

2002

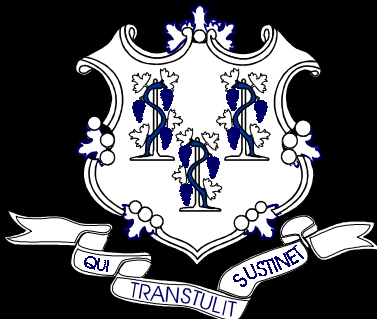
FORM CT-709

Connecticut Gift Tax

Return and Instructions

This booklet
contains:

- Form CT-709
- Form CT-709 EXT
- Form CT-709
Farmland



Dear Customer:

No one likes paying taxes, not even me, but we all know that it is our duty. At the Connecticut Department of Revenue Services (DRS), we want to make your filing responsibilities as easy as possible. This booklet contains information about tax changes that may affect you, as well as ways to make your filing as easy and accurate as possible. Please read it carefully.

DRS Taxpayer Services staff can answer any of your questions by phone, letter, or e-mail. Use the information on the back cover to reach them. The DRS Web site is also a valuable resource that is available 24 hours a day, seven days a week. Log on to the address below to preview and download Connecticut tax forms, DRS publications, and other information that you may need to complete this or any other Connecticut tax return.

DRS continues to focus on providing you with excellent customer service and a user-friendly approach to tax administration. I welcome your comments and ideas on how we can improve the way we do business. Please phone, write, or e-mail me through our Web site.

I look forward to hearing from you.

Sincerely,

A handwritten signature in cursive script that reads "Gene Gavin".

Gene Gavin
Commissioner of Revenue
Services

Taxpayer information is available on our Web site:

www.drs.state.ct.us

CONN-TAX

If you have a touch-tone phone, you can obtain important income tax information 24 hours a day from CONN-TAX, the Department's information line. Call **1-800-382-9463** (in-state) or **860-297-5962** (from anywhere), press **1** to be connected to the "Income Tax Information Menu," then press **2** to select "Recorded Income Tax Information." Enter the three-digit number next to the topic of your choice shown below, or follow the prerecorded instructions.

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Extended Telephone Hours for the 2002 Filing Season (Option "0"):

Monday,	January 27	(until 7 p.m.)
Monday,	February 3	(until 7 p.m.)
Monday,	February 10	(until 7 p.m.)
Tuesday,	February 18	(until 7 p.m.)

2003 Extended Telephone Personal Assistance and Walk-in Hours:

(25 Sigourney Street, Hartford Only)

Saturday,	April 12	(8:30 a.m. - 12:00 p.m.)
Tuesday,	April 15	(until 8 p.m.)

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Connecticut Succession Tax

The Connecticut succession tax is imposed on the transfer of property after death. The succession tax differs from an estate tax in that the size of the exemption and the rate of taxation vary depending upon the relationship of the decedent to the individual receiving the decedent's property.

The tax is levied on the transfer of property to heirs or beneficiaries after an individual dies. The relationship of the decedent to the individual receiving the property determines the class of the transfer, and fixes the applicable exemption from taxation as well as the tax rate.

The succession tax is being reduced in increments, and ultimately will be repealed in 2006. For more information on the phaseout of the Connecticut succession tax, request a copy of **Special Notice 2001(10), More 2001 Legislation Affecting the Succession Tax**. See *How to Get Additional Forms and Publications* on Page 5.

A credit is allowed on a succession tax return in the amount of gift tax imposed **and paid** on **Form CT-709, Connecticut Gift Tax Return**, for taxable gifts that are includable in the gross taxable estate of the donor.

Some Important Changes

- The Connecticut gift tax will be reduced in increments, starting with gifts made during 2004. The tax will ultimately be repealed after 2007 except for those donors who make Connecticut taxable gifts exceeding \$1 million during a calendar year.
- If the amount of your Connecticut taxable gifts is \$25,000 or less for calendar year 2002, you do not owe Connecticut gift tax; file **Form CT-709, Connecticut Gift Tax Return**, only if you made a gift of farmland and valued it based upon its use as farmland.

Gift Tax Rate Schedule

Calendar Year	Amount of Taxable Gifts, for Connecticut Gift Tax Purposes	Tax
Prior to 2001	\$25,000 or less	1%
	over \$25,000 but not over \$50,000	\$250 plus 2% of the excess over \$25,000
	over \$50,000 but not over \$75,000	\$750 plus 3% of the excess over \$50,000
	over \$75,000 but not over \$100,000	\$1,500 plus 4% of the excess over \$75,000
	over \$100,000 but not over \$200,000	\$2,500 plus 5% of the excess over \$100,000
2001 2002 2003	over \$200,000	\$7,500 plus 6% of the excess over \$200,000
	\$25,000 or less	No Gift Tax Due
	over \$25,000 but not over \$50,000	\$250 plus 2% of the excess over \$25,000
	over \$50,000 but not over \$75,000	\$750 plus 3% of the excess over \$50,000
	over \$75,000 but not over \$100,000	\$1,500 plus 4% of the excess over \$75,000
2004	over \$100,000 but not over \$675,000	\$2,500 plus 5% of the excess over \$100,000
	over \$675,000	\$31,250 plus 6% of the excess over \$675,000
	\$50,000 or less	No Gift Tax Due
	over \$50,000 but not over \$75,000	\$750 plus 3% of the excess over \$50,000
	over \$75,000 but not over \$100,000	\$1,500 plus 4% of the excess over \$75,000
2005	over \$100,000 but not over \$700,000	\$2,500 plus 5% of the excess over \$100,000
	over \$700,000	\$32,500 plus 6% of the excess over \$700,000
	\$75,000 or less	No Gift Tax Due
	over \$75,000 but not over \$100,000	\$1,500 plus 4% of the excess over \$75,000
2006	over \$100,000 but not over \$700,000	\$2,500 plus 5% of the excess over \$100,000
	over \$700,000	\$32,500 plus 6% of the excess over \$700,000
	over \$850,000	\$40,000 plus 6% of the excess over \$850,000
2007	\$100,000 or less	No Gift Tax Due
	over \$950,000	\$45,000 plus 6% of the excess over \$950,000
After 2007	\$950,000 or less	No Gift Tax Due
	over \$1,000,000	\$47,500 plus 6% of the excess over \$1,000,000

General Information

How to Get Help

DRS is ready to help you and offers several resources where you can get answers to your Connecticut tax questions. Visit the DRS Web site at: www.drs.state.ct.us or for personal assistance, refer to the back cover of this booklet for a list of DRS walk-in offices and telephone numbers. DRS offices are open Monday through Friday, 8:00 a.m. to 5:00 p.m. If you visit, be sure to bring your completed federal Form 709.

Personal telephone assistance is available Monday through Friday, 8:00 a.m. to 5:00 p.m. Extended hours are offered January through April. Automated information may answer your questions anytime. Call Conn-Tax, the DRS information line or visit the DRS Web site for details.

How to get Additional Forms and Publications

Download and print Connecticut tax forms and publications seven days a week from the DRS Web site at: www.drs.state.ct.us. Forms are also available during regular business hours at any of the DRS walk-in offices and the other sources listed on the back cover of this booklet. You may also photocopy the forms you need from the *2002 Connecticut Package X*, which is available at most public libraries.

Financial Disability

If you, as the donor, are financially disabled, as defined in I.R.C. §6511(h)(2), the statute of limitations for having an overpayment of Connecticut gift tax refunded to you is extended for as long as you are financially disabled. You are considered financially disabled if you are unable to manage your own affairs by reason of a medically determinable physical or mental impairment that has lasted or can be expected to last for a continuous period of not less than 12 months. You are not considered financially disabled during any period that your spouse or any other person is authorized to act on your behalf in financial matters.

Recordkeeping

Keep a copy of your tax return, worksheets that you used, and records of all items appearing on the return until the statute of limitations expires for that return. Usually, this is three years from the date the return was due or filed, whichever is later. You may need this information to prepare future returns or to file amended returns.

Copies of Returns

Copies of previously filed Connecticut gift tax returns may be requested from DRS by completing **LGL-002**, *Request for Disclosure of Tax Return or Tax Return Information*. Requests are normally processed in three weeks.

Steps to Completing Form CT-709

Before You Start

Form CT-709 is an annual return and covers the entire calendar year. File your 2002 Form CT-709 on or before April 15, 2003. If the donor died during the calendar year, see *When to File* on Page 6.

Form CT-709 covers *all* gifts you made to *all* donees during the calendar year. Do not file a separate Form CT-709 for each gift or for each donee.

No joint returns. If you and your spouse are each required to file Form CT-709, you must each file a separate Form CT-709. You and your spouse may not file a joint Form CT-709.

Step One – Determine whether you are required to file a federal gift tax return.

Determine whether you are required to file federal Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return, by following the instructions for federal Form 709.

If you are not required to file federal Form 709, *stop here*. You are not required to file **Form CT-709**.

Step Two – Determine whether you are required to file a Connecticut gift tax return.

If you are required to file federal Form 709, use the information on that return to determine whether you are required to file Form CT-709.

If you are a resident individual you are required to file Form CT-709 if:

- You made a gift of real or tangible personal property located in Connecticut or made a gift of intangible property, and your amount of Connecticut taxable gifts (the amount entered on your **Form CT-709**, *Schedule A*, Line 13) is more than \$25,000;
- You made a gift of farmland and valued it in accordance with Conn. Gen. Stat. §12-646a. (See *Schedule CT-709 Farmland*.)

If you are a nonresident individual you are required to file Form CT-709 if:

- You made a gift of real or tangible personal property located in Connecticut or made a gift of intangible property employed in carrying on any trade or business in Connecticut and your amount of taxable gifts, for Connecticut gift tax purposes (the amount entered on your Form CT-709, *Schedule A*, Line 13) is more than \$25,000.
- You made a gift of farmland and valued it in accordance with Conn. Gen. Stat. §12-646a. (See *Schedule CT-709 Farmland*.)

Your residency status is determined at the time a gift is made. The criteria used to determine residency for Connecticut gift tax purposes are the same as the criteria used to determine residency for Connecticut income tax purposes.

Step Three – Complete Form CT-709

Proceed item by item, reading the instructions for each line item before you enter any amount. Line instructions are on Pages 10 through 15 in this booklet.

Person Responsible for Filing Return and Paying Tax

If **Form CT-709** must be filed, the donor is responsible for filing Form CT-709 and paying the tax due.

If a donor becomes legally incompetent or dies before filing the return, the donor's guardian, conservator, executor, or administrator is responsible for filing the return. If there is no duly qualified executor or administrator, the donor's heirs, legatees, devisees, and distributees are required to pay the tax to the extent of the value of their inheritances, bequests, devises, or distributive shares of the donor's estate.

If the gift tax is not paid when due, each donee is personally liable for the tax to the extent of the value of the gift received.

When to File Form CT-709

In general, **Form CT-709** is due on or before April 15 of the year following the year the gifts were made unless an extension for filing **Form CT-709** is granted.

Death of donor: Where gifts were made during the calendar year in which the donor died, the due date for **Form CT-709** depends on whether the donor's estate is required to file a federal estate tax return.

1. If no federal estate tax return is required, **Form CT-709** is due on or before April 15 following the calendar year when the gifts were made, unless an extension for **Form CT-709** is granted.
2. If a federal estate tax return is required, **Form CT-709** is due on or before the **earlier** of:
 - The due date for filing the federal estate tax return (within nine months of the date of the donor's death), with extensions; or
 - April 15 of the year following the calendar year when the gifts were made, unless an extension for **Form CT-709** is granted.

If the due date falls on a Saturday, Sunday, or legal holiday, the next business day is the due date.

Your return will meet the timely filed and timely payment rules if the U.S. Postal Service cancellation date, or the date recorded or marked by a designated private delivery service (PDS), is on or before the due date. Not all services provided by the designated PDSs qualify.

The following are the designated PDSs and designated types of service at the time of publication:

Airborne Express (Airborne) <ul style="list-style-type: none"> • <i>Overnight Air Express Service</i> • <i>Next Afternoon Service</i> • <i>Second Day Service</i> 	DHL Worldwide Express (DHL) <ul style="list-style-type: none"> • <i>DHL "Same Day" Service</i> • <i>DHL USA Overnight</i>
Federal Express (FedEx) <ul style="list-style-type: none"> • <i>FedEx Priority Overnight</i> • <i>FedEx Standard Overnight</i> • <i>FedEx 2 Day</i> • <i>FedEx International Priority</i> • <i>FedEx International First</i> 	United Parcel Service (UPS) <ul style="list-style-type: none"> • <i>UPS Next Day Air</i> • <i>UPS Next Day Air Saver</i> • <i>UPS 2nd Day Air</i> • <i>UPS 2nd Day Air A.M.</i> • <i>UPS Worldwide Express Plus</i> • <i>UPS Worldwide Express</i>

This list is subject to change.

To verify the names of designated PDSs and designated types of service, check the DRS Web site or call DRS. See **Policy Statement 2002(4)**, *Designated Private Delivery Services and Designated Types of Service*.

Using the 2002 Form CT-709 for Gifts Made During 2003

The 2002 Form CT-709 may be used for gifts made during 2003 **but only for a donor who died during 2003** and if the following conditions are met:

1. The donor died before July 15, 2003, and the due date for filing federal Form 709 is nine months after the date of death; **and**
2. The 2003 Form CT-709 is not available by the time the return is required to be filed.

However, any tax law changes that are effective for the calendar year during which the gifts were made must be incorporated, and 2002 must be crossed out on the top of Form CT-709 and replaced with 2003.

Extension Requests

You may request an extension of time to file your Connecticut gift tax return by filing **Form CT-709 EXT**, *Application for Extension of Time to File Connecticut Gift Tax Return*. If you request an extension of time to file your federal gift tax return, you do not have to provide an explanation for requesting an extension of time to file your Connecticut gift tax return. If you do not request an extension of time to file your federal gift tax return, you must provide an explanation for requesting an extension of time to file your Connecticut gift tax return.

Payment of all of the Connecticut gift tax that you expect to owe must accompany Form CT-709 EXT. Filing Form CT-709 EXT only extends the time to file your Connecticut gift tax return; it does not extend the time to pay Connecticut gift tax. If the payment accompanying your

Form CT-709 EXT is less than the gift tax reported on your Form CT-709, you will owe interest and may owe a penalty. See *Interest and Penalties* below.

If a taxpayer is unable to request an extension because of illness, absence, or other good cause, any person standing in a close personal or business relationship to the taxpayer (including an attorney, accountant, or enrolled agent) may file the request on the taxpayer's behalf.

Where to File

Use the pre-addressed envelope enclosed with your return or mail to:

**Department of Revenue Services
PO Box 2978
Hartford CT 06104-2978**

Interest and Penalties

In general, interest and penalty apply to any portion of the tax that is not paid on or before the original due date of the return.

Interest

If you do not pay the tax when due, you will owe interest at the rate of 1% (.01) per month or fraction of a month until the tax is paid in full.

Interest on underpayment or late payment of tax cannot be waived.

Penalty for Late Payment or Late Filing

The penalty for late payment or underpayment of the gift tax is 10% (.10) of the tax due or \$50, whichever is greater.

If no tax is due, DRS may impose a \$50 penalty for the late filing of any return or report that is required by law to be filed.

Penalty for Failure to File

If you do not file your return and DRS files a return for you, the penalty for failure to file is 10% (.10) of the balance due or \$50, whichever is greater. If you were required to file an amended **Form CT-709** and failed to do so, you will be subject to a penalty. See *Amended Returns*, on Page 15.

Waiver of Penalty

The donor may be able to have the penalty waived if the failure to file or pay tax on time was due to reasonable cause. Interest cannot be waived. Before a penalty waiver can be granted, all tax and interest must be paid. All requests must:

- Be in writing and contain a clear and complete explanation;
- Include the donor's name and Social Security Number (SSN);

- Include the name of the original form filed or billing notice received;
- Include the taxable filing period; **and**
- Include documentation supporting your explanation.

Attach the penalty waiver request to the **front** of the tax return or mail separately with a copy of the tax return to:

**Department of Revenue Services
Penalty Review Committee
PO Box 5089
Hartford CT 06102-5089**

Comparison Between Federal Gift Tax and Connecticut Gift Tax

Gifts

Any transfer that is treated as a gift for federal gift tax purposes is also treated as a gift for Connecticut gift tax purposes. All gifts that are subject to Connecticut gift tax are also subject to federal gift tax, but not all gifts that are subject to federal gift tax are subject to Connecticut gift tax. See *Total Amount of Gifts* on Page 8.

Valuation

In general, the valuation rules that are used for federal gift tax purposes are also used for Connecticut gift tax purposes unless a gift of farmland is made. (If a gift of farmland is made, see *Gifts of Farmland*, on Page 9.) These rules include the special valuation rules of I.R.C. §§2701 to 2704 where they apply. Generally, the special valuation rules apply if a donor transfers certain property to a member of his or her family and, immediately after the transfer, retains or is deemed to have retained an interest in the property. For example, certain gifts of real property in which the donor retains a life estate and transfers a remainder interest to a member of his or her family are subject to the special valuation rules. Where the special valuation rules apply, the value of the retained interest is disregarded in determining the value of the gift made to the family member. (See I.R.C. §2702.)

Example: During 2002, Mary conveys her house title to her three children and retains a life use for herself. Mary does not receive any money or other type of payment from her children. Mary has made a gift of a future interest to her children. Because this is a gift of a future interest to her lineal descendants, it is subject to the special valuation rules (I.R.C. §§2702 et seq.). The value of Mary's gift determined under the special valuation rules is the property's fair market value (less encumbrances). Because this is a gift of a future interest, annual exclusions do not apply.

Gift Splitting

If both spouses consent to gift split for federal gift tax purposes, all gifts made to third parties during the calendar year, whether made by one spouse alone or made partly by each spouse, are considered made one-half by each spouse (only if, at the time of the gift, each spouse is a citizen or resident of the U. S.). For federal purposes the first \$22,000 of gifts of a present interest in property to a donee by consenting spouses during the calendar year are not subject to tax.

To gift split spouses:

- Must be legally married to each other at the time the gifts were made for gift splitting to apply. If they are subsequently divorced during the year, they may still gift split for gifts made while they were married so long as neither marries anyone else during the year; **and**
- Must both be citizens or residents of the United States on the date of the gift; **and**
- One spouse may not create a general power of appointment in the other spouse over the property transferred.

If the spouses consent to gift splitting, all gifts made during the year that qualify must be split.

The executor or administrator for a deceased spouse's estate, or the guardian of a legally incompetent spouse, may signify the consent. The consent of an executor or administrator will not be effective for gifts made by the surviving spouse during that portion of the calendar year that his or her spouse was deceased.

If both spouses consent to gift split for federal gift tax purposes, they are required to gift split for Connecticut gift tax purposes. The rules that apply to determine whether and which gifts may be gift-split for federal gift tax purposes also apply for Connecticut gift tax purposes. If both spouses do not consent to gift split for federal gift tax purposes, they may not gift split for Connecticut gift tax purposes.

Where consent is given the Connecticut gift tax liability of the spouses is joint and several. Joint and several means one or both parties can be held responsible to pay the full amount of the tax due.

No Joint Gift Tax Return

A married couple may **not** file a joint gift tax return for federal or Connecticut gift tax purposes.

Total Amount of Gifts

Federal total amount of gifts is the sum of the value, on the date of the gift, of each gift that was made by a donor to each donee during the calendar year. Certain gifts are wholly or partially excluded from the total amount of gifts. (See *Annual Exclusion*, on this page.)

Connecticut total amount of gifts is the sum of the value, on the date of the gift, of each gift made by a donor to each donee during the calendar year that is subject to Connecticut gift tax. Certain gifts are wholly or partially excluded from the total amount of gifts. (See *Annual Exclusion* below.)

The Connecticut total amount of gifts will be less than the federal total amount of gifts, if:

- Gifts made by the donor are not subject to Connecticut gift tax (such as a gift of real or tangible personal property located outside Connecticut); **or**
- The donor is not entitled to all or a portion of the Connecticut annual exclusion (the first \$11,000 of any gifts to a particular donee during a calendar year) because all or a portion of the first \$11,000 of gifts to a donee during the calendar year is not subject to Connecticut gift tax (such as a gift of real property located outside Connecticut); **or**
- The Connecticut value of any gift differs from the value for federal gift tax purposes (such as a gift of farmland, where the donor claims special valuation on *Schedule CT-709 Farmland*).

Taxable Gifts

Federal taxable gifts means the federal total amount of gifts, less deductions for gifts made to charitable organizations or for gifts made to a spouse who is a U. S. citizen.

Connecticut taxable gifts means the Connecticut total amount of gifts less deductions for gifts made to:

- Charitable organizations (as long as the gift is included in the Connecticut total amount of gifts), **or**
- A spouse who is a United States citizen (as long as the gift is included in the Connecticut total amount of gifts).

The deductions allowed from the Connecticut total amount of gifts will be less than the deductions allowed from the Federal total amount of gifts if the gifts made to a charitable organization or to a spouse are not included in the Connecticut total amount of gifts (such as a gift of real or tangible personal property located outside Connecticut).

Annual Exclusion

For **federal** gift tax purposes, the first \$11,000 (first \$22,000 if spouses gift split) of gifts to a donee during the calendar year of a present interest in property is excluded from the total amount of gifts. There is no annual exclusion for gifts of future interests. A present interest in property is an unrestricted right to the immediate use, possession, or enjoyment of property or the income from the property. The first \$110,000 of any gifts made to a spouse who is not a U. S. citizen during the calendar year, of a present interest in property is excluded from the total amount of gifts.

For **Connecticut** gift tax purposes, the first \$11,000 (first \$22,000 if spouses gift split) of gifts to a donee during the calendar year of a present interest in property are excluded from the Connecticut total amount of gifts if the gifts are of:

- Real or tangible personal property located in Connecticut, **or**
- Intangible property and the donor is a resident individual, **or**
- Intangible property employed in carrying on any trade or business in Connecticut and the donor is a nonresident individual.

The first \$110,000 of gifts made to a spouse who is not a U. S. citizen during the calendar year of a present interest in property is excluded from the Connecticut total amount of gifts if the gifts are of:

- Real or tangible personal property located in Connecticut, **or**
- Intangible property and if the donor is a resident individual, **or**
- Intangible property employed in carrying on a trade or business in Connecticut and the donor is a nonresident individual.

The Connecticut gift tax annual exclusion amount is less than the federal annual exclusion amount if the first \$11,000 of gifts to a donee (of a present interest in property) is of property located outside Connecticut.

Unified Credit

There is a unified credit against the federal estate and gift taxes. There is no unified credit against the Connecticut gift tax. Any tax computed as payable on Form CT-709 must be remitted with Form CT-709.

Example of Computation of Federal and Connecticut Gift Taxes

Beth Smith, a Connecticut resident, makes only the following gifts during calendar year 2002:

1. To her daughter Lynn, land located in New York that has a fair market value of \$40,000.
2. To her son Steven, \$25,000 in cash.
3. To her daughter Karen, stocks that have a fair market value of \$30,000.

Federal gift tax: The **value** of the gifts that Beth made to her children is \$95,000. However, the **total amount** of gifts is only \$62,000. This is because all gifts were of a present interest in property allowing her an \$11,000 annual exclusion for each donee. Beth's **taxable** gifts are also \$62,000 because no deductions are allowable for these gifts. Beth must file a federal gift tax return for calendar year 2002.

Assuming Beth has not made any taxable gifts during previous calendar years, she would offset the tax calculated on the \$62,000 of taxable gifts against the unified credit; which for calendar year 2002 is \$345,800. The

federal gift tax on \$62,000 of taxable gifts is \$13,520. This would leave Beth a unified credit balance of \$332,280, which may be used in future years.

Connecticut gift tax: The value of the Connecticut gifts Beth made to her children is \$55,000 (the gift to Lynn of land located in New York is not subject to Connecticut gift tax). Her gifts to Steven and Karen are gifts of a present interest in property so she is allowed an \$11,000 annual exclusion for each child. Her Connecticut total amount of gifts is \$33,000. This is also the amount of her Connecticut taxable gifts because deductions are not allowed for these gifts.

Because her Connecticut taxable gifts for 2002 are more than \$25,000, Beth must file **Form CT-709, Connecticut Gift Tax Return**.

Completing Form CT-709: Beth must complete *Schedule A* of Form CT-709 to report her gifts subject to Connecticut gift tax as follows:

Gift 1: Steven Smith	\$25,000	1/4/02	\$25,000
Gift 2: Karen Smith	\$30,000	3/25/02	\$30,000
Line 1: Total Gifts			\$55,000
Lines 2 through 4			\$0.00
Line 5			\$55,000
Line 6			\$22,000
Line 7			\$33,000
Lines 8 through 12			\$0.00
Line 13			\$33,000

Gifts of Farmland

Transfers of Farmland or Change of Classification

If land classified as farmland under Conn. Gen. Stat. §12-107c is transferred to a donee who is a lineal descendant or that descendant's spouse, the land may be valued based on its current use as farmland. If, within ten years of the transfer, the donee transfers this farmland to a person other than the donee's lineal descendant or that descendant's spouse, or the land is no longer classified as farmland, the donee will be liable for the difference between the tax that was due from the donor and the tax that would have been due if the land was valued at its fair market value.

A **lineal descendant** is a person in the direct line of descent, such as a child or grandchild. A lineal descendant does not include a corporation, partnership, or trust.

The donor who claims special valuation on a gift of farmland must provide a copy of *Schedule CT-709 Farmland* to the donee, so the donee knows the amount of any additional tax that may become due.

Due Date of Additional Tax Liability

If within ten years a gift of farmland is transferred to a person other than the donee's lineal descendant or that descendant's spouse, or the land is no longer classified as farmland under Conn. Gen. Stat. §12-107c, the donee must submit to DRS a copy of *Schedule CT-709 Farmland* that the original donor provided to the donee. The additional

tax entered on Line F of *Schedule CT-709 Farmland* must be paid no later than 60 days following the transfer or the change in classification. The donee must provide a written statement indicating when the land was transferred to a person other than the donee's lineal descendant or that descendant's spouse, or, if the land is no longer classified as farmland under Conn. Gen. Stat. §12-107c, when the classification of the land was changed.

Attach a check or money order for the additional tax to a copy of *Schedule CT-709 Farmland* provided by the donor to the donee and the written statement and mail them to:

**Department of Revenue Services
PO Box 2978
Hartford CT 06104-2978**

The check or money order should be payable to the "Commissioner of Revenue Services."

If the tax is not paid on time, the penalty is 10% (.10) of the balance due or \$50, whichever is greater. Interest will be charged on the underpayment of the tax at the rate of

1% (.01) per month or fraction of a month.

The Commissioner may, for good cause, extend the time for payment of the tax if the donee (or, if the land was transferred to the donee's lineal descendant or the descendant's spouse, the descendant or the descendant's spouse) files a written application with the Commissioner on or before the 60-day period expires.

Nonresident Aliens

Nonresident aliens are subject to gift tax for gifts of property located within Connecticut. Under certain circumstances they are also subject to gift tax for gifts of intangible property. For additional guidance on the treatment of those gifts for Connecticut gift tax purposes, see I.R.C. §2501(a).

If the nonresident alien does not have and is not eligible for a SSN, he or she must obtain an Individual Taxpayer Identification Number (ITIN) from the IRS and enter it in the space provided for a SSN.

Instructions for Form CT-709

Section 1

General Instructions

The top of **Form CT-709** requests information concerning the donor and the consenting spouse if gift splitting is elected. You must enter the donor's name, address, SSN, legal residence, and citizenship. Check the box for **Amended Return** if you are filing an amended return.

Line Instructions

- A.** 1. Check this box if the donor died during the year **and** enter the date of death.
2. Check this box if the donor died during the calendar year for which this return is filed **and** the donor is not required to file a federal estate tax return.
- B.** Check this box if the donor died during the year **and** the donor's estate filed federal Form 4768, Application for Extension of Time to File a Return and/or Pay U.S. Estate (and Generation-Skipping Transfer) Taxes.
- C.** 1. Check this box if you are making a gift of land that is classified as farmland under Conn. Gen. Stat. §12-107c to a lineal descendant or that descendant's spouse and you are using a value based on its current use as farmland. Attach an appraisal or other document showing an adequate explanation of value based upon its current use and *Schedule CT-709 Farmland*. If no appraisal is attached to show how the property is valued, explain in detail how it was determined.
2. Check this box if, for federal gift tax purposes, you elected to treat certain contributions made during

calendar year 2002 to qualified state tuition programs as being made ratably over a five-year period. If your total contributions during calendar year 2002 are \$55,000 or less, report only 20% of your total contributions on your 2002 Form CT-709, and report 20% of your total contributions on your Form CT-709 for calendar years 2003, 2004, 2005 and 2006. If your total contributions during calendar year 2002 are more than \$55,000, report on your 2002 Form CT-709 the amount in excess of \$55,000 plus \$11,000 (20% of the your total contributions of \$55,000 or less), and report 20% of your total contributions on your Form CT-709 for calendar years 2003, 2004, 2005 and 2006. Please refer to the *Gift Tax Rate Schedule* on Page 4. If the amount of your taxable gifts does not exceed \$25,000, you are **not** required to file **Form CT-709**, unless you made a gift of farmland and valued it based upon its use as farmland (and not based upon its fair market value).

Example: In year 1, when the annual exclusion amount under I.R.C. §2503(b) is \$11,000, *P* makes a contribution of \$60,000 to a qualified state tuition program for the benefit of *P*'s child. *P* elects under I.R.C. §529(c)(2)(B) to account for the gift ratably over a five-year period beginning with the calendar year of contribution. *P* is treated as making an excludible gift of \$11,000 in each of years 1 through 5 and a taxable gift of \$5,000 is reported in year 1.

D. Indicate whether your spouse is a U. S. citizen. If “NO,” indicate if any property was transferred to him or her during the calendar year.

E. If you and your spouse consented for federal gift tax purposes to consider all the gifts made during the calendar year as made one-half by each spouse, and, as a result, are required to gift split for Connecticut gift tax purposes, check the box marked “YES” on Line E and enter the consenting spouse's name and SSN on Line H. If the gift splitting election is made, the consenting spouse must sign and date **Form CT-709** on Line H.

The consent may generally be signed any time after the end of the calendar year. However, there are two exceptions:

1. The consent may not be signed after April 15 following the end of the year in which the gift was made. (If neither you nor your spouse has filed a federal gift tax return for the year on or before that date, the consent must be made on the first federal gift tax return for the year filed by either of you.); **and**
2. The consent may not be signed after a notice of deficiency for federal gift tax for the year has been sent to either you or your spouse.

The executor for a deceased spouse or the guardian for a legally incompetent spouse may consent.

The consent is effective for the entire calendar year. Therefore, all gifts made by both you and your spouse to third parties during the calendar year (while you were married) must be split. (See *Gift Splitting* on Page 8.)

F. If you were married to one another for the entire calendar year, check the “YES” box. If you were married for only part of the year, check the “NO” box.

Also, check the box that explains the change in your marital status during the year and give the date you were married, divorced, or widowed.

G. Indicate whether or not a gift tax return will be filed by your spouse for the year.

H. See instructions for Line E.

Section 2 - Tax Computation

Line Instructions

Line 1

Enter the amount from **Form CT-709, Schedule A**, Line 13. This is the amount of taxable gifts for the year.

Line 2

Calculate the Connecticut gift tax by using the *Gift Tax Rate Schedule* (on Page 4) and enter the amount on Line 2.

(The unified credit allowed to offset gift taxes on lifetime transfers for federal gift tax purposes cannot be taken for Connecticut gift tax purposes.)

Line 3

Enter the amount, if any, paid with **Form CT-709 EXT, Application for Extension of Time to File Connecticut Gift Tax Return**.

Line 4

If the amount on Line 3 is greater than Line 2, enter the amount overpaid.

Line 5

If the amount on Line 3 is less than Line 2, enter the balance of tax due.

Line 6

If you fail to pay the tax when due, see *Interest and Penalties* on Page 7.

Line 7

If you are making a late payment or filing the return after the due date of the return, see *Interest and Penalties* on Page 7.

Line 8

Add Lines 5, 6, and 7 and enter the total on Line 8. This is your balance due. Pay this amount in full with the return. Make your check or money order payable to the “Commissioner of Revenue Services.” Write “2002 Form CT-709” on the front of your check or money order in the lower left corner. Writing your Social Security Number(s) on the front of your check or money order will ensure accuracy and timeliness in processing your payment. **Do not send cash.**

Who Must Sign the Return

The donor must sign and date **Form CT-709**. If the donor becomes legally incompetent or dies before filing the gift tax return, the donor’s guardian, conservator, executor, or administrator, as the case may be, may sign the return on the donor’s behalf.

Paid Preparer Information

Anyone you pay to prepare your return must sign and date it. Paid preparers must also enter their SSN or Preparer Tax Identification Number (PTIN), their firm's Federal Employer Identification Number, and their firm's name and address in the spaces provided.

Mailing Your Return

Retain a copy of this return for your records. Attach to this return a complete copy of federal Form 709, United States (and Generation-Skipping Transfer) Tax Return, including **all** attachments, and other documents listed on Page 15. Use the envelope provided when mailing the return.

Schedule A - Computation of Taxable Gifts

General Instructions

The information on *Schedule A* for each gift should generally be identical to the information reported on federal Form 709, Schedule A on the same gift. However, only those gifts subject to Connecticut gift tax should be reported on Form CT-709, *Schedule A*. For gifts of land classified as farmland under Conn. Gen. Stat. §12-107c, the land's value as farmland may differ from that reported on federal Form 709 Schedule A. (See *Gifts of Farmland* on Page 9.)

If the total amount of Connecticut gifts of present interests to any donee is more than \$11,000 in the calendar year, you must enter all gifts you made during the year to or on behalf of that donee. Include those gifts that will be excluded under the annual exclusion.

If the total amount of Connecticut gifts is \$11,000 or less, do not enter on *Schedule A* any gifts that you made to that donee unless the Connecticut gift is of future interest or a present interest where the annual exclusion does not apply to the Connecticut gift.

You must always enter all gifts of future interests that you made during the calendar year regardless of value. There is no annual exclusion for gifts of future interests. (See *Taxable Gifts* on Page 8.)

The donor's adjusted basis for Connecticut gift tax purposes is the same as the donor's adjusted basis for federal gift tax purposes.

Contributions to Qualified State Tuition Programs

If the donor elects under I.R.C. §529(c)(2)(B) to treat any transfers made this year to a qualified state tuition program as made ratably over a five-year period beginning this year, see Section 1, Line Instructions, C. 2., on Page 10.

Gifts to Your Spouse

Do not enter any gifts to your spouse on *Schedule A* unless:

- You gave a gift of a terminable interest to your spouse;
- You gave a gift of a terminable future interest to your spouse; **or**
- Your spouse was not a citizen of the United States at the time of the gift.

If all the terminable interests that you gave to your spouse qualify as life estates with power of appointment, do not enter any of them on *Schedule A*.

A **terminable interest in property** is an interest that will end

or fail after a period of time or when some contingency occurs or fails to occur. Some examples of terminable interests are:

- A life estate;
- An estate for a specified number of years; **or**
- Any other property interest that after a period of time may terminate or fail.

Report all terminable interest gifts whether or not they can be deducted.

There is no marital deduction for gifts to a spouse who is not a United States citizen. However, an annual exclusion may apply. (See *Taxable Gifts* on Page 8.)

Gift Splitting

You are **required** to gift split for Connecticut gift tax purposes if you consent to gift split for federal gift tax purposes.

Enter on *Schedule A* the entire value of every gift you made during that portion of the calendar year that you were married, even if the gift's value will be less than \$11,000 after it is split on *Schedule A*, Line 2. (See *Gift Splitting* on Page 8.)

You are **not** permitted to gift split for Connecticut gift tax purposes if you do not consent to gift split for federal tax purposes.

Charitable Remainder Trusts

If you made a gift to a charitable remainder trust and your spouse is the only noncharitable beneficiary other than you, the interest you gave to your spouse is not considered a terminable interest gift and, therefore, should not be reported on **Form CT-709, Schedule A**.

Order for Grouping Gifts

The order for grouping gifts on *Schedule A*, Column A is:

1. Gifts to the donor's spouse;
2. Gifts to third parties that are required to be split with your spouse;
3. Charitable gifts (if you are not splitting with your spouse); **and**
4. Other gifts.

List all gifts to each donee in chronological order.

If a transfer results in gifts to two people (for example, a life estate to one, remainder to another), the gifts must be listed separately.

Each gift made during the year should be identified by number in Column A.

Schedule A - Line Instructions

Line 1

Add the values listed in *Schedule A*, Column E and enter the sum on Line 1.

Line 2

If you are not splitting gifts with your spouse, skip this line and enter the amount from Line 1 on Line 3. If you are splitting gifts with your spouse, indicate in the space provided on Line 2 which numbered items from *Schedule A* you are gift splitting. Enter one-half of the gifts you made to third parties on Line 2. (Your spouse should enter this amount on *Schedule A*, Line 4, of his or her return.)

Line 3

Subtract Line 2 from Line 1, and enter the balance on Line 3. This is the amount of the donor's gifts after subtracting the spouse's portion of gifts subject to gift splitting.

Line 4

If you are not splitting gifts, skip this line and go to Line 5. If you gave all of the gifts, and your spouse is filing **Form CT-709** only to show his or her half of those gifts, you need not enter any gifts on Line 4 of your return, nor include your spouse's half anywhere else on your return. Your spouse should enter the amount from *Schedule A*, Line 2, of your return on *Schedule A*, Line 4, of his or her return. If both you and your spouse make gifts for which a return is required, the amount each of you reports on *Schedule A*, Line 2, of his or her return must be reported on *Schedule A*, Line 4, of the other's return.

Example: *H* and *W* elect to gift split for the year. During the year, *W* made gifts totaling \$80,000. Half of the total gifts made by *W*, \$40,000, are allocated to *H*. The \$40,000 allocated to *H* is shown on *W*'s return, *Schedule A*, Line 2. This amount is also entered on *H*'s return, *Schedule A*, Line 4 and will be added to the gifts on Line 3 to determine the total gifts *H* made during the year.

Line 5

Add Line 3 and Line 4. The total consists of the donor's own gifts less the amount that is split with a consenting spouse, plus the donor's share of the spouse's gifts that he or she has consented to split.

Line 6

Enter the total annual exclusions you are claiming for the gifts listed on *Schedule A* (including gifts listed on Line 4). The **first \$11,000 or less** of gifts to any donee

during the calendar year of a present (not future) interest in property is excluded. However, if the first \$11,000 of gifts to any donee involves tangible personal property or real property located outside Connecticut, no exclusion is available for Connecticut gift tax purposes for additional gifts to that donee.

If you split a gift with your spouse, the annual exclusion you claim against the gift may not be more than your half of the gift. (See *Gift Splitting* on Page 8.)

Example: T gives her sister a new car costing \$16,000. T's spouse agrees to gift split with T. Each spouse has made a gift of \$8,000 (\$16,000 X .50). While the maximum annual exclusion per donee is \$11,000, in this case each spouse is allowed an exclusion of \$8,000 (not \$11,000).

Line 7

Subtract Line 6 from Line 5 and enter the balance on Line 7. This is the total amount of gifts before the calculation of the marital deduction and charitable deduction.

Line 8

If you are claiming a marital deduction, indicate which numbered items from *Schedule A* you are deducting in the space provided on Line 8. Enter on Line 8 all of the gifts to your spouse which you entered on *Schedule A* and for which you are claiming a marital deduction. Do not enter any gift that you did not include on *Schedule A*.

You may deduct all gifts of nonterminable interests made during this time that you entered on *Schedule A* regardless of amount, and certain gifts of terminable interests as outlined below.

Do not enter on Line 8 any gifts to your spouse if your spouse was not a United States citizen at the time of the gift.

Terminable Interests

Generally, you cannot take the marital deduction if the gift to your spouse is a terminable interest. In most cases, a terminable interest is nondeductible if someone other than the donee spouse will have an interest in the property following the termination of the donee spouse's interest.

Some examples of terminable interests are:

- A life estate;
- An estate for a specified number of years;
- Any other property interest that after a period of time may terminate or fail.

Life Estate With Power of Appointment

You may deduct, without an election, a gift of a terminable interest if **all** five of the following requirements are met:

1. The donee spouse must be entitled for life to all of the income from the entire interest, or to a specific portion of all the income from the entire interest;
2. The income payable to the donee spouse must be payable annually or at more frequent intervals;
3. The donee spouse must have the power to appoint the entire interest or the specific portion either to himself or herself, or to his or her estate;
4. The power in the donee spouse must be exercisable by him or her alone and (whether exercisable by will or during life) must be exercisable in all events; **and**
5. The entire interest or the specific portion must not be subject to a power in any other person to appoint any part to any person other than the donee spouse.

Election to Deduct Qualified Terminable Interest Property (QTIP)

You may elect to deduct a gift of a terminable interest if the gift meets **all** of the following requirements:

1. The donee spouse must be entitled for life to all of the income from the entire interest, or to a specific portion of all the income from the entire interest;
2. The income payable to the donee spouse must be payable annually or at more frequent intervals; **and**
3. The entire interest or the specific portion must not be subject to a power in any other person to appoint any part to any person other than the donee spouse.

Make the election by checking the box on *Schedule A*, Line 14. You may only make this election if you were eligible to make and made the election for federal gift tax purposes.

Line 9

Enter the amount of the annual exclusions that were claimed for the gifts that you entered on Line 8.

Line 10

Subtract Line 9 from Line 8 and enter the balance on Line 10. This is the marital deduction that can be claimed for the year. If a terminable interest is given to a spouse and a QTIP election is made, the value of the property transferred should equal the amount on Line 10.

Line 11

If you are claiming a deduction for charitable gifts, enter your total charitable, public, or similar gifts (minus exclusions allowed) on Line 11 and enter (on the short line) the item number(s) of the gift(s) from *Schedule A*

that you are deducting on Line 11. You may deduct from the total amount of gifts made during the calendar year all gifts you gave to or for the use of:

- The United States, a state or political subdivision of a state, or the District of Columbia, for exclusively public purposes;
- Any corporation, trust, community chest, fund, or foundation organized and operated only for religious, charitable, scientific, literary, or educational purposes, or to prevent cruelty to children or animals, or to foster national or international amateur sports competition (if none of its activities involve providing athletic equipment, unless it is a qualified amateur sports organization), as long as no part of the earnings benefits any one person, no substantial propaganda is produced, and no lobbying or campaigning for any candidate for public office is done;
- A fraternal society, order, or association operating under a lodge system, if the transferred property is to be used only for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals; **or**
- Any war veterans organization organized in the United States (or any of its possessions) or any of its auxiliary departments of local chapters or posts, as long as no part of any of the earnings benefits any one person.

Line 12

Add Line 10 and Line 11 and enter the amount on Line 12. This is the total of the marital deduction and the charitable gift deduction.

Line 13

Subtract Line 12 from Line 7. If the balance is \$25,000 or less, stop. Do not file this return, unless you made a gift of farmland and valued it based upon its use as farmland by completing *Schedule CT-709 Farmland* (and not based upon its fair market value). If the amount is greater than \$25,000, enter on Line 13. This is the amount of taxable gifts for the year. The amount from Line 13 is also entered on **Form CT-709**, Section 2, Line 1.

Terminable Interest Marital Deduction

Line 14

Check the box if you elected under I.R.C. §2523(f) to include gifts of qualified terminable interest property as gifts to your spouse for which a marital deduction was claimed under I.R.C. §2523. Enter the item numbers (from **Form CT-709**, *Schedule A*) of the gifts for which you made this election on the space provided.

Line 15

Check the box if you elected under I.R.C. §2523(f)(6) **NOT** to treat as qualified terminable interest property any joint and survivor annuity where only you and your spouse have the right to receive payments before the death of the last of you to die. Enter the item numbers (from **Form CT-709, Schedule A**) for the annuity(ies) for which you made this election in the space provided.

Any annuities entered in the space provided on Line 15 may not be entered on *Schedule A*, Line 8. Any such annuities that are not listed in the space provided on Line 15 must be entered on *Schedule A*, Line 8. If there is more than one such joint and survivor annuity, the election may, but is not required to, cover all of them. Once made, the election is irrevocable.

Form CT-709 Attachments

- Attach a complete copy of federal Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return, including all attachments.
- A donor claiming special valuation on a gift of farmland **must** attach *Schedule CT-709 Farmland* to provide the fair market value of the farmland, based on its highest and best use value at the time of the transfer or change in classification. The donor must also provide a copy of *Schedule CT-709 Farmland* to the donee(s).
- For each gift of a life insurance policy, attach a copy of federal Form 712, Life Insurance Statement.
- For single premium or paid-up policies, where the surrender value of the policy exceeds its replacement cost, the true economic value of the policy will be greater than the amount shown on federal Form 712, Line 59. In these situations, you should report the true economic value of the policy.
- For gifts of stock of closely held or inactive corporations, attach the balance sheet for the period nearest the date of the gift, statements of net earnings or operating results and dividends paid for each of the five preceding years, and a concise statement of the method of valuation.
- Attach any other documents, such as **appraisals** required for adequate explanation of value. If no appraisal is attached to show how property is valued, explain in detail how value was determined.

Please remember to fill out all required returns and schedules and attach all required information or your return will be incomplete.

Amended Returns

Use **Form CT-709** to amend a return you already filed. **Include a statement explaining why the return is being amended** and check the “Amended Return” box on the front of the return. Enter the amount paid with the original return on Line 3.

If you are expecting a refund of Connecticut gift tax you must amend Form CT-709 within 3 years after the date the original return was filed. If additional tax is due, interest will apply. See *Interest and Penalties* on Page 7. **The following circumstances require the filing of an amended Form CT-709:**

1. The IRS or federal courts change or correct the federal gift tax return, and the change or correction results in the Connecticut gift tax being overpaid or underpaid.	File no later than 90 days after the final determination. If you file an amended Form CT-709 no later than 90 days after the final determination, any Connecticut gift tax overpayment resulting from the final determination will be refunded even if the Connecticut statute of limitations has otherwise expired.
2. The donor files a timely amended federal gift tax return, and the amendment results in the Connecticut gift tax being overpaid or underpaid.	File no later than 90 days after the date of filing the timely amended federal gift tax return. If you file an amended Form CT-709 no later than 90 days after the date of filing the timely amended federal gift tax return, any Connecticut gift tax overpayment resulting from filing the timely amended federal gift tax return will be refunded even if the Connecticut statute of limitations has otherwise expired.
3. The donor made a mistake or omission on Form CT-709, and the mistake or omission results in the Connecticut gift tax being overpaid or underpaid.	File no later than three years after the original due date of the return.

CONNECTICUT TAX ASSISTANCE

FOR TAX INFORMATION

- Visit the DRS Web site at:
www.drs.state.ct.us
- Call CONN-TAX:
1-800-382-9463 (toll-free from within Connecticut) or
860-297-5962 (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries 24 hours a day, seven days a week by calling 860-297-4911.

Personal taxpayer assistance is available during business hours listed at right. Extended hours are offered January through April. Call Conn-Tax or visit our Web site for details.

- Write to:
**Department of Revenue Services
Taxpayer Services Division
25 Sigourney Street
Hartford CT 06106-5032**

FORMS AND PUBLICATIONS

May be obtained 24 hours a day, seven days a week by using any of the following resources:

- **Internet**
Preview and download forms and publications from the DRS Web site at: www.drs.state.ct.us
- **DRS TaxFax**
Call **860-297-5698** from the handset attached to your fax machine and select from the menu; or
- **Telephone**
From a touch-tone phone call:
1-800-382-9463 (toll-free from within Connecticut) and select **Option 2**, or
860-297-4753 (from anywhere).

WALK-IN OFFICES

For free assistance or forms, visit our offices from Monday through Friday 8:00 a.m. to 5:00 p.m. For pre-recorded directions to DRS offices call CONN-TAX. If you require special accommodations, please advise the DRS representative.

BRIDGEPORT
10 Middle Street
203-336-7890

HAMDEN
3074 Whitney Avenue, Bldg. #2
203-287-8243

HARTFORD
25 Sigourney Street
860-297-5962

NORWICH
2 Cliff Street
860-889-2669

WATERBURY
Rowland State Government Center
55 West Main Street, Suite 100
203-805-6789

STATEWIDE SERVICES

For information on statewide services and programs, visit the ConneCT Web site at www.state.ct.us

For questions about federal taxes, contact the Internal Revenue Service (IRS) at 1-800-829-1040 or visit: www.irs.gov
To order federal tax forms, call 1-800-829-3676.

DEPARTMENT OF REVENUE SERVICES MISSION STATEMENT

The Mission of the Connecticut Department of Revenue Services is to administer the tax laws of the State of Connecticut and collect the tax revenues in the most cost effective manner; achieve the highest level of voluntary compliance through accurate, efficient, and courteous customer services; and perform in a manner which instills public confidence in the integrity, and fairness of the state's tax programs.

State of Connecticut
Department of Revenue Services
25 Sigourney Street
Hartford CT 06106-5032