

Connecticut Tax Developments

February 2009

PROPOSED CONNECTICUT TAX LEGISLATION

The growing State deficit projected for the current budget year (over \$900 million) and the next two budget years (approximately \$9 billion) has resulted in the publication of a series of proposed tax bills that will, if adopted, affect most Connecticut taxpayers. Although the Governor's budget plan largely leaves our existing tax laws untouched, the Raised Bills from the Democratic-controlled Finance, Revenue and Bonding Committee of the Connecticut General Assembly would dramatically change the application of the corporation business tax and the sales and use tax. Among the most significant proposed Connecticut tax law changes are the following:

I. Governor's Budget Plan

- Delay the increase in the personal exemption for single filers for three years (under existing law, the current personal exemption of \$13,000 was to be increased by \$500 each year for the next four years).
- Suspend the sales tax free week for two years.
- Cap the Film Industry Tax Credit at \$30 million per year.
- Suspend for two years the Historic Homes and Historic Structures Tax Credits.

II. Finance, Revenue and Bonding Committee Raised Bills

- Require affiliated corporations (with a 50% threshold) that have one or more statutorily-listed factors to file a combined return for purposes of the Connecticut corporation business tax. The Bill would require all corporations included in the combined report to compute an aggregate net income or net loss by treating such corporations as if they were one corporation, and by eliminating intercorporate dividends (*effective from passage and applicable to income years commencing on or after January 1, 2009*) (Raised Bill No. 807).



- Impose a two-year moratorium (2009 and 2010) on the award of most tax credits (*effective from passage*) (Raised Bill No. 815).
- Provide for a statewide aggregate cap of \$100 million on most tax credits that can be claimed during a single income year . Taxpayers will need to reapply for a voucher for their allocable share of the cap. This bill also would repeal all carryforwards of credits (*effective July 1, 2009, and applicable to income years commencing on or after January 1, 2009*) (Raised Bill No. 6348).
- Reduce the general sales and use tax rate from 6% to 5%, but at the same time eliminate virtually all sales and use tax exemptions. The imposition of the 5% sales tax would be imposed on: (i) computer and data processing services (currently taxed at 1%); (ii) patient care services (currently exempt); (iii) labor and repair or maintenance services on vessels (currently exempt); and (iv) internet access services (currently exempt) (*effective with respect to sales occurring on or after April 1, 2009*) (Raised Bill No. 6350).
- Impose the sales tax on all “professional, insurance, occupational or personal service transactions” (except services which are inconsequential elements of a sale for which no separate charge is made). No definition of these types of services is provided in the Bill (*effective April 1, 2009, and applicable to sales on and after that date*) (Raised Bill No. 6349).
- Extend the obligation to collect and remit sales tax to Internet and other non-Connecticut retailers who have an agreement with a Connecticut resident who refers customers to the retailer, whether by a link on an Internet web site or otherwise (*effective April 1, 2009 and applicable to sales occurring on or after that date*) (Raised Bill No. 806).
- Eliminate the exemption from the motor vehicle fuels tax for farmers engaged in agricultural production (*effective April 1, 2009*) (Raised Bill No. 6350).
- Increase all fees and fines levied in any section of the General Statutes by 25% (*effective April 1, 2009*) (Raised Bill No. 808).

QUESTIONS OR ASSISTANCE?

As the budget process moves forward, there will likely be additional legislative tax proposals and/or modifications to the foregoing proposals and we will attempt to keep you updated on changes and developments as they occur. If you have any questions about this alert, please contact [Alan E. Lieberman](#) at (860) 251-5801, [Louis B. Schatz](#) at (860) 251-5838 or any other member of our [Tax Practice Group](#).

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