

2025 CONNECTICUT TAX DEVELOPMENTS

A Shipman & Goodwin® Newsletter

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In its 2025 regular and special sessions, the General Assembly made a number of changes to the statutes that affect Connecticut taxes. This newsletter summarizes Connecticut tax legislation enacted, court decisions rendered, and administrative guidance published by the Connecticut Department of Revenue Services (DRS) from July 1, 2024 through June 30, 2025. Please contact a member of our State and Local Tax Practice Group if you have any questions regarding the new tax law changes and how they may affect you and your business.

Personal Income Tax

I. Legislation

Income Tax Credit for Income Taxes Paid to Other States. Connecticut residents are entitled to a sixty (60) percent tax credit of the amount of taxes owed to Connecticut after applying the credit for taxes paid to another jurisdiction, provided that such resident: (1) paid income tax or wage tax to another jurisdiction for the 2020 tax year and afterwards, (2) applied for and was denied a refund from the other jurisdiction for taxes paid on income derived from services rendered while the resident was in Connecticut, (3) filed a formal appeal with the respective jurisdiction, and (4) obtained a final decision from the jurisdiction that resulted in such jurisdiction refunding to the Connecticut resident taxes paid on income derived from services rendered while the Connecticut resident was in Connecticut. Upon meeting this four-part test, the Connecticut resident shall be eligible for a tax credit equal to sixty percent of the amount of taxes owed to Connecticut after applying the credit for taxes paid to another jurisdiction.

Penalties and interest do not apply to any late payment of Connecticut income taxes if (A) such late payment is attributable to a reduction in the credit for taxes paid under section 12-704 of the general statutes, (B) such reduction in the credit for taxes paid is the direct result of a refund that a resident of this state received from another jurisdiction, (C) such refund relates to income derived from services rendered while such resident was not within such other jurisdiction, and (D) such other jurisdiction requires employee income to be sourced to an employer's location if a nonresident renders services from an out-of-state location. Conn. Pub. Act No. 25-172 §2 (*effective upon passage*).

Attorney General Determining Ways to Defend Connecticut Residents from Taxes Imposed by Other Jurisdictions on Income Derived from Services Rendered While in Connecticut.

The Attorney General is required to study specific steps his office, the governor's office, and the General Assembly can take to defend Connecticut residents from having taxes imposed by another jurisdiction on income derived from services rendered while they were in Connecticut. The Attorney General must submit a report with their findings and recommendations to the Finance, Revenue and Bonding Committee by January 1, 2026. Conn. Pub. Act No. 25-172 §1 (*effective upon passage*).

In this issue...

Personal Income Tax	p. 1
Estate Tax	p. 2
Corporate Business Tax	p. 3
Tax Credits	p. 4
Sales and Use Tax, Admissions Tax	p. 6
Property Tax	p. 7
Miscellaneous Taxes	p. 13
Tax Studies	p. 17
Administrative Publications	p. 18

Income Tax Withholding for Certain Lump-Sum Retirement Income Distributions. In 2024, the Legislature eliminated mandatory withholding on certain pension distributions but retained income tax withholding for non-lump sum distributions from pensions, annuities, and other specified sources. From July 1, 2025, through December 31, 2026, the mandatory income tax withholding on lump-sum distributions from pensions, annuities, and similar sources will be suspended. However, payers must withhold taxes if requested by the payee. A “lump sum distribution” is defined as a payment over \$5,000 or more than 50% of the account balance, whichever is less, excluding taxes and fees. Conn. Gen. Stat. §12-705(a)(2), as amended by Conn. Pub. Act No. 25-168 §401 (*effective July 1, 2025*).

Increase to the Earned Income Tax Credit (EITC). Connecticut residents who qualify for and claim the federal EITC can currently receive a refundable state EITC equal to 40% of the federal amount. Beginning with the 2025 tax year, the state credit is increased by an additional \$250 for eligible filers with at least one qualifying child. The federal EITC is available to low- and moderate-income workers, with credit amounts based on income and number of children. For 2025, the maximum Connecticut EITC ranges from \$260 (no children) to \$3,218 (three or more children). If the credit exceeds the taxpayer’s state income tax liability, the excess is refunded. [Ed. Note: Governor Lamont proposed a child tax credit, but his proposal was not adopted in any of the Acts passed in this legislative session.] Conn. Gen. Stat. §12-704e, as amended by Conn. Pub. Act No. 25-168 §371 (*effective from passage and applicable to taxable years commencing on and after January 1, 2025*).

Income Tax Credit for Family Child Care Homeowners. A new refundable \$500 income tax credit has been adopted for taxpayers who own a state-licensed family child care home. This credit applies to personal income tax but not to withholding tax. Owners of S corporations and partnerships can have their shareholders or partners claim the credit, while single-member LLCs disregarded for federal tax purposes may have the owner claim it, provided they are subject to personal income tax. If the credit exceeds the taxpayer’s liability, the excess will be refunded without interest. However, the DRS may withhold refunds to cover outstanding tax liabilities or other state debts. Conn. Pub. Act No. 25-168 §372 (*effective January 1, 2026, and applicable to taxable years commencing on or after January 1, 2026*).

Contribution of Income Tax Refunds to Connecticut Baby Bond Trust. Taxpayers can no longer designate that any or all of their income tax to the CHET Baby Scholars Fund. However, taxpayers can contribute such refunds to the Connecticut Baby Bond Trust, which provides up to \$3,200 in an investment on behalf of each baby born on or after July 1, 2023, whose birth was covered under HUSKY. Once they reach age 18, designated beneficiaries may receive the funds, including any investment earnings, to be used for an eligible expenditure (e.g., for education, buying a home or investing in a business in Connecticut, or personal financial investments). Conn. Gen. Stat. §12-743, as amended by Conn. Pub. Act No. 25-168 §382 (*effective July 1, 2025*).

II. Administrative Publication

Status of Pending Refund Claims with the DRS. The DRS issued guidance that there were approximately 30,000 income tax returns for the tax year ending 2024 being reviewed by the DRS. The DRS indicated that any taxpayer whose return is included among the remaining returns and who has claimed a refund can expect to either receive the refund or notice from DRS on or before July 19, 2025. *TSSB 2025-2, DRS Provides Update on Status of Pending Refund Claims*.

Estate Tax

Superior Court Rules on Connecticut Domicile Case. In *Leslie B. Daniels, Executor of the Estate of Jack Andersen v. Commissioner of Revenue Services*, 2024 WL 4540712 (New Brit. Super. Ct. Oct. 15, 2024), the taxpayer appealed

a final determination by the DRS finding that the taxpayer owed Connecticut estate tax because the taxpayer failed to prove that the decedent was not a domiciliary of Connecticut at the time of his death. The taxpayer's position was that the decedent was a domiciliary of Florida at the time of his death. The court recognized that the taxpayer had satisfied many of the 28 factors set forth in DRS regulations, which are to be taken into account in determining domicile. However, it noted that many of these factors were "one time administrative tasks" accomplished with "little more than an afternoon's or a day's efforts and carry little practical significance." The court concluded that where the taxpayer chose to spend his time was the most persuasive indicator of his intent. The court could not conclude that there was a high probability that the taxpayer was a Florida domiciliary and found in favor of the Commissioner. The estate has appealed the superior court's decision to the Appellate Court, where it is currently pending.

Corporate Business Tax

I. Legislation

Net Operating Loss Deduction for Certain Combined Groups. Under Connecticut's current combined unitary reporting law, combined groups with over \$6 billion in net operating losses (NOLs) from pre-2013 tax years were allowed to make a one-time election during the 2015 tax year. This election allowed the combined groups to forfeit 50% of their pre-2015 NOLs in exchange for the ability to use the remaining losses to reduce their annual tax liability by up to \$2.5 million in any subsequent income year. The Act repeals this special NOL provision. Starting with the 2025 income year, affected groups must recalculate their remaining NOL carry forward as if they had never forfeited 50% of their pre-2015 losses. Conn. Gen. Stat. §12-217(a)(4), as amended by Conn. Pub. Act No. 25-168 §353 (*effective from passage and applicable to income years commencing on or after January 1, 2025*).

Cap on Combined Group's Tax Liability on a Unitary Basis. Beginning with the 2025 income year, the \$2.5 million cap on the amount a combined group's tax, calculated on a combined unitary basis, can exceed the tax it would have paid on a separate basis, is eliminated. Conn. Gen. Stat. §12-218e(k), as amended by Conn. Pub. Act No. 25-168 §354 (*effective from passage*). [Ed Note: Of the 33 states in the country and the District of Columbia that have adopted a form of unitary tax, Connecticut was the only state that imposed a cap on the amount of additional tax resulting from filing on a combined unitary basis.]

Relief from Interest on Estimated Tax Underpayments. Due to the changes to the alternative NOL rule for certain combined groups and the elimination of the \$2.5 million cap, the amount of tax due on a combined unitary basis as a result of legislative changes is not included when calculating interest owing. Conn. Pub. Act No. 25-168 §355 (*effective from passage*).

Corporation Business Tax Surcharge. The 10% corporation business tax surcharge has been extended for three additional years. The surcharge was set to expire after the 2025 tax year; however, it is now extended through 2028. The 10% surcharge applies to companies with over \$250 in tax liability that either generate at least \$100 million in annual gross income or are part of a combined group filing a unitary return, regardless of income. However, for the capital base tax component, the surcharge will only apply in 2026 and 2027, as the capital base tax remains scheduled for elimination beginning in 2028. Conn. Gen. Stat. §§12-214(b)(4), 12-219(b)(4), as amended by Conn. Pub. Act No. 25-168 §§356-357 (*effective from passage*).

Additional Deduction for Certain Combined Groups Affected by Combined Reporting. Beginning with the 2026 income year, existing law allows certain combined groups to claim a 30-year corporation business tax deduction to offset balance sheet adjustments caused by the shift to combined reporting. This deduction equals one-thirtieth of the amount needed to offset increases in their valuation allowance against Connecticut net operating losses and tax

credits. The Act amends current law by requiring that the increase in valuation allowance be calculated based on changes reported in the group's 2015 financial statements, rather than 2016 as previously required. Conn. Gen. Stat. §12-218h(b)(3) as amended by Conn. Pub. Act No. 25-168 §392 (*effective from passage*).

Tax Credits

I. Legislation

R&D and R&E Tax Credits for Qualifying LLC. Certain single-member LLCs are permitted to earn research and development (R&D) and research and experimental expenditures (R&E) tax credits if they have over 3,000 employees in Connecticut and are engaged in manufacturing with expertise in mechatronics, alignment and sensor technology, and optical fabrication. If the LLC is disregarded for federal income tax purposes, the LLC's employee count includes its employees and those of its owner. R&D and R&E tax credits can be applied against the corporation business tax. Although LLCs that are disregarded are not subject to the corporation business tax, the LLC's owner may claim the credits if it is liable for the corporation business tax, effectively enabling qualifying owners to benefit from credits earned by their wholly owned LLCs. Conn. Gen. Stat. §§12-217n, 12-217j, as amended by Conn. Pub. Act No. 25-168 §§58-59 and Conn. Pub. Act. No. 25-165 §§1-2 (*effective from passage and applicable to income and taxable years commencing on or after January 1, 2025*).

Repeal of Digital Animation Tax Credit. The digital animation tax credit, which was originally adopted in 2007, has been repealed. The credit had been available to companies with in-state studios and at least 200 Connecticut-based employees who incurred eligible production expenses. The credit was structured in three tiers ranging from 10% to 30% based on spending, and could be applied against the corporation business and insurance premiums taxes, with a \$15 million annual cap. However, no credits have been issued under the program since 2016. Conn. Gen. Stat. §§12-211a(a), 12-217jj(h)(1), & 12-217ll, as amended by Conn. Pub. Act No. 25-168 §§63-64 & 68 (*effective from passage*).

Refund Value of R&D and R&E Credits for Qualifying Small Biotechnology Companies. The refundable portion of research and development (R&D) and research and experimental (R&E) tax credits will increase from 65% to 90% for qualifying small biotechnology companies. To qualify, companies must have had gross income of \$70 million or less in the previous year, including income from related entities, and must be unable to use the credits due to a lack of corporate tax liability. Refunds are capped at \$1.5 million per company per income year. Eligible businesses may also choose to carry forward unused credits instead of requesting a cash refund. Under current law, small businesses that do not qualify as biotechnology companies remain eligible for a 65% refund of their credit amount. Conn. Gen. Stat. §12-217ee, as amended by Conn. Pub. Act No. 25-168 §358 (*effective July 1, 2025, and applicable to income years commencing on or after January 1, 2025*).

Farm Investment Tax Credit. A new refundable 20% business tax credit has been created for farmers who invest in eligible machinery, equipment, or buildings. To qualify, a farmer must earn at least two-thirds of their federal gross income from farming, with a minimum of \$30,000, based on a single year or a three-year average. Eligible property must be located in Connecticut, have a class life over four years, and be used in agricultural production for at least five years after being acquired or placed in service. "Agricultural production" means engaging in any of the following as a trade or business: (1) raising or harvesting any agricultural or horticultural commodity; (2) dairy farming; (3) forestry; (4) raising, feeding, caring for, shearing, training, or managing livestock; or (5) raising and harvesting fish, oysters, clams, mussels, or other molluscan shellfish. The credit applies to personal income or corporation business tax, and may be claimed by owners of S corporations, partnerships, or single-member LLCs. If the credit exceeds the taxpayer's tax liability, the excess is refunded without interest, though refunds may be withheld for outstanding debts. A recapture

provision requires repayment of 100% of the credit if the property ceases to be used in farming within three years, or 50% if within five years, with interest on late payments. Replacement property is not eligible for the credit. Conn. Pub. Act No. 25-168 §373 (effective January 1, 2026, and applicable to taxable years commencing on or after January 1, 2026).

Expanded Farm Investment Tax Credit. We note that Conn. Pub. Act No. 25-152 §5 also includes a similar refundable tax credit. The key difference between such Acts are the definition of “agricultural production.” Under this Act, “agricultural production also includes the production of (1) wine from a licensed farm winery, (2) Christmas trees, whether dug for transplanting or cut from the stump, and (3) apple juice and cider by a farmer who holds both an apple juice and cider manufacturing permit and a farmer tax exemption permit. It is the same type of refundable business credit. Conn. Pub. Act No. 25-152 §5 (effective January 1, 2026, and applicable to taxable years commencing on or after January 1, 2026).

CHET Contribution Tax Credit. A new business tax credit has been created for employers who contribute to their employees’ Connecticut Higher Education Trust (CHET) accounts. The credit equals 25% of the contribution, up to \$500 per employee per year. The credit can be applied against the corporation business, insurance premiums, or personal income taxes (excluding withholding tax). The credit is only available for contributions made to employees who are not the employer’s owners, partners, members, or family. For S corporations or taxpayers treated as partnerships for federal income tax purposes, the taxpayer’s shareholders and partners may claim the credit. If the employer is a single member LLC that is disregarded for federal income tax purposes, the LLC’s owner may claim the credit as long as the owner is subject to insurance premiums, corporation business or personal income tax. Conn. Pub. Act No. 25-168 §374 (effective July 1, 2025, and applicable to taxable years commencing on or after January 1, 2025).

Housing Tax Credit Contribution Program Procedures. The DRS Commissioner is no longer required to approve the Connecticut Housing Finance Authority’s written procedures to implement the housing tax credit contribution program. CHFA administers this program, which provides tax credits to businesses making cash contributions of at least \$250 to nonprofits that develop, sponsor, or manage housing programs benefitting low- and moderate-income households. Conn. Gen. Stat. §8-395(k) as amended by Conn. Pub. Act No. 25-168 §398 (effective from passage).

Workforce Housing Opportunity Development Tax Credit. The workforce housing opportunity development tax credit has been amended to provide that the amount of the credit is 50% of eligible cash contributions rather than an amount specified by the Department of Housing commissioner. The tax credit is available for people or entities making cash contributions of at least \$250 to eligible developers building or rehabilitating qualifying workforce housing opportunity development projects in federally designated opportunity zones. The tax credit may be applied against the personal income tax or corporation business tax. Conn. Gen. Stat. §8-395a(b) as amended by Conn. Pub. Act No. 25-168 §97 (effective from passage and applicable to income and taxable years commencing on or after January 1, 2025).

Youth Development Organization Tax Credit. The youth development organization tax credit has been amended to limit eligible donations to those made to qualifying nonprofits located in Connecticut, rather than allowing contributions to any eligible nonprofit regardless of location. Under current law, the credit, available for the 2024 and 2025 tax years, is available for cash contributions to youth development organizations to fund programs such as after-school tutoring, mentoring, and workforce training. It offers a 50% credit on qualifying donations, capped at \$100,000 annually for corporations and \$20,000 for individuals, with a total program cap of \$2.5 million per fiscal year. The credit applies to corporate and personal income taxes, but not to withholding taxes. Conn. Gen. Stat. 12-217rr(a) as amended by Conn. Pub. Act No. 25-168 §54 (effective from passage and applicable to applications filed on or after said date).

UConn Tax Credit Incentive Program. UConn may create and administer a tax credit incentive program that promotes the university, its programs, services and mission. Under this program, individuals or businesses can receive a tax credit equal to 50% of payments made to UConn through a written agreement, starting July 1, 2025, or earlier if UConn finalizes its policies. The credit is capped at \$500,000 per taxpayer annually, with a total statewide cap of \$5 million per year. UConn is responsible for establishing and updating the necessary policies and procedures to implement the program. Taxpayers may apply the credit against personal income tax, corporation business tax, insurance premiums tax, pass-through entity tax, air carriers' tax, railroad companies' tax, cable and satellite TV companies' tax, and utility companies' tax, but not withholding tax. For corporation business taxpayers, the credit may reduce up to 100% of their tax liability. Taxpayers may carry forward unused credits for 15 years until they are fully taken. Conn. Pub. Act No. 25-168 §§384-385 (*effective from passage and applicable to taxable and income years commencing on or after January 1, 2025*).

Film and Digital Media Production and Film Infrastructure Tax Credits. Eligible production companies may qualify for a tax credit if such company conducts (1) not less than fifty percent of principal photography days within the state, or (2) expends not less than fifty percent of postproduction costs within the state, or (3) expends not less than one million dollars of postproduction costs within the state. However, companies that produce an interactive website for public distribution or exhibition are exempt from this requirement. In addition, the Act requires (1) all eligible production companies to apply to the DECD for a film and digital media production credit voucher within 90 days after completing an independent certification of their production costs, rather than within 90 days after incurring their last production expense; and (2) specifies that the administrative fee the DECD charges to cover the department's costs to analyze film and digital media and film infrastructure tax credit applications is nonrefundable. Conn. Gen. Stat. §§12-217jj & 12-217kk as amended by Conn. Pub. Act No. 25-165 §3-4 (*effective from July 1, 2025, and applicable to applications open or filed on or after July 1, 2025*).

JobsCT Tax Rebate Program. The JobsCT tax rebate program gives companies in specified industries rebates against insurance premiums, corporation business taxes, and pass-through entity taxes for reaching certain job creation targets. The DECD commissioner may now give preference to applications under the JobsCT tax rebate program that (1) make significant investments in environmentally sustainable practices, (2) are in economic sectors like renewable energy, energy efficiency, and zero emission vehicles, or (3) are for sustainable farming. Conn. Gen. Stat. §32-7t(c)(3) as amended by Conn. Pub. Act No. 25-125 §4 (*effective from July 1, 2025*).

Sales and Use Tax; Admissions Tax

I. Legislation

Sales and Use Tax Exemption for Ambulances. Beginning July 1, 2025, Connecticut will exempt from sales and use tax (1) ambulance-type vehicles used solely to transport medically incapacitated individuals, unless used for paid transport, and (2) ambulances licensed or certified by the Department of Public Health (DPH). Conn. Gen. Stat. §12-412(127), as amended by Conn. Pub. Act No. 25-168 §368 (*effective July 1, 2025, and applicable to sales occurring on or after July 1, 2025*).

Sales Tax Exemption for Certain Aircraft Industry Joint Ventures. Connecticut has extended the sales tax exemption for certain aircraft industry joint ventures from 40 to 50 consecutive years for those established before January 1, 1986. For all other qualifying joint ventures, the exemption remains for 20 consecutive years. Conn. Gen. Stat. §12-412(58), as amended by Conn. Pub. Act No. 25-168 §369 (*effective July 1, 2025*).

Sales and Use Tax Exemption for Precious Metals and Rare or Antique Coins. The sales and use tax exemption for certain precious metal transactions has been modified by (1) eliminating the \$1,000 minimum threshold, making the exemption applicable to all sales; (2) including palladium and platinum bullion; and (3) limiting the exemption for gold and silver bullion to items with at least 90% purity. Conn. Gen. Stat. §12-412(45), as amended by Conn. Pub. Act No. 25-168 §444 (*effective July 1, 2027, and applicable to sales occurring on or after July 1, 2027*).

Dues Tax Exemption. Effective July 1, 2025, the exemption threshold for Connecticut's 10% dues tax will be raised from \$100 to \$250 for annual dues and initiation fees paid to social, athletic, or sporting clubs. The tax, which is imposed on member-owned clubs and reimbursed by members, continues to exempt clubs affiliated with charitable or religious organizations, government agencies, nonprofit educational institutions, fraternal organizations, and lawn bowling clubs. Conn. Gen. Stat. §12-543, as amended by Conn. Pub. Act No. 25-168 §370 (*effective July 1, 2025*).

II. Administrative Publications

Procedures for Retailers Claiming Credit for Sales Tax Previously Paid on Worthless Accounts Receivable.

This policy statement clarifies the method and manner in which payments made by a purchaser are to be applied by a retailer for purposes of determining a credit for sales tax paid on worthless accounts receivable. Under the Policy Statement, any payments a retailer receives must first be applied towards the sales tax. Retailers are precluded from first applying payments to their own charges like penalties, interest or other fees. This policy is effective for transactions occurring on or after July 8, 2019. *PS 2001(1.1), Procedures for Retailers Claiming Credit for Sales Tax Previously Paid on Worthless Accounts Receivable.*

DRS Will Consider Alternate Methods for Exempt Purchasers to Establish that Purchases Were Made from Its Own Funds.

The DRS has clarified the types and forms of payment that exempt organizations can use to make purchases with various sales and use tax exemption certificates (CERT-112, CERT-113, CERT-119, CERT-122, CERT-123, CERT-134 and CERT-136). Previously, the instructions to these certificates provided that a seller may accept a check drawn on the checking account issued in the name of the exempt organization or a credit card issued in the name of the organization as the only forms of payments for purchases made using said certificates. The DRS will accept certificates that establish that these purchases were paid for from the tax-exempt entity's own funds with alternative forms of payment that are not a check drawn on the checking account of the organization or a credit card issued in such organization's name. *TSSB 2025-1, DRS Will Consider Alternate Methods for Exempt Purchasers to Establish that Purchases Were Made from Its Own Funds.*

Property Tax

I. Legislation

Optional Motor Vehicle Depreciation Schedule. Beginning with the 2024 assessment year (for tax bills issued starting October 1, 2024), Connecticut municipalities may adopt an optional motor vehicle depreciation schedule that increases the taxable value of vehicles. This modified schedule raises the assessed value of new vehicles (up to one year old) from 85% to 90% of such vehicle's MSRP and increases the values for older vehicles by five percentage points across the board. The vehicle's property tax remains calculated as 70% of this adjusted value, and the minimum assessment of \$500 still applies. Conn. Gen. Stat. 12-63(b)(7) as amended by Conn. Pub. Act No. 25-2 §2-3 (*effective from passage and applicable to assessment years commencing on or after October 1, 2024*).

Certificates of Correction for Property Tax Errors. Assessors may issue certificates of correction to fix clerical omissions or mistakes to property tax assessments or when the assessor determines tangible personal property

should not have been taxed. The assessor may correct these errors up to three years after the taxes were due for most property types. Effective July 1, 2025, municipalities may adopt an ordinance to extend the period from three years to four years. If a municipality adopts such ordinance, the time for a taxpayer to claim a refund from taxes also is extended to four years. Conn. Gen. Stat. §§12-57(a), 12-60 and 12-129 as amended by Conn. Pub. Act No. 25-73 §§3-5 (*effective July 1, 2024*).

Permanent and Total Veteran Property Tax Exemption. Under current law, former members of the armed services who have a service-connected permanent and total disability rating (often referred to as “P&T rating”) from the U.S. Department of Veterans Affairs are exempt from property tax for a primary dwelling or a motor vehicle. Effective October 1, 2024, a veteran qualifies for the exemption if he or she is determined by the U.S. Department of Veterans Affairs to be permanently and totally disabled based on a 100% service-connected disability rating. Conn. Gen. Stat. 12-81(83) as amended by Conn. Pub. Act No. 25-2 §4-5 (*effective from passage and applicable to assessment years commencing on or after October 1, 2024*). The Act also makes technical and conforming changes and extends several existing provisions on veterans’ property tax exemptions to the 100% P&T exemption, including provisions requiring veterans to file certain proof of their eligibility, applying the exemption to leased property, and authorizing the exemption’s portability to other towns. The exemption applies to the fractional share of a dwelling that belongs to or is held in trust for the qualifying veteran or other eligible claimant that they occupy as their primary residence. This exemption includes dwellings possessed by the qualifying veteran or spouse as a tenant for life who is liable for property taxes. It also expands the exemption applied to motor vehicles to include vehicles that belong to or are held in trust for the qualifying veteran (or other eligible claimant), rather than just vehicles owned by qualifying veterans.

Any municipality, by vote of its legislative body (or a vote of the board of selectmen if the legislative body is a town meeting), may: (1) exempt up to two acres of the lot the eligible dwelling sits on; (2) extend the exemption to unmarried surviving spouses of veterans who would have otherwise qualified for the exemption, but died between a date set by the legislative body and October 1, 2024 (when the exemption went into effect); and (3) limit the total exemption amount to the median assessed value of residential real property in the municipality. Conn. Gen. Stat. §12-81(83) as amended by Conn. Pub. Act No. 25-168 §233 (*effective October 1, 2025, and applicable to assessment years commencing on or after October 1, 2025*).

The Act expands the exemption by allowing municipalities to offer similar optional exemptions to (1) surviving spouses of active-duty service members killed in the line of duty and (2) residents with a total disability rating based on individual unemployability. Municipalities may also tailor these exemptions and the original 100% P&T exemption. The Act extends existing administrative provisions—such as eligibility documentation, portability between towns, and application to leased property—to these exemptions. Conn. Gen. Stat. §12-81(20), (83), 12-93, 12-94, 12-95, 12-93a, 12-81cc as amended by Conn. Pub. Act No. 25-168 §§233-242 (*effective October 1, 2025, and applicable to assessment years commencing on or after October 1, 2025*).

Local Option Homestead Property Tax Exemption. Under current law, municipalities may exempt 5% to 35% of the assessed value of owner-occupied single-family homes, duplexes, condominiums, and common interest units. Adoption of this exemption must be approved by the municipality’s legislative body or board of selectmen if governed by town meeting. Municipalities that adopt a local homestead exemption may now set eligibility limits by capping the assessed value of qualifying homes, requiring a minimum residency period, or both. Conn. Gen. Stat. §12-81oo as amended by Conn. Pub. Act No. 25-168 §393 (*effective from passage*).

Tax Exemptions for Property Located on Certain Reservation Lands. There is a property tax exemption for real and tangible personal property located on reservation land held in trust for a federally recognized Indian tribe. The

exemption is applicable to assessment years beginning on or after October 1, 2026. Conn. Gen. Stat. §12-81 as amended by Conn. Pub. Act. No. 26-174 §204 (*effective from passage*) & Conn. Pub. Act No. 25-168 §434 (*effective October 1, 2025, and applicable to assessment years commencing on or after October 1, 2025*).

Farm Machinery Property Tax Exemption. The property tax exemption for farm machinery (excluding motor vehicles) is increased from \$100,000 to \$250,000 in assessed value. Municipalities may continue to offer an additional exemption of up to \$250,000 in assessed value at their discretion. To qualify for these exemptions, farmers must either generate at least \$15,000 in gross sales annually from farming operations or have incurred at least \$15,000 in farm-related expenses during the most recent tax year prior to the applicable assessment year. Conn. Gen. Stat. §12-91 as amended by Conn. Pub. Act No. 25-168 §455 (*effective October 1, 2025, and applicable to assessment years commencing on or after October 1, 2025*). Note Conn. Pub. Act No. 25-152 §5 contains the same provision.

Extension For Filing Certain Property Tax Exemptions. Any person eligible for (1) a 2022 grand list exemption in New Haven; (2) a 2023 grand list exemption in Berlin, Canton, Manchester, and Newington; or (3) a 2024 grand list exemption in Berlin and Milford, except that person failed to timely file the exemption application, shall be treated as having filed such exemption timely if such person files such statement not later than July 31st and pays the late filing fee. Upon confirmation of the receipt of such fee and verification of the exemption eligibility of such property, the assessor shall approve the exemption for such property. If taxes, interest or penalties have been paid on the property for which such exemption is approved, the applicable municipality shall reimburse such person in an amount equal to the amount by which such taxes, interest and penalties exceed any taxes payable if the statement had been filed in a timely manner. Conn. Pub. Act No. 25-175 §8-14 (*effective July 1, 2025*).

Deferral of Revaluation of Real Property in Newington and Trumbull. Newington and Trumbull, with approval from their legislative bodies, may delay the revaluation of real property required for the assessment year commencing October 1, 2025 until the assessment year commencing October 1, 2026. If one of these towns opts to do so, it must implement its next revaluation according to the schedule it was following prior to the deferral. The Act allows the person or entity authorized by law to prepare tax bills in these towns to prepare new bills based on the delayed revaluation. Conn. Pub. Act No. 25-175 §15-16 (*effective from passage*).

Supplemental Grants to Branford, Bridgeport, New London and Voluntown. The Municipal Revenue Sharing Fund is used to fund certain municipal grants, including payment in lieu of taxes grants for real property tax losses due to exemptions for state-owned property, private colleges and certain hospitals. Previously, Branford, Bridgeport, New London and Voluntown were entitled to additional annual PILOT amounts. These same amounts will now be payable as supplemental revenue sharing grants to these towns instead of additional PILOT amounts. Conn. Gen. Stat. §§12-18b & 4-66p as amended by Conn. Pub. Act No. 25-174 §189-190 (*effective July 1, 2025*).

Property Tax Exemption for Class I Renewable Energy Sources. Beginning with the 2025 assessment year, Connecticut establishes a property tax exemption for Class I renewable energy sources that consist of equipment and devices primarily designed to collect solar energy and generate electricity through the photovoltaic effect. However, this exemption is limited strictly to the equipment and devices themselves and does not extend to the real property on which they are installed. In addition, an existing property tax exemption for Class I renewable energy sources is amended. Under current law, this existing exemption does not explicitly exclude the real property where the equipment is located, but the Act clarifies that such real property is not covered by the exemption starting with the 2025 assessment year. Conn. Gen. Stat. §12-81(57) as amended by Conn. Pub. Act No. 25-173 §58 (*effective October 1, 2025*).

II. Case Law

Declassification of Farmland. In *Brennan v. Board of Assessment Appeals of the Town of Seymour*, 226 Conn. App. 191 (2024), a taxpayer owned real property in the Town of Seymour which was classified as partially residential and partially farmland. As a result of a townwide reassessment, the assessor conducted a field review of the taxpayer's property and determined that it was not in actual use as farmland and therefore declassified it. The taxpayer appealed the assessor's valuation of his residential dwelling and the assessor's declassification of his farmland. The appellate court found that the trial court properly relied upon the factors set forth in Conn. Gen. Stat. 12-107c when it determined that the taxpayer's property was not currently being used as a farm. Although the statute governing termination of classification of land as farmland for tax purposes is part of the real estate conveyance tax scheme, the appellate court found no language indicating that it does not apply to termination of classification for purpose of property tax assessments as well. The statute governing classification of land as farmland for tax purposes and statute governing termination of classification made clear it was proper for the trial court to consider factors for determining whether land was farmland in deciding whether a portion of the taxpayer's property not deemed residential property was still being used as a farm, even though the taxpayer argued that the court's only task was to determine if there had been change in ownership or use of such excess property, warranting revaluation.

Proper Parties to Claim Excess Proceeds from A Tax Sale. In *Town of Rocky Hill v. McCullough*, 2024 WL 3580191 (New Brit. Super. Ct. July 24, 2024), the Town of Rocky Hill brought an action for return of excess tax sale proceeds pursuant to Conn. Gen. Stat. 12-157(i)(2) following an auction for payment of back taxes on a property. The successful bidder moved to intervene to claim use and occupancy and attorney's fees from the taxpayer. Conn. Gen. Stat. 12-157(i)(2) provides that the delinquent taxpayer, any mortgagee, lienholder or other encumbrance may file an application with the court for return of the proceeds. The court held that the bidder is not eligible to claim excess proceeds under Conn. Gen. Stat. 12-157(i)(2). Any claim the bidder may have against the taxpayer must be maintained in a separate action.

Timing of Filing an Appraisal for a Real Property Tax Appeal. In *7 Germantown Road, LLC v. City of Danbury*, 351 Conn. 169 (2025), the Connecticut Supreme Court was asked to determine whether a property owner's failure to timely file an appraisal in accordance with Conn. Gen. Stat. § 12-117a(a)(2), in a tax appeal involving real property assessed at one million dollars or more, implicates the Superior Court's subject matter jurisdiction over the tax appeal. The statute provides that an applicant bringing a tax appeal in the Superior Court involving real property with an assessed value of one million dollars or more "shall file with the court, not later than one hundred twenty days after making such application, an appraisal of the real property that is the subject of the application. Such appraisal shall be completed by an individual or a company licensed to perform real estate appraisals in the state. The court may extend the one-hundred-twenty-day period for good cause. If such appraisal is not timely filed, the court may dismiss the application." The taxpayers in this case obtained a sixty-day extension to submit the appraisals of the real property; however, the taxpayers did not file their appraisals with the court by the deadline, but each did send their respective appraisals to the City of Danbury's counsel. The court held that the time to file the appraisal, which is subject to extension by the Superior Court for good cause, is not a subject matter jurisdictional requirement. The filing deadline is not a condition precedent to the commencement of a tax appeal, but rather is a mandatory requirement that arises after the commencement of a tax appeal.

Valid Assignment of Real Property Tax Liens. In *Cazenovia Creek Funding I, LLC v. White Eagle Society of Brotherly Help, Inc.*, 351 Conn. 722 (2025), the holder of municipal tax liens which were originally assigned to the holder's predecessor in interest by the city's collector of revenue, brought a foreclosure action against the owner of the real property. The Connecticut Supreme Court was asked to determine whether the lower courts properly determined

that there was no genuine issue of material fact regarding whether the tax liens at issue had been validly assigned to the holder. The City of Bridgeport assigned its tax liens to a company who later assigned its interests in the tax liens to the current holder. When the holder sought to foreclose on the real property, the property owner alleged that the holder failed to establish that it was validly assigned the liens. The court determined that the holder of the liens met its burden of establishing its ability to foreclose on the liens by filing certification documents including certified copies of certificates of continuing tax liens for taxes due on property relating to grand lists for two years. In addition, the Bridgeport City council was not required to authorize the predecessor's subsequent assignment of municipal tax lien to a substitute holder of lien, as that would render the subsequent assignment invalid, because the assignments at issue were executed prior to the enactment of Conn. Gen. Stat. 12-195h(c).

Over-Assessment of Real Property. In *Lasry v. Town of Westport*, 2025 WL 1111546 (New Brit. Super. Ct. April 8, 2025), the taxpayer appealed the property tax assessment on three properties located in the Town of Westport. In a property tax appeal, the trial court tries the case *de novo*. The taxpayer bears the burden of establishing that the assessor over-assessed the properties involved. Once the taxpayer has demonstrated such properties were over-assessed, the trial court will determine the amount of the reassessment that would be just. In this case, the taxpayer failed to demonstrate that any of the properties were over-assessed by the assessor. The taxpayer's appraiser issued an initial report that contained errors and was not a reliable indicator of value. Moreover, the court found through cross-examination that the adjustments made by the appraiser were inadequate, and his value conclusions were deemed unreliable. The court found one of the two appraisers hired by the town to be the correct valuation for all properties involved.

Collection Fees Incurred from Previous Tax Lien Holder's Servicer. In *Dexter v. Benchmark Municipal Tax Services, Ltd.*, 2025 WL 685414 (New Brit. Super. Ct. Feb. 25, 2025), the taxpayer filed for summary judgment for multiple issues including on certain collection fees incurred from a previous tax lien holder's servicer. The taxpayer argued that the collection fees could not legally be included in a foreclosure action and payment of such fees was a violation of Connecticut Unfair Trade Practices Act. The City of Danbury filed and recorded tax liens for the tax years 2013-2017. It later sold its tax liens on the taxpayer's property. The servicer charged collection fees of 10% of its entire portfolio of tax liens. The tax lien holder cited Conn. Gen. Stat. §§12-166 and 12-195h for its legal basis to include the collection fees in the foreclosure action. The court agreed with the tax lien holder that the controlling statutes were Conn. Gen. Stat. §§ 12-166 and 12-195h. To the extent that the consumer collection agency statutes in Title 36a apply at all, the taxpayer has not established that the tax lien holder has violated those statutes. Because statutes specifically authorize the inclusion of collection agency fees as part of the tax and authorize assignees of tax liens to collect the tax and those fees, there is no unfair trade practice here. Furthermore, because an ascertainable loss must be a "result of" an unfair trade practice, the taxpayer's insistence that the taxpayer pay the collection fees did not cause her to suffer an ascertainable loss.

Denial of Property Tax Exemption for Fuel Cells. In *FuelCell Energy, Inc. v. Town of Groton*, 250 Conn. 1 (2024), the taxpayer sought review of the Town of Groton's denial of a property tax exemption for its fuel cell modules and retroactive tax assessment. The taxpayer constructs, operates and manufactures molten carbonate fuel cells throughout Connecticut. The Town of Groton sought to tax four fuel cell modules and related equipment. The property primarily provides electricity and converts waste heat to heat buildings. The assessor retroactively assessed the property as an 80% complete construction in process, and it added a 25% penalty to its assessment based on the taxpayer's failure to file a declaration for the property.

There were two issues brought before the Supreme Court. First, the taxpayer applied for an exemption under Conn. Gen. Stat. §12-81(57), which exempts class I renewable sources from taxation. The assessor denied the application

stating that the property was more properly classified as a cogeneration system under Conn. Gen. Stat. §12-81(63), which allows, but does not require, municipalities to exempt cogeneration systems, as it produced both heat and electricity. The Town of Groton argued that Conn. Gen. Stat. §16-1(20), which defines class I renewable energy sources as electricity from fuel cells but does not state whether a class I renewable energy source that produces something other than electricity—like heat—remains a class I renewable energy source. The town argued that interpreting Conn. Gen. Stat. § 12-81(57) to include sources that produce more than just electricity violates the rule requiring the court to apply the exemption strictly against the taxpayer. The Supreme Court determined that the taxpayer could claim an exemption for the property under either statute; therefore, the property's taxability is governed by the more specific exemption, which is Conn. Gen. Stat. § 12-81(57). The plaintiff demonstrated that the town's strict construction of § 12-81 (57) would undercut the legislative intent to encourage renewable energy projects by incentivizing a company's emission of waste heat into the atmosphere, rather than recycling it, so that companies can benefit from § 12-81 (57).

Second, the trial court determined that the property was exempt for the 2016 tax year based on § 12-81 (50), which exempts manufacturers' inventories, including "goods in [the] process of manufacture" The town argued that, despite its own earlier classification of the property as CIP in January 2017, the property was operational as of October 1, 2016, and therefore was not "in [the] process of manufacture" pursuant to § 12-81 (50). The town stated that the property was assembled and operational by October 1, 2016, because it had produced electricity that a third party purchased in September 2016. The taxpayer argued that there were several ongoing steps in the conditioning process completed after October 1, 2016. The supreme court determined that the trial court's finding was not clearly erroneous and upheld its determination.

Third, the town argued that the taxpayer waived its right to exemption from taxation by failing to file a personal property declaration with the assessor. Both the trial court and Supreme Court agreed that the taxpayer was not required to declare the property based on the lack of express instruction in § 12-81(57) and the inapplicability of §§ 12-40 and 12-41. Personal property declarations are only due for taxable personal property.

Redemption of Properties Subject to Foreclosure Actions. In *Town of North Haven v. Gibson*, 2024 WL 4274498 (New Haven Super. Ct. Sept. 18, 2024), the taxpayer owned three properties that were subject to foreclosure actions. The taxpayer sought to pay the outstanding tax liability owned only on one property and let the town continue its action in attempting to collect the taxes on the other properties. The taxpayer argued that Conn. Gen. Stat. 12-144b allowed her to pay off the taxes on one property. However, the court determined that it was the role of the court to fix the terms of the application of payments as a result of litigation. The court determined that because the taxpayer used the properties as one parcel coupled with the constructive consolidation of the three cases and the taxpayer's prior representations that she would redeem all of the taxes on all of the properties, the court determined that all three properties must be redeemed to fully resolve the matter.

Tax Abatement Agreement. In *Park Seymour Associates, LLC v. City of Hartford*, 230 Conn. App. 565 (2025), the taxpayer, landowners, brought an action against the City of Hartford alleging that the taxpayer or its predecessors had entered into tax-abatement agreement and the City failed to honor such agreements. The City previously granted tax abatements on the applicable property, which expired fifteen years after grant. The taxpayer failed to provide evidence to prove, by a preponderance of the evidence, that there were any tax abatement agreements between the landowners and the City for the tax years involved. The taxpayer claimed to have had conversations with elected officials as to the tax abatement, but they could not produce transcripts or any other evidence besides oral testimony. The court was not persuaded that a tax abatement existed for the applicable years.

Lease of Property to Day Care Facility. In *Lee Memorial Church of Norwich v. City of Norwich*, 2024 WL 2932628 (Conn. Super. Ct. June 5, 2024), the taxpayer leased a portion of its property to an unaffiliated, for-profit company for

use as a daycare facility. The City of Norwich denied the taxpayer's tax exemption under Conn. Gen. Stat. 12-81(14). Conn. Gen. Stat. 12-81(14) requires only that exempt property be owned by a religious organization and that it be used exclusively as a daycare facility. It does not require that the daycare center also be operated by the religious organization. It was undisputed that the property was owned by the taxpayer, and that the taxpayer was a religious property. It was also undisputed that the property was exclusively used as a daycare facility. The court held that the property was entitled to the tax exemption as set forth in the statute.

Tax Exemption for Personal Property at Subleased Facility. In *The William W. Backus Hospital v. Town of Stonington*, 349 Conn. 713 (2024), a hospital appealed a decision of the Town of Stonington's Board of Assessment Appeals, which denied the taxpayer's application for tax exemption for certain personal property it used to provide outpatient services at a subleased facility. The question considered by the Supreme Court was whether Conn. Gen. Stat. 12-66a applied to the personal property. The statute provides in relevant part that certain real and personal property are taxable as follows "(1) Real property that is acquired by a health system on or after October 1, 2015, that, at the time of such acquisition, is subject to taxation under the provisions of this chapter and chapters 201 and 204, provided such acquiring health system had, for the fiscal year ending September 30, 2013, net patient revenue from facilities located within the state of one billion five hundred million dollars or more, and (2) any personal property incident to the rendering of health care services at the real property describe in subdivision (1) of this section." The court found in favor of the town stating that the personal property owned by the taxpayer used "incident to the rendering of health care services" at the rehabilitation facility, which is located in a suite, subleased to the plaintiff, of a building that Hartford Healthcare acquired by lease, is rendered taxable by § 12-66a, even if otherwise exempt from taxation under § 12-81(7) or (16).

Miscellaneous Taxes

I. Legislation

Tax on Nursing Homes and Intermediate Care Facilities.

- **Rate and Basis.** Beginning July 1, 2026, Connecticut will replace the current quarterly user fee on nursing homes and intermediate care facilities for individuals with intellectual disabilities (ICFs) with a 6% tax on revenue from services covered under the state's Medicaid program, excluding Medicare payments. This tax applies to "nursing facility service revenue" and "intermediate care facility service revenue" (ICF), regardless of whether the services were provided to Medicaid recipients, unless the Centers for Medicare & Medicaid Services (CMS) deems the tax impermissible. State-operated ICFs, except those run by a receiver, are exempt. Conn. Gen. Stat. §§12-263p, as amended by Conn. Pub. Act No. 25-168 §359 (*effective July 1, 2026*). Additionally, facilities will be required to report this revenue on their quarterly tax returns, and the option to request payment extensions will be eliminated. Conn. Gen. Stat. §12-263s(b), as amended by Conn. Pub. Act No. 25-168 §361 (*effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026*).
- **Exemption and Reduced Tax Rate for Certain Nursing Homes.** The Department of Social Services (DSS) commissioner must seek federal approval from the CMS by January 1, 2026, to exempt certain continuing care retirement communities—specifically those licensed on or before July 1, 2017—from the nursing home tax. It also directs the commissioner to request CMS approval to apply a reduced 4.6% tax rate on nursing facility service revenue for municipally owned nursing homes and those with more than 230 beds. These provisions mirror existing requirements for the current nursing home user fee and will only take effect if CMS grants approval. As with current law, these waiver requests are exempt from the requirement that the DSS commissioner notify the Appropriations and Human Services committees before submitting Medicaid state plan amendments to the federal government. Conn. Gen. Stat. §12-263r as amended by Conn. Pub. Act No. 25-168 §363 (*effective July 1, 2026*).

- **Reinstatement of the Nursing Home and ICF User Fees.** If the CMS determines the nursing home and ICF tax is not allowed under federal law, the tax will be suspended and the previous user fee system will be reinstated starting in the same calendar quarter. If the state successfully appeals CMS's decision, the user fee will end and the tax will resume in the quarter following the final decision of the appeal. Conn. Gen. Stat. §12-263aa as amended by Conn. Pub. Act No. 25-168 §364 (*effective July 1, 2026*).

Hospital Provider Tax.

- **Inpatient and Outpatient Hospital Services.** Beginning July 1, 2026, the tax on inpatient hospital services will be 6% of each hospital's audited net revenue for the applicable federal fiscal year, replacing the current rate based on FY 2016 audited net revenue. The outpatient hospital services tax rate will be based on \$1.195 billion minus the total inpatient hospital tax, divided by each hospital's audited net outpatient revenue for the applicable federal fiscal year. This replaces the current formula, which uses FY 2016 revenue and a fixed base of \$820 million. Conn. Gen. Stat. § 12-263q, as amended by Conn. Pub. Act No. 25-168 §360 (*effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026*).
- **Exemption for Children's Hospitals.** The social services commissioner is directed to seek approval from CMS to eliminate the hospital provider tax exemption for children's general hospitals. If approved, these hospitals—licensed as short-term children's hospitals by the Department of Public Health—will be taxed on inpatient and outpatient services at the same rates as other hospitals, starting July 1, 2026. Specialty hospitals remain excluded. Conn. Gen. Stat. § 12-263q, as amended by Conn. Pub. Act No. 25-168 §360 (*effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026*).
- **Hospital Dissolutions or Cessation of Operations.** If a hospital dissolves or is no longer subject to the hospital tax, the tax owed by each remaining hospital must be recalculated for the following fiscal year and beyond. These recalculations will now be based on audited net revenue from the applicable federal fiscal year, rather than FY 2016. Conn. Gen. Stat. § 12-263q, as amended by Conn. Pub. Act No. 25-168 §360 (*effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026*).
- **Information Reporting Requirements.** Hospitals subject to the provider tax must submit required financial data to the DRS commissioner by January 1, 2026; January 1, 2029; and every four years thereafter. This data is used to calculate audited net inpatient, outpatient, and total revenue for the applicable fiscal year. If the commissioner hasn't initiated an audit, the reported figures are accepted as of the start of the state fiscal year. If an audit is underway, hospitals must respond to additional information requests within 14 days. Failure to submit data or comply with requests results in a \$1,000 daily penalty. The commissioner may also hire an independent auditor to assist, as allowed under current law. Conn. Gen. Stat. § 12-263q, as amended by Conn. Pub. Act No. 25-168 §360 (*effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026*).
- **Administrative Protests.** Hospitals under audit may file an administrative protest if they disagree with the DRS commissioner's determination of additional audited net revenue. The commissioner must notify the hospital by the start of the state fiscal year, and the determination becomes final after 14 days unless a written protest is filed. If protested, the commissioner must review the case and may hold a hearing upon request. A final decision, including findings and reasoning, is mailed to the hospital and becomes final after one month unless appealed in court. While a protest or appeal is pending, the hospital must use its reported figures to calculate taxes. If the outcome changes the reported amounts, the commissioner must adjust tax assessments or issue refunds accordingly. Conn. Gen. Stat. § 12-263q, as amended by Conn. Pub. Act No. 25-168 §360 (*effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026*).

- **Quarterly Reports to OPM and DSS.** Beginning November 15, 2026, the DRS commissioner must submit quarterly reports to the DSS commissioner and the OPM secretary detailing each hospital's tax payments for the most recent calendar quarter, along with any outstanding taxes, penalties, or interest. However, these reports must still comply with existing confidentiality laws regarding tax return information, except in limited cases where disclosure is permitted. Conn. Gen. Stat. § 12-263q, as amended by Conn. Pub. Act No. 25-168 §360 (*effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026*).
- **Payment Extensions Disallowed.** The Act removes the option for hospitals to request a payment extension for the hospital provider tax due to financial hardship. Previously, extensions could be granted if a hospital demonstrated a substantial risk of defaulting on a bond or similar obligation. The DRS commissioner could approve such requests only upon verifying genuine undue hardship—not for general hardship or convenience. Conn. Gen. Stat. § 12-263s, as amended by Conn. Pub. Act No. 25-168 §361 (*effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026*).

Various Amendments to the Lottery and Gaming Regulations. The Act makes various amendments to the lottery and gaming regulations set forth in Title 12 including (1) prohibiting CLC from publishing the name or address of a person who redeems a winning lottery ticket, claims or is paid a winning sports wager or is paid a fantasy contest prize without the person's prior written consent; (2) permitting the use of unlicensed delivery services to deliver lottery tickets; (3) allowing CLC licensed employees to receive endorsements on their licenses rather than get a separate license to work on different forms of gaming for CLC; (4) specifying Commissioner of Consumer Protection's disciplinary authority concerning certain gaming licensees including authorizing a summary suspension of a lottery sales agent for (a) keeping unauthorized gambling devices, illegitimate lottery tickets, and illegal bookmaking equipment or (b) allowing any illegal gambling at its retail facility; (5) defining "wager" for purposes of the statutes regulating online sports wagering and online casino gaming; (6) providing rules on voiding and modifying wagers; (7) requiring all live game employees to be licensed; (8) permitting certain advertising relating to online keno and online lottery draw games that increase the chances of winning; and (8) prohibiting displays on online casino games that obscure material facts, confuse, or mislead patrons. Conn. Gen. Stat. §§12-810, 12-814, 12-850, 12-858, 12-859, 12-859a, 12-859c, 12-863, 12-866, 12-569 as amended by Conn. Pub. Act No. 25-112 (*various effective dates*) and Conn. Gen. Stat. §12-815a as amended by Conn. Pub. Act No. 25-113 §§4, 6 (*effective October 1, 2025*).

Cigarettes. The definition of "cigarette" under Connecticut's cigarette tax has been updated to align with the definition used in the tobacco master settlement agreement, which is a 1998 agreement between Connecticut and leading tobacco companies. It expands the definition to include any nicotine-containing product intended to be burned or heated, such as paper-wrapped tobacco rolls, tobacco in forms likely to be sold as cigarettes based on appearance or packaging, and tobacco rolls wrapped in tobacco-containing substances. It also explicitly includes tobacco sticks, rolls, or capsules designed for heating. As under current law, products with wrappers made mostly or entirely of tobacco and weighing more than three pounds per thousand remain excluded. Conn. Gen. Stat. § 12-285(b), as amended by Conn. Pub. Act No. 25-168 §394 (*effective July 1, 2025*).

Cigarette Dealer Licenses and Renewals. Connecticut law allows municipalities to require cigarette dealer license renewal applicants to notify local law enforcement. Previously, the chief law enforcement official, or their designee, could submit comments to the DRS for consideration. Under the Act, the DRS commissioner must respond in writing to such official before making a decision. Additionally, while current law lets ten town residents file objections (remonstrances) to a license based on non-zoning concerns, the Act expands this to include zoning-related objections as well. Conn. Gen. Stat. §§ 12-287 & 12-287a, as amended by Conn. Pub. Act No. 25-166 §§1-2 (*effective July 1, 2025*).

Electronic Cigarettes. The provisions governing the regulation of electronic cigarettes are now conformed to the provisions governing the regulation of traditional cigarettes. This amendment authorizes the DRS commissioner to impose a civil penalty of up to \$10,000 for any violations. Conn. Gen. Stat. §§ 21a-418, as amended by Conn. Pub. Act No. 25-168 §395 (*effective July 1, 2025*).

Pilot Program to Collect Certain Delinquent State Taxes. The Office of Policy and Management (OPM) secretary and the DRS commissioner shall establish a pilot program aimed at recovering unpaid state taxes, penalties, and interest from individuals receiving payments from any state agency (including departments, boards, councils, commissions, institutions, or other executive branch entities). The program must (1) be designed to minimize administrative burdens on DRS and other state agencies, and (2) be presented to the Finance, Revenue and Bonding Committee by January 1, 2026. Conn. Pub. Act No. 25-168 §397 (*effective from passage*).

Municipal Tax Lien Assignment. By law, a municipal tax lien assignee generally inherits the municipality's rights regarding lien priority, interest, and collection-related fees. However, the Act bars assignees from charging the property owner any post-charge-off collection fees, except court costs. It also classifies assignees as consumer collection agencies, subjecting them to licensure and conduct rules under banking regulations. Specifically, assignees may not add post-charge-off collection fees (excluding court costs) unless the debtor is contractually liable, and the fee is no more than 15% of the amount collected. These fees also cannot appear in required notices to mortgage holders or security interest holders. The Act also removes the ban on consumer collection agencies receiving third-party claim assignments for collection or litigation and makes related technical updates. Conn. Gen. Stat. § 12-195h, as amended by Conn. Pub. Act No. 25-168 §446 (*effective October 1, 2025*).

THC-Infused Beverages and Hard Cider Exempt from Bottle Bill. THC-infused beverages and hard cider are excluded from the definition of "carbonated beverage" for purposes of the bottle bill and are therefore not redeemable. Conn. Gen. Stat. §22a-243, as amended by Conn. Pub. Act No. 25-174 §193 (*effective from passage*).

Uniform Solar Capacity Tax. Effective July 1, 2026, there will be a municipal annual tax on certain "solar photovoltaic systems." The tax applies to systems that generate electricity through the photovoltaic effect, have a nameplate capacity exceeding one (1) megawatts (MW) that exceeds the load for the location where the equipment and devices are located, and receive operational approval on or after the effective date. The tax is set at \$10,000 per MW of nameplate capacity and is payable each year for 20 years. Exemptions include systems located on state-owned land, brownfields, landfills, residential, commercial, or industrial rooftops, or solar canopies, as well as those that are part of a microgrid serving critical facilities such as hospitals, emergency services, water treatment plants, and other essential infrastructure. Tax payments are made to the municipality where the system is located, with revenue treated as general municipal income. If a system spans multiple municipalities, the tax is divided proportionally based on capacity. Municipalities may allow annual, semiannual, or quarterly payments, and delinquent payments accrue interest at 1.5% per month. Owners may appeal tax decisions to the Superior Court, and if they pay at least 75% of the assessed amount under protest, they are not liable for interest during the appeal. Municipalities also have the option to enter agreements to freeze or stabilize the tax for systems within their jurisdiction, though such agreements only apply to the portion of the system located within the agreeing municipality. Conn. Pub. Act No. 25-173 §57 (*effective July 1, 2026*).

Establishment of Port Eastside Infrastructure Improvement District in East Hartford and Park City Landing Infrastructure Improvement District in Bridgeport. Two special taxing districts may be established to provide services and finance infrastructure improvements in the Port Eastside Infrastructure Improvement District and the Park City Landing Infrastructure Improvement District. Each district may be formed if voters representing two-thirds of the assessments of holders of records in the district that attend the meeting vote to create it. Once created, the districts

may levy taxes, charges, and benefit assessments and, after entering into an interlocal agreement with their respective municipalities, issue and secure bonds backed by these revenues and their full faith and credit. Conn. Pub. Act. No. 25-90 §1-3 (*effective from passage*).

II. Administrative Publications

Diesel Fuels Tax. Effective July 1, 2024, the motor vehicle fuels tax rate per gallon on the sale or use of diesel fuel is decreased from 52.4 cents to 48.9 cents. *AN 2025(2), Motor Vehicle Fuels Tax Rate on Diesel Fuel Effective July 1, 2025.*

Fuels Conversion Factors. Effective July 1, 2024, the conversion factors used for calculating the tax on motor vehicle fuels occurring in gaseous form are as follows: (i) compressed natural gas, one gallon is equal to 123.57 cubic feet or 5.66 pounds; (ii) for liquefied petroleum gas, one gallon is equal to 1.353 gallons or 5.75 pounds; and (iii) for compressed propane, one gallon of propane equals 35.97 cubic feet of propane. *AN 2024(1), Conversion Factors for Motor Vehicles Fuels Occurring in Gaseous Form Beginning July 1, 2024.*

Prepaid Wireless E 9-1-1- Fee. Effective July 1, 2025, the prepaid wireless E 9-1-1 fee is decreased from 73 cents to 69 cents. This rate will remain in effect through June 30, 2026. *TSSB 2025-3, Prepaid Wireless E 9-1-1 Fee Increase Effective July 1, 2025.*

Tax Studies

Sourcing Revenue to Municipalities. Beginning July 1, 2025, the Commissioner must track and allocate state sales and use, personal income, and corporation business tax revenues to municipalities in a fair and accurate manner. The commissioner is responsible for determining the method of attribution, but must assign sales and use and corporation business tax revenue to the municipality where the taxpayer maintains an office or facility in Connecticut, and, to the extent possible, attribute personal income tax revenue from earned income to the municipality where the employer's office or facility is located for employees who primarily work there. Taxpayers are required to submit disaggregated data and any additional information the commissioner needs to fulfill these obligations. Starting October 31, 2026, and annually thereafter, the commissioner must publish on the DRS website a report listing each municipality and the amount of tax revenue attributed to it for the relevant fiscal year. Conn. Pub. Act No. 25-168 §391 (*effective from passage*).

DRS Tax Gap Report. The "tax gap" is the difference between (1) state taxes and fees owed under full compliance with all state tax laws and (2) the state taxes and fees voluntarily paid, which may be caused by failing to file taxes, underreporting tax liability, or not paying all taxes and fees owed. The DRS is required to estimate and analyze the state's tax gap, develop a strategy to address it, and report this information to the legislature. The DRS now has until December 15, 2026 instead of December 15, 2025 to submit the next required tax gap. The subsequent reports are required to be submitted every two years, rather than annually. Conn. Gen. Stat. § 12-7d, as amended by Conn. Pub. Act No. 25-168 §387 (*effective from passage*).

DRS Tax Incidence Report. The DRS is required to submit a tax incidence report every two years. Now, The frequency with which the report must include incidence projections for the property tax and any other tax that generated \$100 million or more in the fiscal year before the report's submission has been changed to every four years. Conn. Gen. Stat. § 12-7c, as amended by Conn. Pub. Act No. 25-168 §387 (*effective from passage*).

Connecticut United Football Club Stadium Study. The Department of Economic and Community Development (DECD) commissioner, in consultation with the DRS commissioner, must conduct an assessment on the proposed Connecticut United Football club stadium's anticipated economic impact on Connecticut and the City of Bridgeport. The assessment must also evaluate when the state could expect to receive a return, through revenue generated from the proposed stadium's added payroll taxes, sales and use taxes, and other sources, on a \$127 million state bonding investment. The DECD commissioner must report on the assessment to the Finance, Revenue and Bonding Committee by October 1, 2025. Conn. Pub. Act No. 25-174 §238 (*effective upon passage*).

Administrative Publications

Announcements

AN 2025(2), Motor Vehicle Fuels Tax Rate on Diesel Fuel Effective July 1, 2025
AN 2025(5), Assessments Refunded by the Connecticut Insurance Guaranty Association
AN 2025(6), 2025 Revision of Forms TPM-1 and TPM-2
AN 2024(1), Conversion Factors for Motor Vehicle Fuels Occurring in Gaseous Form Beginning July 1, 2024

Informational Publications

IP 2025(7), Is My Connecticut Withholding Correct?
IP 2025(8), Connecticut Tax Guide for Payers of Nonpayroll Amounts
IP 2025(1), Connecticut Employer's Tax Guide, Circular CT

Policy Statement

PS 2001(1.1), Procedures for Retailers Claiming Credit for Sales Tax Previously Paid on Worthless Accounts Receivable

Taxpayer Services Special Bulletins

TSSB 2024-5, Taxpayers are eligible to claim a credit against the income tax in taxable year 2023 based on real estate conveyance tax paid in connection with certain residential real estate in taxable year 2020
TSSB 2024-6, Taxpayer Advisory Information for Taxpayers Impacted by Weather Events of August 18, 2024
TSSB 2024-6.1, Updated Taxpayer Advisory Information for Taxpayers Impacted by Weather Events of August 18, 2024
TSSB 2025-1, DRS Will Consider Alternate Methods for Exempt Purchasers to Establish that Purchases Were Made from Its Own Funds
TSSB 2025-2, DRS Provides Update on Status of Pending Refund Claims
TSSB 2025-3, DRS Announces Prepaid Wireless E 9-1-1 Fee That Will Be In Effect From July 1, 2025 Through June 30, 2026
TSSB 2025-4, DRS Provides Filing Season Update Options Available to File Form CT-1065/CT-1120SI and Form CT-PET
TSSB 2025-5, Taxpayer Alert 2024 Form CT-1065/CT-1120SI and 2024 Form CT-PET Filing and Payment Initiative

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The lawyers in the State and Local Taxation Practice at Shipman & Goodwin LLP ("Shipman") are regularly called upon to advise businesses, executives and individual clients on all aspects of state and local tax matters. Additionally, our tax lawyers represent clients in connection with state and local tax audits, refund requests and appeals from state or local assessments.

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