



STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

IP 2006(21)

25 Sigourney Street
Hartford CT 06106-5032

INFORMATIONAL PUBLICATION

Q & A on the Business Entity Tax

Purpose: This Informational Publication answers frequently-asked questions about the Connecticut business entity tax (BET).

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

Statutory Authority: Conn. Gen. Stat. §12-284b, as amended by 2006 Conn. Pub. Acts 159, §14.

Definitions: As used in this Informational Publication:

- **Business entity** means an S corporation, limited liability company, limited partnership, or limited liability partnership, but does not include a C corporation or a single member limited liability company that elects to be taxed for federal income tax purposes as a C corporation.
- **Domestic**, when used to describe a business entity, means a business entity formed under the laws of Connecticut.
- **Foreign**, when used to describe a business entity, means a business entity that is not a domestic business entity.
- **Secretary of the State** means the Connecticut Secretary of the State.
- **S corporation** means any corporation which is an S corporation for federal income tax purposes.
- **Limited partnership** means any domestic limited partnership formed under Chapter 610 of the Connecticut General Statutes, and any foreign limited partnership transacting business in Connecticut and required under Chapter 610 of the Connecticut General Statutes to register with the Secretary of the State, whether or not it has so registered.

- **Limited liability company** or **LLC** means any limited liability company which, for federal income tax purposes, is either:
 - Treated as a partnership, if it has two or more members; **or**
 - Disregarded as an entity separate from its owner, if it has a single member (single member LLC or SMLLC).

1. What is the BET?

The BET is a tax payable each taxable year by a business entity. A business entity's taxable year is its taxable year for federal income tax purposes. For taxable years beginning on or after January 1, 2004, the amount of the BET is \$250.

2. What types of business entities are liable for the BET?

- Every domestic business entity;
- A foreign S corporation, if transacting business in Connecticut and required to obtain a certificate of authority from the Secretary of the State, whether or not it obtains a certificate;
- A foreign limited liability company if transacting business in Connecticut and required to register with the Secretary of the State, whether or not it has registered;
- A foreign limited partnership if transacting business in Connecticut and required under Chapter 610 of the Connecticut General Statutes to register with the Secretary of the State, whether or not it has registered; **and**
- A foreign limited liability partnership if transacting business in Connecticut and required to file a certificate of authority with the Secretary of the State, whether or not it has filed a certificate.

3. How may a foreign business entity determine whether it is transacting business in Connecticut for BET purposes?

Conn. Gen. Stat. §12-284b, as amended, while not providing examples of activities that constitute transacting business in Connecticut for BET purposes, incorporates other Connecticut laws relating to the filing of certificates of authority or registration with the Secretary of the State. Those laws provide a non-exhaustive list of activities that, because they do **not** constitute transacting business in Connecticut by a business entity, do not require the filing of certificates of authority or registration with the Secretary of the State. For S corporations, see Conn. Gen. Stat. §33-920. For limited liability companies, see Conn. Gen. Stat. §34-235. For limited partnerships, see Conn. Gen. Stat. §34-380.

Activities that do **not** constitute transacting business in Connecticut by a business entity for BET purposes include but are not limited to:

- Maintaining, defending, or settling any proceeding;
- Soliciting or obtaining orders, whether by mail or through employees or agents or otherwise, if the orders require acceptance outside Connecticut before they become contracts;
- Securing or collecting debts or enforcing mortgages and security interests in property securing the debts;
- Maintaining bank accounts;
- Transacting business in interstate commerce;
- Holding meetings of the board of directors or shareholders or carrying on other activities concerning internal corporate affairs if an S corporation, or holding meetings of its members or carrying on other activities concerning its internal affairs if a limited partnership or limited liability company;
- Conducting an isolated transaction that is completed within 30 days and not in the course of a number of repeated transactions of a like nature;
- Creating or acquiring indebtedness, mortgages, and security interests in real or personal property;
- Selling through independent contractors;
- Maintaining offices or agencies for the transfer, exchange, and registration of the business entity's own securities if an S corporation or limited liability company or partnership interests if a limited partnership; **and**
- Owning, without more, real or personal property in Connecticut.

A foreign business entity may also contact the Secretary of the State by email at crd@po.state.ct.us or by mail at:

Office of the Secretary of the State
Commercial Recording Division
30 Trinity Street
Hartford CT 06106

While the activities listed above do not constitute transacting business in Connecticut for BET purposes, some of them (such as maintaining an office in Connecticut, owning real or tangible personal property in Connecticut, or transacting an interstate business in Connecticut) constitute transacting business in Connecticut for Connecticut income tax purposes.

4. How does a business entity report and pay the BET?

Reporting and paying electronically. The Department of Revenue Services (DRS) encourages business entities to use the free and secure *Taxpayer Service Center (TSC)* to report and pay their business entity tax. Once registered with DRS, business entities need only to access the *TSC* with their Connecticut tax registration number, enter their password assigned by DRS or previously chosen on their initial visit to complete the electronic reporting and payment of their business entity tax. Visit the DRS website at www.ct.gov/DRS and click on *Taxpayer Service Center*.

Not reporting and paying electronically. Business entities not using the free and secure *TSC* to report and pay their business entity tax return must file a paper **Form OP-424, Business Entity Tax Return**, with DRS, and their check made payable to "Commissioner of Revenue Services" must accompany the return.

- In completing a paper Form OP-424, a business entity must enter its Secretary of the State ID number and its Federal Employer Identification Number (FEIN) on Form OP-424. The Secretary of the State ID number is a 7-digit business ID number issued by the Secretary of the State to each domestic and foreign business entity registered with the Secretary of the State. A business entity registered with the Secretary of the State may log onto the website of the Secretary of the State at www.sots.state.ct.us to find or confirm its business ID number. If a business entity is unable to find or confirm its business ID number,

it should file Form OP-424 and leave the space for the number blank.

- In completing a paper Form OP-424, a business entity must also enter its FEIN on Form OP-424. The FEIN is issued by the U. S. Department of the Treasury. If a business entity does not have an FEIN, it should file Form OP-424 leave the space for its FEIN blank, and obtain an FEIN from the IRS if required by Federal law to do so. If an FEIN is obtained after a business entity files Form OP-424, the business entity must send notification of the FEIN to: Department of Revenue Services, Registration Unit, PO Box 2937, Hartford CT 06104.

5. What is the due date for the return and payment?

The return and payment are due on or before the fifteenth day of the fourth month following the end of the business entity's taxable year. If a business entity had a short taxable year for federal income tax purposes, the return and payment would be due on or before the fifteenth day of the fourth month following the end of its short taxable year.

DRS will **not** grant an extension of time to file a business entity tax return or an extension of time to pay the business entity tax.

6. Is a business entity subject to interest and penalty for failure to timely pay the BET?

Yes. Failure to pay the BET when due subjects a business entity to a \$50 late payment penalty. DRS may waive all or part of the penalty when it is proven the failure to pay the tax on time was due to a reasonable cause and was not intentional or due to neglect. Interest accrues on any unpaid tax at the rate of 1% (.01) per month or fraction of a month from the due date until the date of payment.

7. May a business entity be liable for the BET for any period prior to the start of business date indicated on Form REG-1, *Business Taxes Registration Application*?

Yes. Regardless of the date indicated on Form REG-1 as the start of business, a business entity is liable for the BET:

- As a domestic business entity for every taxable year (or part of the taxable year) of its legal existence as shown by the records of the Secretary of the State; **or**

- As a foreign business entity for every taxable year (or part of the taxable year) it is transacting business in Connecticut and is required to obtain and maintain a certificate of authority or certificate of registration from the Secretary of the State to transact business in Connecticut.

The BET is not prorated if a business entity's first taxable year is a short taxable year.

8. If a domestic business entity is inactive or unprofitable or is no longer doing business but has not filed appropriate documents evidencing its dissolution with the Secretary of the State, is the business entity liable for the BET?

Yes. A domestic business entity, even if inactive or unprofitable or no longer doing business, is and will continue to be liable for the BET for each taxable year (or part of the taxable year) of its legal existence as shown by the records of the Secretary of the State.

A domestic business entity's legal existence is generally terminated by filing the appropriate documents evidencing its dissolution with the Secretary of the State. The BET is not prorated if the business entity's last taxable year is a short taxable year.

9. If a foreign business entity is inactive or unprofitable or no longer transacting business in Connecticut but has not filed appropriate documents evidencing the cancellation of its certificate of authority or registration with the Secretary of the State, is the business entity liable for the BET?

Yes. A foreign business entity, even if inactive or unprofitable or no longer transacting business in Connecticut, is and will continue to be liable for the BET for each taxable year (or part of the taxable year) that it is authorized to transact business in Connecticut as shown by the records of the Secretary of the State. A foreign business entity's authority to transact business in Connecticut is terminated by filing the appropriate documents evidencing the cancellation of its certificate of authority or registration with the Secretary of the State. The BET is not prorated if the business entity's last taxable year is a short taxable year.

10. Is a domestic business entity liable for the BET if it does not file annual reports with the Secretary of the State?

Yes. A domestic business entity is liable for the BET, whether or not it is required to file annual reports with the Secretary of the State, and if annual reports are required, whether or not it files those annual reports.

11. Is a foreign business entity liable for the BET if it does not file annual reports with the Secretary of the State?

Yes. A foreign business entity is liable for the BET, if it is transacting business in Connecticut, whether or not it is required to file annual reports with the Secretary of the State, and if annual reports are required, whether or not it files those annual reports.

12. Is a general partnership liable for the BET?

A general partnership is usually not liable for the BET. However, if the general partnership has become a registered LLP if organized under Connecticut law or a foreign registered LLP if organized under the laws of a state other than Connecticut, it is liable for the BET.

13. Is every domestic LP liable for the BET?

No. A domestic LP not formed under Chapter 610 of the Connecticut General Statutes is not liable for the BET.

14. Is an investing partnership liable for the BET?

An investing partnership that elects (under 26 C.F.R. §1.761-2) not to be treated as a partnership for federal income tax purposes and thus is not subject to Subchapter K of Chapter 1 of the Internal Revenue Code is not liable for the BET.

However, an investing partnership that does not make the election and is treated as a partnership subject to Subchapter K of Chapter 1 of the Internal Revenue Code is liable for the BET, but only if it is a:

- Domestic LP or domestic LLP; **or**
- Foreign LP transacting business in Connecticut or foreign LLP transacting business in Connecticut.

15. Is a qualified subchapter S subsidiary liable for the BET?

No. Even though a qualified subchapter S subsidiary (QSSS), as defined in 26 U.S.C. §1361(b)(3)(B), may be required to file an annual report with the Secretary of the State, a QSSS is not liable for the BET because it is not an S corporation. However, the S corporation that owns 100% of the stock of the QSSS is liable for the BET if it is a:

- Domestic S corporation; **or**
 - Foreign S corporation transacting business in Connecticut.
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16. Is every single member limited liability company (SMLLC) liable for the BET?

No. Any SMLLC that has elected to be taxed as a corporation for federal income tax purposes is not liable for the BET.

17. If the single member of a SMLLC is exempt from taxation under 26 U.S.C. §501(a), does this affect whether the SMLLC is liable for BET?

No. If the SMLLC would otherwise be liable for the BET, that liability is unaffected by its single member being exempt from taxation under 26 U.S.C. §501(a).

18. If a business entity files a certificate of dissolution with the Secretary of the State before its liability for the BET is satisfied, is any other person liable for the BET?

Generally, no other person is liable for the BET. However, if a member or shareholder of a dissolved business entity receives a liquidating distribution from the entity, any claim against the dissolved business entity may be enforceable against the member or shareholder to the extent of his or her pro rata share of the claim or the distributed assets, whichever is less. Also, any claim against a dissolved limited partnership may be enforced against one or more of its general partners.

19. Is the BET deductible for federal income tax purposes? Is the BET considered to be an income tax imposed by this state and required to be added to federal adjusted gross income by individual partners, members, or shareholders in computing their Connecticut adjusted gross income?

DRS does not answer questions about whether items are deductible for federal income tax purposes. Contact the Internal Revenue Service (IRS) at 1-800-829-1040 for information about whether the BET is deductible for federal income tax purposes.

Connecticut income tax law does require individuals, in computing their Connecticut adjusted gross income, to add to their federal adjusted gross income any income tax imposed by this state to the extent deductible in determining their federal adjusted gross income. The BET is not an income tax imposed by this state, so individuals who are partners, members, or shareholders of a business entity liable for the BET are not required, in computing their Connecticut adjusted gross income, to add the BET to their federal adjusted gross income.

Effect on Other Documents: Informational Publication 2003(15), Q & A on the Business Entity Tax, is modified and superseded and may not be relied upon on or after the date of issuance of this Informational Publication.

Effect of This Document: An Informational Publication is a document that addresses issues frequently raised by taxpayers. It is less technical in nature than a Policy Statement, but may be referred to by individual taxpayers for guidance.

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

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford area only); **or**
- **860-297-5962** (from anywhere).

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Visit the DRS website at www.ct.gov/DRS to download and print Connecticut tax forms; **or**
- **Telephone:** Call **1-800-382-9463** (Connecticut calls outside the Greater Hartford area only) and select **Option 2** from a touch-tone phone, or call **860-297-4753** from anywhere.

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

- **For business returns:** Use *Fast-File* to file sales and use taxes, business use tax, room occupancy tax, estimated corporation business tax, business entity tax, attorney occupational tax, nursing home provider fee, admissions and dues tax, or withholding tax returns over the Internet. Visit the DRS website at www.ct.gov/DRS and click on *File/Register OnLine*.
- **For payment of business taxes other than those listed above:** Use *Fast-File* to pay your business taxes over the Internet or by phone. Visit the DRS website at www.ct.gov/DRS and click on *Electronic Services* for a list of eligible taxes. The ACH debit method is used to make the transfer. No preregistration is required.
- **For resident income tax returns:** Use *WebFile* to file personal income tax returns over the Internet. Visit the DRS website at www.ct.gov/DRS and click on *File/Register OnLine*.
- **For electronic filing of income tax extensions, estimated payments, and for electronic bill payments:** Use *WebFile* to electronically file personal income tax returns over the Internet. You can also use *WebFile* to make an electronic income tax payment for a prior year. Visit the DRS website at www.ct.gov/DRS and click on *File/Register OnLine*.

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