalties on deficiency assessments

(a) A penalty of 10% shall be imposed on the amount of any deficiency assessment in the case of negligence or intentional disregard of the provisions of the Income Tax Act or any rule or regulation adopted thereunder. In the case of fraud or intent to evade the provisions of said Act, rules or regulations, the penalty shall be 25% of the amount of the deficiency assessment.

(b) No person shall be subject to more than one penalty under subsection (a) of this section in relation to the same tax period. Thus, the 10% penalty and the 25% penalty may not be aggregated; however, nothing in this section shall be construed to prohibit the Commissioner from substituting one penalty for another prior to the issuance of a final determination pursuant to Section 12-729 of the general statutes, should the facts and circumstances warrant such a change.

(c) While this section pertains to Section 12-728(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-728(b)-1. Notice of deficiency

(a) A notice of deficiency shall set forth the reason for the proposed assessment, and shall be mailed to the taxpayer's last known address, as shown in the records of the Department. It is the responsibility of the taxpayer, or of the taxpayer's legal representative, to give written notification to the Commissioner of any change of address, status or circumstances, and such notification shall be received by the Commissioner prior to the date of any notice of deficiency.

(b) While this section pertains to Section 12-728(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-731-1. Mathematical errors

(a) If the amount of tax is understated on a return due to a mathematical error, the Commissioner shall notify the taxpayer that an amount of tax in excess of that

shown on the return, plus interest at the statutory rate under Section 12-731 of the General Statutes for each month or fraction thereof from the due date of such tax, is due and has been assessed. Such a notice of additional tax due to a mathematical error shall not be considered a notice of a deficiency, nor shall the taxpayer have any right of protest or appeal of any assessment of additional tax under this section.

(b) Mathematical errors are to be distinguished from deficiency assessments resulting from the audit, examination or investigation of a return after it is accepted and processed. The assertion of tax due to a mathematical error enables the Commissioner with a minimum of correspondence and inconvenience to taxpayers to process or to complete the processing of returns containing such mathematical errors. The term ''mathematical error'' includes, generally, such defects as:

(1) arithmetic errors or incorrect computations on the return or supporting schedules;

(2) entries on the wrong lines; and

(3) omission of required supporting forms or schedules or of the information in whole or in part called for thereon.

(c) The proper response to a mathematical error notice of additional tax due is for the taxpayer to pay the amount due, within the time specified in the notice, unless the defect(s) can be corrected by the taxpayer's furnishing correcting information, including, for example, any supporting forms or schedules indicated to have been omitted from the return. After such payment is made, if the taxpayer disagrees with the assessment made pursuant to this section, the taxpayer may claim a refund pursuant to § 12-732(a)-1 of this Part.

(d) While this section pertains to Section 12-731 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended December 19, 2002)

Sec. 12-732(a)-1. Claim for refund

(a) Except as otherwise provided in § 12-732(b)-1 of this Part, if any tax imposed by the Income Tax Act has been overpaid, a taxpayer may file a claim for refund in writing with the Commissioner within three years from the due date for which such overpayment was made (or if an agreement between the Department and the taxpayer is executed in accordance with § 12-733(f)-1, during the time within which a deficiency may be assessed pursuant to the agreement), stating the specific grounds upon which such claim is founded. For purposes of this section, the ''due date for which such overpayment was made'' means the original due date of the tax, even if a request for extension of time for payment of the tax has been granted pursuant to § 12-723-3 of Part X.

(b) To the amount of any refund, other than (i) any refund of tax paid with a tentative tax return or (ii) any refund credited under Section 12-742 of the general statutes against a debt or obligation for which the Commissioner of Administrative Services sought reimbursement or (iii) any refund contributed in accordance with 1993 Conn. Pub. Acts 233, interest shall be added at the rate of 0.75% per month or fraction thereof elapsing between the ninetieth day following receipt of the claim for refund by the Department and the date of notice by the Department that such refund is due. A claim for refund may be made by filing a properly completed (1) tax return that reports tax overpaid, whether payment was made through withholding or through installments of estimated tax or with a tentative tax return or (2) amended tax return that reports tax overpaid with a tax return.

(c) Because no interest shall be added to any refund of tax paid with a tentative tax return, where a taxpayer has filed a tentative tax return and a refund is claimed on the taxpayer's subsequently filed tax return, interest may be added only to that portion of the refund that exceeds the payment that accompanied the tentative tax return. This limitation shall not apply where a taxpayer subsequently files an amended tax return, and interest may be added to the amount of any refund claimed, even if the payment that accompanied the previously filed tentative tax return exceeds the amount of the refund claimed.

(d) For purposes of this section:

(1) ''Tax return'' means the Form CT-1040, Form CT-1040NR/PY, Form CT-1041 or any other tax return as may be required under the Income Tax Act.

(2) ''Tentative tax return'' means the Form CT-1040EXT, Form CT-1041EXT or any other tentative tax return as may be required under the Income Tax Act.

(3) ''Amended tax return'' means the Form CT-1040X or any other amended tax return as may be required under the Income Tax Act.

(e) Accrual of interest on a refund is illustrated by the following examples:

Example 1: On March 16, 1993, B, a calendar year resident individual, files a 1992 Form CT-1040, reporting a $500 overpayment of Connecticut income tax and claiming a refund thereof. If notice has not been given by the Department by June 14, 1993 that the refund is due, interest shall accrue starting June 15, 1993 to the date of notification by the Department that such refund is due.

Example 2: On April 15, 1993, C, a calendar year nonresident individual, files a 1992 Form CT-1040EXT and pays the $300 balance of the tax tentatively believed to be due. On July 15, 1993, C files a 1992 Form CT-1040NR/PY, reporting a $500 overpayment of Connecticut income tax and claiming a refund thereof. Interest shall accrue on the portion of the refund that exceeds the payment that accompanied the tentative tax return. If notice has not been given by the Department by October 13, 1993 that the refund is due, interest shall accrue on $200 starting October 14, 1993 to the date of notification by the Department that such refund is due.

Example 3: On April 15, 1993, D, a calendar year resident trust, files a 1992 Form CT-1041EXT and pays the $1000 balance of the tax tentatively believed to be due. On July 15, 1993, D files a 1992 Form CT-1041, reporting that the tax due is equal to the tax previously paid. On June 1, 1994, D files an amended 1992 Form CT-1041, reporting a $500 overpayment of Connecticut income tax and claiming a refund thereof. If notice has not been given by the Department by August 30, 1994 that the refund is due, interest shall accrue starting August 31, 1994 to the date of notification by the Department that such refund is due. The limitation under subsection (c) of this section does not apply where, as here, D subsequently filed an amended tax return, even if, as here, the payment that accompanied the previously filed tentative tax return exceeds the amount of the refund.

Example 4: The facts are the same as in Example 3, except that the amended 1992 Form CT-1041 was filed on May 1, 1996. The claim for refund is not a direct result of a change to, correction of or amendment of D's federal tax return. The claim for refund is not timely and cannot be allowed because the claim was not filed within three years from the due date for which such overpayment was made (April 15, 1993).

(f) No claim for refund may be filed by an individual who has commenced a case under chapter 7 or chapter 11 of title 11 of the United States Code for a taxable year or years preceding the commencement of such case. To the extent that the

individual, but for the commencement of such case, could have filed such a claim, the trustee may file the claim.

(Effective November 18, 1994; amended March 8, 2006)

Sec. 12-732(a)-2. Claim for refund by nonobligated spouse

(a) Except as otherwise provided in § 12-732(b)-1 of this Part or in section 12-732 of the Connecticut General Statutes, if a joint Connecticut income tax return has been filed by an obligated spouse and a nonobligated spouse, and the tax imposed by the Income Tax Act has been overpaid, the nonobligated spouse may file a written claim for refund of the nonobligated spouse's share of the joint Connecticut income tax overpayment with the Commissioner within three years from the due date for which such overpayment was made, stating the specific grounds upon which such claim is founded. The nonobligated spouse's share of the joint Connecticut income tax overpayment shall be determined by subtracting the nonobligated spouse's share of the joint Connecticut income tax liability from the nonobligated spouse's contribution to the joint Connecticut income tax liability, provided, the nonobligated spouse's share of the joint Connecticut income tax overpayment may not exceed the joint overpayment.

(b) A nonobligated spouse may claim his or her share of the joint Connecticut income tax overpayment by attaching, as the cover page, a Form CT-8379 (Nonobligated Spouse Claim) to his or her tax return or amended tax return, as the case may be.

(c) For purposes of this section—

(1) ''Nonobligated spouse'' is the person who is married to, and has filed a joint Connecticut income tax return with, an obligated spouse.

(2) ''Obligated spouse'' means the person who is married to, and has filed a joint Connecticut income tax return with, a nonobligated spouse and (A) who owes a debt or obligation for which the Commissioner of Administrative Services is seeking reimbursement (and against which debt or obligation the obligated spouse's share of a joint Connecticut income tax overpayment may be credited by the Commissioner of Revenue Services in accordance with § 12-742-1) or (B) against whom an order of the superior court or a family support magistrate for support of a minor child or children has been issued and who owes past-due support of, in a case under the temporary assistance for needy families (T.A.N.F.) program pursuant to Title IV-A of the Social Security Act (42 USC 601 et seq., $150 or more and, in a non-T.A.N.F. IV-D support case (as defined in Section 46b-231(b) of the Connecticut General Statutes), $500 or more.

(3) ''Nonobligated spouse's share of a joint Connecticut income tax liability'' shall be determined by multiplying the joint Connecticut income tax liability by a fraction, the numerator of which is the nonobligated spouse's separate Connecticut income tax liability (as if a joint Connecticut income tax return had not been filed) and the denominator of which is the sum of each spouse's separate Connecticut income tax liability (as if a joint Connecticut income tax return had not been filed).

(4) ''Nonobligated spouse's contribution to the joint Connecticut income tax liability'' shall be determined by adding to such spouse's share of joint estimated Connecticut income tax payments, if any, and such spouse's share of joint tentative Connecticut income tax payments, if any, accompanying a Form CT-1040 EXT or Form CT-1127, the sum of (A) Connecticut income tax withheld from the nonobligated spouse's income and (B) separate estimated Connecticut income tax payments, if any, made by the nonobligated spouse.

(5) ''Nonobligated spouse's share of joint estimated Connecticut income tax payments'' shall be determined by multiplying the joint estimated Connecticut

income tax payments by a fraction, the numerator of which is the nonobligated spouse's separate Connecticut income tax liability (as if a joint Connecticut income tax return had not been filed) and the denominator of which is the sum of each spouse's separate Connecticut income tax liability (as if a joint Connecticut income tax return had not been filed).

(6) ''Nonobligated spouse's share of joint tentative Connecticut income tax payments'' shall be determined by multiplying the joint tentative Connecticut income tax payments by a fraction, the numerator of which is the nonobligated spouse's separate Connecticut income tax liability (as if a joint Connecticut income tax return had not been filed) and the denominator of which is the sum of each spouse's separate Connecticut income tax liability (as if a joint Connecticut income tax return had not been filed).

(7) ''Tax return'' means the Form CT-1040 or Form CT-1040NR/PY, as the case may be.

(8) ''Amended tax return'' means the Form CT-1040X.

(d) The following example illustrates the application of this section.

Example: A and B are married and filed a joint 1992 Form CT-1040 showing a Connecticut income tax liability of $4,500 and payments made in connection therewith of $4,800, so that there is a joint Connecticut income tax overpayment of $300. A's Connecticut adjusted gross income of $75,000 equaled his federal adjusted gross income. B's Connecticut adjusted gross income of $25,000 equaled her federal adjusted gross income. A reported $60,000 of wages, from which $2,800 of Connecticut income tax was withheld, and $15,000 of other income. B reported $20,000 of wages, from which $1,000 of Connecticut income tax was withheld, and $5,000 of other income. A and B filed a joint Form CT-1040 ES and paid $1,000 in estimated Connecticut income tax payments. A is an obligated spouse. B, the nonobligated spouse, claims her share of the joint Connecticut income tax overpayment by attaching, as the cover page, a Form CT-8379 to the joint 1992 Form CT-1040.

B's share of the joint Connecticut income tax liability is determined by multiplying the joint Connecticut income tax liability ($4,500) by a fraction, the numerator of which is B's separate Connecticut income tax liability (as if B had not filed a joint Connecticut income tax return with A) of $535.50 and the denominator of which is the sum of each spouse's separate Connecticut income tax liability (as if a joint Connecticut income tax return had not been filed) of $3,910.50 (consisting of B's separate Connecticut income tax liability of $535.50 and A's separate Connecticut income tax liability of $3,375.00). Thus, B's share of the joint Connecticut income tax liability is $616.22.

B's contribution to the joint Connecticut income tax liability is determined by adding to B's share of the joint estimated Connecticut income tax payments the $1,000 of Connecticut income tax withheld from B's income. (Neither A nor B made separate estimated Connecticut income tax payments.) B's share of the joint estimated Connecticut income tax payments is determined by multiplying the joint estimated Connecticut income tax payments ($1,000) by a fraction, the numerator of which is B's separate Connecticut income tax liability (as if a joint Connecticut income tax return had not been filed) of $535.50 and the denominator of which is sum of each spouse's separate Connecticut income tax liability (as if a joint Connecticut income tax return had not been filed) of $3,910.50. Thus, B's contribution to the joint Connecticut income tax liability is $1,136.94 (consisting of the $1,000 of Connecticut income tax withheld from B's income and the $136.94 that is B's share of the joint estimated Connecticut income tax payments).

Ordinarily, B's share of the joint Connecticut income tax overpayment would be determined by subtracting B's share of the joint Connecticut income tax liability ($616.22) from B's contribution to the joint Connecticut income tax liability ($1,136.94); however, B's share of the joint Connecticut income tax overpayment cannot exceed the joint overpayment ($300). Therefore, B's share of the joint Connecticut income tax overpayment is $300, and A's share is $0.

(e) While this section pertains to Section 12-732(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended March 8, 2006)

Sec. 12-732(b)-1. Timely filing of claim for refund after the three-year period provided by section 12-732(a)

(a) (1) If a change to or correction of a taxpayer's federal tax return by the Internal Revenue Service or other competent authority, or a renegotiation of a contract or subcontract with the United States, decreases the taxpayer's Connecticut income tax liability for the same taxable period, a claim for refund pertaining to such change or correction shall be deemed to be timely filed, notwithstanding the three-year limitation provided by subsection (a) of section 12-732 of the general statutes, if the taxpayer has timely complied with § 12-727(b)-1 of Part XIV.

(2) If a timely amendment by a taxpayer of the taxpayer's federal tax return decreases the taxpayer's Connecticut income tax liability for the same taxable period, a claim for refund pertaining to such amendment shall be deemed to be timely filed, notwithstanding the three-year limitation provided by subsection (a) of section 12-732 of the general statutes, if the taxpayer has timely complied with § 12-727(b)-2 of Part XIV.

(3) As used in this subsection, ''Connecticut income tax liability'' means the liability for Connecticut income tax, as defined in § 12-701(b)-1(a)(10) of this Part.

(b) (1) If a taxpayer has claimed a credit under Part VI for a taxable year for income tax paid to a qualifying jurisdiction, as defined in § 12-704(a)-4 of Part VI, and a change or correction is made to the income tax return of the qualifying jurisdiction by the tax officers or other competent authorities of such jurisdiction for such taxable year in such a manner that the amount of income tax that the taxpayer is finally required to pay to that jurisdiction is different from the amount used to determine the credit under this part, and such change or correction decreases the taxpayer's Connecticut tax liability for such taxable year, a claim for refund pertaining to such change or correction shall be deemed to be timely filed, notwithstanding the three-year limitation provided by subsection (a) of section 12-732 of the general statutes, if the taxpayer has timely complied with § 12-704(b)-1(a) of Part VI.

(2) If a taxpayer who has claimed a credit under Part VI for a taxable year for income tax paid to a qualifying jurisdiction, as defined in § 12-704(a)-4 of Part VI, subsequently files a timely amended income tax return for such taxable year with such jurisdiction in such a manner that the amount of income tax that the taxpayer is required to pay to that jurisdiction is different from the amount used to determine the credit under this part, and such amendment decreases the taxpayer's Connecticut tax liability for such taxable year, a claim for refund pertaining to such amendment shall be deemed to be timely filed, notwithstanding the three-year limitation provided by subsection (a) of section 12-732 of the general statutes, if the taxpayer has timely complied with § 12-704(b)-1(b) of Part VI.

(3) As used in this subsection, ''Connecticut tax liability'' means Connecticut tax liability, as defined in § 12-704(a)-4 of Part VI.

(c) While this section pertains to Section 12-732(b) of the Connecticut General Statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the Connecticut General Statutes, the adoption of this section is authorized by Section 12-740(a) of the Connecticut General Statutes.

(Effective November 18, 1994; amended June 29, 2001)

Sec. 12-733(a)-1. Notice of proposed deficiency

(a)

(1) Except as otherwise provided in the Income Tax Act or in subdivision (2) or (3) of this subsection, a notice of proposed deficiency assessment for a taxable year shall be mailed to the taxpayer on or before the date that is three years after the date that the return for such taxable year is filed, or on or before the date that is three years after the due date of the return for such taxable year, determined without regard to any extension of time for filing, whichever is later.

(2) Where, within the 60-day period ending on the last day described in subdivision (1) of this subsection for mailing a notice of proposed deficiency assessment for a taxable year, the commissioner receives a written document signed by a taxpayer showing that the taxpayer owes an additional amount of tax for such taxable year, a notice of proposed deficiency assessment shall be mailed to the taxpayer on or before the date that is 60 days after the day on which the commissioner receives such document.

(3) If the last day described in subdivision (1) or (2) of this subsection for mailing a notice of proposed deficiency assessment falls on a Saturday, Sunday or legal holiday, as defined in subsection (b) of Section 12-39a of the General Statutes, such notice may be mailed to the taxpayer on the next succeeding day that is not a Saturday, Sunday or legal holiday.

(b) For purposes of Section 12-733 of the general statutes and this section, the term ''return'' does not mean any installment(s) of estimated tax required under Part VIII, but means the final tax return required to be filed on the fifteenth day of the fourth month following the close of the taxable year with respect to which such installments of estimated tax were made, and such other returns as may be required under the Income Tax Act.

(c) While this section pertains to Section 12-733(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended December 19, 2002)

Sec. 12-733(f)-1. Agreement extending time for assessing deficiency or claiming refund

(a) If, within the time prescribed in § 12-733(a)-1 of this Part for the assessment of a deficiency, a written agreement between the Department and a taxpayer has been executed, extending the time during which a deficiency may be assessed with respect to a taxable year, then a claim for refund may be filed with respect to such taxable year during the time within which a deficiency may be assessed pursuant to such agreement. For purposes of this section, where a joint Connecticut income tax return has been filed, both spouses shall sign the written agreement to extend the time during which a deficiency may be assessed or a claim for refund may be filed.

(b) While this section pertains to Section 12-733(f) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-734-1. Liens

(a) The amount of any tax, penalty and interest due and unpaid shall be a lien, from the last day of the taxable year with respect to which such tax is due until discharged by payment, against all real estate of the taxpayer in this state, and a certificate of such lien signed by the Commissioner may be filed for record in the office of the clerk of any town in which such real estate is situated.

(b) For purposes of this section, ''due and unpaid'' means due and unpaid at any time following the last day of the taxable year with respect to which such tax is due, and nothing herein or elsewhere shall be construed to prevent the Commissioner from filing for record any lien referred to in subsection (a) of this section at any time following the last day of such taxable year.

(c) While this section pertains to Section 12-734 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-735(a)-1. Penalties and interest

(a)

(1) If any person fails to pay the amount of tax reported to be due on such person's return (other than an amended return) within the time specified under the provisions of the Income Tax Act, there shall be imposed a penalty of 10% of such amount due and unpaid. The tax shall also bear interest at the statutory rate under subsection (a) of Section 12-735 of the General Statutes for each month or fraction thereof, from the time specified for payment of such tax until the date of payment.

(2) If a person files an amended return after the date fixed for filing the return, reporting thereon an amount to be due in excess of the amount reported to be due on such person's return, no penalty shall be imposed under this section, whether or not such excess is paid at the time of filing such amended return, but such excess shall bear interest at the statutory rate under subsection (a) of Section 12-735 of the General Statutes for each month or fraction thereof, from the time specified for payment of such tax until the date of payment.

(3) The time specified for payment is the date fixed for filing the return, determined without regard to any extension of time for filing such return.

(b) For purposes of Section 12-735(a) of the general statutes and subsection (a) of this section, ''return'' does not mean any installment(s) of estimated tax required under Part VIII, but means the final tax return required to be filed on the fifteenth day of the fourth month following the close of the taxable year with respect to which such installments of estimated tax were made, and such other returns as may be required under the Income Tax Act.

(c) For the definition of ''month or fraction thereof,'' see § 12-701(b)-1 of Part XIV.

(d) For failure to file a return or report within the time specified by the Income Tax Act (including any extensions of time granted under Part X), where no penalty

for late payment applies and no penalty under § 12-735(d)-1 of this Part applies, a penalty of $50 shall be imposed pursuant to Section 12-30 of the general statutes.

(e) While this section pertains to Section 12-735(a) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended December 19, 2002)

Sec. 12-735(b)-1. Commissioner's assessment on best information

(a)

(1) If any person has not made a required return (other than an amended return) within three months after the due date specified for such return under the provisions of the Income Tax Act, the Commissioner may make such return at any time thereafter, according to the best information obtainable and according to the form prescribed. To the tax imposed upon the basis of such return, there shall be added a penalty equal to 10% of such tax or $50, whichever is greater. The tax shall bear interest at the statutory rate under subsection (b) of Section 12-735 of the General Statutes for each month or fraction thereof, from the due date of such tax until the date of payment.

(2) If any person has not made an amended return (including any return required under § 12-704(b)-1 of Part VI or § 12-727(b)-1 or § 12-727(b)-2) of Part XIV within three months after the due date specified for such return under the provisions of the Income Tax Act, the Commissioner may make such return at any time thereafter, according to the best information obtainable and according to the form prescribed. To the tax imposed upon the basis of such return, there shall be added a penalty equal to 10% of such tax or $50, whichever is greater. The tax shall bear interest at the statutory rate under subsection (b) of Section 12-735 of the General Statutes for each month or fraction thereof, from the due date of such tax until the date of payment.

(3) The making of a return by the commissioner under subsection (b) of Section 12-735 of the General Statutes for any person does not relieve such person of the duty or responsibility to make a return and shall not constitute the filing of a return by such person, so that a notice of deficiency under the provisions of subsection (c) of Section 12-733 of the General Statutes may be mailed to such person at any time. If the failure of such person to make such return is wilful, such person shall be subject to prosecution under the provisions of subsection (a) of Section 12-737 of the General Statutes.

(b) For purposes of Section 12-735(b) of the general statutes and subsection (a) of this section, ''return'' does not mean any installment(s) of estimated tax required under Part VIII, but means the final tax return required to be filed on the fifteenth day of the fourth month following the close of the taxable year with respect to which such installments of estimated tax were made, and such other returns as may be required under the Income Tax Act, including, but not limited to, returns required under § 12-704(b)-1 of Part VI and §§ 12-727(b)-1 and 12-727(b)-2 of Part XIV.

(c) The requirements of notice and procedure, and provisions for the right of the taxpayer to protest and appeal any assessment made by the Commissioner pursuant to this section, shall be the same as those of Sections 12-728, 12-729 and 12-730 of the general statutes and any rules or regulations adopted thereunder.

(d) For the definition of ''month or fraction thereof,'' see § 12-701(b)-1 of Part XIV.

(e) While this section pertains to Section 12-735(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended December 19, 2002)

Sec. 12-735(d)-1. Penalty for failure to file statement of payment to another person

(a) A penalty of $5.00 shall be imposed for each statement of payment to another person that an employer or payer fails to furnish to employees or payees by the last day of January for the preceding calendar year and a penalty of $5.00 shall be imposed for each informational return that an employer or payer fails to file with the Department by the last day of February for the preceding calendar year, unless such failure is due to reasonable cause and not to wilful neglect. Failure to furnish correct information on a statement of payment to another person shall be considered a failure to file that is subject to penalty under this section.

(b) The aggregate penalty imposed on an employer or payer for any one calendar year shall not exceed $2,000.

(c) For purposes of this section, ''statement of payment to another person'' means the ''state copy'' of federal Forms Forms W-2 (reporting payment of Connecticut wages), W-2G (for winnings paid to resident individuals, even if no Connecticut income tax was withheld), 1099-MISC (for payments to resident individuals or, if the payments relate to services performed wholly or partly within Connecticut, payments to nonresident individuals, even if no Connecticut income tax was withheld), 1099-R (for payments or distributions to resident individuals, but only if Connecticut income tax was withheld) and 1099-S (for all Connecticut real estate transactions) and ''informational return'' means a duplicate of such statement of payment to another person.

(d) While this section pertains to Section 12-735(d) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-736(a)-1. Penalty on responsible person or persons

(a) **Penalty not imposed on employer.** The penalty under subsection (a) of section 12-736 of the Connecticut General Statutes may not be imposed on an employer but only may be imposed on a person or persons who are required, on behalf of the employer, to collect, account for, or pay over Connecticut income tax to the Department (responsible person or persons). The employer, however, remains subject to other penalties, such as the penalty imposed by section 12-735 of the Connecticut General Statutes or the penalty imposed under section 12-728 of the Connecticut General Statutes.

(b) **Taxes to be collected only once.** Although the employer has the primary liability for deducting and withholding Connecticut income taxes from wages of employees and paying over such taxes to the Department, the Department is not required to attempt to collect the taxes from the employer before assessing the penalty against a responsible person or persons. A responsible person's liability is independent from that of the employer. However, the taxes required to be collected, truthfully accounted for and paid over to the Department will be collected only once by the Department, whether from the employer alone, or from one or more

responsible persons, or from the employer and one or more responsible persons. In general, the Department will not assess the penalty imposed under subsection (a) of section 12-736 of the Connecticut General Statutes in the case of an approved and adhered to agreement by an employer to pay back taxes in full and in the case of a confirmed bankruptcy payment plan of an employer requiring the payment in full of back taxes. (However, the Department may gather information to support a possible assessment in the event of default on such agreement or plan.) The Department shall be considered to have once collected such taxes when its right to retain the amount collected is finally established.

(c) **Responsible persons.** Responsibility is a matter of status, duty, and authority. In general, there will be at least one responsible person, and a responsible person may or may not be an employee of the employer that has wilfully failed to collect Connecticut income taxes from employee wages or to truthfully account for and pay over such taxes to the Department. Those persons performing ministerial acts without exercising independent judgment will not be deemed responsible. The penalty will not be asserted against non-owner employees of the employer if they act solely under the dominion and control of others and are not in a position to make independent decisions on behalf of the employer. Nor will the penalty be imposed on unpaid, volunteer members of any board of trustees or directors, if the employer is an organization referred to in section 501 of the Internal Revenue Code to the extent such members are solely serving in an honorary capacity, do not participate in the day-to-day or financial operations of the organization, or do not have knowledge of the failure in relation to which such penalty is imposed.

(d) **Wilful.** A responsible person may not be held liable for the tax assessable hereunder unless such person has wilfully failed to collect, account for and pay over the tax. For purposes of subsection (a) of section 12-736, wilful action shall mean action that is voluntary, conscious and intentional. For example, wilful action may be established by a showing that the responsible person knew of the tax liability and either took no steps to satisfy such liability or used available funds to pay a creditor other than the Department (including another tax creditor). No showing of bad motive or intent to deceive is necessary to establish wilfulness.

(e) **Procedure.** The requirements of notice and procedure, and provisions for the right of the purportedly responsible person to protest and appeal any assessment of penalty made by the Commissioner pursuant to subsection (a) of section 12-736 of the Connecticut General Statutes, shall be the same as those of sections 12-728, 12-729, 12-729a and 12-730 of the Connecticut General Statutes and any regulations adopted thereunder. The commissioner may assess the penalty provided for by section 12-736 with respect to the Connecticut income tax that should have been collected from an employee, accounted for and paid over at any time not later than three years after a Form CT-941, *Connecticut Quarterly Reconciliation of Withholding*, is filed declaring the Connecticut income taxes deducted and withheld from wages of the employee. If no such return is filed, the commissioner may assess the penalty at any time.

(f) **Employer.** Wherever reference is made in this section to an employer, such reference shall include (1) any employer who registers solely for the purpose of withholding Connecticut income tax from wages under section 12-705(c)-2 of Part IX; (2) any person (other than an employer) who registers solely for the purpose of withholding Connecticut income tax from payments (other than wages) under section 12-705(c)-1 of Part IX; and (3) any person (other than an employer) who is required to register for the purpose of withholding Connecticut income tax under sections 12-705(b)-1, 12-705(b)-2, or 12-705(b)-3 of Part IX.

(g) While this section pertains to section 12-736(a) of the Connecticut General Statutes, for purposes of supplementary interpretation, as the phrase is used in section 12-2 of the Connecticut General Statutes, the adoption of this regulation is authorized by section 12-740(a) of the Connecticut General Statutes.

(Adopted effective February 10, 2004)

Sec. 12-739(d)-1. Application of reported overpayments

(a) **Definitions.** As used in this section, unless the context otherwise requires,

(1) ''Estimated tax'' means installments of estimated tax required to be paid under section 12-722 of the Connecticut General Statutes;

(2) ''Individual'' means any natural person and, unless the context otherwise requires, includes any trust or estate;

(3) ''Reported overpayment'' means the amount by which the tax paid for a taxable year, including all installments of estimated tax paid for the taxable year and all tax deducted and withheld from wages of such individual under chapter 229 of the Connecticut General Statutes, exceeds the amount of tax reported to be due for such taxable year on the tax return therefor, provided, in calculating the amount of tax reported to be due for such taxable year, any credit reported to be allowable shall be subtracted therefrom.

(4) ''Tax'' means the income tax imposed under chapter 229 of the Connecticut General Statutes; and

(5) ''Tax return'' means a tax return required to be filed under chapter 229 of the Connecticut General Statutes.

(b) **General Rule.**

(1) (A) If an individual who is required to pay installments of estimated tax for a taxable year has reported on his or her tax return for the preceding taxable year that he or she has overpaid the tax for such preceding taxable year, then the individual must make one of the following irrevocable elections with respect to such overpayment on such tax return:

(i) to credit all of the reported overpayment against the individual's estimated tax for the taxable year, by indicating on his or her tax return for such preceding taxable year that all of the reported overpayment is to be credited against the individual's estimated tax for the taxable year and not to be refunded to the individual or contributed to one or more of the special accounts that are described in section 12-743 of the Connecticut General Statutes;

(ii) to have all of the reported overpayment refunded to the individual, by indicating on his or her tax return for such preceding taxable year that all of the reported overpayment is to be refunded to the individual and not to be credited against his or her estimated tax for the taxable year or contributed to one or more of the special accounts that are described in section 12-743 of the Connecticut General Statutes;

(iii) to contribute all of the reported overpayment to one or more of the special accounts that are described in section 12-743 of the Connecticut General Statutes, by indicating on his or her tax return for such preceding taxable year that all of the reported overpayment is to be contributed to one or more of such accounts and not to be refunded to the individual or credited against his or her estimated tax for the taxable year; or

(iv) to credit all, part or none of the reported overpayment against the individual's estimated tax for the taxable year and to have the balance of the reported overpayment refunded to the individual or contributed to one or more of the special accounts that are described in section 12-743 of the Connecticut General Statutes, by indicating on his or her tax return for such preceding taxable year that a designated portion,

whether it is all, part or none of the reported overpayment, is to be credited against the individual's estimated tax for the taxable year and not to be refunded to the individual or contributed to one or more of the special accounts that are described in section 12-743 of the Connecticut General Statutes, and that, as indicated by the individual on his or her tax return for such preceding taxable year, a designated portion of the balance of the reported overpayment is to be refunded to the individual or contributed to one or more of the special accounts that are described in section 12-743 of the Connecticut General Statutes and not to be credited against his or her estimated tax for the taxable year.

(B) The amount of the reported overpayment, once elected to be credited against an individual's estimated tax for the taxable year, shall not be refunded, and no interest shall be allowed to the individual on such overpayment so credited. The amount of the reported overpayment, once elected to be refunded to an individual or contributed to one or more of the special accounts that are described in section 12-743 of the Connecticut General Statutes, shall not be credited against the individual's estimated tax for the taxable year. An individual may not revoke his or her election.

(C) If an individual files an amended tax return, no election described in paragraph (A) of this subdivision may be made upon filing the amended tax return, and any reported overpayment on the individual's amended tax return shall be refunded to the individual and shall not be credited against the individual's estimated tax for the taxable year or contributed to one or more of the special accounts that are described in section 12-743 of the Connecticut General Statutes.

(2) (A) As long as the tax return for such preceding year is filed with the Department on or before its due date or, if an extension of time to file has been requested and granted, its extended due date, and, subject to the provisions of subdivisions (3) and (4) of this subsection, the reported overpayment, once credited against an individual's estimated tax for his or her taxable year, shall be treated as if paid on the due date of the first required installment of estimated tax for such taxable year. Such reported overpayment shall be credited against otherwise unpaid required installments in the order in which such installments are required to be paid under section 12-722(c) of the Connecticut General Statutes.

(B) If the tax return for such preceding year is filed with the Department after its due date or, if an extension of time to file has been requested and granted, its extended due date, the reported overpayment shall be treated as if paid on the date that such tax return is filed. Subject to the provisions of subdivisions (3) and (4) of this subsection, the reported overpayment will be credited to the required installments of estimated tax in the order in which such installments were required to be credited under section 12-722 of the Connecticut General Statutes.

(C) The following examples illustrate the application of this subdivision:

Example 1: X, an individual, timely requests and is granted an extension of time to file his tax return for his taxable year ending December 31, 2001. On the extended due date for such return (October 15, 2002), X files his tax return for such year, electing thereon to credit the reported overpayment to his estimated tax for his taxable year ending December 31, 2002. Subject to the provisions of subdivisions (3) and (4) of this subsection, the reported overpayment will be treated as if paid on the due date of the first required installment of estimated tax for X's taxable year ending December 31, 2002, including any required installment due before the date on which the tax return for the taxable year ending December 31, 2001 is filed, and will be credited to the required installments of estimated tax for X's taxable year ending December 31, 2002 in the order in which such installments were required

to be credited under section 12-722 of the Connecticut General Statutes (first to the installment due April 15, 2002, any remaining balance then to be credited to the installment due June 15, 2002, any remaining balance then to be credited to the installment due September 15, 2002 and any remaining balance then to be credited to the installment due January 15, 2003).

Example 2: W, an estate, timely requests and is granted an extension of time to file its tax return for its taxable year ending July 31, 2002. On May 16, 2003, after the extended due date for such return (May 15, 2003), W files its tax return for such year, electing thereon to credit the reported overpayment to its estimated tax for its taxable year ending July 31, 2003. Subject to the provisions of subdivisions (3) and (4) of this subsection, the reported overpayment will be credited to the required installments of estimated tax for W's taxable year ending July 31, 2003 in the order in which such installments were required to be credited under section 12-722 of the Connecticut General Statutes, but will be treated as if paid on the date that such tax return is filed (May 16, 2003). If W has not otherwise made payment of its required installments of estimated tax for the taxable year ending July 31, 2003, the reported overpayment will be credited first as an untimely payment of the required installment due November 15, 2002, any remaining balance then to be credited as an untimely payment of the required installment due January 15, 2003, any remaining balance then to be credited as an untimely payment of the required installment due April 15, 2003, and any remaining balance then to be credited as a timely payment of the required installment due August 15, 2003.

(3) (A) If, after processing an individual's tax return for such preceding taxable year, the Department determines that the amount of the reported overpayment is incorrect, the Department shall make appropriate adjustments (including the reduction of the reported overpayment so credited, if the Department determines that the reported overpayment exceeds the actual overpayment, and, where such reduction results in an underpayment of estimated tax, the imposition of an addition to tax under section 12-722 of the Connecticut General Statutes). Processing a tax return means performing a mathematical verification of the reported overpayment, and involves mathematical verification of the amount of tax paid for a taxable year, including all installments of estimated tax paid for the taxable year, and mathematical verification of the amount of tax reported to be due for such taxable year on the tax return for such taxable year, which verification shall be based upon the income that the individual has reported and the filing status that the individual has claimed on such tax return. Processing a tax return does not mean performing an audit examination of the tax return under section 12-728 of the Connecticut General Statutes. If the Department determines, after processing an individual's tax return for such preceding taxable year, that the amount of the reported overpayment is correct and, subsequently, as the result of performing an audit examination of such tax return, makes a deficiency assessment, the crediting, at the time of processing of such tax return, of the reported overpayment will not be affected by the making of such assessment.

(B) The following examples illustrate the application of this subdivision:

Example 3: Y, an individual, timely files her tax return for her taxable year ending December 31, 2001, electing thereon to credit a reported overpayment of $1,000 to her estimated tax for her taxable year ending December 31, 2002. After processing such return, the Department determines that the amount of the reported overpayment is incorrect, and that the actual overpayment is only $500. If the amount of Y's first required installment, as defined in section 12-722 of the Connecti-

cut General Statutes, of estimated tax for her taxable year ending December 31, 2002 is $1,000 and Y otherwise has made no payment toward such first required installment, Y has underpaid her first required installment by $500 and is subject to an addition to tax under section 12-722 of the Connecticut General Statutes.

Example 4: N, an individual, timely files his tax return for his taxable year ending December 31, 2001, electing thereon to credit a reported overpayment of $10,000 to his estimated tax for his taxable year ending December 31, 2002. After processing such return, the Department determines that the amount of the reported overpayment is correct. Before the expiration of the period within which an audit examination may be performed under section 12-728 of the Connecticut General Statutes, the Department examines N's tax return for his taxable year ending December 31, 2001, and, having determined that N failed to correctly calculate his Connecticut adjusted gross income, makes a deficiency assessment of $5,000 plus statutory interest (plus a penalty under section 12-728 of the Connecticut General Statutes, if appropriate) against N. The making of such deficiency assessment will not affect the crediting of the reported overpayment of $10,000 to N's first required installment of estimated tax for his taxable year ending December 31, 2002.

(4) (A) Notwithstanding the provisions of this subsection, the Department, within any applicable period of limitations, shall credit any overpayment of tax (and interest, if any, on such overpayment)—

(i) first, against any outstanding liability for any tax (or for any penalty, interest, or addition to the tax) which is imposed under the Connecticut General Statutes, which is payable to the Department, and which is owed by the individual who made the overpayment, provided such tax (or such penalty, interest, or addition to the tax) is unpaid and a period in excess of thirty days has elapsed following the date on which such tax (or such penalty, interest, or addition to the tax) was due; and such tax (or such penalty, interest, or addition to the tax) is not the subject of a timely filed administrative appeal or of a timely filed appeal pending before any court of competent jurisdiction;

(ii) second, any remaining balance is then to be credited against any debt or obligation for which the Commissioner of Administrative Services is seeking reimbursement and which is owed by the individual who made the overpayment, provided such debt or obligation is unpaid and a period in excess of thirty days has elapsed following the date on which such debt or obligation was due; and such debt or obligation is not the subject of a timely filed administrative appeal or of a timely filed appeal pending before any court of competent jurisdiction;

(iii) third, any remaining balance is then to be credited against any tax (or for any penalty, interest, or addition to the tax) which is imposed under the Internal Revenue Code, which is payable to the Internal Revenue Service, which is owed by the individual who made the overpayment, and upon which a levy has been made by the Commissioner of Internal Revenue;

(iv) fourth, any remaining balance is then to be credited against any taxes for general or special purposes levied by a municipality, any taxes imposed under chapter 223 and payable to such municipality, any fines, penalties, costs or fees payable to such municipality for the violation of any lawful regulation or ordinance in furtherance of any general powers as enumerated in section 7-148 of the Connecticut General Statutes, or any charge payable to such municipality for connection with or for the use of a waterworks or sewerage system, which taxes, fines, penalties, costs or fees, or charges, are owed by the individual who made the overpayment, where, pursuant to section 12-2 of the Connecticut General Statutes, an agreements

exists between the Department and the governing authority of such municipality providing for the collection by the Department, on behalf of such municipality, of such taxes, fines, penalties, costs or fees, or charges, provided such taxes, fines, penalties, costs or fees, or charges, are unpaid and a period in excess of thirty days has elapsed following the date on which they were due; and such taxes, fines, penalties, costs or fees, or charges, are not the subject of a timely filed administrative appeal or of a timely filed appeal pending before any court of competent jurisdiction;

(v) fifth, any remaining balance is then to be credited against any taxes for which a tax officer of a claimant state has, in accordance with section 12-35f of the Connecticut General Statutes, requested the Department to withhold all or a portion of any refund or credit to which such individual would otherwise be entitled and submitted the required certification, provided, if any such withholding is timely protested by such individual in accordance with section 12-35f of the Connecticut General Statutes, the tax officer of the claimant state re-certifies that such taxes are finally due and payable to the claimant state, are legally enforceable under the laws of such state against such individual and any administrative or judicial remedies, or both, have been exhausted or have lapsed; and

(vi) sixth, any remaining balance is then, in accordance with the election made by the individual under paragraph (A) of subdivision (1) of this subsection, to be refunded to the individual, contributed to one or more of the special accounts that are described in section 12-743 of the Connecticut General Statutes or credited to the required installments of estimated tax for the taxable year.

(B) The following examples illustrate the application of this subdivision:

Example 5: R, an individual, timely files her tax return for her taxable year ending December 31, 2001, electing thereon to credit a reported overpayment of $4,000 to her estimated tax for her taxable year ending December 31, 2002. After processing such return, the Department determines that the amount of the reported overpayment is correct. However, R has an outstanding liability of $100 for an addition to the tax under section 12-722 of the Connecticut General Statutes for a preceding taxable year and an outstanding liability of $1,500 for use tax (and $500 of interest thereon) under section 12-411 of the Connecticut General Statutes. Neither liability is the subject of a timely filed administrative appeal or of a timely filed appeal pending before any court of competent jurisdiction. The Department will notify R that the reported overpayment will be applied to her outstanding liability of $100 for an addition to the tax under section 12-722 of the Connecticut General Statutes for a preceding taxable year and her outstanding liability of $1,500 for use tax (and $500 of interest thereon) under section 12-411 of the Connecticut General Statutes. The balance of $1,900 will be applied to R's estimated tax for her taxable year ending December 31, 2002. If the amount of R's first required installment of estimated tax for her taxable year ending December 31, 2002 is $2,000 and she otherwise made no payment toward such first required installment, R has underpaid her first required installment by $100 and is subject to an addition to tax under section 12-722 of the Connecticut General Statutes.

Example 6: M, an individual, timely files his tax return for his taxable year ending December 31, 2001, electing thereon to credit a reported overpayment of $1,000 to his estimated tax for his taxable year ending December 31, 2003. After processing such return, the Department determines that the amount of the reported overpayment is correct. However, M has an outstanding liability of $500 for real estate conveyance tax (and $100 of interest thereon) under section 12-494 of the Connecticut General Statutes, and this liability is the subject of a timely filed administrative appeal or

of a timely filed appeal pending before any court of competent jurisdiction. Therefore, this liability will not affect the crediting of the reported overpayment of $1,000 to M's estimated tax for his taxable year ending December 31, 2003.

(5) The amount of a reported overpayment on a joint return that may be credited to one spouse's outstanding separate liability for any tax which is imposed under the Connecticut General Statutes and which is payable to the Department shall be computed by subtracting such spouse's share of the joint liability, determined in accordance with § 12-732(a)-2 of Part XII, from such spouse's contribution to the joint liability, determined in accordance with § 12-732(a)-2 of Part XII, provided the amount so credited may not exceed the amount of the reported overpayment on the joint return. The same rule shall apply in determining the amount of a reported overpayment on a joint return that may be credited to one spouse's outstanding separate liability for any taxes, debts or obligations, fines, penalties, costs or fees, or charges to which the provisions of subdivision (4) of this subsection apply.

(Adopted effective February 10, 2004)

Sec. 12-742-1. Offset of refunds against certain debts or obligations

(a) The Commissioner of Revenue Services may credit overpayments of tax against a debt or obligation for which the Commissioner of Administrative Services is seeking reimbursement.

(b) As of the date (i) the Commissioner of Revenue Services receives notification from the Commissioner of Administrative Services that reimbursement is being sought for a debt or obligation or (ii) a taxpayer properly establishes an overpayment of tax, whichever occurs later, (1) the taxpayer shall be deemed to have paid the debt or obligation and (2) any interest payable by the taxpayer on the debt or obligation shall cease to accrue.

(c) Where a joint income tax return has been filed, a nonobligated spouse may, in accordance with § 12-732(a)-2, file a written claim for refund of his or her share of the joint Connecticut income tax overpayment with the Commissioner, and, in such event, only the obligated spouse's share of such joint overpayment shall be credited against a debt or obligation for which the Commissioner of Administrative Services is seeking reimbursement.

(d) While this section pertains to Section 12-742(d) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

PART XIII. Accounting periods and accounting methods

Sec. 12-708-1. Accounting period

(a) The taxable year of every taxpayer required to make a Connecticut income tax return under the Income Tax Act shall be the same as such taxpayer's taxable year for federal income tax purposes. The taxable year may be a calendar year or a fiscal year consisting of 12 consecutive months. However, under certain circumstances, the period may be less than 12 months (e.g. in case of death or change of accounting period), or it may be more than 12 months in the case of a 52-53 week accounting period.

(b) A person who is not required to file a federal income tax return but is required to file a Connecticut income tax return shall report on the calendar year basis unless the Commissioner authorizes the use of a different taxable year. The preceding

sentence does not apply, however, in a case where a person had for a previous year filed a federal income tax return and such person's taxable year for federal income tax purposes for the last year for which a federal return was filed was other than a calendar year. Thus, if the last federal income tax return filed was on the basis of a fiscal year ending June 30, and the person is not required to file a federal income tax return for the subsequent taxable year but is required to file a Connecticut income tax return, such person's taxable year for Connecticut income tax purposes for such year and thereafter is a fiscal year ending June 30. If a person not required to file a federal income tax return is subsequently required to file a federal income tax return, and the taxable year for federal income tax purposes is different from the taxable year established for Connecticut income tax purposes, the Connecticut taxable year shall be changed to conform to the federal taxable year.

(c) While this section pertains to Section 12-708 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-708-2. Change of accounting period

(a) A person may not change a taxable year unless a similar change has been made for federal income tax purposes, except where a change is authorized by the Commissioner with respect to a person not required to file a federal income tax return. If a taxable year is changed for federal income tax purposes, the taxable year for purposes of the Connecticut income tax shall be similarly changed.

(b) While this section pertains to Section 12-708 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994; amended December 19, 2002)

Sec. 12-708-3. Method of changing accounting period

(a) If a person changes an accounting period for Connecticut income tax purposes by reason of a change in such person's federal income tax accounting period, the person shall file, with the first Connecticut income tax return for the new accounting period, either a copy of the consent of the Commissioner of Internal Revenue to change the accounting period of such person's return for federal income tax purposes or, if no consent is required, a statement to that effect referring to the particular provision of the Internal Revenue Code or regulations thereto authorizing the change.

(b) A person who is not subject to federal income tax but is subject to the Connecticut income tax shall obtain the consent of the Commissioner of Revenue Services before changing such person's accounting period. Such request shall state the reasons therefor and shall be made on or before the fifteenth day of the second calendar month following the close of the short period for which a return is required to effect the change of accounting period. If the Commissioner approves the change of accounting period, he shall advise the person as to the effective date of such change and as to any short-year Connecticut income tax returns required as the result of such change.

(c) While this section pertains to Section 12-708 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) and (c) of the general statutes.

(Effective November 18, 1994)

Sec. 12-708-4. Short taxable year resulting from a change in accounting period

Where a short taxable year for federal income tax purposes results from a change in accounting period, a person shall, where any of the conditions provided for in § 12-740-6 of Part XI are met, also file a Connecticut income tax return for such short taxable year. Such person's Connecticut taxable income shall be computed on the basis of the period for which the Connecticut income tax return is made and in accordance with the rules applicable to the determination of Connecticut taxable income generally, except that the amount of the personal exemption provided for in Section 12-702 of the general statutes that shall be allowed is that amount which bears the same ratio to the Connecticut exemption allowed as the number of months in the short taxable year bears to 12 months.

(Effective November 18, 1994)

Sec. 12-708-5. Connecticut returns of trusts, estates or partnerships for short taxable years

(a) Where a trust, estate or partnership was not in existence for the entire 12 months of its normal taxable year, the short period for which the taxpayer was in existence during such 12 months is a taxable year for which a Connecticut return shall be filed. Examples of such short taxable years are as follows:

(1) If a partnership is terminated and completely liquidated during its normal taxable year and this results in an accounting period of less than 12 months for federal income tax purposes, such period is a taxable year for which a Connecticut return shall be filed.

(2) The first Connecticut fiduciary return of a trust or estate shall often be a short-year return, due to the choice of an accounting period by the fiduciary which is either a calendar year or fiscal year. For an estate, the first Connecticut fiduciary return covers the period from the day following the decedent's death up to and including the day preceding the start of the regular taxable year selected by the fiduciary; for a trust, the first Connecticut fiduciary return covers the period from the day the trust was established up to and including the day preceding the beginning of the regular taxable year of the trust.

(3) Sometimes the final Connecticut fiduciary return of a trust or estate shall be a short-year income tax return, due to the termination of administration of the estate, or the termination of the trust, during its normal taxable year.

(b) In general, the requirements with respect to the time for filing a short-year return are the same as for the filing of a Connecticut income tax return for a regular taxable year. For example, if the due date of a return is the fifteenth day of the fourth month following the close of a regular taxable year, the due date for filing such a return for a short year is also the fifteenth day of the fourth month following the close of the short year.

(c) While this section pertains to Section 12-708 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-708-6. Accounting methods

(a) A person shall employ the same method of accounting in determining Connecticut taxable income as such person uses for federal income tax purposes (except as provided in Part III for the special accruals required of certain part-year residents).

The term ''method of accounting'' refers not only to the overall method of accounting (such as cash or accrual), but also to the accounting treatment of particular items of income, gain, loss or deduction.

(b)(1) In the event a person does not have a federal method of accounting, Connecticut taxable income shall be computed on the accounting basis regularly used in keeping such person's books. If such a method does not clearly reflect income, the computation of taxable income shall be made in a manner which, in the opinion of the Commissioner, clearly reflects such person's income.

(2) A method of accounting which consistently applies generally accepted accounting principles in a particular trade or business, in accordance with recognized conditions or practices, shall ordinarily be regarded as clearly reflecting income, provided all items of income, gain, loss and deduction are treated consistently from year to year.

(3) A person may compute Connecticut taxable income under any method of accounting which is permissible and allowed for such income for federal income tax purposes, e.g. cash, accrual, installment or long-term contract basis, or any combination thereof which clearly reflects income (see section 446 of the Internal Revenue Code and regulations thereunder).

(c) While this section pertains to Section 12-708 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-708-7. Change of accounting method

(a) A person may not change the method of accounting for Connecticut income tax purposes unless a similar change has been made for federal income tax purposes, except where the person does not have a method of accounting for federal income tax purposes.

(b) If the method of accounting is changed for federal income tax purposes, the method of accounting for Connecticut income tax purposes shall be similarly changed, without application to the Commissioner, but a copy of the consent of the Commissioner of Internal Revenue to the change shall be attached to the first Connecticut income tax return filed under the new method, together with the statement required pursuant to §§ 12-708-8(c) and 12-708-9(d) of this Part.

(c) Where a person does not have a method of accounting for federal income tax purposes, an application for permission to change a method of accounting shall be made to the Commissioner within 180 days after the beginning of the taxable period to which the proposed change shall relate. Such application shall be accompanied by a statement specifying the nature of the person's business, if any, the present method of accounting, the method to which such person desires to change, the taxable year in which the change is to be effected, the classes of items to receive different treatment under the new system, and all items which would be duplicated or omitted as a result of the proposed change. If such person later adopts a method of accounting for federal income tax purposes which differs from the method for Connecticut income tax purposes, the person shall conform the method of accounting for Connecticut income tax purposes to the method of accounting for federal income tax purposes.

(d) While this section pertains to Section 12-708 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of

the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-708-8. Change other than from accrual to installment method of accounting

(a) If a person's method of accounting is changed, other than from an accrual to an installment method, there shall be taken into account in computing Connecticut taxable income from the taxable year of the change those adjustments pertaining to inventories, accounts receivable, accounts payable, etc., which are determined to be necessary to prevent amounts from being duplicated or omitted. If the change has occurred by reason of a change in the person's federal method of accounting, such adjustments shall generally be reflected in federal adjusted gross income and therefore in Connecticut adjusted gross income for the year of the change. The ''year of the change'' is the taxable year for which the taxable income of the person is computed under a method of accounting different from that used for the preceding year.

(b) The adjustments necessitated by reason of such change in accounting method may result in an amount of Connecticut income tax for the year of the change in excess of the Connecticut income tax which would have been determined had there not been such a change in the method of accounting. In such event, the additional Connecticut income tax shall not be greater than if such adjustments were ratably attributed to and included for the taxable year of the change and the preceding taxable years, not in excess of two, during which the person used the prior method of accounting.

(c) A statement shall be submitted with the Connecticut income tax return for the year of the change, setting forth the following information and calculations:

(1) each adjustment necessitated by the change;

(2) the net amount of the adjustments. This means the consolidation of the adjustments (whether the amounts thereof represent increases or decreases in items of income or deduction) arising with respect to balances in various accounts at the beginning of the taxable year of the change. Where the change in the method of accounting occurs by reason of a federal change, this net amount shall be the same for Connecticut income tax purposes as it is for federal income tax purposes, except to the extent of any modifications described in §§ 12-701(a)(20)-2 and 12-701(a)(20)-3 of Part I and §§ 12-701(a)(10)-2 and 12-701(a)(10)-3 of Part IV;

(3) the Connecticut income tax for the taxable year of the change with the net amount of adjustments included in the computation of Connecticut taxable income;

(4) the Connecticut income tax for the taxable year of the change computed as if the net amount of such adjustments were not included in the computation of Connecticut taxable income;

(5) the amount (but not less than zero) of any additional Connecticut income tax for the taxable year of the change, incurred solely by reason of the net amount of adjustments included in Connecticut taxable income, computed by subtracting the amount computed in subdivision (4) from the amount computed in subdivision (3) of this subsection;

(6) the allocation of the net amount of adjustments (subdivision (2) of this subsection) to the taxable year of the change and the preceding taxable year or years, not in excess of two, during which the person used the method of accounting from which the change is made. The amount to be allocated to each such year is determined by dividing the net amount of adjustments into as many equal parts as

there are taxable years involved (either two or three taxable years, including the taxable year of the change);

(7) the Connecticut taxable income for the taxable year of the change and for the preceding taxable year(s), as the case may be, computed both (A) without any amount of the net adjustments, and (B) with the addition of the appropriate share of the net adjustments as determined under subdivision (6) of this subsection;

(8) the additional Connecticut income tax which would result for each of the above taxable years by the addition to the Connecticut taxable income in each such year of the appropriate share of the net adjustments; and

(9) the total amount of such additional Connecticut income tax for the years involved.

(d) If the amount described in subdivision (c)(9) of this section exceeds the amount described in subdivision (c)(5), the person shall compute Connecticut income tax for the year of the change without a ratable attribution of the net adjustments to any preceding year or years. If the amount described in subdivision (c)(5) exceeds the amount described in subdivision (c)(9), the amount of the excess shall be subtracted from the Connecticut income tax for the year of the change as determined under subdivision (c)(3) of this section. The result is the amount of Connecticut income tax due for the taxable year of the change.

Example: Assume that a resident individual used the cash method of accounting in 1992 and 1993. Assume also that the effective tax rate for this individual is 3.75% for 1992, 4.0% for 1993 and 4.5% for 1994. In 1994 the individual changes to the accrual basis and has Connecticut taxable income of $10,000 figured on the accrual basis. Her books at the beginning of 1994 included the following accounts: accounts receivable $9,000; accounts payable $8,000; inventory of $5,000. The amount of Connecticut income tax due for the taxable year of the change is computed as follows:

Subject to the amount of any modifications required under the Income Tax Act, the Connecticut taxable income for the year of the change, including the net amount of adjustments (see subdivisions (c)(1) and (2) of this section), would be $16,000, computed as follows:

Connecticut taxable income on accrual basis (new method but before adjustments)	$10,000
(1) Adjustments: *Add* items not previously reported as income: Accounts receivable January 1, 1994	9,000
Items previously deducted but constituting marketable business assets: Inventory January 1, 1994	5,000
Total to be added	$14,000
Subtract items not previously deducted: Accounts payable January 1, 1994	8,000
(2) Net amount of adjustments	$ 6,000
Connecticut taxable income after adjustments	$16,000

The net additional Connecticut income tax for the year of the change described in subdivision (c)(5) of this section is computed as follows:

(3) Connecticut income tax due on Connecticut taxable income for the year of the change, including the net amount of adjustments ($16,000 x 4.5%)	$ 720
(4) Connecticut income tax due on Connecticut taxable income for taxable year of change, excluding adjustments ($10,000 x 4.5%)	$ 450
(5) Net additional Connecticut income tax due	$ 270

Because the taxpayer used the cash method for the two years preceding the year of the change and the adjustments of 1994 increased Connecticut taxable income by $6,000, she may reduce the Connecticut income tax on the increase by attributing $2,000 to 1992, $2,000 to 1993 and $2,000 to 1994 (see subdivisions (c)(6) through (8) of this section). The net Connecticut income tax due for the year of change is then computed as follows:

Taxable year	*Conn. income before adjstmts*	*Conn. income after adjstmts*	*Connecticut income tax before adjstmts*	*Connecticut income tax after adjstmts*	*Increase in Connecticut income tax due to adjstmts*
1992	$ 6,000	$ 8,000	$225	$300	$75
1993	6,500	8,500	260	340	80
1994	10,000	12,000	450	540	90

Total increase in Connecticut income tax attributable to adjustment (see subdivision (c)(9) of this section)	$ 245
Net additional Connecticut income tax determined at subdivision (5) of this subsection	270
Excess	25
Total Connecticut income tax for year of change, determined at subdivision (3) of this subsection	$ 720
Excess shown above	25
Connecticut income tax due for year of change	$ 695

(Effective November 18, 1994)

Sec. 12-708-9. Change from accrual to installment method of accounting

(a) **General.** If a person has changed the method of accounting from the accrual to the installment method for federal income tax purposes, any installment payments actually received in the year of change or in subsequent taxable years (such year or years being referred to as ''adjustment years''), on account of sales or other disposition of property made in any taxable year prior to the year of the change,

are required to be included in federal adjusted gross income and consequently are included in Connecticut adjusted gross income. Therefore, profits attributable to installment sales which were taxed in the year of sale, because the person was then on the accrual method of accounting, would also be taxed in the adjustment years (i.e. during the years the installments are actually received after the change to the installment method of accounting). To avoid such duplication of Connecticut income tax, any additional Connecticut income tax for the adjustment years attributable to the receipt of installment payments properly accrued in a prior year shall be reduced by an amount equal to the portion of Connecticut income tax, for any year or years preceding the year of change, attributable to the prior accrual of income from installment sales included in Connecticut income in the adjustment years.

(b) **Reduction in Connecticut income tax for adjustment.** The Connecticut income tax for an adjustment year shall be reduced by the lesser of the following amounts:

Method 1: that proportion of the Connecticut income tax for the prior year (in which the installment sales were reported on the accrual basis) which the amount of installment sales gross profits reportable in the prior year of sale and in the adjustment year bears to the Connecticut adjusted gross income for such prior year of sale; or

Method 2: the excess, if any, of the amount of the Connecticut income tax for the adjustment year on the entire Connecticut taxable income over the amount of Connecticut income tax for such year, computed without regard to the amount of the installment sales gross profits reported in both the prior year of accrual and in the adjustment year.

Where previously reported installments received in an adjustment year include installments on sales made in more than one prior year, the reduction allowable with respect to the installments for each prior year shall be computed separately. In such a case, the excess Connecticut income tax, calculated under Method 2 above, computed with respect to the installments from all prior years shall be prorated over the several prior years in proportion to the amount of the duplicated installment sales profits attributable to each such prior year.

Example: The computation of the reduction of Connecticut income tax of a resident individual for adjustment years is illustrated by the following example (assume that the tax rate remains at 4.5% for all taxable years involved):

	Year 1 (accrual basis)	*Year 2 (adjustment year)*	*Year 3 (adjustment year)*
Gross profit from installment sales (receivable in 5 installments)	$10,000	$ 2,000 (from year 1 sales) $3 ,000 (from year 2 sales)	$ 2,000 (from year 1 sales) $ 3,000 (from year 2 sales) $ 5,000 (from year 3 sales)
Other gross income	$ 8,000	$15,000	$11,000
Total gross income	$18,000	$20,000	$21,000
Personal exemption	$12,000	$12,000	$12,000
Connecticut taxable income	$ 6,000	$ 8,000	$ 9,000
	x 4.5%	x 4.5%	x 4.5%
Connecticut income tax	$ 270	$ 360	$ 405

Computation of adjustment-year 2: Connecticut income tax attributable to year 1 installment payments in year 2 (first adjustment year), the year in which the change was made from the accrual basis to the installment basis:

Method 1:

Connecticut income tax attributable to prior inclusion in year 1:

$$\frac{\$\ 2{,}000}{\$18{,}000} \text{ x } 270 = \$30$$

Method 2:

Connecticut income tax on Connecticut taxable income, including gross profit from year 1 sales	$360
Connecticut income tax on Connecticut taxable income, excluding such gross profit: Connecticut taxable income as above	$8,000
Less gross profit from year 1 sales accrued in prior year	$2,000
Revised Connecticut taxable income	$6,000
Connecticut income tax on revised Connecticut taxable income	$270
Additional Connecticut income tax attributable to prior year installment payments ($360–$270)	$90

Therefore, the Connecticut income tax for year 2 (first adjustment year) may be reduced by $30, the lesser of the two amounts computed above.

Computation of adjustment—year 3: Connecticut income tax attributable to year 1 installment payments in year 3 (second adjustment year):

Method 1:

Connecticut income tax attributable to prior inclusion in year 1:

$$\frac{\$\ 2{,}000}{\$18{,}000} \text{ x } 270 = \$30$$

Method 2:

Connecticut income tax on Connecticut taxable income, including gross profit from year 1 sales	$405
Connecticut income tax on Connecticut taxable income, excluding such gross profit: Connecticut taxable income as above	$9,000
Less gross profit from year 1 sales accrued in prior year	$2,000
Revised Connecticut taxable income	$7,000
Connecticut income tax on revised Connecticut taxable income	$315
Additional Connecticut income tax attributable to prior year installment payments ($405–$315)	$90

Therefore, the Connecticut income tax for year 3 (second adjustment year) may be reduced by $30, the lesser of the two amounts computed above.

(c) **Change by a partnership from accrual to installment method of accounting.** In the case of a change by a partnership from the accrual method of accounting to the installment method, partnership income includes for each adjustment year any installment payments actually received in such year, even though such amounts were included in partnership income from prior years under the accrual method. Each partner shall determine separately such partner's distributive share of profits

attributable to installment payments included in partnership income in the year of sale and in any adjustment year, and shall compute the partner's Connecticut income tax reduction with respect thereto in accordance with the provisions of this section.

(d) Statement to be attached to Connecticut income tax return. A taxpayer who changes from the accrual method to the installment method shall attach a statement to the Connecticut income tax return for each adjustment year showing:

(1) the pertinent facts as to sales in each year preceding the year of change;

(2) the number of remaining taxable years over which it shall be necessary to compute adjustments; and

(3) a schedule showing the computation, as prescribed by this section, of the adjustment for the taxable year.

(Effective November 18, 1994)

PART XIV. Miscellaneous

Sec. 12-701(b)-1. Definitions

(a) For Connecticut income tax purposes under chapter 229 of the general statutes, unless the context otherwise requires:

(1) ''Commissioner'' means the Commissioner of Revenue Services;

(2) ''Department'' means the Department of Revenue Services;

(3) ''Partnership'' means a partnership as defined in section 7701(a)(2) of the Internal Revenue Code and 26 C.F.R. § 301.7701-3(a) and includes a limited liability company that is treated as a partnership for federal income tax purposes.

(4) ''Partner'' means a partner as defined in section 7701(a)(2) of the Internal Revenue Code and 26 C.F.R. § 301.7701-3(d) and includes a member of a limited liability company that is treated as a partnership for federal income tax purposes.

(5) ''Partner's distributive share'' means the partner's distributive share as determined under section 704 of the Internal Revenue Code.

(6) ''S corporation's nonseparately computed income or loss'' means the S corporation's nonseparately computed income or loss as defined in section 1366(a)(2) of the Internal Revenue Code.

(7) ''S corporation's separately computed income or loss'' means the S corporation's items of income, loss, deduction, or credit that are described in section 1366(a)(1)(A) of the Internal Revenue Code.

(8) ''S corporation shareholder's pro rata share'' means the shareholder's pro rata share as determined under section 1377(a) of the Internal Revenue Code.

(9) ''Income Tax Act'' means the provisions of chapter 229 of the Connecticut General Statutes.

(10) ''Income tax'' or ''Connecticut income tax'' means the tax imposed under chapter 229 of the Connecticut General Statutes.

(11) ''Month or fraction thereof'' means the period that begins on the day after the due date and ends on the day of the next month corresponding to the due date, e.g., from April 16 through May 15 (when the due date is April 15). However, if the due date is the last day of a calendar month, a month shall end on the last day of the next calendar month, e.g., February 28 or 29 (when the due date is January 31).

(12) The provisions of the Internal Revenue Code and its applicable regulations with respect to the meaning of terms such as ''employer,'' ''employee,'' ''payroll period,'' and ''wages'' have the same meaning for Connecticut income tax purposes except as otherwise specifically provided in Part IX or where such federal definitions are clearly inconsistent with and inapplicable to the provisions of such Part.

(13) ''Connecticut obligations'' means obligations issued by or on behalf of the State of Connecticut, any political subdivision thereof, or public instrumentality, state or local authority, district, or similar public entity that is created under the laws of the State of Connecticut.

(14) ''Sale or exchange'' means any transaction that is, or is treated as, a sale or exchange for federal income tax purposes.

(15) ''Trust'' means an arrangement that is ordinarily created either by a will or by an inter vivos declaration whereby a trustee or trustees take title to property for the purpose of protecting or conserving it for beneficiaries and that, under 26 C.F.R. § 301.7701-4, is classified and treated as a trust (and not as an association, under 26 C.F.R. § 301.7701-2, or partnership, under 26 C.F.R. § 301.7701-3) for federal income tax purposes. ''Trust'' does not include any real estate mortgage investment conduit, as defined in section 860D of the Internal Revenue Code, that is created as a trust.

(16) The term ''derived from or connected with sources within this state'' is to be construed so as to accord with its usage in Part II of these sections.

(17) ''Internal Revenue Code'' means the Internal Revenue Code of 1986 (26 U.S.C. § 1 et seq.), or any subsequent corresponding Internal Revenue Code of the United States, as from time to time amended.

(b) While this section pertains to Section 12-701(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Sections 12-701(c) and 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-727(b)-1. Timely-amended federal income tax returns

(a) **General.** If the amount of a taxpayer's federal income is changed or corrected by the Internal Revenue Service or other competent authority, or as the result of a renegotiation of a contract or subcontract with the United States, or the amount an employer is required to deduct and withhold from wages for federal income tax withholding purposes is changed or corrected by such service or authority, or if a taxpayer's claim for credit or refund of federal income tax is disallowed in whole or in part, the taxpayer or employer shall report such change or correction in federal income or federal income tax withholding or such disallowance of the claim for credit or refund of federal income tax to the Department by filing, on or before the date that is 90 days after the final determination of such change, correction, renegotiation or disallowance, an amended return, as described in subsection (b) of this section, and shall concede the accuracy thereof or state wherein it is erroneous, but only if the federal change or correction, results of renegotiation or disallowance increases or decreases a taxpayer or employer's Connecticut income tax liability. Such report may be required at any other time if the Commissioner deems it necessary. For purposes of this section, the term ''federal income'' means federal adjusted gross income or federal alternative minimum taxable income of an individual, and federal taxable income of a trust or estate prior to deductions relating to distributions to beneficiaries or federal alternative minimum taxable income of a trust or estate and ''taxpayer's Connecticut income tax liability'' means the liability for Connecticut income tax, as defined in § 12-701(b)-1(a)(10) of this part.

(b) **Form of report.**

(1) With respect to a change or correction in a taxpayer's federal income or federal alternative minimum taxable income or the disallowance in whole or in part of a claim for credit or refund of federal income tax, the taxpayer shall make the

report that is referred to in subsection (a) of this section on a Form CT-1040X, or Form CT-1041, CT-1065, CT-G, or CT-1120SI, as the case may be, with the appropriate box checked to indicate that an amended return is being filed. This form shall be accompanied by a copy of the final federal determination or renegotiation agreement as well as any of the pertinent data in all cases in which a Connecticut income tax refund, based on such final determination or renegotiation, is claimed. Where additional Connecticut income tax is due, the form shall be accompanied by full payment of any additional Connecticut income tax shown to be due thereon and shall be forwarded separately from, and not as part of, any other report or Connecticut income tax return, and the taxpayer may, in lieu of a copy of the final determination or renegotiation agreement, give full details of the changes on the prescribed form.

(2) With respect to a change or correction in the amount that an employer is required to deduct and withhold from wages for federal income tax withholding purposes, the employer shall make the report that is referred to in subsection (a) of this section on Form CT-941X. In lieu of the Form CT-941X, the employer may submit either a copy of the final federal determination or renegotiation agreement or a detailed explanation of the final federal determination or renegotiation agreement, together with a statement showing the inclusive dates of the period involved, the amount of Connecticut income tax that was originally withheld and reported and the amount of Connecticut income tax that should have been withheld and reported. Any Connecticut income tax which an employer is required to deduct and withhold as a result of a federal change or correction shall accompany the report.

(3) A husband and wife who file a joint federal income tax return but who are required to file separate Connecticut income tax returns shall file separate forms to report federal adjustments affecting their Connecticut income tax returns. Each report shall show the changes made on the federal income tax return attributable to the reporting spouse. These separate reports shall be filed together. If the federal changes are attributable solely to one spouse, that spouse shall file a Form CT-1040X to report the federal changes. However, such form shall include the name and social security number of the nonreporting spouse and contain a statement that the federal changes do not affect the separate Connecticut income tax return of the nonreporting spouse.

(c) The provisions of this section also apply to any individual whose computation of tax under section 1341(a)(4) or (5) of the internal revenue code is changed or corrected by the Internal Revenue Service or other competent authority, but only if the change or correction increases or decreases the individual's Connecticut income tax liability.

(Effective November 18, 1994; amended June 29, 2001)

Sec. 12-727(b)-2. Report of amended federal income or income tax withholding return

(a) Any taxpayer who files a timely amended federal income tax return resulting in a change in federal income or federal alternative minimum taxable income, or any employer who files a timely amended federal income tax withholding return shall also file, on or before the date that is 90 days after the date of filing of such amended return, an amended Connecticut income tax return (Form CT-1040X, or Form CT-1041, CT-1065, CT-G, or CT-1120SI, as the case may be, with the appropriate box checked to indicate that an amended return is being filed, or Form CT-941X), but only if the amendment of the federal return increases or decreases a taxpayer or employer's Connecticut income tax liability. Such report may be

required at any other time if the Commissioner deems it necessary. Payment of any additional Connecticut income tax that is shown to be due on the amended Connecticut income tax return, plus interest, shall accompany the return. An employer filing an amended federal income tax withholding return shall attach to the Form CT-941X a statement showing the amount of Connecticut income tax that was originally withheld and reported, the amount of Connecticut income tax that should have been withheld and reported, and the reason for the increase or decrease in the amount of Connecticut income tax required to be withheld and reported.

(b) For purposes of this section, the term ''taxpayer's Connecticut income tax liability'' means the liability for Connecticut income tax, as defined in § 12-701(b)-1(a)(10).

(c) While this section pertains to Section 12-727(b) of the Connecticut General Statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the Connecticut General Statutes, the adoption of this section is authorized by Section 12-740(a) of the Connecticut General Statutes.

(Effective November 18, 1994; amended June 29, 2001)

Sec. 12-727(b)-3. Federal changes not binding

(a) The Department is not required to accept as correct any change in a taxpayer's federal income, the disallowance (in whole or in part) of a claim for credit or refund of federal income tax, or the amount an employer is required to deduct and withhold from wages for federal income tax withholding purposes. Instead, the Department may conduct an independent audit or investigation in regard thereto.

(b) For purposes of this section, the term ''federal income'' means federal adjusted gross income or federal alternative minimum taxable income of an individual and federal taxable income of a trust or estate prior to deductions relating to distributions to beneficiaries or federal alternative minimum taxable income of a trust or estate.

(c) While this section pertains to Section 12-727(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-727(b)-4. Final determination

(a) A final determination for purposes of this Part includes but is not limited to the following:

(1) a closing agreement made under section 7121 of the Internal Revenue Code finally and irrevocably adjusting and settling a taxpayer's federal income tax liability;

(2) an allowance by the Commissioner of Internal Revenue of a refund of any part of the federal income tax shown on the taxpayer's federal income tax return or of any deficiency thereafter assessed, whether such refund is made on such Commissioner's own motion or pursuant to a judgment of a court;

(3) the 90-day deficiency notice pursuant to section 6212 of the Internal Revenue Code, unless a timely petition to redetermine the deficiency is filed in the Tax Court of the United States, in which event the judgment of the court of last resort affirming the deficiency, or the redetermination of the deficiency pursuant to a judgment of the court of last resort, is the final determination;

(4) the assessment of a deficiency pursuant to a waiver filed under section 6213 of the Internal Revenue Code where no 90-day deficiency notice is issued; and

(5) the allowance of a tentative carryback adjustment based on the net operating loss carryback pursuant to section 6411 of the Internal Revenue Code.

(b) While this section pertains to Section 12-727(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-727(b)-5. Recomputation of Connecticut income tax

(a) The assessment of Connecticut income tax may be made at any time if a taxpayer or employer fails to report a change or correction or fails to file an amended Connecticut income tax return required under Section 12-727(b) of the general statutes with respect to:

(1) a federal change or correction or an amended federal income tax return increasing the taxpayer's federal income;

(2) a federal change or correction which is treated in the same manner as if it were a deficiency for federal income tax purposes;

(3) a federal change or correction or an amended federal return of income tax withheld increasing the amount required to be deducted and withheld from wages for federal income tax withholding purposes; or

(4) the disallowance, in whole or in part, of a taxpayer's claim for credit or refund of federal income tax.

(b) The assessment of Connecticut income tax, if not deemed to have been made upon the filing of the report or amended Connecticut income tax return, may be made at any time within three years after such report or amended return is filed, where a taxpayer or employer reports a change or correction or files an amended Connecticut income tax return required under Section 12-727(b) of the general statutes with respect to:

(1) a federal change or correction or an amended federal income tax return increasing the taxpayer's federal income;

(2) a federal change or correction which is treated in the same manner as if it were a deficiency for federal income tax purposes;

(3) a federal change or correction or amended federal return of income tax withheld increasing the amount required to be deducted and withheld from wages for federal income tax withholding purposes; or

(4) the disallowance, in whole or in part, of a taxpayer's claim for credit or refund of federal income tax.

The amount of such an assessment may not exceed the increase in Connecticut income tax attributable to the federal change or correction. The provisions of this subsection do not affect the time within which or the amount for which an assessment may otherwise be made under the Income Tax Act.

(c) For purposes of this section, the term ''federal income'' means (1) federal adjusted gross income or federal alternative minimum taxable income of an individual; and (2) federal taxable income of a trust or estate prior to deductions relating to distributions to beneficiaries or federal alternative minimum taxable income of a trust or estate.

(d) While this section pertains to Section 12-727(b) of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-740(a) of the general statutes.

(Effective November 18, 1994)

Sec. 12-727(b)-6.

Repealed, March 8, 2006.

Sec. 12-740(c)-1. Retention of records

Except as provided in § 12-725-2 of Part XI and § 12-740(c)-2 of this Part, the books, records and a copy of any Connecticut income tax return, schedule, statement or other document required to be kept by these sections shall be retained so long as the contents thereof may become material in the administration of the Income Tax Act.

(Effective November 18, 1994)

Sec. 12-740(c)-2. Records of employers and other persons required to file Connecticut informational returns

(a) Every employer or withholding agent, as defined for federal income tax withholding purposes, required under Part IX to deduct and withhold Connecticut income tax from the wages of employees, and every person who may be required to file Connecticut informational returns, shall keep all records pertinent to withholding of Connecticut income tax and Connecticut informational returns available for examination and inspection by the Department or its authorized representatives. Records with respect to Connecticut income tax withheld shall be retained for a period of four years after the due date of the tax return for the taxable period in which Connecticut income tax was withheld, or the date the Connecticut income tax withheld was paid over, whichever is later. Records with respect to Connecticut informational returns shall be retained for a period of four years after the due date of such returns.

(b) No particular form is prescribed for the keeping of records of employees and other persons required to file Connecticut informational returns. However, in the case of employers, the records should include the amounts and dates of all wage payments subject to Connecticut income tax, the names, addresses and occupations of employees receiving such payments, the periods of their employment, the periods for which they are paid by the employer while absent due to sickness or personal injuries and the amount and weekly rate of such payments, their social security account numbers, their income tax withholding exemption certificates, the employer's identification number, record of Connecticut employer withholding returns and reports filed, and the dates and amounts of Connecticut income tax withholding payments made.

(c) For employees who are nonresident individuals performing services partly within and partly without Connecticut, employers shall keep all records pertinent to the allocation or apportionment used for Connecticut income tax withholding purposes.

(Effective November 18, 1994)