



COMPARISON OF CONNECTICUT AND DELAWARE CORPORATION BUSINESS TAX STRUCTURE

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CORPORATION BUSINESS TAXES

This report compares Connecticut's and Delaware's corporation business tax structure. Forty-six states and the District of Columbia levy taxes on the net income or net worth of businesses organized as for-profit corporations (National Conference of State Legislatures, [Tax Policy Handbook for State Legislators 3rd](#), February 2010)). "Tax structure" refers to the types of choices states make about how to impose the tax.

For example, states must choose the types of businesses subject to the tax (i.e., the base), the method for calculating it (i.e., the basis), and the rate at which it must be paid. All the choices a state makes about the tax, not just about the rate, determine the tax's overall burden and serve as points for comparing state tax structures.

income.

Although both states limit the tax to the income attributable to their respective states based on the same three-factor formula, Connecticut double weighs one of the factors. Connecticut's corporate income tax rate is lower than Delaware's (7.5% versus 8.7%), but Connecticut imposes a 20% surcharge set to expire in 2015.

QUESTION

How does Connecticut's corporation business tax structure compare with Delaware's?

Connecticut and Delaware tax the income or, in Connecticut's case, the net worth, of a corporation doing business in their respective states regardless of its state of incorporation.

Connecticut, unlike Delaware, does not impose a separate franchise tax, which states generally base on a company's net worth. But Connecticut requires corporations to calculate their net worth and net income when calculating their corporation business tax.

As Attachment 1 shows, the components comprising Connecticut's and Delaware's corporation business tax structures differ in several respects. As explained above, Connecticut requires taxpayers to calculate the tax based on net income and net worth and remit the higher amount. Delaware, on the other hand, requires them to calculate the tax based only on net

Connecticut also imposes a minimum \$250 tax on corporations whose tax liability is less than that amount.

Connecticut and Delaware allow corporations to carry forward net operating losses for up to 20 years, but Delaware also allows them to carry back up to \$30,000 of such losses for up to two years. Connecticut allows unitary filing for corporations filing consolidated federal returns while Delaware does not.

Besides imposing a corporation business tax, Delaware imposes a franchise tax on all corporations incorporated in Delaware. As Attachment 2 shows, Delaware bases the tax on the number of outstanding shares or their value.

Attachment 1: Comparison of Connecticut and Delaware Corporation Business Structure

Corporation Business Tax		
Structure	Connecticut	Delaware
Base	Corporations doing business in Connecticut, regardless of where they are incorporated	Corporations doing business in Delaware, regardless of where they are incorporated
Basis	Net income or net worth	Net income
Apportionment	Three-factor method used to determine Connecticut-derived income for most corporations: <ul style="list-style-type: none"> • Sales (double-weighted) • Payroll • Property Single factor method for certain corporations	Three-factor method used to determine Delaware-derived income: <ul style="list-style-type: none"> • Sales (unweighted) • Payroll • Property
Rate	All corporations, except financial services, pay greater of: <ul style="list-style-type: none"> • 7.5% of federal taxable income or • \$0.0031 per dollar of net worth, up to maximum \$1 million Financial services pay 7.5% of net income or minimum tax (see below) 20% surcharge for 2009-2015	8.7% of federal taxable income for all corporations except the following: <ul style="list-style-type: none"> • Headquarters management corporations pay greater of 8.7% of net income or \$5,000 minimum tax, whichever is greater • Banks pay graduated rate ranging from 8.7% for income below \$20 million to 1.7% for income over \$650 million
Credits	<ul style="list-style-type: none"> • 34 credits for activities ranging from hiring apprentices to conducting R&D • Credit amounts vary by activity, but total credits claimed capped at 70% of taxes owed 	Seven credits for activities ranging from green industries to land and historic resource conservation
Net Operating Loss (NOL)	NOLs can be carried forward for up to 20 years	<ul style="list-style-type: none"> • NOLs can be carried forward for up to 20 years • Up to \$30,000 in NOL in one year can be carried back to the prior two years to offset profits

Attachment 1 (continued)

Corporation Business Tax		
Structure	Connecticut	Delaware
Minimum Tax	Corporations owing less than \$250 pay minimum \$250 tax	Minimum \$5,000 tax for headquarters management companies
Filing Requirements	<ul style="list-style-type: none"> • Unitary filing required for corporations belonging to a single group • Combined return allowed for corporations filing consolidated federal returns <ul style="list-style-type: none"> ○ Maximum \$500,000 additional preference tax 	Consolidated returns not permitted

Attachment 2: Delaware Franchise Tax Structure

Base
All corporations incorporated in Delaware
Basis
Number or Value of Shares
Rate
Rate for tax based on number of shares (i.e., Authorized Shares): <ul style="list-style-type: none"> • 5,000 shares or less: \$75 • 5,001 -10,000: \$150 • 10,000 or more: \$150 plus \$75 for each additional 10,000 shares or fractional shares • Maximum tax: \$180,000
Rate for tax based on value of shares (i.e., Assumed Capital Value): <ul style="list-style-type: none"> • \$500,000 or less of assumed no par capital: \$75 • \$500,001-\$1 million assumed no par capital: \$150 • \$1 million or more assumed no par capital: \$150 plus \$75 of each additional \$1 million or fraction of assumed no-par capital
Apportionment
No apportionment
Credits
Credits for banks creating jobs or investing in preservation of historic property
Minimum Tax
<ul style="list-style-type: none"> • \$75 for corporations using authorized shares method • \$350 for corporations using assumed shares method

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