

Form CT-1040 CRC

Claim of Right Credit

2018

Complete in blue or black ink only. Check the box for Form CT-1040 CRC on the front of your Connecticut income tax return. Attach this form to the back of your completed Connecticut income tax return.

Your first name and middle initial _____	Last name _____	Your Social Security Number ____-____-____
If joint return, spouse's first name and middle initial _____	Last name _____	Spouse's Social Security Number ____-____-____

Purpose: If you have claim of right income for federal tax purposes and are claiming the federal claim of right credit on your 2018 federal return, you may also be entitled to a claim of right credit for Connecticut income tax purposes.

If during your 2018 taxable year you had to repay income you included in your Connecticut adjusted gross income for an earlier taxable year, and the amount you repaid is more than \$3,000, you may be able to claim a credit against your Connecticut income tax for your 2018 taxable year. If you are eligible for the *Connecticut Claim of Right Credit*, complete this schedule to claim a credit equal to the Connecticut income tax you would not have had to pay if the repaid amount had not been included in your Connecticut adjusted gross income in the earlier taxable year.

Eligibility for the Connecticut Claim of Right Credit

You are eligible for the Connecticut claim of right credit if you meet **all** of the following conditions:

- You were a resident, nonresident, or part-year resident individual who included income in Connecticut adjusted gross income for an earlier taxable year(s) (year(s) of receipt). A trust or estate is not eligible to claim relief for Connecticut income tax purposes;
- You were required to repay the income during your 2018 taxable year (year of repayment);
- The amount of the repayment exceeds \$3,000; **and**
- You determined your federal income tax liability for the year of repayment under IRC § 1341(a)(4) (see *Exceptions*) or IRC § 1341(a)(5).

Exceptions: IRC § 1341(a) requires you to determine your federal income tax liability by whichever of the following two methods results in the lesser federal income tax liability.

1. If you are required to determine your federal income tax liability using the **deduction method** (IRC § 1341(a)(4)), you may be eligible for the Connecticut claim of right credit. For the deduction method, you deduct the repayment on your federal income tax return for the year of repayment. Depending on the type of income you repaid, you either deduct the repayment in determining your federal adjusted gross income or in determining your federal taxable income. If the repayment is deducted in determining your federal adjusted gross income, you are **not eligible** for the Connecticut claim of right credit. See *Example 2* on the back of this form. If the repayment is deducted in determining your federal taxable income and reported on federal Form 1040, Schedule A, you are eligible for the Connecticut claim of right credit. See *Example 1* on the back of this form.

If the deduction results in a net operating loss for federal income tax purposes carried back to a taxable year or years preceding the year of repayment, no claim for refund is allowable for Connecticut income tax purposes for the preceding year or years on account of the loss carryback.

2. If you are required to determine your federal income tax liability using the **credit method** (IRC § 1341(a)(5)), you are eligible for the Connecticut claim of right credit. See *Example 1* on the back of this form.

1. Provide the following information for the item of income repaid during the 2018 taxable year.

Taxable Year(s) in Which You Received the Income <small>(Year(s) of receipt)</small>	Type of Income Repaid	Reason(s) for Repayment	Amount of Income Repaid During the 2018 Taxable Year

If the total amount repaid is \$3,000 or less, stop here and do not file this form. You are not entitled to this credit.

2. Which method did you use to determine your 2018 federal income tax liability? See *Exceptions* above.

- Deduction Method
 Credit Method: If you check the credit method, skip Line 3 and go to Line 4.

3. Was the repayment reported as a deduction on Schedule A of the 2018 federal Form 1040?

- Yes
 No If No, stop here and do not file this form. You are not entitled to this credit.

4. Enter the Connecticut income tax liability reported on your Connecticut income tax return for the year(s) of receipt.	4.	
5. Enter your Connecticut income tax liability for the year(s) of receipt after excluding the income you were required to repay during the 2018 taxable year.	5.	
6. Subtract Line 5 from Line 4. This is your 2018 claim of right credit. Include this amount on your 2018 Form CT-1040 , Line 20b; Form CT-1040NR/PY , Line 22a; or Form CT-1040X , Line 22b. ...	6.	

Nonresidents or Part-Year Residents

If you are a nonresident or part-year resident in the year of receipt and repaid income during your 2018 taxable year, you determine the decrease in your Connecticut income tax liability for the year of receipt by excluding the repaid income from your Connecticut adjusted gross income. To the extent the repayment is derived from or connected with sources within this state, you also exclude this repayment from your Connecticut-sourced income.

Documentation Needed to Prove Eligibility for the Connecticut Claim of Right Credit

You must submit **all** of the following documentation with your 2018 Connecticut income tax return:

- A completed Form CT-1040 CRC (attached to the back of your completed Connecticut income tax return);
- A copy of your completed 2018 federal income tax return, including all schedules and attachments, that you signed and filed for your 2018 taxable year;
- Proof you were required to repay income you included in Connecticut adjusted gross income for the year(s) of receipt, such as a letter from your employer requiring you to repay sales commissions;
- A copy of your completed federal income tax return, including all schedules and attachments, that you signed and filed for the year(s) of receipt; **and**
- Proof you repaid the income during your 2018 taxable year, such as a copy of your cancelled check.

How to Compute the Connecticut Claim of Right Credit

Your Connecticut income tax liability for the year of repayment is an amount equal to:

- The tax for the year of repayment computed as if there was no Connecticut claim of right credit; **minus**
- The decrease in tax for the year(s) of receipt that would result solely from the exclusion of the amount of income you were subsequently required to repay from your Connecticut adjusted gross income for the year(s) of receipt.

Line Instructions

Line 1: If you repaid income during your 2018 taxable year that you included in your Connecticut adjusted gross income for an earlier taxable year(s), enter:

- The year(s) of receipt;
- A description of the type of income repaid;
- The reason for the repayment; **and**
- The amount of income repaid. This income **must have been included** in your Connecticut adjusted gross income for the year(s) of receipt.

Line 2: Check the box to indicate if you used the deduction method or the credit method to determine your 2018 federal income tax liability. See *Exceptions* on the front for more information. If you checked the credit method, skip Line 3 and go to Line 4.

Line 3: Check the box to indicate if you reported the repayment as a deduction on Schedule A of your 2018 federal Form 1040.

Line 4: Enter the amount of your Connecticut income tax liability reported on your Connecticut income tax return for the year(s) of receipt. Enter the amount as originally filed, as adjusted by the Department of Revenue Services (DRS), or as you later amended it.

Line 5: Compute the amount of your Connecticut income tax liability for the year(s) of receipt after you exclude from your Connecticut adjusted gross income for the year(s) of receipt the income you repaid during your 2018 taxable year.

Repayments of Social Security benefits may require the recalculation of your taxable benefits to determine the amount to exclude from Connecticut adjusted gross income.

Line 6: Subtract Line 5 from Line 4. Include this amount on your 2018 Form CT-1040, Line 20b; Form CT-1040NR/PY, Line 22a; or Form CT-1040X, Line 22b. This amount is considered a tax payment and will be credited against your Connecticut income tax liability for your 2018 taxable year on the due date for payment of your 2018 Connecticut income tax liability. Check the box for Form CT-1040 CRC on the front of your Connecticut return.

Example 1: In December 2017, James, a Connecticut resident, received advanced commissions from his employer. James included these commissions in his 2017 Connecticut adjusted gross income of \$45,000. In May 2018, James's employer told him that some of his customers had decided to cancel their purchases and James must repay \$4,000 of the commissions he received during 2017. If James is required to determine his federal income tax liability for the 2018 taxable year using the **deduction method** (IRC § 1341(a)(4)), he will deduct the \$4,000 as an itemized deduction on federal Form 1040, Schedule A. Assuming James's filing status on his 2017 and 2018 Connecticut income tax returns is filing separately and his 2018 Connecticut adjusted gross income is \$50,000, he computes his 2018 Connecticut income tax liability as follows:

2018 Connecticut income tax liability on \$50,000	\$2,186
Minus difference between:	
2017 tax payable on \$45,000	= \$1,846
and	
2017 tax payable on \$41,000 (\$45,000 - \$4,000)	= \$1,666
Claim of right credit	—
2018 Connecticut income tax liability	<u>\$ 180</u>
	\$2,006

If James is required to determine his federal income tax liability for the 2018 taxable year using the **credit method** (IRC § 1341(a)(5)), he will also compute his Connecticut income tax liability as shown above.

Example 2: In February 2017, Donna, a nonresident individual who works in Connecticut, realized a capital gain of \$5,000 from the sale of a capital asset. The gain was not derived from or connected with Connecticut sources. Donna included the gain in her 2017 Connecticut adjusted gross income of \$35,000. In September 2018, Donna was required to repay the purchaser of the assets \$5,000 as a result of failure to fulfill conditions of the purchase agreement.

If Donna was required to determine her federal income tax liability for the 2018 taxable year using the **deduction method** (IRC § 1341(a)(4)), she will deduct the repayment as a capital loss on her federal Form 1040, Schedule D. For Connecticut income tax purposes, Donna is not eligible for the claim of right credit because she deducted the repayment under IRC § 1341(a)(4) as a net operating loss in determining her federal adjusted gross income.

If Donna was required to determine her federal income tax liability using the **credit method** (IRC § 1341(a)(5)), she is eligible for the Connecticut claim of right credit to the extent that her 2017 tax liability would be decreased as a result of excluding the \$5,000 she subsequently repaid.