

Schedule CT-1040CRC Claim of Right Credit

Place this form on TOP of your completed return.

Your First Name and Middle Initial	Last Name	Your Social Security Number ____-____-____ : : : ____-____-____
If JOINT Return, Spouse's First Name and Middle Initial	Last Name	Spouse's Social Security Number ____-____-____ : : : ____-____-____

Purpose

If during your 2004 taxable year you had to repay income you included in your Connecticut adjusted gross income for an earlier taxable year, and the amount you repaid is more than \$3,000, you may be able to claim a credit against your Connecticut income tax for your 2004 taxable year. If you are eligible for the *Connecticut Claim of Right Credit*, complete this schedule to claim a credit equal to the Connecticut income tax you would not have had to pay if the repaid amount had not been included in your Connecticut adjusted gross income in the earlier taxable year.

Am I Eligible for the Connecticut Claim of Right Credit

You are eligible for the Connecticut claim of right credit if you meet **ALL** of the following conditions:

- You were a resident, nonresident, or part-year resident individual who included income in Connecticut adjusted gross income for an earlier taxable year(s) (year(s) of receipt). A trust or estate is not eligible to claim such relief for Connecticut income tax purposes;
- You were required to repay such income during your 2004 taxable year (year of repayment);
- The amount of the repayment exceeds \$3,000; **and**
- You determined your federal income tax liability for the year of repayment under I.R.C. §1341(a)(4) (see *Exception*) or I.R.C. §1341(a)(5).

Exception: I.R.C. §1341(a) requires you to determine your federal income tax liability by whichever of the following two methods results in the lesser federal income tax liability.

1. If you are required to determine your federal income tax liability using the "deduction" method (I.R.C. §1341(a)(4)), you may be eligible for the Connecticut claim of right credit. The "deduction" method involves deducting the repayment on your federal income tax return for the year of repayment. Depending on the type of income you repaid, you will either deduct the repayment in determining your federal adjusted gross income or in determining your federal taxable income. If the repayment is deducted in determining your federal adjusted gross income, you are **NOT ELIGIBLE** for the Connecticut claim of right credit. See **Example 2**, on the back of this schedule. If the repayment is deducted in determining your federal taxable income and reported on federal Form 1040, Schedule A, you are eligible for the Connecticut claim of right credit. See **Example 1**, on the back of this schedule.

Note: If the deduction results in a net operating loss for federal income tax purposes carried back to a taxable year or years preceding the year of repayment, no claim for refund is allowable for Connecticut income tax purposes for the preceding year or years on account of the loss carryback.

2. If you are required to determine your federal income tax liability using the "credit" method (I.R.C. §1341(a)(5)), you are eligible for the Connecticut claim of right credit. See **Example 1**, on the back of this schedule.

1.	Taxable year(s) in which you received the income (year(s) of receipt).	1.	
2.	Amount of income repaid during your 2004 taxable year.	2.	
3.	Type of income you repaid during your 2004 taxable year and the reason(s) for repayment. _____		
4.	Amount of your Connecticut income tax liability reported on your Connecticut income tax return for the year(s) of receipt.	4.	
5.	Connecticut income tax liability for the year(s) of receipt after excluding the income you were required to repay during your 2004 taxable year.	5.	
6.	Subtract Line 5 from Line 4. This is your 2004 claim of right credit. Include this amount on your 2004 Form CT-1040EZ , Line 12; Form CT-1040 , Line 20; Form CT-1040NR/PY , Line 22; or Form CT-1040X , Line 22.	6.	

Nonresidents or Part-Year Residents

If you are a nonresident or part-year resident in the year of receipt and repaid income during your 2004 taxable year, you will determine the decrease in your Connecticut income tax liability for the year of receipt by excluding the repaid income from your Connecticut adjusted gross income. To the extent that such repayment is derived from or connected with sources within this state, you will also exclude this repayment from your Connecticut source income.

What Documentation Do I Need to Prove My Eligibility for the Connecticut Claim of Right Credit

You must submit **all** of the following documentation with your 2004 Connecticut income tax return:

- A completed *Schedule CT-1040CRC* (placed on top of your completed Connecticut income tax return);
- A copy of your completed 2004 federal income tax return (including all schedules and attachments) that you signed and filed for your 2004 taxable year;
- Proof you were required to repay income you included in Connecticut adjusted gross income for the year(s) of receipt (such as a letter from your employer requiring you to repay sales commissions);
- A copy of your completed federal income tax return (including all schedules and attachments) that you signed and filed for the year(s) of receipt; **and**
- Proof you repaid the income during your 2004 taxable year (such as a copy of your cancelled check or money order).

How Do I Compute My Connecticut Claim of Right Credit

Your Connecticut income tax liability for the year of repayment is an amount equal to:

- The tax for the year of repayment, computed as if there were no Connecticut claim of right credit; **minus**
- The decrease in tax for the year(s) of receipt that would result solely from the exclusion of the amount of income you were subsequently required to repay from your Connecticut adjusted gross income for the year(s) of receipt.

Line Instructions

Line 1: If you repaid income during your 2004 taxable year that you included in your Connecticut adjusted gross income for an earlier taxable year(s) enter the year(s) of receipt.

Line 2: Enter the amount of income repaid during your 2004 taxable year. This income must have been previously included in your Connecticut adjusted gross income for the year(s) of receipt.

Line 3: Describe the type of income you repaid during your 2004 taxable year and the reason for repayment.

Line 4: Enter the amount of your Connecticut income tax liability reported on your Connecticut income tax return for the year(s) of receipt.

Line 5: Compute the amount of your Connecticut income tax liability for the year(s) of receipt after you exclude from your Connecticut adjusted gross income for the year(s) of receipt the income you repaid during your 2004 taxable year.

Repayments of Social Security benefits may require the recalculation of your taxable benefits in order to determine the amount to exclude from Connecticut adjusted gross income.

Line 6: Subtract Line 5 from Line 4. Include this amount on your 2004 **Form CT-1040EZ**, Line 12; **Form CT-1040**, Line 20; **Form CT-1040NR/PY**, Line 22; or **Form CT-1040X**, Line 22. This amount will be credited against your Connecticut income tax liability for your 2004 taxable year on the due date for payment of your 2004 Connecticut income tax liability.

Example 1: In December 2003, James, a Connecticut resident, was advanced commissions by his employer. These commissions were included in his 2003 Connecticut adjusted gross income of \$45,000. In May 2004, James's employer advised him that some of his customers had decided to cancel their purchases and he must repay \$4,000 of the commissions he received during 2003. If James was required to determine his federal income tax liability for the 2004 taxable year using the **deduction method** (I.R.C. §1341(a)(4)), he would deduct the \$4,000 as an itemized deduction on federal Form 1040, Schedule A. Assuming James's filing status on his 2003 and 2004 Connecticut income tax returns is *married filing separately* and his 2004 Connecticut adjusted gross income is \$50,000, he would compute his 2004 Connecticut income tax liability as follows:

2004 Connecticut income tax liability on \$50,000	\$2,161
Minus difference between:	
2003 tax payable on \$45,000	= \$1,844
and	
2003 tax payable on \$41,000 (\$45,000 - \$4,000)	= \$1,664
	- \$ 180
2004 Connecticut income tax liability	\$1,981

If James was required to determine his federal income tax liability for the 2004 taxable year using the **credit method** (I.R.C. §1341(a)(5)), he would also compute his Connecticut income tax liability as shown above.

Example 2: In February 2003, Donna, a nonresident individual who works in Connecticut, realized a capital gain of \$5,000 from the sale of a capital asset. The gain was not derived from or connected with Connecticut sources. Donna included the gain in her 2003 Connecticut adjusted gross income of \$35,000. In September 2004, Donna was required to repay the purchaser of the assets \$5,000 as a result of failure to fulfill conditions of the purchase agreement. If Donna was required to determine her federal income tax liability for the 2004 taxable year using the **deduction method** (I.R.C. §1341(a)(4)), she would deduct the repayment as a capital loss on her federal Form 1040, Schedule D. For Connecticut income tax purposes, Donna would not be eligible for the claim of right credit because she deducted the repayment under I.R.C. §1341(a)(4) in determining her federal adjusted gross income.

If Donna was required to determine her federal income tax liability using the **credit method** (I.R.C. §1341(a)(5)), she would be eligible for the Connecticut claim of right credit to the extent that her 2003 tax liability would be decreased as a result of excluding the \$5,000 she subsequently repaid.