

## Business Taxes

**PURPOSE:** This publication provides a brief description of certain taxes applicable to companies doing business in Connecticut. This is not intended to be an all-inclusive list but it contains those taxes of interest to the majority of businesses and identifies the state agencies to contact for further information. For more detailed information about Connecticut taxes, request **IP 94(5)**, *Getting Started in Business: Understanding Connecticut Taxes*, from the Department of Revenue Services.

The following taxes are among those administered by the Connecticut Department of Revenue Services: corporation business tax, sales and use taxes, motor vehicle fuels tax, motor carrier road tax and income tax withholding. For further information or a registration application, contact Taxpayer Services at 860-297-5962 (anywhere) or 1-800-382-9463 (in-state).

**EFFECTIVE DATE:** Upon Issuance.

**CORPORATION BUSINESS TAX:** The corporation business tax is a tax on the privilege of carrying on business in a corporate capacity in Connecticut. Corporations must calculate their tax under two alternative methods and remit the higher tax. If a corporation owes less than \$250 under both methods, it pays the minimum tax of \$250.

### Net income base

Federal net income is modified by certain additions and subtractions to compute Connecticut net income. Multistate corporations, when their income is derived from the manufacture, sale or use of tangible personal or real property, multiply their Connecticut net income by an apportionment fraction that is the average of the receipts, payroll and property ratios (with the receipts ratio double-weighted). Multistate corporations, when their income is derived from business other than the manufacture, sale or use of tangible personal or real

property, multiply their Connecticut net income by an apportionment fraction, the numerator of which is their gross receipts from business carried on within Connecticut, and the denominator of which is their gross receipts from business carried on everywhere. The Connecticut net income (or apportioned Connecticut net income for multistate corporations) is taxed:

For Income Years Beginning On or After	But Before	Tax Rate
1/1/1997	1/1/1998	10.50%
1/1/1998	1/1/1999	9.50%
1/1/1999	1/1/2000	8.50%
1/1/2000	-	7.50%

### Additional tax base

The Connecticut additional tax base is:

- (A) the average value of issued and outstanding capital stock, surplus and undivided profits and surplus reserves reduced by
- (B) the average value of any deficit carried on the balance sheet and holdings of stock of private (nongovernmental) corporations including treasury stock.

Multistate corporations multiply their Connecticut additional tax base by an apportionment fraction that is the average of the intangible personal property and tangible personal property ratios. The Connecticut additional tax base (or apportioned Connecticut additional tax base for multistate corporations) is taxed at a rate of 3.1 mils (\$0.0031) per dollar. The additional tax cannot be more than \$1,000,000 nor less than \$250.

### Estimated corporation business tax

A corporation whose estimated current year's tax exceeds \$1,000 has the following estimated tax requirements:

<b>1st installment</b>	
	<b>30% of prior year's tax or 27% of current year's tax.</b>
<b>2nd installment</b>	
	<b>70% of prior year's tax or 63% of current year's tax.</b>
<b>3rd installment</b>	
	<b>80% of prior year's tax or 72% of current year's tax.</b>
<b>4th installment</b>	
	<b>100% of prior year's tax or 90% of current year's tax.</b>

A corporation also may pay its required installment of estimated tax by annualizing its net income for months in the income year ending before the due date for such installment.

### Filing requirements

C corporations must file **Form CT-1120**, *Corporation Business Tax Return* by the first day of the fourth month after the close of the income year. S corporations file **Form CT-1120S**, *S Corporation Business Tax Return*, and an informational return, **Form CT-1120SI**, on or before the 15th day of the fourth month after the close of the income year.

### S Corporations

The corporation business tax on S corporations is being phased out. The percentage of nonseparately stated income of an S corporation that is subject to the tax will be reduced each year as follows:

<b>For Income Years Beginning On or After</b>	<b>But Before</b>	<b>Net Income Subject to Tax</b>
<b>1/1/1997</b>	<b>1/1/1998</b>	<b>90%</b>
<b>1/1/1998</b>	<b>1/1/1999</b>	<b>75%</b>
<b>1/1/1999</b>	<b>1/1/2000</b>	<b>55%</b>
<b>1/1/2000</b>	<b>1/1/2001</b>	<b>30%</b>
<b>1/1/2001</b>	<b>-</b>	<b>0%</b>

S corporation shareholders are subject to income tax on income from the S corporation. The shareholders' income includes their pro rata share of separately stated items of S corporation income and, beginning in 1997, their pro rata share of the percentage of nonseparately stated (ordinary) income that is not taxed at the corporate

level. Nonresident shareholders are taxed only to the extent that the income is Connecticut sourced income. For income years beginning on or after 1998, an S corporation may elect to treat a 100%-owned subsidiary as a qualified subchapter S subsidiary (QSSS). In that case, the QSSS would not be treated as a separate corporation for purposes of the Connecticut corporation business tax, regardless of whether the measure of such tax is net income, capital or the minimum tax.

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### CORPORATION BUSINESS TAX CREDITS:

Credits that may be applied against the corporation business tax are available to new and existing businesses. **IP 95(2.1)**, *A Guide to Connecticut Corporation Business Tax Credits*, contains detailed summaries of available credits. To order this publication send a self-addressed 9" x 12" envelope with \$1.43 postage affixed to:

Department of Revenue Services  
 Mail Unit, Corporation Credit Guide  
 25 Sigourney Street  
 Hartford CT 06106-5032

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**SALES AND USE TAXES:** The sales and use taxes apply at a 6% rate (except as noted below) to retail sales (or leases) of most tangible personal property and certain services. The room occupancy tax rate of 12% applies to the occupancy of a room in a hotel or lodging house for a period of thirty consecutive days or less.

The use tax generally applies to taxable tangible personal property or services on which the Connecticut sales tax was not imposed by the seller. A business must report purchases subject to the use tax on **Form OS-114**, *Connecticut Sales and Use Tax Return*, for the period in which the purchases are made. If an item purchased in another state already has been subject to that state's sales tax, credit for such tax is generally given when computing the Connecticut use tax.

### Certain services subject to tax

Although not an inclusive list, the following are commonly-provided taxable services:

- Advertising or public relations services not related to the development of media advertising or cooperative direct mail advertising
- Business analysis, management, management consulting and public relations services
- Cable television services
- Computer and data processing, including charges for on-line access to computer services and information, but excluding services rendered in connection with

creation, development, hosting or maintenance of all or part of a web site that is part of the World Wide Web. The tax on computer and data processing services is being phased out through a series of rate reductions. The rate is 4% beginning July 1, 1998, and will drop by 1% per year, effective on July 1 of each year until it is repealed on July 1, 2002.

- Employment and personnel services
- Landscaping and horticulture services
- Motor vehicle repairs
- Repairs to tangible personal property (except repairs to vessels, which are taxable at 2% beginning July 1, 1998, and nontaxable beginning July 1, 1999)
- Repair and renovation services to commercial, industrial and income producing real property
- Repair and renovation services to residential real property limited to: paving, painting or staining, wallpapering, roofing, siding and exterior sheet metal work
- Sales agent services for selling tangible personal property, excluding the services of a consignee selling works of art or clothing and the services of an auctioneer
- Stenographic services
- Telecommunications services
- Telephone answering services

### Related companies

Sales of services between parent corporations and their wholly-owned affiliates are exempt from sales and use taxes.

### Contractor services

Because this area of tax law is difficult to understand, DRS created publication, **IP 95(1.1)**, *A Guide to Connecticut Sales and Use Taxes for Building Contractors*, which includes information about tax issues of interest to building contractors. To order this publication send a self-addressed 9" x 12" envelope with \$1.43 in postage affixed to:

Department of Revenue Services  
Mail Unit, Building Contractor's Guide  
25 Sigourney Street  
Hartford CT 06106-5032

### Manufacturer's exemptions

The sales and use taxes are imposed on most items purchased by Connecticut manufacturers. However, there are certain exemptions:

- Machinery used directly in the manufacturing production process;
- Repair, replacement, component or enhancement parts for such machinery;

- Materials that become an ingredient or component part of the products to be sold;
- Tools, fuel and materials that are used directly in an industrial plant in the actual fabrication of finished products to be sold.

Also, under the Manufacturing Recovery Act, 50% of the purchase price of materials, tools, fuels, machinery and equipment, available to manufacturers, processors and fabricators is exempt from sales and use taxes.

**IP 95(14.1)**, *Sales and Use Taxes Guide for Manufacturers, Fabricators and Processors*, includes information about tax exemptions and other issues of interest to manufacturers. To order this publication send a self-addressed 9" x 12" envelope with \$2.31 in postage affixed to:

Department of Revenue Services  
Mail Unit, Manufacturer's Guide  
25 Sigourney Street  
Hartford CT 06106-5032

### Filing requirements

Connecticut retailers that sell taxable goods or services must collect sales tax on their sales, except when a properly completed Connecticut **Sales and Use Tax Resale Certificate** is taken in good faith or such sales are otherwise exempt from the tax. Retailers must remit sales and use taxes on a quarterly basis to the state, except where the tax for the 12-month period ended on the preceding September 30 was more than \$4,000, in which event the tax is remitted monthly. Annual filing is allowed for businesses whose total annual liability for sales and use taxes is less than \$1,000.

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**OTHER EXEMPTIONS:** Certain sales are exempt from tax including, but not limited to, sales of food (other than meals), clothing under \$50, newspapers, magazines by subscription, and prescription and certain nonprescription drugs.

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**MOTOR VEHICLE FUELS TAX:** A tax is imposed on motor fuel used to propel motor vehicles on public highways. The tax rate on gasoline is 32¢ per gallon. The tax rate on gasohol is 31¢ per gallon. The tax rate on diesel fuel is 18¢ per gallon.

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**MOTOR CARRIER ROAD TAX:** A tax is imposed on the use of motor fuel in the operations in Connecticut of motor carriers operating qualified motor vehicles. The rate is equivalent to the Connecticut motor fuel tax rate.

A *qualified motor vehicle* is a motor vehicle that is used, designed or maintained for transportation of persons or property and that:

- Has two axles and a gross vehicle weight or registered gross vehicle weight exceeding 26,000 pounds; or
- Has three or more axles regardless of weight; or
- Is used in combination and the combined gross vehicle weight exceeds 26,000 pounds.

### **International Fuel Tax Agreement (IFTA)**

Connecticut is a member of the International Fuel Tax Agreement (IFTA). IFTA is an agreement among jurisdictions (states of the United States and Canadian provinces) to simplify the reporting of the fuel use taxes by interstate carriers. All 48 contiguous states as well as 10 Canadian provinces are members of IFTA.

Each motor carrier based in Connecticut that will be operating in at least one other IFTA jurisdiction must obtain a Connecticut IFTA license and decals. For carriers based in another jurisdiction that is also an IFTA member, the IFTA license and decals from that jurisdiction will satisfy Connecticut fuel use tax requirements. Qualified motor vehicles based outside Connecticut in a non-IFTA jurisdiction or that operate only in Connecticut must obtain Connecticut fuel tax decals. Call the Department's Registration Unit to obtain an application.

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**INCOME TAX WITHHOLDING:** An employer that (1) maintains an office in Connecticut or is transacting business within Connecticut, and (2) is considered an employer for federal income tax withholding purposes, is an employer for Connecticut income tax withholding purposes. Employers must withhold Connecticut income tax from wages of resident employees and from nonresident employees who work in Connecticut. In general, when an employer deposits federal income tax, the employer must deposit Connecticut withholding tax to the Connecticut Department of Revenue Services. Quarterly reconciliations are due on the last day of the month following the end of the calendar quarter. The annual reconciliation for the preceding year is due on the last day of February.

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**OTHER STATE AGENCIES:** The following taxes are administered by other state or municipal agencies: corporation franchise tax, unemployment compensation tax, property tax, and motor vehicle fees.

**CORPORATION FRANCHISE TAX:** The **Office of the Secretary of the State** collects a franchise tax from Connecticut corporations. For further information write to the Secretary of the State, 30 Trinity St., Hartford, CT 06106 and enclose a stamped, self-addressed envelope or telephone 860-509-6000 for further information.

### **Domestic corporations**

A domestic corporation is required to pay a franchise tax to the Secretary of the State at the time of incorporation and at the time of any increase in the number of shares of authorized capital stock as follows:

**(Minimum franchise tax: \$150)**

<b>Number of Shares</b>	<b>Tax Rate</b>
<b>First 10,000 shares</b>	<b>1¢ per share</b>
<b>10,001-100,000 shares</b>	<b>1/2¢ per share</b>
<b>100,001-1,000,000 shares</b>	<b>1/4¢ per share</b>
<b>1,000,000+ shares</b>	<b>1/5¢ per share</b>

There is an additional fee of \$50 for filing the certificate of incorporation and a \$25 fee for a certified copy of the certificate. Corporations must file biennial reports on or before the last business day of the month in which occurs the anniversary date of incorporation (domestic) or authorization to transact business (foreign). The filing fee is \$150. The fee for a certified copy of a corporate document is \$25.

### **Foreign corporations**

A corporation organized outside the state may obtain a certificate of authority to transact business in Connecticut by filing an application with the Secretary of the State and appointing an agent to accept service of process. Applications are available from the Secretary of the State and must be accompanied by a filing fee of \$275 and a certificate of good standing from the state of incorporation. The month when authorization was given for the corporation to conduct business becomes the filing month for annual reporting purposes. Filing must be made on or before the last business day of such month. A license fee of \$300 is due with the annual report.

**UNEMPLOYMENT COMPENSATION TAX:** The **Department of Labor** administers the unemployment compensation tax. For further information and registration forms, write to the Connecticut Department of Labor, Attn: Employer Status Unit, 200 Folly Brook Boulevard, Wethersfield, CT 06109 or call 860-263-6550.

### **Unemployment Compensation Act**

Employers engaged in covered activities are subject to the Unemployment Compensation Act if during a calendar quarter of the current or preceding calendar year they paid cash wages totaling \$1,500 or more, or the employer had, during the current or preceding calendar year, one or more employees at any time in each of 20 calendar weeks.

Agricultural employers are subject to the Act if: (1) during any calendar quarter of the current or preceding calendar year they paid cash wages totaling \$20,000 or more, or (2) they had, during the current or preceding calendar year, 10 or more employees at any time in each of 20 calendar weeks. Domestic employers are subject to the Act if they paid cash wages totaling \$1,000 or more during any calendar quarter of the current or preceding calendar year.

### **Unemployment Compensation Fund**

The Unemployment Compensation Fund is financed through a benefit ratio system. For employers who qualify to be experience-rated (those who have been chargeable with benefits for at least one year ending June 30), taxes will be based on: (1) the benefit ratio of each employer, which will determine the charged tax rate, and (2) unemployment compensation fund reserves, which will determine a fund balance tax rate. These rates are recalculated annually for qualified employers.

An employer's charged tax rate is the ratio of charges during the applicable experience period to the taxable payroll for the same period; it can range from 0.5% to 5.4% of taxable payroll. The fund balance tax rate may increase an employer's total contribution rate, depending on the solvency of the unemployment compensation fund. It is calculated annually, applies uniformly to all employers who qualify for experience rating, and ranges from 0% to 1.5% of taxable payroll for calendar years 1994-1998, and 0% to 1.4% starting in 1999.

An employer who has not been subject to the Act for a sufficient period of time to be experience-rated shall pay contributions at a rate that is the higher of 1.0% of taxable wages, or the Connecticut five-year benefit cost rate. An employer's taxable wages consist of the sum of employees' wages not in excess of \$15,000 per individual in calendar year 1999.

### **Maximum unemployment compensation rate**

The maximum unemployment compensation rate is \$376 per week, effective October 1998. The rate is revised annually as of the first Sunday in October. The annual increase is limited to \$18 over the previous maximum benefit. However, the maximum benefit cannot exceed 60% of the average weekly wage of manufacturing production and related workers in Connecticut.

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**PROPERTY TAX:** The property tax is administered by each Connecticut municipality. For further information on property tax write to the Intergovernmental Policy Division of the Office of Policy and Management, 450 Capitol Avenue, Mail Stop 54 FOR, Hartford, CT 06106-1308. Specific information can be obtained from the city or town assessor where the business will be located.

Each company pays an ad valorem property tax to the community in which it has real property, personal property or both. Manufacturing inventories of finished goods and goods in process are exempt, as are mercantile inventories.

### **Assessment date**

October 1 is the annual assessment date. Not later than November 1, each company must file a declaration of its personal property with the local assessor. Personal property and motor vehicles are revalued annually. Real property is revalued every four years, pursuant to a schedule contained in Conn. Gen. Stat. §12-62. Increases in assessed values of real property resulting from revaluation may be phased-in for up to four years, at community option.

Any municipality with a population in excess of 35,000 (as defined by the most recent federal census) may establish a special service district to construct, own, operate, and maintain public improvements, and to provide within the district such services that a municipality is authorized to provide, except elementary and secondary education.

### **Exemptions**

Newly acquired manufacturing machinery and equipment (including property used in the production of motion pictures, videos and sound recordings) may be exempt from the property tax for a five year period. New commercial motor vehicles used exclusively for the interstate or intrastate transport of freight for hire, may also be exempt for a five year period. Both exemptions must be claimed annually. Exemption applications and personal property declaration forms are available from the assessor on the assessment date.

Connecticut has a free-port law which permits goods shipped in from out-of-state to remain free of local property taxes while stored in a public warehouse not owned by consignor or consignee, provided such goods remain in their original packages.

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**MOTOR VEHICLE FEES:** Motor vehicle registration is administered by the **Department of Motor Vehicles**, 60 State Street, Wethersfield, CT 06161 or call 860-566-4710, 860-263-5700 or 1-800-842-8222. Driver licenses are renewed every four years for \$35.50 and commercial driver licenses (CDL's) are renewed every four years for \$50. There is a biennial registration fee of \$70 for private passenger cars and \$78 for passenger cars used for business purposes. The annual registration fee for commercial motor vehicles is based on the vehicle gross weight (weight of vehicle empty plus weight of heaviest load) as follows:

Weight	Registration Fee
Up to 20,000 lbs.	\$1.15 per 100 lbs. (or fraction thereof)
20,001 - 30,000 lbs.	\$1.40 per 100 lbs. (or fraction thereof)
30,001 - 73,000 lbs.	\$1.75 per 100 lbs. (or fraction thereof)
73,001 – and up	\$1.90 per 100 lbs. (or fraction thereof)

Both motorized units (tractors) and trailers must be registered. There are fixed annual fees for saw rigs (\$25), spray rigs (\$25), and well drillers (\$46). Permanently mounted cranes require ½ fee by gross weight. There is a \$306 registration fee per year (not pro-rated) for “heavy duty vehicles” (55,000 lbs. gross weight and over). Overweight vehicles require a special permit from the Department of Transportation.

Specific registration classes exist for taxis, liveries, and buses, each with special requirements and fees.

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**EFFECT ON OTHER DOCUMENTS: IP 99(11)** modifies and supersedes **IP 92(6.3)** which may no longer be relied upon the issuance date of this publication.

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**EFFECT OF THIS DOCUMENT:** An Informational Publication is a document that addresses frequently asked questions about a current Department position, policy or practice.

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**FOR FURTHER INFORMATION:** Please call the Department of Revenue Services during business hours, 8:00 a.m. to 5:00 p.m., Monday through Friday:

- **1-800-382-9463** (toll-free from within Connecticut), or
- **860-297-5962** (anywhere).
- **TTY, TDD and Text Telephone users only** may transmit inquiries 24 hours a day by calling 860-297-4911.

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**FORMS AND PUBLICATIONS:** Forms and publications are available all day, seven days a week:

- **Internet:** preview and download forms and publications from the DRS web site: <http://www.state.ct.us/drs>;
- **DRS TAX-FAX:** call **860-297-5698** from the handset attached to your fax machine and select from the menu; or
- **Telephone:** Call **1-800-382-9463** (toll-free from within Connecticut), or **860-297-5962** (anywhere) and select **Option 2** from a touch-tone phone.