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OLR BACKGROUNDER: CONNECTICUT'S SALES AND USE TAX

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This report provides an overview of Connecticut's sales and use tax. It (1) describes major sales tax exemptions and (2) compares the tax rates, range of taxable services, and sales tax holidays in Connecticut and nearby states.

OVERVIEW OF CONNECTICUT'S SALES AND USE TAX

Connecticut taxes items and services purchased in the state (i.e., sales tax) and those purchased outside the state for use here (use tax). The state imposes a 6.35% sales tax, with some exceptions, on retail sales of tangible personal property purchased in the state and specific services provided by companies doing business in the state. Consumers pay the tax to the retailer at the time of the purchase.

The 6.35% use tax applies to the same goods and services if a person buys them outside the state for use in Connecticut. If a retailer does not collect sales tax on these purchases when they occur, the consumer must pay the equivalent use tax directly to the Department of Revenue Services (DRS). Use tax is generally paid along with an individual's personal income tax payments or, in the case of a vehicle purchased in another state, when an individual registers the car here.

The legislature set the 6.35% sales and use tax rate during the 2011 session, raising it from 6%. It also (1) increased the hotel tax rate from 12% to 15%; (2) imposed a 3% tax surcharge on short-term car rentals; (3) imposed a 7% sales and use tax on certain “luxury” goods; (4) eliminated exemptions for specific items, including clothing and footwear under \$50 and nonprescription drugs; and (5) extended the tax to additional services. OLR Report [2011-R-0238](#) summarizes these changes.

The Office of Fiscal Analysis (OFA) projects that the sales and use tax will bring in \$3.789 billion in revenue in FY 12, or 18.8% of total General Fund revenues. This compares to \$3.353 billion, or 18.5%, in FY 11.

EXCEPTIONS TO THE 6.35% RATE

There are several exceptions to the 6.35% rate. The rate is:

1. 7% on certain “luxury” motor vehicles, boats, jewelry, clothing, and footwear;
2. 4.5% on motor vehicles purchased by an active duty U. S. military member stationed in Connecticut;
3. 1% on computer and data processing services;
4. 15% on short-term stays in hotels and lodging houses; and
5. 9.35% on short-term car rentals.

The 7% tax on luxury goods applies to the full sales price of motor vehicles, boats, jewelry, clothing, and footwear costing more than:

1. \$50,000 for motor vehicles, with certain exceptions;
2. \$100,000 for boats;
3. \$5,000 for jewelry (real or imitation); and
4. \$1,000 for clothing, footwear, handbags, luggage, umbrellas, wallets, and watches.

SALES AND USE TAX EXEMPTIONS

The sales and use tax applies to all tangible personal property unless it is expressly exempted by law (CGS §§ [12-408](#), [12-412](#)). On the other hand, it applies only to those services specifically enumerated in the statutes (CGS §§ [12-407\(I\)](#) – (P); [12-407\(37\)](#)). OLR Report [2011-R-0276](#) lists the exempted goods and services.

Table 1 lists the exemptions for goods and services with an estimated FY 11 revenue loss of over \$10 million. It includes a brief description of the exemption and indicates whether it is for a consumer good, business good, or service. The revenue loss figures are from the [2010 Tax Expenditure Report](#), published by OFA. We have omitted (1) any exemptions listed in the 2010 report that were repealed during the 2011 session and (2) the exemption for motor vehicle fuel because it is subject to other state taxes. We have included computer and data processing services, which are not exempt, but are subject to a reduced tax rate of 1%.

Six of the 13 major exemptions listed are for consumer goods, including the two highest cost exemptions. OFA estimates that the food products and prescription drug exemptions cost the state \$375 million and \$325 million in FY 11, respectively. The exemption for patient care services is the next highest, with an estimated cost of \$180 million. The reduced sales tax rate for computer and data processing services cost an estimated \$90 million in FY 11.

Table 1: Major Sales Tax Exemptions

Exemption	Description	Type	FY 11 Estimated Revenue Loss (millions)
Food products	(1) Food products for human consumption, excluding meals sold by an eating establishment or caterer and (2) certain nonfood products, such as candy, gum, and soda	Consumer good	\$375
Prescription medicines, syringes, needles	Prescription drugs and medicines, syringes, and needles	Consumer good	325
Patient care services	Hospital patient care services	Service	180
Fuel for heating purposes	Heating oil for (1) residential dwellings and (2) certain manufacturing, fabrication, or agricultural production facilities	Consumer/ business good	175
Machinery used in manufacturing and component parts for the assembly of manufacturing machinery and production materials	Machinery, including component parts and production materials, used directly in a manufacturing production process	Business good	100
Computer and data processing	Certain computer and data processing services, including programming, code writing, software installation, and custom software development	Service	90
Amusement and recreation services ¹	Amusement and recreational services, such as dance studios, bowling alleys, and riding stables	Service	65
Newspapers and magazines	Magazine subscriptions and newspapers	Consumer good	65
Certain utilities sales	(1) Gas and electricity for residential use and certain manufacturing or agricultural production; (2) water, steam and telegraph; (3) electricity, if the monthly charge is \$150 or less and it is not otherwise exempt; and (4) gas, water, steam, or electricity used in the furnishing of such utilities.	Consumer/ business good	53

¹ Admission charges to any place of amusement, entertainment, or recreation are subject to a 10% admissions tax.

Table 1: -Continued-

Exemption	Description	Type	FY 11 Estimated Revenue Loss (millions)
Motor vehicles and vessels purchased by non-residents to use out-of-state	Motor vehicles or vessels sold in the state to nonresidents	Consumer good	45
Advertising	Non-media advertising and public relations services and direct mail advertising services, other than cooperative direct mail	Service	30
World wide web	Services rendered in connection with the creation, development hosting, or maintenance of a website	Service	30
Renovation and repair for residential property	Services, such as electrical, plumbing painting, and carpentry services, rendered to owner-occupied residential property	Service	21

Source: OFA, [Connecticut Tax Expenditure Report](#), March 2010

COMPARING SALES TAX RATES IN CONNECTICUT AND NEARBY STATES

Sales taxes across states vary by tax rate and base. Some states tax a broad number of goods and services, with few exemptions, while others tax relatively few. Table 2 shows sales tax rates for Connecticut and nearby states. Some states allow counties and municipalities to levy sales taxes. Consequently, the rate varies within these states.

Table 2: State and Local Sales Tax Rates in Nearby States

State	Sales Tax Rate
Connecticut	6.35%
Massachusetts	6.25%
New Jersey	7%
New York	4% - 8.875%
Pennsylvania	6% - 7%
Rhode Island	7%

Massachusetts and parts of Pennsylvania have the lowest sales tax rates among the selected states. (Two counties in Pennsylvania levy an additional 1% tax.) Connecticut has the next highest rate at 6.35%. While New York's state-level rate is low (4%), the local rates give it among the highest combined state-local rates in the country.

TAXABLE SERVICES

Although most states tax services to a certain degree, they vary widely in the number and types of services taxed. The Federation of Tax Administrators (FTA) conducts a periodic [survey of state service taxation](#). The FTA survey includes a list of 168 selected services, in different categories, to illustrate the extent to which each state taxes services. Across nearby states, Connecticut taxes the highest number of the services surveyed (79 out of 168). (This number does not include the

additional services that are taxable as of July 1, 2011.) New Jersey taxes a comparable number (74), while Massachusetts taxes the fewest (18). New York and Pennsylvania tax a similar number of services, 57 and 55 respectively. Rhode Island, on the other hand, taxes only 29 services. None of the states tax professional services (e.g., legal, accounting, and engineering services).

Table 3 lists a selection of specific services and indicates, for Connecticut and nearby states, whether the service is taxable in the state. We selected services to illustrate the variation in service taxation across the states. The check mark (✓) means that the service is taxed. The last column indicates the total number of states that tax the service.

Table 3: Taxable Services in Connecticut and Nearby States

Service	CT	MA	NY	NJ	RI*	PA	Total States
Armored car services	✓		✓	✓ ²			16
Automotive washing and waxing			✓	✓		✓	21
Carpet and Upholstery cleaning	✓		✓	✓		✓	19
Dating services	✓						8
Debt counseling	✓						7
Downloaded books and music	✓ ³			✓			17
Electricity (residential use)				✓			22
Employment agencies	✓					✓	11
Gift and package wrapping service						✓	21
Health clubs, tanning parlors, reducing salons	✓			✓			22
Horse boarding			✓ ⁴	✓			9
Household goods storage	✓		✓ ⁵	✓			13
Landscaping Services (including lawn care)	✓		✓ ⁶	✓		✓ ⁷	21
Limousine service (with driver)	✓		✓	✓ ⁸			16
Pet grooming	✓		✓	✓		✓	18
Private investigation services	✓		✓	✓			16
Swimming pool cleaning and maintenance	✓		✓	✓		✓ ⁹	17
Taxidermy		✓	✓	✓	✓	✓	26
Tuxedo rental	✓ ¹⁰	11	✓			✓	39
Window cleaning	✓		✓	✓		✓	19

Source: FTA, *By The Numbers*, 2007 Survey of Services Taxation – Update, July 2008; PA 11-6, as amended by PA 11-61

*RI did not respond to the FTA's 2007 survey. The data included is for 2004.

² Taxable if the service is performed entirely in NJ or customer's location is in NJ.

³ Taxable as a computer and data processing service at 1% rate.

⁴ Training is exempt as a professional service

⁵ Storage of property is taxable, but rental of real property for storage is exempt

⁶ Taxable unless an exempt capital improvement (e.g., installation of a new fence, pond, underground sprinkler, hardscaping - deck, paver patio, walkway, driveway, retaining wall, pool deck).

⁷ Lawn care is taxable; designing landscapes, planting trees, and maintaining landscape is exempt.

⁸ Taxable if limousine ride begins and ends within NJ.

⁹ Cleaning of above ground and indoor pools is taxable.

¹⁰ Taxable when rental is \$50 or greater.

¹¹ Rental charges exceeding the \$175 clothing exemption are taxable.

As the table shows, Connecticut and its surrounding states vary greatly in the services they tax. Connecticut is the only state that taxes dating and debt counseling services. Pennsylvania is the only state that taxes gift and package wrapping services. Among the selected services, Rhode Island taxes only taxidermy. Connecticut and New Jersey are the only states that tax downloaded books and music. Connecticut taxes book and music downloads at the 1% rate for computer and data processing services while New Jersey taxes them at 7%.

SALES TAX HOLIDAYS

A sales tax holiday is a period during which a state suspends its sales tax on certain items. 17 states, including Connecticut and Massachusetts, have scheduled sales tax holidays in 2011, two fewer than in 2010. Connecticut's sales tax holiday is limited to clothing and footwear (CGS § [12-407e](#)). Massachusetts, on the other hand, exempts sales of any tangible personal property costing \$2,500 or less from its sales tax over a two-day period.

Table 4 lists the (1) duration, (2) type and cost of eligible items, and (3) 2011 dates for the sales tax holidays. Connecticut is among only four states that have a week-long sales tax holiday. Most hold them for two or three days. The majority of the states (15) exempt clothing and footwear from sales tax during their tax-free periods. Ten of these states also exempt school supplies. A few others include computers, Energy Star products and appliances, and other miscellaneous items (e.g., hurricane preparedness items, books, and sports equipment).

Table 4: 2011 Sales Tax Holidays

State	2011 Dates	Days	Items Included				
			Clothing and Footwear	School Supplies	Computers	Energy Star products	Other
Alabama	Aug. 5-7	3	\$100	\$50	\$750		Books – \$30
Arkansas	Aug. 6-7	2	\$100	No cap			
Connecticut	Aug. 21-27	7	\$300				
Florida	Aug. 12-14	3	\$75	\$15			
Iowa	Aug. 5-6	2	\$100				
Louisiana	Aug. 5-6	2					All tangible personal property – \$2,500
	May 28-29	2					Hurricane preparedness items – \$1,500
	Sept. 2-4	3					Firearms, ammunition and hunting supplies
Maryland	Aug. 14-20	7	\$100				
	Feb. 19-21	3				No cap	
Massachusetts	Aug. 13-14	2					All tangible personal property – \$2,500
Mississippi	July 29-30	2	\$100				
Missouri	April 19-25	7				\$1,500	
	Aug. 5-7	3	\$100	\$50	\$3,500 (\$350 for software)		
New Mexico	Aug. 5-7	3	\$100	\$15	\$1,000 (\$500 for related hardware)		
North Carolina	Aug. 5-7	3	\$100	\$100 (\$300 for instructional materials)	\$3,500 (\$250 for accessories)		Sports equipment – \$50
	Nov. 4-6	3				No cap	
Oklahoma	Aug. 5-7	3	\$100				
South Carolina	Aug. 5-7	3	No cap	No cap	No cap		Bed linens, bath towels, and other similar items – No cap
Tennessee	Aug. 5-7	3	\$100	\$100	\$1,500		
Texas	Aug. 19-21	3	\$100	\$100			
	May 28-30	3				Air conditioners – \$6,000 Refrigerators – \$2,000 Other goods – No cap	
Virginia	May 25-31	7					Hurricane preparedness items – \$60 Generators – \$1,000
	Aug. 5-7	3	\$100	\$20			
	Oct. 7-10	4				\$2,500	

Source: Tax Foundation [Sales Tax Holidays](#); FTA, [2011 State Sales Tax Holidays](#); state websites

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