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SPECIAL NOTICE

Obligation of Dry Cleaners for the Dry Cleaning Establishment Surcharge and Business Use Tax

Purpose: The purpose of this Special Notice is to describe the dry cleaning establishment surcharge, which applies to the gross receipts at retail from dry cleaning services. Legislation passed in 2017 provides that the surcharge no longer applies to “drop stores” for calendar quarters commencing on or after October 1, 2017.

This Special Notice also provides information to dry cleaning establishments about their use tax obligations.

Definitions:

Dry Cleaning Establishment means any place of business located in Connecticut engaged in the dry cleaning of clothing or other fabrics.

Dry Clean means to cleanse (clothing or fabrics) with chemical solvents rather than water. Dry cleaning includes (but is not limited to) the use of the following chemical solvents:

- Perchloroethylene, Trichlorotrifluoroethane, Stoddard, 140F;
- Organic processes using DF-2000 solvent (Petroleum-Based) classified by the EPA as a neurotoxin, Solvon K4;
- Green Earth processes using D5 (Silicone-Based).

Wet Cleaning refers to cleaning processes using water as the solvent (Aqueous Solvents-Detergents / Conditioners). Wet cleaning establishments are not subject to the surcharge.

Gross Receipts at Retail means the total amount accruing from dry cleaning service, valued in money, without any deduction for the cost of the materials used, labor or service costs or any other expense.

Imposition of the Surcharge: A dry cleaning establishment surcharge of 1% of the gross receipts from dry cleaning services performed at each dry

cleaning establishment, as defined in this notice, shall be paid to the Department of Revenue Services (DRS) for all dry cleaning service performed.

The surcharge does **not** apply to the gross receipts from any other services, such as shirt laundering, alterations, tailoring or mending, or from sales of goods by those establishments.

EXAMPLE 1: Dry cleaner A charges the customer \$7.00, of which \$4.00 is the charge for dry cleaning and \$3.00 is the charge for laundering shirts. Dry cleaner A's gross receipts subject to the surcharge include the \$4.00 from dry cleaning services and **not** the \$3.00 from shirt laundering.

EXAMPLE 2: A dry cleaning establishment has gross receipts for the calendar quarter of \$120,000 from dry cleaning services performed, of which \$100,000 of the receipts were sales to customers of the dry cleaning establishment and \$20,000 were sales to independently owned drop stores that accept clothing and fabrics to be dry cleaned elsewhere. The dry cleaning establishment reports on that quarter's **Form OP-374, Connecticut Dry Cleaning Establishment Surcharge Return**, the entire \$120,000 as gross receipts subject to the 1% surcharge.

EXAMPLE 3: A dry cleaning establishment has a main location where the dry cleaning of clothing and fabrics takes place. Customers can also drop off clothing and fabrics at this location. The dry cleaning establishment also has several retail locations where customers also drop off clothing and fabrics that are dry cleaned at the main location. The dry cleaning service receipts from all locations are subject to the surcharge.

EXAMPLE 4: A Connecticut dry cleaning establishment has a retail drop store location out-of-state and also dry cleans clothing and fabrics for independent drop stores located out-of-state. The dry cleaning service sales made at the retail drop store location out-of-state and the dry cleaning service sales to independent drop stores located out-of-state are subject to the surcharge.

Surcharge Is Imposed Upon Dry Cleaning Establishments:

Unlike Connecticut sales tax, the surcharge is imposed upon the dry cleaning establishment, not the customers. Therefore, the dry cleaning establishment is not required to charge its customers an additional amount on account of the surcharge.

If an additional amount for the surcharge is billed to the customer, such additional amount is included in the establishment's gross receipts from dry cleaning services (and is itself subject to the surcharge).

EXAMPLE 5: Dry cleaner *B* charges \$10.00 to dry clean a dress. The gross receipts subject to the surcharge include the \$10.00 from this transaction.

EXAMPLE 6: Dry cleaner *C* charges \$10.00 to dry clean a dress and an additional \$.10 billed as an "environmental surcharge." Dry cleaner *C*'s gross receipts subject to the surcharge include the \$10.10 from this transaction. Any additional amount billed to the customer for the surcharge is part of the gross receipts from dry cleaning services and subject to the surcharge.

EXAMPLE 7: Dry cleaner *D* charges \$25.20, of which \$20.00 is for dry cleaning, \$5.00 is for tailoring and \$.20 is a dry cleaning or environmental surcharge. Dry cleaner *D*'s gross receipts from dry cleaning services include the \$20.20 from the dry cleaning and the surcharge. Any additional amount billed to the customer for the surcharge is part of the gross receipts from dry cleaning services and subject to the surcharge.

Drop Stores: Independent "drop stores" that only accept clothing or other fabrics to be cleaned elsewhere by a dry cleaning establishment are no longer required to pay the surcharge for calendar quarters commencing on and after October 1, 2017.

The dry cleaning surcharge is imposed upon the gross receipts of the dry cleaning establishment, not the gross receipts of the independent drop store.

Delivery Dry Cleaning: Dry cleaning establishments may provide route dry cleaning services where the establishment picks up, dry cleans and then delivers clothing and other fabrics to businesses, homes, hotels, etc. The gross receipts from route customers, whether the customer is located in-state or out-of-state, for dry cleaning services are subject to the 1% surcharge.

When dry cleaning establishments provide dry cleaning services to independent route providers, the dry cleaning establishment must report the 1%

surcharge on the gross receipts for dry cleaning services performed for the independent route providers.

Filing Requirements: The dry cleaning establishment surcharge is due and payable on or before the last day of the month following the end of each calendar quarter using **Form OP-374, Connecticut Dry Cleaning Establishment Surcharge Return**.

Penalty and Interest: If the dry cleaning establishment surcharge is not paid when due, a penalty of 10% of the amount due or \$50.00, whichever is greater, will be imposed and the surcharge due will bear interest at the rate of 1% per month or fraction thereof from the due date to the date of payment.

Dry Cleaning Establishment Registration: Dry cleaning establishments must renew their registration with DRS each October 1. Failure to renew your registration with DRS will result in a \$200 penalty.

DRS will mail renewal applications to registered dry cleaners each year. You **must** register each location with DRS and display a Dry Cleaning Establishment Surcharge Certificate in order to legally conduct business in the state. Locations not registered with DRS must submit a **Form REG-1, Business Taxes Registration Application**, and a **REG-1 Addendum B, Dry Cleaning Establishment Surcharge**, to receive a Dry Cleaning Establishment Surcharge Certificate.

Dry cleaning establishments already doing business in Connecticut that currently are not registered with DRS must register or be subject to a \$1,000 penalty. Dry cleaning establishments that do not renew their permit or do not register for the surcharge may not engage in or transact a dry cleaning business.

Dry Cleaning Establishment Remediation Account:

Funds received by the state from the surcharge are deposited within the general fund in the Dry Cleaning Establishment Remediation Account. The state, acting through the Department of Economic and Community Development (DECD), uses the moneys in the account to provide grants to dry cleaning establishments for the purposes of clean-up or prevention of pollution resulting from the discharge, spillage, uncontrolled loss, seepage or filtration of chemicals or hazardous waste on or at the site of dry cleaning establishments.

In order to qualify for a grant, a dry cleaning establishment must demonstrate to the satisfaction of the DECD that it (1) is using or has previously used, tetrachloroethylene or stoddard solvent or other chemicals for the purpose of cleaning clothes or other fabrics, (2) has been doing business and has maintained its principal office and place of business in this state for a period of at least one year prior to the date of its application for assistance under this section **and** (3) is unable to obtain financing from conventional sources on reasonable terms or in reasonable amounts.

Contact the DECD at 860-500-2395, or Brownfields@ct.gov for more information about applying for a grant.

Business Use Tax on Dry Cleaning Establishments: Business Use Tax applies to goods or services purchased by a dry cleaner on which sales tax was not collected.

Examples of purchases subject to use tax are:

- Transfer machines,
- washers,
- extractors,
- dry-to-dry machines,
- reclaiming dryers,
- solvents,
- tanks,
- detergents,
- condensers,
- separators,
- muck cookers,
- carbon adsorption units,
- cartridge filters,
- pipes,
- flanges,
- pumps,
- hangers,
- soap,
- shrink-wrap,
- cleaning supplies,
- packing slips,
- clothing identifiers,
- furniture,
- instruments,
- appliances,
- computers,
- computer software,

- office supplies,
- paper,
- stationery items,
- certain publications, **and**
- books.

See **Informational Publication 2015(16), Q & A on the Connecticut Use Tax for Businesses and Professions.**

Effective Date: Effective upon issuance.

Statutory Authority: Conn. Gen. Stat. §12-263m, as amended by 2017 Conn. Pub. Acts 147, §26; Conn. Gen. Stat. §12-411.

Effect on Other Documents: Special Notice 2017(4), Obligation of Dry Cleaners for the Dry Cleaning Establishment Surcharge and Business Use Tax, is modified and superseded and may not be relied upon on or after the date of issuance of this Special Notice.

Effect of This Document: A Special Notice announces a new policy or practice in response to changes in state or federal laws or regulations or to judicial decisions. A Special Notice indicates an informal interpretation of Connecticut tax law by the Department of Revenue Services (DRS).

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).

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

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

Paperless Filing/Payment Methods (fast, easy, free, and confidential): Business and individual taxpayers can use the **Taxpayer Service Center (TSC)** at www.ct.gov/TSC to file a variety of tax returns, update account information, and make payments online.

File Electronically: You can choose first-time filer information and filing assistance or log directly into the *TSC* to file returns and pay taxes.

Pay Electronically: You can pay taxes for tax returns that cannot be filed through the *TSC*. Log in and select the *Make Payment Only* option. Choose a payment date up to the due date of the tax and mail a paper return to complete the filing process.

DRS E-alerts Email Service: Get connected to the latest DRS news including new legislation, policies, press releases, and more. Visit the DRS website at www.ct.gov/DRS and select *Sign up for e-alerts* under *How Do I?* on the gold navigation bar.

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Dry Cleaning Surcharge
Use Tax
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