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TAXPAYER SERVICES SPECIAL BULLETIN

Recently Enacted Legislation Impacts Connecticut's Conformity to IRC § 174 and IRC § 174A for Corporation Business Tax Purposes

Purpose: In this publication the Department of Revenue Services (“Department”) addresses the impact of recently enacted legislation on Connecticut’s conformity to IRC § 174 and IRC § 174A for purposes of Connecticut’s corporation business tax.

Background: Connecticut’s corporation business tax is codified in Chapter 208 of Title 12 of the Connecticut General Statutes. The corporation business tax is a tax on the privilege of carrying on business in a corporate capacity in Connecticut. Under the law, corporations must calculate their tax under two alternative methods – the net income method and the capital base method - and remit the higher tax. If a corporation owes less than \$250 under both methods, it pays the minimum tax of \$250. With regard to the net income method, the starting point for determining Connecticut taxable income is federal net income. Specific modifications are made that either increase or decrease federal taxable income. Recent legislation impacted the scope of one of these modifications.

To that end, for purposes of determining net income for corporation business tax purposes, corporations are eligible to claim certain deductions. One such deduction allows corporations to deduct “[a]ll items deductible under the Internal Revenue Code effective and in force on the last day of the income year.” See Conn. Gen. Stat. § 12-217(a)(1)(A). This provision includes deductions allowed under federal law by IRC § 174 and IRC § 174A. As explained herein, the Connecticut General Assembly recently enacted legislation that modified Connecticut’s conformity to these provisions. This publication addresses the impact of this legislation.

Availability of deductions under IRC § 174 and IRC § 174A: As noted above, Conn. Gen. Stat. § 12-217(a)(1)(A) allows corporations to deduct “[a]ll items deductible under the Internal Revenue Code effective and in force on the last day of the income year” for purposes of determining their net income. Under federal law, corporations are allowed to deduct qualifying research and experimental expenditures under IRC § 174 and IRC § 174A. Accordingly, corporations are allowed a similar deduction for purposes of determining their net income for Connecticut corporation business tax purposes. Legislation enacted by the Connecticut General Assembly during its 2026 session impacts the ability for corporations to deduct qualifying research or experimental expenditures under IRC § 174 and IRC § 174A. As explained more fully below, this legislation not only impacts the availability of the deductions allowable under IRC § 174 and IRC § 174A for the income year commencing on January 1, 2025 (“2025 income year”), but said legislation also impacts the availability of these deductions in prior income years.¹

Conformity to the IRC § 174: IRC § 174 has been in existence for over sixty years and it remained largely unchanged until this year.² IRC § 174 was substantially amended in 2025 by Federal Public Law 119-121, commonly referred to as the One Big Beautiful Bill Act (“OBBBA”). The changes to IRC § 174 that were made by the OBBBA took effect July 4, 2025.³ As such, and to the extent applicable, it is this version of IRC § 174 that was in effect “on the last day “ of the 2025 income year and, therefore, is the version that would otherwise be incorporated into Connecticut law through Conn. Gen. Stat. § 12-217(a)(1)(A) for said income year. As explained below, the Connecticut General Assembly specifically amended Conn. Gen. Stat. § 12-217 so as to conform to a different version of IRC § 174 for multiple income years, including the 2025 income year.

¹ When used in this publication, the term “income year” shall have the same meaning as the definition of said term that is set forth in Conn. Gen. Stat. § 12-213(a)(5) unless specifically indicated otherwise.

² IRC § 174 was modified in 2017 by the Tax Cuts and Jobs Act.

³ It is important to note that the OBBBA essentially amended IRC § 174 so that it effectively pertains to foreign research and experimental expenditures.

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To that end, the Connecticut General Assembly amended Conn. Gen. Stat. § 12-217 by adding the following language:

(D) For purposes of determining net income under this section: . . .

(iii) For income years commencing on or after January 1, 2022, and prior to January 1, 2026, any research or experimental expenditures paid or incurred for said income years shall be deducted as permitted under Section 174 of the Internal Revenue Code, as in effect on July 3, 2025.

As set forth above, the Connecticut General Assembly expressly conformed to IRC § 174 **as it existed on July 3, 2025** and did so for the income years starting on and after January 1, 2022 and prior to January 1, 2026. For information as to the filing requirements associated with this legislation for the 2025 income year, please see the section entitled “Impact of legislation on 2025 income year returns” below.

Conformity to IRC § 174A: In addition to amending IRC § 174, the OBBBA also enacted IRC § 174A. As explained below, the Connecticut General Assembly amended Conn. Gen. Stat. § 12-217 so as to delay Connecticut’s conformity to IRC § 174A.

As an initial matter, and by way of brief overview, IRC § 174A permanently allows taxpayers at the federal level to fully expense domestic research or experimental expenditures paid or incurred in taxable years beginning after December 31, 2024.⁴ As IRC § 174A first became effective in taxable year 2025 the deduction allowed thereunder would be allowed for purposes of determining net income under Chapter 208 in the 2025 income year. As noted above, the Connecticut General Assembly amended Conn. Gen. Stat. § 12-217 so as to delay Connecticut’s conformity to IRC § 174A.

To that end, the Connecticut General Assembly added the following language to Conn. Gen. Stat. § 12-217:

(D) For purposes of determining net income under this section: . . .

(ii) For income years commencing on or after January 1, 2025, and prior to January 1, 2026, the deduction under Section 174A of the Internal Revenue Code is disallowed; and

As evidenced by the above-quoted language, the Connecticut General Assembly expressly provided that corporations are not eligible to claim the deduction allowed under IRC § 174A in the 2025 income year but will allow such deduction in income years starting on and after January 1, 2026. Thus, the Connecticut General Assembly delayed Connecticut’s conformity to IRC § 174A by one year. For information as to the filing requirements associated with this legislation for the 2025 income year, please see the section entitled “Impact of legislation on 2025 income year returns” below.

Impact of legislation on 2025 income year returns: As set forth above, the Connecticut General Assembly expressly provided that corporations are not eligible to claim a deduction under IRC § 174A in the 2025 income year. As such, any corporation that has already filed a return for the 2025 income year whereon it claimed a deduction from net income based on IRC § 174A will need to amend its return as described below. Similarly, any corporation that has yet to file a return whereon it will claim a deduction from net income based on IRC § 174A must also follow the guidance below.

Whether filing an original or amended **Form CT-1120** for the 2025 income year, a corporation must add back any deduction claimed federally under IRC § 174A for domestic research or experimental expenditures incurred during the 2025 income year. After doing so, the corporation would then be eligible to compute and claim a Connecticut subtraction modification equal to the amount deductible under IRC § 174 as in effect on July 3, 2025.

⁴ The OBBBA also provides transition rules permitting taxpayers to deduct unamortized domestic research or experimental expenditures paid or incurred in 2022 through 2024. As explained below, the Connecticut General Assembly decoupled from these transition rules.

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Please note that the amount of the deduction allowed under IRC § 174 must be computed consistent with the applicable federal amortization rules. The following example illustrates how the adjustments authorized under the recent legislation are to be reported on **Form CT-1120**.

Example:

A Corporation A makes \$1,000,000 of domestic research and experimental expenditures during the 2025 income year and deducts the full amount of said expenditures under IRC § 174A on its federal return. In filing (or amending) its corporation business tax return for the 2025 income year, Corporation A must:

- Report the \$1,000,000 deduction it claimed on its federal return as a Connecticut addition modification.

For the 2025 income year, Corporation A would report this addition modification on the “Other” addition line of **Form CT-1120**. After making this adjustment, Corporation A would also be eligible to:

- Take a subtraction modification equal to the amount deductible under IRC § 174 amortization rules for the 2025 income year.

For the 2025 income year, Corporation A would report this modification on the “Other” subtraction modification line on its **Form CT-1120**. The remaining Connecticut basis in the expenditures must continue to be amortized over the remainder of the applicable five-year period for Connecticut purposes.

Note: A corporation must maintain a separate Connecticut amortization schedule for domestic research or experimental expenditures incurred during income years prior to January 1, 2026 for which a difference in tax basis exists.

Impact of legislation on returns for income years beginning on or after January 1, 2026: As noted above, Connecticut conforms with IRC § 174A for income years starting on or after January 1, 2026. Accordingly, qualifying research or experimental expenditures incurred in income years beginning on or after January 1, 2026, will be treated consistently with IRC § 174A. Moreover, as a result of this conformity, there will be no need for a corporation to make the addition modification described in the preceding section in income years that begin on and after January 1, 2026. That said, corporations that claimed a subtraction modification under IRC § 174 as it existed on July 3, 2025 in an income year prior to January 1, 2026, may continue to claim said deduction to the extent allowable in an income year that commences on and after January 1, 2026. In such circumstances, the corporation must prepare and maintain Connecticut-specific amortization schedules relative to these research and experimental expenditures until the associated deductions are fully recovered by said corporation.

Impact of a federal or state amended return for an income year that commences on and after January 1, 2022 and prior to January 1, 2026: To the extent that a corporation files an amended federal or state return for an income year that commences on and after January 1, 2022 and prior to January 1, 2026 to either report a deduction or a change to a deduction under IRC § 174 and/or IRC § 174A, the corporation must follow the rules set forth herein for determining the impact of said amendment.

Relief from Interest on Underpayment of Estimated Taxes and from certain penalties and interest: In recognition of the impact the legislation regarding Connecticut’s conformity to IRC § 174 and IRC § 174A for determining corporation business tax liability, the Connecticut General Assembly enacted separate legislation that reduces the impact of such changes. To that end, the Connecticut General Assembly enacted legislation that provides that any underpayment of estimated tax that results from the State’s conformity to the research and experimental expenditures provisions of IRC § 174 as they existed on July 3, 2025 for the income years starting on and after January 1, 2022 and prior to January 1, 2026 shall not be included when calculating interest on the underpayment of estimated tax. In addition, the Connecticut General Assembly enacted legislation that authorizes the Commissioner of Revenue

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Services to waive penalties and interest on any additional tax that is due as a result of the State's conformity to the research and experimental expenditures provisions of IRC § 174 as they existed on July 3, 2025 for the income years starting on and after January 1, 2022 and prior to January 1, 2026, provided any additional tax is paid on or before November 15, 2026 or the due date for the tax return on which the additional tax due is to be reported, regardless of extension.

Legislation decouples from Section 70302(f): Section 70302(f) of P.L. 119-21 allows eligible small businesses to retroactively deduct domestic research and experimental expenditures back to December 31, 2021. The Connecticut General Assembly specifically decoupled from this provision. To that end, the Connecticut General Assembly added the following language to Conn. Gen. Stat. § 12-217:

(D) For purposes of determining net income under this section:

(i) For income years commencing on or after January 1, 2022, the deduction under Section 70302(f) of P.L. 119-21 is disallowed;

As evidenced by the above-quoted language, it is clear that the provisions of Section 70302(f) of P.L. 119-21 are of no application for Connecticut corporation business tax purposes. Accordingly, corporations must disregard any federal adjustments that arise as a result of Section 70302(f) of P.L. 119-21 when determining their Connecticut corporation business tax liability.

Effective Date: Upon issuance.

Statutory Authority: Conn. Gen. Stat. § 12-217 as amended by 2026 Conn. Pub. Acts 68, § 265 and 2026 Conn. Pub. Acts 68, § 266.

Effect on Other Documents: None.

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