STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

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SN 2018(9)

SPECIAL NOTICE

2018 Legislative Changes Affecting the Income Tax

Purpose: This Special Notice describes legislation enacted during the 2018 regular session of the Connecticut General Assembly affecting the income tax.

Addition Modification of IRC § 168(k) Bonus Depreciation: For taxable years beginning on or after January 1, 2017, a taxpayer who, for federal income tax purposes, deducts the bonus depreciation for property placed in service after September 27, 2017, pursuant to Internal Revenue Code § 168(K), is required to add back that bonus depreciation amount when computing his or her Connecticut adjusted gross income.

This addition modification applies to the extent such amount is deductible in determining the taxpayer's federal adjusted gross income for the taxable year.

This provision affects individuals, partnerships, limited liability companies treated as partnerships for federal income tax purposes, and S corporations.

See **OCG-5**, *Office of the Commissioner Guidance Regarding the Treatment of Bonus Depreciation for Connecticut Income Tax Purposes*.

2018 Conn. Pub. Acts 49, § 11.

Subtraction Modification of IRC § 168(k) Bonus Depreciation: A taxpayer required to add back the bonus depreciation reported on the federal return for property placed in service after September 27, 2017, is allowed to deduct, in computing his or her Connecticut Adjusted Gross Income (AGI) in each of the four succeeding taxable years, 25% of the bonus depreciation amount added back in the prior year.

See **OCG-5**, *Office of the Commissioner Guidance Regarding the Treatment of Bonus Depreciation for Connecticut Income Tax Purposes*.

2018 Conn. Pub. Acts 49, § 11.

Addition Modification of IRC § 179 Deduction: For taxable years beginning on or after January 1, 2018, a taxpayer, in computing his or her Connecticut adjusted gross income, is required to add back 80% of the § 179 deduction claimed for federal income tax purposes.

This addition modification applies to the extent such amount is deductible in determining the taxpayer's federal adjusted gross income for the taxable year.

This provision affects individuals, partnerships, limited liability companies treated as partnerships for federal income tax purposes, and S corporations.

2018 Conn. Pub. Acts 49, § 11.

Subtraction Modification of IRC § 179 Deduction: A taxpayer required to add back 80% of the § 179 deduction reported on the federal return for a taxable year, is allowed to deduct, in computing his or her Connecticut AGI in each of the four succeeding taxable years, 25% of the § 179 amount added back for the prior year.

2018 Conn. Pub. Acts 49, § 11.

Subtraction Modification of Bioscience Investment Income: For taxable years beginning on or after January 1, 2018, a general partner of a qualified venture capital fund, in computing his or her Connecticut adjusted gross income, is allowed to subtract the income generated by investments in eligible Connecticut bioscience businesses.

For purposes of this deduction, a general partner is:

- A partner of a general partnership;
- A general partner of a limited partnership that is treated as a partnership for federal income tax purposes; **and**
- A partner of a limited liability partnership.

It includes a member of a limited liability company that is treated as a partnership for federal income tax purposes if 1) such company is managed by managers and such member is a member-manager of such company, or 2) such company is not managed by managers.

A general partner must use **Schedule CT-BIO**, *Bioscience Worksheet*, to calculate the amount of the subtraction modification.

This subtraction modification applies to the extent such amount is included in determining the taxpayer's federal adjusted gross income for the taxable year.

2018 Conn. Pub. Acts 147, §§ 1 and 2.

Pass-Through Entities No longer Required to Make Income Tax Payment on Behalf of Nonresident Partners and Shareholders: Beginning on or after January 1, 2018, partnerships and S corporations doing business in Connecticut or having income derived from or connected with Connecticut sources are no longer required to pay Connecticut income tax on behalf of the nonresident partners or shareholders.

2018 Conn. Pub. Acts 49 §§ 3 and 4.

Pass-Through Entity Tax and Pass-Through Entity Tax Credit:

Pass-Through Entity Tax (PE Tax) - For taxable years beginning on or after January 1, 2018, pass-through entities (partnerships, S corporations, limited liability companies that are treated as partnerships or S corporations for federal income tax purposes) that carry on business in Connecticut or have income derived from Connecticut sources will be subject to a Connecticut pass-through entity tax (PE Tax).

Pass-Through Entity Tax Credit (PE Tax Credit) - Each person subject to the Connecticut income tax who is a member of a partnership (but not a publicly-traded partnership) or an S corporation, may be allowed a credit against the person's Connecticut income tax liability for the taxable year. The pass-through entity will calculate the amount of the direct and indirect credit and will report the amount to the member on **Schedule CT K-1**, *Member's Share of Certain Connecticut Items*.

If the amount of the credit exceeds the member's Connecticut income tax liability, the excess will be treated as an overpayment that will be applied against other tax liabilities, to debts or obligations owed to the state or will be refunded to the member. The refund will not include interest. If the PE Tax Credit is not sufficient to offset the member's Connecticut income tax liability, the member is required to remit the balance of the tax due.

The credit cannot be used against the income tax withholding liability.

Resident and part-year resident members are entitled to a credit for taxes paid to another jurisdiction on income from such other jurisdiction from pass-through entities subject to the Connecticut PE Tax, if the tax paid to such other jurisdiction is substantially similar to the PE Tax. To date, the Department of Revenue Services (DRS) has not identified any substantially similar taxes.

Nonresident members whose only Connecticut-sourced income is from a pass-through entity subject to the Connecticut PE Tax may be required to file Connecticut income tax returns if the pass-through entity elects to file a combined return and the PE Tax Credit allocated to the nonresident member does not fully offset such member's Connecticut income tax liability. Schedule CT K-1 will indicate when the pass-through entity elects to file a combined return.

See **OCG-6**, *Office of the Commissioner Guidance Regarding the Calculation of the Pass-Through Entity Tax*, and **OCG-7**, *Office of the Commissioner Guidance Regarding the Pass-Through Entity Tax Credit*.

2018 Conn. Pub. Acts 49, §§ 1 and 2.

Employer Compensation Expense Tax: For taxable years beginning on or after January 1, 2019, certain jurisdictions (state of the United States or a political subdivision or the District of Columbia) impose on an employer a tax based on the wages paid to the employer's employees. The employees are then allowed a credit against the income tax imposed by such other jurisdiction. For Connecticut income tax purposes, such credit will be considered an income tax, and a Connecticut resident or part year resident receiving such credit from these jurisdictions may claim a credit of such amount as taxes paid to another jurisdiction.

2018 Conn. Pub. Acts 49, § 19.

Convenience of the Employer Test: For taxable years beginning on or after January 1, 2019, residents of states with a "convenience of the employer" test will be subject to similar rules for work performed for a Connecticut employer. Generally, in a state that applies this test, wages earned by a nonresident are allocated to the employer's location unless the nonresident works from an out-of-state location due to the necessity of the employer rather than the convenience of the employee. For example, in determining whether income earned by a New York resident individual telecommuting for a Connecticut employer will be deemed Connecticut-sourced income, Connecticut will apply the New York "convenience of the employer" test.

2018 Conn. Pub. Acts 49, § 20.

Penalty for Failure to Disclose Reportable Transactions: For audits of returns on or after January 1, 2018, a 75% penalty will apply for failure to disclose reportable transactions on the Connecticut return that are also required to be disclosed for federal purposes.

Additionally, a six-year statute of limitations for assessment applies to returns that fail to disclose a reportable transaction.

2018 Conn. Pub. Acts 26, §§ 5 and 6.

Statutory Authority: *2018 Conn. Pub. Acts 49 §§ 1 and 2;* Conn. Gen. Stat. § 12-701(a)(20)(A) and (B), as amended by *2018 Conn. Pub. Acts 49 § 11;* Conn. Gen. Stat. § 12-719, as amended by *2018 Conn. Pub. Acts 49 §§ 3 and 4;* Conn. Gen. Stat. § 12-704, as amended by *2018 Conn. Pub. Acts 49 § 19;* Conn. Gen. Stat. § 12-711(b)(2), as amended by *2018 Conn. Pub. Acts 49 § 20;* Conn. Gen. Stat. § 12-701(a)(20)(B), as amended by *2018 Conn. Pub. Acts 147 §§ 1 and 2;* Conn. Gen. Stat. § 12-728(a)(2), as amended by *2018 Conn. Pub. Acts 26 § 5;* Conn. Gen. Stat. § 12-733(c)(3), as amended by *2018 Conn. Pub. Acts 26 § 6.*

Effect on Other Documents: None.

Effect of This Document: A Special Notice announces a new policy or practice in response to changes in state or federal laws or regulations or to judicial decisions. A Special Notice indicates an informal interpretation of Connecticut tax law by DRS.

For Further Information: Call DRS during business hours, Monday through Friday:

- **800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); **or**
- **860-297-5962** (from anywhere).

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

Forms and Publications: Visit the DRS website at **portal.ct.gov/DRS** to download and print Connecticut tax forms and publications.

Paperless Filing/Payment Methods (fast, easy, free, and confidential): Business and individual taxpayers can use the **Taxpayer Service Center *(TSC)*** at **portal.ct.gov/TSC** to file a variety of tax returns, update account information, and make payments online.

File Electronically: You can choose first-time filer information and filing assistance or log directly into the ***TSC*** to file returns and pay taxes.

Pay Electronically: You can pay taxes for tax returns that cannot be filed through the ***TSC***. Log in and select the *Make Payment Only* option. Choose a payment date up to the due date of the tax and mail a paper return to complete the filing process.

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Issued: 02/15/2019