



## Connecticut Budget Contains Numerous Tax Law Changes

Connecticut Governor Jodi M. Rell announced on September 1, 2009 that she will allow the Connecticut budget bill to become law without her signature, ending the longest budget crisis in Connecticut's history. Included in the budget are numerous tax changes affecting individuals and business, some of which are effective January 1, 2009.

**Personal Income Tax** - Effective January 1, 2009, the marginal income tax rate increases from 5% to 6.5% for individuals with taxable income exceeding \$500,000, heads of household with taxable incomes exceeding \$800,000, and joint filers with taxable incomes exceeding \$1,000,000. The tax rate on Estates and Trusts is increased from 5% to 6.5%.

**Corporate Income Tax** - For tax years beginning on or after January 1, 2009 and prior to January 1, 2012, corporate taxpayers will be subject to a 10% corporation tax surcharge. The surcharge does not apply to corporations with gross income less than \$100 million, nor does it apply to corporations whose tax liability does not exceed the \$250 minimum tax.

**Economic Nexus** - For tax years beginning on or after January 1, 2010, Connecticut will apply an economic nexus standard. Corporations which purposefully direct business toward Connecticut (regardless of physical presence) will now be subject to corporate income taxes. The bill summary indicates that financial services companies, such as credit card companies, mortgage lenders and others may now be subject to Connecticut's income taxes. Additionally, this economic nexus standard will be applied to partnerships and S Corporations, subjecting nonresident partners and shareholders to Connecticut personal income tax.

**Tax Settlement Initiative** - A program similar to tax amnesty, a tax settlement initiative program, will be established. The program will run from October 1, 2009 through December 31, 2009. The Commissioner of Revenue Services may notify eligible participants in writing, and taxpayers paying the balance due within 60 days are eligible for a reduction of 50% of the interest due for the period. Additionally, the Commissioner will waive any civil penalties. The taxpayer waives all judicial and administrative rights of appeal.

**Federal Domestic Production Activities Deduction** - The legislation disallows the deduction under Internal Revenue Code Section 199 effective for tax years beginning on or after January 1, 2009. This provision applies to both corporate and individual taxpayers.



**Sales and Use Tax** - Effective January 1, 2010, the sales and use tax rate is scheduled to decrease to from 6% to 5.5%. However, if certain revenue projections are not met, the rate reduction will not take place, and the rate could return to 6% at any time between January 1, 2010 and July 1, 2010.

**Estate and Gift Tax** - Effective for deaths and gifts occurring on or after January 1, 2010, estate and gift taxes apply to estates or gifts exceeding \$3.5 million (currently \$2 million). The tax is then applied to the marginal value above the threshold amount, replacing the former requirement that tax applied to the entire value once the gift or estate exceeded the threshold ("cliff").

**Real Estate Conveyance Tax** - Effective January 1, 2010, the tax will apply to property that is foreclosed by sale due to a court order.

For more information, contact Bob Lickwar at (860) 255-0108 or [rllickwar@dhascpa.com](mailto:rllickwar@dhascpa.com).