



450 Columbus Blvd Ste 1
Hartford CT 06103-1837

2020 Q & A on Estimated Corporation Business Tax and Worksheet CT-1120AE

Purpose: To explain the two methods for calculating installments of estimated Connecticut Corporation Business Tax. This guidance applies to income years beginning on or after January 1, 2021, and prior to January 1, 2022.

As used in this publication, unless the context requires otherwise, *corporation* refers to a single C corporation filing **Form CT-1120**, *Corporation Business Tax Return*, or a combined unitary group filing **Form CT-1120CU**, *Combined Unitary Corporation Business Tax Return*.

Effective Date: Upon issuance.

Statutory Authority: Conn. Gen. Stat. § 12-242d.

1. Who should pay estimated Corporation Business Tax?

Every corporation carrying on business or having the right to carry on business in Connecticut, whose current year tax exceeds \$1,000 after applying Corporation Business Tax credits and the Pass-Through Entity Tax Credit (PE Tax Credit), must pay estimated tax based on its required annual payment.

The Department of Revenue Services (DRS) requires all corporations to file and pay their estimated taxes electronically.

2. What are electronic filing and payment requirements?

All corporation payments are required to be paid electronically. Form CT-1120 **must** be filed and paid electronically, and all corporations **must** file and pay their estimated taxes (Forms CT-1120 ESA, ESB, ESC and ESD) and extension requests (Form CT-1120 EXT) electronically.

See **Informational Publication 2019(15)**, *Filing and Paying Connecticut Taxes Electronically*.

To request a waiver from the electronic filing requirement visit the DRS website at portal.ct.gov/DRS and complete **Form DRS-EWVR**, *Electronic Filing and Payment Waiver Request*.

The following graduated penalty amounts will apply if you fail to remit payments electronically:

- First offense – 10% penalty on the amount of the tax payment, but not more than \$2,500;
- Second offense – 10% penalty, but not more than \$10,000; **and**
- Third and subsequent offenses – 10% penalty.

Late payments are subject to interest at the rate of 1% per month or fraction of a month from the due date until the tax is paid in full.

3. What is a corporation's required annual payment for the taxable year?

The corporation's required annual payment is the lesser of:

- 90% of the tax shown (including surtax) on the Connecticut Corporation Business Tax return for the current income year, or if no return is filed, 90% of the tax for the year; **or**
- 100% of the tax shown (including surtax) on the Connecticut Corporation Business Tax return for the previous income year without regard to tax credits, if the previous income year was an income year of 12 months and if the corporation filed a return for the previous income year showing a liability for tax.

The required annual payment should not include any recapture of tax credits.

4. How do Combined Unitary filers meet the second prong of the required annual payment?

For combined unitary filers, the second prong of the required annual payment equals the total tax due from all the taxable members of the combined group that filed with the designated taxable member in the prior year.

5. When must a corporation make estimated payments?

Calendar year filers must make estimated payments on or before March 15, June 15, September 15, and December 15. Fiscal year filers must make estimated payments on or before the fifteenth day of the third, sixth, ninth, and twelfth months of the income year.

If the due date falls on a Saturday, Sunday, or legal holiday, the payment is considered timely if made on the next business day.

6. What are the two methods for calculating installments of estimated tax?

The two methods for calculating installments of estimated tax are the regular installment method and the annualized installment method.

7. How does a corporation calculate the amount of each installment?

Under the regular installment method, complete **Forms CT-1120 ESA, ESB, ESC, and ESD, *Estimated Corporation Business Tax***. A corporation calculating its installments under the regular installment method must pay 30% of its required annual payment by its first installment, 70% of its required annual payment by its second installment, 80% of its required annual payment by its third installment and 100% of its required annual payment by its fourth installment.

If a corporation establishes that it can use the annualized installment method, it must use **Worksheet CT-1120AE, *Connecticut Corporation Business Tax Annualized Estimated Worksheet***, to determine the amount of estimated tax due with each installment.

8. Should a corporation calculate its payments under the regular installment method or the annualized installment method?

A corporation must determine the amount of each installment under the regular installment method. However, if a corporation establishes that any installment is lower under the annualized installment method than under the regular installment method, the corporation can pay the amount due under the annualized installment method. The annualized installment method may be beneficial to some corporations that do not receive income evenly throughout the year. Under the annualized installment method, one or more installments may be decreased or eliminated and one or more subsequent installments may be increased.

9. How does a corporation pay its estimated Corporation Business Tax?

The DRS website at portal.ct.gov/TSC allows the corporation to use the **Taxpayer Service Center (TSC)** to file Forms CT-1120 ESA, ESB, ESC, and ESD and pay the tax due. DRS requires all corporations to file and pay their estimated taxes electronically.

10. What if a corporation underestimates its Corporation Business Tax?

Under either the regular installment method or the annualized installment method, if the current year tax is more than \$1,000 and the corporation does not make its required annual payment in a timely and sufficient manner, it will be charged interest on the amount of any underpayment. Interest will accrue until the earlier of the date on which an underpayment is satisfied or the due date of the return.

11. May a corporation apply overpayments in the current year to the next year's estimated corporation business tax?

A taxpayer that has filed its return on or before its due date or extended due date may apply an overpayment reported on such return against the estimated tax due for the succeeding income year. Such overpayment will be treated as estimated tax paid on the fifteenth day of the third month (March 15 for calendar year filers), if the tax return is filed on time or if the tax return is filed within the extension period if a timely request for extension was filed. A request to apply an overpayment to the following income year is irrevocable.

12. Are organizations that are exempt from tax under IRC § 501 but that are subject to tax on unrelated business income required to make estimated tax payments?

Generally, the same rules for calculating installments of estimated tax apply to such organizations. Organizations that are exempt from tax under IRC § 501 and that are subject to tax on unrelated business income attributable to Connecticut must complete **Forms CT-990T ESA, ESB, ESC, and ESD, *Estimated Unrelated Business Income Tax***, and pay the tax due (including surtax).

Effect on Other Documents: **Informational Publication 2020(4)** supersedes **Informational Publication 2019(9)** which may no longer be relied upon on or after the issuance date of this publication.

Effect of This Document: An Informational Publication issued by DRS addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

For Further Information: Call DRS Monday through Friday, 8:30 a.m. to 4:30 p.m. at:

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

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911. Taxpayers may also call 711 for relay services. A taxpayer must tell the 711 operator the number he or she wishes to call. The relay operator will dial it and then communicate using a TTY with the taxpayer.

Forms and Publications: Visit the DRS website at portal.ct.gov/DRS to download and print Connecticut tax forms and publications.

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E-Services Update

DRS **myconneCT** will replace the **Taxpayer Service Center (TSC)** as part of a multi-year, multi-phase project. Each year, additional tax types will be transitioned out of the *TSC* and into **myconneCT**. Using **myconneCT**, taxpayers will be able to file taxes, make payments, view filing history, and communicate with the agency simply and more efficiently on virtually any mobile device, including laptops, tablets, and smartphones, 24 hours a day, 7 days a week. For updated information as to the progress of this project and the transition schedule for specific taxes, please visit the DRS website at portal.ct.gov/DRS-myconneCT.



Worksheet CT-1120AE

Connecticut Corporation Business Tax Annualized Estimated Worksheet

(Keep for your records.)

| Part I – Estimated Payment Calculation | | A | First 2 months | B | First 5 months | C | First 8 months | D | First 11 months |
|----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|---|----------------|---|----------------|---|----------------|---|-----------------|
| 1. | Enter your Connecticut corporation business income for each period. See instructions. | | | | | | | | |
| 2. | Annualization factor | | 6 | | 2.4 | | 1.5 | | 1.09091 |
| 3. | Annualized Connecticut corporation business income: Multiply Line 1 by Line 2. | | | | | | | | |
| 4. | Multiply Line 3 by 7.5% (.075). | | | | | | | | |
| 5. | Enter surtax, if applicable. See instructions. | | | | | | | | |
| 6. | Add Line 4 and Line 5. | | | | | | | | |
| 7. | Corporation Business Tax credits and PE credit: See instructions. | | | | | | | | |
| 8. | Total annualized Corporation Business Tax: Subtract Line 7 from Line 6. | | | | | | | | |
| 9. | Applicable percentages | | .27 | | .63 | | .72 | | .90 |
| 10. | Multiply Line 8 by Line 9. | | | | | | | | |
| 11. | Add the amounts in all preceding columns of Line 10. See instructions. | | | | | | | | |
| 12. | Annualized income installment using net income: Subtract Line 11 from Line 10. If zero or less, enter "0." | | | | | | | | |
| 13. | Enter your required annual payment for the period. See Part II below. | | | | | | | | |
| 14. | Enter the amount from Line 16 of the preceding column of this worksheet. | | | | | | | | |
| 15. | Add Line 13 and Line 14. | | | | | | | | |
| 16. | If Line 15 is more than Line 12, subtract Line 12 from Line 15, otherwise enter "0." | | | | | | | | |
| 17. | Enter the lesser of Line 12 or Line 15. | | | | | | | | |
| 18. | Total required installment for the period: Add Line 11 and Line 17. | | | | | | | | |
| 19. | Estimated tax payments made through the due date for the period | | | | | | | | |
| 20. | Estimated tax payment required by the next due date. Subtract Line 19 from Line 18 and enter the result, but not less than "0." | | | | | | | | |

Part II – Computation of Required Annual Payment (Line 13)

| | | |
|-----|-----------------------------------------------------------------------------------------------------------------------------|--|
| 21. | Current year Connecticut Corporation Business Tax due, after tax credits: See instructions. | |
| 22. | Multiply Line 21 by 90% (.90). | |
| 23. | Prior year Connecticut Corporation Business Tax, before tax credits: See instructions. | |
| 24. | Multiply Line 23 by 100% (1.00). | |
| 25. | Required annual payment: Enter the lesser of Line 22 or Line 24. | |
| 26. | Required annual payment for the first 2 months: Multiply Line 25 by 30% (.30). Enter here and on Line 13, Column A. | |
| 27. | Required annual payment for the first 5 months: Multiply Line 25 by 40% (.40). Enter here and on Line 13, Column B. | |
| 28. | Required annual payment for the first 8 months: Multiply Line 25 by 10% (.10). Enter here and on Line 13, Column C. | |
| 29. | Required annual payment for the first 11 months: Multiply Line 25 by 20% (.20). Enter here and on Line 13, Column D. | |

Worksheet CT-1120AE

Instructions

Before completing *Worksheet CT-1120AE*, be sure to have a copy of **Forms CT-1120 ESA, ESB, ESC, and ESD, Estimated Corporation Business Tax**, or **Forms CT-990T ESA, ESB, ESC, and ESD, Estimated Unrelated Business Income Tax**. At the end of each payment period, complete the column on *Worksheet CT-1120AE* for the period from the beginning of the income year through the end of that payment period to calculate how much estimated tax to pay by the payment due date.

Part I - Estimated Payment Calculation

- Line 1** - Enter the company's Connecticut business income for the period.
- Line 3** - Multiply Line 1 by Line 2.
- Line 4** - The Connecticut Corporation Business Tax rate is 7.5%. Multiply Line 3 by 7.5% (.075).
- Line 5** - If the corporation is subject to the surtax, multiply Line 4 by 10% (.10).
- Line 7** - Enter the company's estimated allowable Connecticut Corporation Business Tax credits for the year. The credits are based on the annualized income for the period. Include any PE credit available to the company.
- Line 11** - Do not enter anything in Column A. Enter in Column B the amount from Line 17, Column A. Enter in Column C the sum of Line 17, Column A, plus Line 17, Column B. Enter in Column D the sum of Line 17, Column A, plus Line 17, Column B, plus Line 17, Column C.
- Line 13** - Enter the appropriate amount of the required annual payment as calculated in Part II of this worksheet.
- Line 19** - Include all estimated tax payments through the payment due date for the period. Include overpayments of the prior year tax applied to the current year. Prior year tax overpayments will be treated as estimated tax paid on the fifteenth day of the third month (March 15 for calendar year filers), if the tax return (**Form CT-1120, Corporation Business Tax Return; Form CT-1120CU, Combined Unitary Corporation Business Tax Return; or Form CT-990T, Connecticut Unrelated Business Income Tax Return**) for the previous income year is filed on time or if the tax return is filed within the extension period if a timely request for extension was filed.
- Line 20** - Subtract Line 19 from Line 18. Enter the result (but not less than "0") here and on Line 5 of either Form CT-1120 ESA, ESB, ESC, and ESD or Form CT-990T ESA, ESB, ESC, and ESD.

Part II - Computation of Required Annual Payment

- Line 21** - Calculate the current year Corporation Business Tax due after the application of credits and without regard to any recapture amount.
- Line 22** - Multiply the amount on Line 21 by 90%.
- Line 23** - Enter the prior year Corporation Business Tax before credits from the prior year **Form CT-1120, Schedule C**, Line 1, minus **Schedule C**, Line 1c; the prior year **Form CT-1120CU**, Part III, Line 1, minus Part I, Line 8, **Combined Group Total** column; or the prior year **Form CT-990T, Computation of Amount Payable**, Line 3. For Combined Unitary filers, the prior year Corporation Business Tax equals the total tax due from all taxable members of the combined group that filed with the designated taxable member in the prior year.

If no return has been filed for the prior income year or a return was filed for less than a twelve-month period, leave Line 23 blank and enter the amount from Line 22 on Line 25.
- Line 24** - Multiply the amount on Line 23 by 100%.
- Line 25** - Enter the lesser of Line 22 or Line 24.
- Line 26** - Multiply the amount on Line 25 by 30%. Enter the result on Line 13, Column A.
- Line 27** - Multiply the amount on Line 25 by 40%. Enter the result on Line 13, Column B.
- Line 28** - Multiply the amount on Line 25 by 10%. Enter the result on Line 13, Column C.
- Line 29** - Multiply the amount on Line 25 by 20%. Enter the result on Line 13, Column D.