



# STATE OF CONNECTICUT

## DEPARTMENT OF REVENUE SERVICES

### OCG-5

#### OFFICE OF THE COMMISSIONER GUIDANCE

#### Regarding the Treatment of Bonus Depreciation for Connecticut Income Tax Purposes

On May 31, 2018, Governor Malloy signed legislation to “decouple” from the bonus depreciation deduction under section 168(k) of the Internal Revenue Code, as amended by the Federal Tax Cuts and Jobs Act of 2017, for individuals, disregarded entities, partnerships, and S corporations.<sup>1</sup> The Connecticut legislation is applicable to taxable years beginning on or after January 1, 2017, and decouples from the bonus depreciation as it was in effect both prior to and after the amendment to section 168(k) of the Internal Revenue Code.

**Bonus Depreciation Modification.** Under the recently enacted Connecticut legislation, taxpayers will not benefit from the federal bonus depreciation deduction for assets placed in service after September 27, 2017, and must add that amount when calculating Connecticut taxable income. Taxpayers may then subtract 25% of the disallowed bonus depreciation deduction for the next four succeeding taxable years.

**Example:** Madison had a bonus depreciation deduction of \$5,000 on her 2018 federal income tax return. She is required to report a bonus depreciation addition modification of \$5,000 on Schedule 1, Line 37, of her 2018 Form CT-1040. On her Connecticut returns for taxable years 2019, 2020, 2021, and 2022, Madison will report a subtraction modification of \$1,250 for each of those years (25% of the \$5,000 reported in 2018). There is no change to this result, even if the asset is sold prior to 2022.

**Impact to 2017 Returns.** Because the legislation is applicable to taxable years that begin on or after January 1, 2017, taxpayers who claimed or will claim a deduction for bonus depreciation with respect to assets placed in service after September 27, 2017, on their federal income tax returns for taxable year 2017 are required to add back the bonus depreciation deduction on their Connecticut income tax returns for taxable year 2017.

Taxpayers must report the bonus depreciation addition on the applicable forms for taxable year 2017 as follows:

**Form CT-1040, Connecticut Resident Income Tax Return:** Enter the amount on Page 3, Schedule 1, Line 37, and enter “Section 168(k) bonus depreciation” on the space provided.

**Form CT-1040 NR/PY, Connecticut Nonresident and Part-Year Resident Income Tax Return:** Enter the amount on Page 3, Schedule 1, Line 39, and enter “Section 168(k) bonus depreciation” on the space provided.

---

<sup>1</sup> Connecticut’s corporation business tax has been decoupled from section 168(k) of the Internal Revenue Code since September 10, 2001.

**Form CT-1065/CT-1120SI, Connecticut Composite Income Tax Return:** Enter the amount on Page 6, Part V, Line 5, and enter “Section 168(k) bonus depreciation” on the space provided.

**If You Have Already Filed Your 2017 Return.** If you already filed your Connecticut income tax return for taxable year 2017 and you claimed a bonus depreciation deduction for assets placed in service after September 27, 2017, you must file an amended return to report the bonus depreciation addition.

**Underpayments Due to the Bonus Depreciation Addition.** DRS recognizes that taxpayers may have underpaid their 2017 tax as a result of the bonus depreciation changes. To the extent that the tax was underpaid as a direct result of the legislation, taxpayers are encouraged to contact DRS to explore options available to avoid the application of interest and penalty. A written explanation describing the manner in which the changes to the law resulted in an underpayment along with all documentation supporting such explanation must be sent to DRS by December 31, 2018. All documents must be submitted to the following address:

Department of Revenue Services  
450 Columbus Boulevard, 11<sup>th</sup> Floor  
Hartford, Connecticut 06103  
Attn: Legal Division/Bonus Depreciation

**Additional Questions:** Send an e-mail to the DRS Legal Division at [legal.division@po.state.ct.us](mailto:legal.division@po.state.ct.us)

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

**For Forms and Publications:** Visit the DRS website at [www.ct.gov/DRS](http://www.ct.gov/DRS)