



STATE OF CONNECTICUT  
DEPARTMENT OF REVENUE SERVICES

AN 2008(7)

25 Sigourney Street  
Hartford CT 06106-5032

ANNOUNCEMENT

---

**Stimulus Depreciation and Special Instructions  
for Stimulus Depreciation Claimed by Non-Calendar Year Filers of  
the 2007 Connecticut Corporation Business Tax Return**

---

**Purpose:** This Announcement provides special instructions to non-calendar year filers on how to report on their 2007 Connecticut corporation business tax return the 50% additional first year depreciation (stimulus depreciation) deduction provided for in Internal Revenue Code (I.R.C.) §168(k) for assets placed in service after December 31, 2007, but disallowed for purposes of calculating their 2007 Connecticut corporation business tax liability.

---

**Effective Date:** Applicable to property placed in service after December 31, 2007, that is subject to the 50% stimulus depreciation allowed under I.R.C. §168(k).

---

**Statutory Authority:** Conn. Gen. Stat. §12-217(b).

---

**Stimulus Depreciation:** Section 103 of the Economic Stimulus Act of 2008, Pub. L. No. 110-185, 122 Stat. 613 (February 13, 2008) (Stimulus Act) amends I.R.C. §168(k) to allow a 50% stimulus depreciation for certain qualified property acquired and placed in service after December 31, 2007, and before January 1, 2009, (before January 1, 2010, for certain transportation property and certain property with a long production period). See also Rev. Proc. 2008-54, 2008-38 I.R.B. (August 29, 2008). As the stimulus depreciation may be claimed by corporations that place qualifying property in service

on or after December 31, 2007, corporations whose 2007 income year ends in 2008 (non-calendar year filers) may claim the stimulus depreciation on their 2007 federal income tax return.

---

**Will corporations that are subject to the Connecticut corporation business tax be eligible to claim the stimulus depreciation?**

No. The 50% stimulus depreciation passed by the United States Congress in the Stimulus Act is set forth in I.R.C. §168(k). In 2002, the Connecticut General Assembly amended Conn. Gen. Stat. §12-217(b) to provide that, in determining net income for purposes of the Connecticut corporation business tax, the deduction allowed for depreciation in I.R.C. §168(k) would not apply. See *2002 Conn. Pub. Acts 1, §56 (May 9 Spec. Sess.)*.

If the stimulus depreciation is claimed for federal income tax purposes, there will be a difference between Modified Accelerated Cost Recovery System (MACRS) depreciation allowed for federal purposes and MACRS depreciation allowed for Connecticut corporation business tax purposes. If a corporation claims the stimulus depreciation for federal purposes, the regular MACRS depreciation is calculated after reducing the adjusted basis of the new property by the stimulus depreciation. Because this allowance is not permitted for Connecticut corporation business tax purposes, the corporation will use a different basis to calculate MACRS depreciation for Connecticut and federal purposes.

**What must a corporation do if it claims the stimulus depreciation for federal tax purposes but cannot claim it for Connecticut tax purposes?** Since a corporation cannot claim the stimulus depreciation for Connecticut tax purposes, certain modifications must be made for purposes of calculating the Connecticut corporation business tax.

The modifications a corporation must make are:

- Adding back the amount of the stimulus depreciation to the amount of federal net income (loss) reported for Connecticut corporation business tax purposes for the income year that the stimulus depreciation is claimed; **and**
- Subtracting the difference between the amount of MACRS depreciation allowed for Connecticut corporation business tax purposes and the amount allowed for federal tax purposes for the initial year that the bonus depreciation is claimed and in each subsequent year in which the property is depreciated.

Thus, the corporation must calculate MACRS depreciation twice: first, reflecting the stimulus depreciation; and second, reflecting the MACRS depreciation without the stimulus depreciation. A corporation that claims the stimulus depreciation must keep a separate depreciation schedule for Connecticut corporation business tax purposes.

**Example:** A non-calendar year corporation acquires and places in service qualified property after December 31, 2007, but before January 1, 2009. Assume that the equipment is MACRS 5-year property, that the half-year convention applies, that the purchase price is \$100,000, and that no amount is expensed under I.R.C. §179. For federal tax purposes, the corporation claims the bonus depreciation under I.R.C. §168(k) in the amount of \$50,000 ( $\$100,000 \times 50\%$ ). It then reduces its basis in the equipment to \$50,000 and uses that reduced basis to calculate its federal MACRS depreciation of \$10,000, ( $\$50,000 \times 20\%$ ) for a total deduction of \$60,000 in the first year.

For Connecticut corporation business tax purposes, the corporation must:

- Add back to the corporation's federal net income (loss) the \$50,000 stimulus depreciation;
- Calculate the first-year MACRS depreciation allowed for Connecticut corporation business tax purposes, using its Connecticut basis of \$100,000. This results in a Connecticut MACRS depreciation deduction in the amount of \$20,000 ( $\$100,000 \times 20\%$ );
- Calculate the difference (\$10,000) between the Connecticut MACRS depreciation (\$20,000) and the federal MACRS depreciation (\$10,000) ( $\$20,000 - \$10,000 = \$10,000$ ); **and**
- Subtract the difference (\$10,000) from the corporation's federal net income (loss).

In subsequent years, the corporation will subtract from federal net income (loss) the difference between the Connecticut MACRS depreciation and the federal MACRS depreciation, until the property is fully depreciated. Ultimately, if the property is held until it is fully depreciated, the taxpayer will be able to claim, albeit in different years, the same amount of depreciation for Connecticut corporation business tax purposes and federal tax purposes.

---

**How is the adjustment for the stimulus depreciation to be reported on the 2007 Corporation Business Tax Return?** The corporation should follow the steps provided below to make the necessary adjustments to the computation of net income:

1. Include the amount of stimulus depreciation reported on federal **Form 4562-FY**, Depreciation and Amortization, Line 14 and Line 25 as follows:
  - On 2007 **Form CT-1120**, *Corporation Business Tax Return, Schedule D*, Line 3. (This is the same line used to report taxes that must be added back to income from *Schedule F*, Line 8 of Form CT-1120).

- On 2007 **Form CT-1120CR**, *Combined Corporation Business Tax Return*, Part II, Line 3. (This is the same line used to report taxes that must be added back to income from *Schedule F*, Line 8 of Form CT-1120).
  - On 2007 **Form CT-1120U**, *Unitary Corporation Business Tax Return, Schedule D*, Line 3. (This is the same line used to report taxes that must be added back to income from *Schedule F*, Line 8 of Form CT-1120).
  - On 2007 **Form CT-1120X**, *Amended Corporation Business Tax Return, Schedule D*, Line 3. (This is the same line used to report taxes that must be added back to income from *Schedule F*, Line 8 of Form CT-1120).
2. Complete *Schedule J* of the newly created 2007 **Form CT-1120 ATT (FY)**, *Corporation Business Tax Return Attachment Schedules H, I, and J*. Do not use the 2007 **Form CT-1120 ATT**, *Corporation Business Tax Return Attachment Schedules H, I, and J*. 2007 Form CT-1120 ATT (FY), *Schedule J*, will have a new Line 7, which will account for the difference between the 2007 MACRS depreciation claimed for federal income tax purposes and the 2007 MACRS depreciation that may be claimed for Connecticut income tax purposes.
3. Attach a copy of federal Form 4562-FY and a detailed schedule of those assets for which the I.R.C. §168(k) stimulus depreciation was claimed on Line 14 and Line 25 of that form. For each asset, the schedule must list the following: 1) a description of the qualifying asset; 2) the date the asset was placed in service; 3) the federal basis (reduced by the bonus depreciation) used for purposes of calculating depreciation using MACRS; 4) the Connecticut basis used for purposes of calculating MACRS depreciation (basis not reduced by I.R.C. §168(k) amount); 5) the recovery period and convention; 6) the depreciation claimed for federal tax purposes for the income year; **and** 7) the depreciation allowed for Connecticut corporation business tax purposes for the income year.

**Will the 2008 Forms CT-1120, CT-1120CR, CT-1120U, and CT-1120X be revised to reflect the modifications for purposes of calculating the corporation business tax?** Yes. The 2008 Forms CT-1120, CT-1120CR, CT-1120U, and CT-1120X will contain the appropriate lines to make the necessary addition and subtraction modifications. In addition, corporations will have to complete *Schedule J*, on Form CT-1120 ATT, which will provide a separate line to account for the difference between the federal and state depreciation amounts for 2008.

---

**Effect of This Document:** Announcements alert taxpayers to new developments (other than newly enacted or amended Connecticut or federal laws or newly released judicial decisions), including new administrative positions, policies, or practices.

---

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

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

Select **Option 6** to speak to a representative.

**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](http://www.ct.gov/DRS) to download and print Connecticut tax forms; **or**
- **Telephone:** Call **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only) and select **Option 2**, or call **860-297-4753** (from anywhere).

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

- **For business returns, tax payments, and electronic bill payments:** Use the **Taxpayer Service Center (TSC)** to file a variety of tax returns and extensions, as well as to pay taxes or bills over the Internet. Visit the DRS website at **[www.ct.gov/DRS](http://www.ct.gov/DRS)** and click on the **TSC** logo for a complete list of taxes that can be electronically filed and paid.
- **For income tax returns, extensions, estimated payments, and electronic bill payments:** Use the **Taxpayer Service Center (TSC)** to file personal income tax returns and extensions, or to make estimated payments and electronic bill payments over the Internet. Visit the DRS website at **[www.ct.gov/DRS](http://www.ct.gov/DRS)** and click on the **TSC** logo.

**DRS E-News Service:** Get connected to the latest news from DRS. Receive notification by email of changes to legislation, policies, and procedures. **DRS E-News** is easy to sign up for – visit **[www.ct.gov/DRS](http://www.ct.gov/DRS)** and follow the directions. Subscription services are available for employer’s withholding tax, **TSC-BUS** Online Filing Alerts, News – Press Releases, and Top 100 Delinquency List.

---

AN 2008(7)  
Corporation Business Tax  
Stimulus Depreciation  
Issued: 10/06/2008