

FORM CT-1120 PIC
Information Return
for Passive Investment Companies

1999

- REFER TO INSTRUCTIONS ON REVERSE SIDE -

Enter Income Year Beginning _____, 1999, and Ending _____, _____

| | | | | | | | | |
|---------------------------------------|-------|----------|------------------------------------|--|--|--|--|--|
| Passive Investment Company (PIC) Name | | | CT TAX REGISTRATION NUMBER | | | | | |
| Number and Street | | | DATE RECEIVED (For Dept. Use Only) | | | | | |
| City or Town | State | ZIP Code | FEDERAL EMPLOYER ID NUMBER | | | | | |

CHECK AND COMPLETE ALL APPLICABLE BOXES

- Date PIC began commercial operations: _____ Date PIC began commercial operations in Connecticut: _____
- Parent company name: _____
Parent company Connecticut Tax Registration Number: _____ Federal Employer Identification Number: _____
- Is a common paymaster used: Yes No
If yes, indicate the common paymaster's:
Name: _____ Connecticut Tax Registration Number: _____
Address: _____ Federal Employer Identification Number: _____
- Did the PIC have at least five full-time equivalent employees in Connecticut for the period covered by this return: Yes No
If yes, indicate the number of PIC employees: Full-time: _____ Part-time: _____ Dual (See instructions): _____
If no, the company does not qualify as a PIC. Do not file this return.
- Method used to determine the number of full-time equivalent employees:
 Actual time or business records
 Safe Harbor Method elected (See instructions):
____ First 30 days of taxable year (See instructions)
____ Average of first three months of taxable year (See instructions)
- Method used to allocate expenses and employee costs to the PIC:
 I.R.C. §482 Type Method (See instructions)
 Safe Harbor Method elected (See instructions):
____ Percentage of Time
____ Percentage of Loans
- On the basis of the methods identified above, attach a schedule indicating all expenses and employee costs (including wages) of the financial service company to be allocated to the PIC, the percentage used in allocating expenses and employee costs to the PIC, and the resulting amount of PIC expenses and employee costs for the taxable year.
- Attach a detailed schedule showing the PIC's total gross receipts less all allocable expenses except for:
 - Interest on borrowings, deposits, and escrows;
 - FDIC insurance premiums; and
 - Investment and banking fees relating to mergers, acquisitions, and other extraordinary transactions.
- The PIC hereby affirms that the Applicable Period selected under the safe harbor methods in either Line 5 or Line 6 is representative of, or generally no less than, its level of employment for the entire year.

DECLARATION: I declare under penalty of false statement that I have examined this return and, to the best of my knowledge and belief, it is true, complete, and correct. (The penalty for false statement is imprisonment not to exceed one year or a fine not to exceed two thousand dollars, or both.) Declaration of preparer (other than the taxpayer) is based on all information of which preparer has any knowledge.

| | | | | |
|--|--------------------------------|-------|------|----------------------------|
| SIGN HERE Keep a copy of this return for your records | Signature of Corporate Officer | Title | Date | Telephone Number () |
| | Paid Preparer's Signature | | Date | Federal Employer ID Number |
| | Firm's Name and Address | | | Telephone Number () |

FORM CT-1120 PIC Instructions

PURPOSE

Use **Form CT-1120 PIC** to establish that the corporation meets the requirements of a passive investment company (PIC) as defined in Conn. Gen. Stat. §12-213(a)(27).

FILING INSTRUCTIONS

If the PIC parent company (taxpayer) is subject to the Connecticut Corporation Business Tax, **Form CT-1120 PIC** must be attached to **Form CT-1120**. If the PIC parent company is not subject to such tax, **Form CT-1120 PIC** must be filed with the Department of Revenue Services by April 1 following the close of its taxable year. Mail to: Department of Revenue Services, PO Box 2974, Hartford, CT 06104-2974.

DEFINITIONS

Passive Investment Company (PIC) means any corporation which is a related person to a financial service company, or to an insurance company as defined in Conn. Gen. Stat. §12-218b, and:

- Employs not less than five full-time equivalent employees in the state;
- Maintains an office in the state; and
- Confines its activities to the purchase, receipt, maintenance, management and sale of its intangible investments, and the collection and distribution of the income from such investments, including, but not limited to, interest and gains from the sale, transfer or assignment of such investments or from the foreclosure upon or sale, transfer or assignment of the collateral securing such investments.

Related Person means:

- A corporation, limited liability company, partnership, association or trust controlled by the taxpayer,
- An individual, corporation, limited liability company, partnership, association or trust that is in control of the taxpayer,
- A corporation, limited liability company, partnership, association or trust controlled by an individual, corporation, limited liability company, partnership, association or trust that is in control of the taxpayer, or
- A member of the same controlled group as the taxpayer.

Control, with respect to a corporation, means ownership, directly or indirectly, of stock possessing fifty percent or more of the total combined voting power of all classes of the stock of such corporation entitled to vote. Control, with respect to a trust, means ownership, directly or indirectly, of fifty percent or more of the beneficial interest in the principal or income of such trust. The ownership of stock in a corporation, of a capital or profits interest in a partnership or association, or of a beneficial interest in a trust shall be determined in accordance with the rules for constructive ownership of stock provided in I.R.C. §267(c) other than paragraph (3) of said section.

Intangible Investments of a PIC are limited to:

- Loans, as defined in Conn. Gen. Stat. §12-218b(a)(10), secured by real property (as defined in Conn. Gen. Stat. §12-218b(a)(11)).
- Short-term investments of cash.

LINE INSTRUCTIONS

Line 1 - Enter the date the PIC began commercial operations. Enter also the date the PIC began commercial operations in Connecticut.

Line 2 - Enter the PIC parent company name and its Connecticut Tax Registration Number and/or Federal Employer Identification Number.

Line 3 - Check the appropriate box to indicate whether a common paymaster is used. If yes, indicate the common paymaster's name, address, Federal Employer Identification Number, and Connecticut Tax Registration Number.

Line 4 - Check the appropriate box to indicate whether the PIC had at least five full-time equivalent employees in Connecticut, enter the number of employees on the appropriate line(s). If the company did not have at least five full-time equivalent employees in Connecticut, the company **does not** qualify as a PIC, and its income will be subject to tax. Do not complete this informational return.

A **full-time employee** must work 35 hours or more per week. (See Conn. Gen. Stat. §12-217u(d); Conn. Labor Department Reg. §31-236-58(c)(2).) A **dual employee** works for both the PIC and the parent company. Determination of full-time equivalents: Part-time or dual employees may be used in calculating the number of full-time equivalent employees. The PIC must employ that number of full-time, part-time, and/or dual employees that, when calculating the amount of time of such employees work on PIC-related matters, will add up to at least five full-time equivalent employees. However, the maximum number of employees whose time may be allocated to attain the requisite five full-time equivalent employees is twenty-five (25).

Line 5 - Indicate the method used to determine the number of full-time equivalent employees. The five full-time equivalent employees may be established from the employees' time records. In lieu of relying on actual time records maintained throughout the year, taxpayers may use an annual **safe-harbor test** based on the employees' time records for either the first 30 days of the taxable year or for an average of the first three months in such taxable year ("the applicable period").

Line 6 - Check the appropriate box to identify the method used to allocate expenses and employee costs to the PIC.

PIC-related expenses and costs may be allocated to a PIC on any reasonable basis provided in I.R.C. §482. Use of such method will require the taxpayer to maintain adequate books and records. In lieu of this method, the taxpayer is allowed to make one of two alternative **safe harbor elections** on its return each year in determining the reasonable allocation of the aggregate pool of expenses and employee costs to the PIC.

Percentage of Time Method - Under this safe harbor method, PIC-related expenses and employee costs are allocated on the basis of the ratio of the number of PIC employees to the total number of employees in the PIC and the related financial service company. The number of PIC employees may be determined either from the employees' time records used in calculating the five full-time equivalent employees under the safe harbor test, or from actual time records for those taxpayers that do not rely on the safe harbor test. No employee that expends less than 20% (.20) of his or her time on PIC business shall be included in the calculation of the number of PIC employees for purposes of determining the ratio.

Percentage of Loans Method - Under this method, PIC-related expenses and employee costs may be allocated on the basis of the ratio of the number of PIC loans to all loans serviced by the PIC and its related financial service company. Such ratio shall be based upon the average number of loans held during the first month of a PIC's taxable year or first 30 days after it begins commercial operations in Connecticut for its first taxable year, and the average number of loans held during the last month of a PIC's taxable year. This method may be used by any entity that employs five or more full-time employees on PIC business without the need to allocate employees' time in order to qualify for PIC status.

The method selected in a particular year must be consistently applied to **all** expenses and employee costs on an "all or nothing" basis.