



PA 18-49—sSB 11

Finance, Revenue and Bonding Committee

AN ACT CONCERNING AN AFFECTED BUSINESS ENTITY TAX, VARIOUS PROVISIONS RELATED TO CERTAIN BUSINESS DEDUCTIONS, THE ESTATE AND GIFT TAX IMPOSITION THRESHOLDS, THE TAX TREATMENT OF CERTAIN WAGES AND INCOME AND A STUDY TO IDENTIFY BEST PRACTICES FOR MARKETING THE BENEFITS OF QUALIFIED OPPORTUNITY ZONES

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§§ 1-8 — PASS-THROUGH ENTITY TAX

Imposes a new income tax on most pass-through businesses, levied at the top personal income tax rate (6.99%) and offset by a credit at the personal or corporate income tax level

The act imposes a new income tax on most pass-through businesses (i.e., “affected business entities”) at the entity-level. The tax is (1) levied at the top personal income tax rate of 6.99% and (2) offset by a credit at the personal or corporate income tax level.

Under prior law, pass-through businesses doing business in the state did not pay income tax at the entity level; instead, their profits “passed-through” to their owners and were taxed as part of the owners’ personal income tax returns. Paying taxes at the entity level as required under the act, instead of at the personal income tax level, may provide pass-through income with favorable federal tax treatment, given recent tax changes that limit the amount of state and local taxes (SALT) that can be deducted for federal personal income tax purposes (see BACKGROUND).

Under the act, the entity tax applies to each pass-through business that is required by state law to file a return with the Department of Revenue Services (DRS) containing information about its finances and its resident and nonresident members (CGS § 12-726). Such businesses must file an entity tax return on or before the 15th day of the third month following the close of each entity’s taxable year for federal income tax purposes (i.e., taxable year).

EFFECTIVE DATE: Upon passage, and applicable to taxable years beginning on or after January 1, 2018, except that the conforming change to the volatility cap bond covenant provision is effective May 15, 2018 (§ 8); certain other minor and conforming changes are effective upon passage (§§ 3, 4 & 7).

Affected Business Entities and Members

Under the act, an “affected business entity” (i.e., pass-through business) is (1) any entity, including a limited liability company (LLC), that is considered a partnership for federal income tax purposes or (2) any corporation treated as an S corporation for federal tax purposes. It does not include publicly-traded partnerships that have agreed to file an annual return reporting the name, address, Social Security or federal employer identification number, and other DRS-required information for each unitholder whose income from Connecticut sources was more than \$500.

“Member” refers to (1) an S corporation shareholder; (2) a partner in a general partnership, limited partnership, or limited liability partnership; or (3) a member

of an LLC treated as a partnership or an S corporation for federal tax purposes.

Tax Calculation

Under the act, a business's entity tax liability equals its taxable income, determined under the standard base method or alternative base method (see below), multiplied by 6.99% (i.e., the top marginal personal income tax rate).

Standard Base Method. Under the standard base method, the business's taxable income (hereafter "Connecticut source income") equals the business's separately and nonseparately computed items determined under federal tax law (i.e., the income, gains, losses, and deductions used to determine pass-through business members' federal income tax liability), adjusted by any modification to taxable income that applies to the Connecticut personal income tax, to the extent the items and modifications are derived from or connected to Connecticut sources.

In determining their Connecticut source income, pass-through businesses must use sourcing rules applicable to the Connecticut personal income tax to determine whether their income, gains, losses, or deductions are derived from or connected to Connecticut sources. If the business's net income results in a net loss, the business may carry the loss forward until it is fully used.

The act also requires pass-through businesses calculating their tax under the standard base to adjust their Connecticut source income to account for instances where one business is a member of another business. Specifically, if a pass-through business (which the act calls the lower-tier entity) is a member of another pass-through business (which the act calls the upper-tier entity), the lower-tier entity must subtract or add, as applicable, its distributive share of the upper tier entity's loss or income from Connecticut sources when calculating such income.

Alternative Base Method. The alternative tax base equals a business's "modified Connecticut source income" plus its "resident portion of unsourced income."

The act defines "modified Connecticut source income" as the business's Connecticut source income, calculated as described above, multiplied by a percentage equal to the sum of ownership interests in the business that are held by members that are (1) subject to Connecticut personal income tax or (2) pass-through businesses subject to the entity tax, to the extent such businesses are directly or indirectly owned by people subject to the income tax. Members that are pass-through businesses are assumed to be directly or indirectly owned as such, unless the business can establish otherwise through clear and convincing evidence satisfactory to the DRS commissioner.

Under the act, the "resident portion of unsourced income" equals "unsourced income" multiplied by a percentage equal to the sum of the ownership interests in the pass-through business that belong to Connecticut residents. Generally speaking, unsourced income is a pass-through business's income that is not sourced to Connecticut or another state in which the business has a significant presence (i.e., nexus). Specifically, "unsourced income" equals the business's separately and nonseparately computed items, as determined under federal tax law, adjusted by any modification applicable to the Connecticut personal income tax, regardless of the location from which the income and adjustments are

derived, or to which they are connected, minus the:

1. business's Connecticut source income, calculated as described above, but without any adjustments for tiered business entities; and
2. separately and nonseparately computed items, adjusted by any modification applicable to the Connecticut personal income tax, to the extent the items or adjustments are connected to or derived from another state with jurisdiction to tax the entity.

Each taxable year, any business electing to calculate entity tax on the alternative basis must notify the DRS commissioner, in writing, by the tax's due date or extended due date (if applicable). The act specifies that the election does not affect the calculation of any other state taxes due, except for the calculation of the tax credits the act authorizes (see "offsetting credits" below).

Nonresidents

Under the act, nonresident members of pass-through businesses are generally not required to file a Connecticut personal income tax return for taxable years in which (1) the pass-through business is the only source of Connecticut income for the member or the member's spouse and (2) the pass-through business has paid the entity tax. However, nonresident members must still file a return if the (1) member's personal income tax liability would not be entirely satisfied by the offsetting credit the member earns for the business's entity tax payment and (2) pass-through entity of which they are a member chooses to file on a combined basis (see below).

Under prior law, a pass-through business was generally required to file an income tax return and pay the tax on behalf of any nonresident member for whom the business is the only source of Connecticut income. The act eliminates these requirements for taxable years beginning on or after January 1, 2018.

Offsetting Credits

The act authorizes offsetting personal income and corporate tax credits for individuals and companies that are members of pass-through businesses that pay the entity tax or a substantially similar tax in another state.

Personal Income Tax. If the pass-through business member is an individual subject to the personal income tax and a Connecticut resident or part-time resident, the act allows the person to claim a credit equal to his or her direct and indirect pro rata share of the tax paid by the pass-through business of which he or she is a member, multiplied by 93.01%. The act makes this credit refundable and requires the DRS commissioner to treat the amount by which the person's credit exceeds his or her personal income tax liability as a tax overpayment, unless the excess must be held for certain obligations (e.g., past due taxes).

The act also authorizes a personal income tax credit for members of pass-through businesses that have paid taxes to other states or the District of Columbia that are substantially similar, in the DRS commissioner's determination, to the entity tax imposed under this act. The credit is for the member's direct and indirect pro rata share of such taxes paid by the pass-through business and is calculated in a manner prescribed by the DRS commissioner, which must be

consistent with the calculation for the credit for personal income taxes paid to another state.

Under the act, neither of these tax credits may be applied against the withholding tax.

Corporation Business Tax. If a pass-through business member is a company subject to the corporation tax, the act allows the company to claim a credit equal to its direct and indirect pro rata share of the tax paid by the pass-through business of which it is a member, multiplied by 93.01%.

The company must apply this credit after all other tax credits are applied, and the credit is not subject to the corporation business tax credit cap, which generally prohibits a business from using tax credits to reduce its corporation tax liability by more than a specified percentage (e.g., 65% for the 2018 income year) (CGS § 12-217zz). Unused credits must be carried forward, indefinitely, until fully used.

Tax Collection, Enforcement, and Penalties

Upon the failure of any pass-through business to pay the entity tax within 30 days of its due date, the act allows the DRS commissioner to collect the entity tax by taking any action that he can take to collect money owed to the state. This means that he (or another authorized agent) can, among other things, seize property or sign a warrant to take control of the business, including operating it to secure its income for the state and forcing an end to its operations. Additionally, the attorney general may start civil proceedings to collect the tax.

From the last day of the last month of a business’s taxable year immediately prior to the tax’s due date until the tax is paid, the tax plus the interest and penalty act as a lien against any real estate the taxpayer owns in the state. A lien certificate, signed by the commissioner, may be recorded on the land record in the town where the property is located. However, the lien is not effective against a bona fide purchaser or the interest of any qualified encumbrancer. When the tax has been paid, the commissioner, on the request of any interested party, must issue a certificate discharging the lien.

Under the act, the attorney general can foreclose the lien by bringing an action in the Superior Court of the judicial district where the property is located. If located in two or more districts, the attorney general may file suit in any one. At the conclusion of any such action, the court can limit the redemption period, order the property sold, or issue any other equitable decree.

If entity taxes are not paid by their due date, the act imposes an interest penalty of 1% per month or part of a month.

The act additionally applies certain tax collection and enforcement provisions that apply to the income tax under existing law. Among other things, these provisions cover (1) tax payment and return filing deadline extensions; (2) deficiency and jeopardy assessment procedures; (3) refunds for tax overpayments, including applicable hearing and appeals processes; and (4) penalties for certain willful violations or fraud.

Combined Return Election

The act allows pass-through businesses to file a combined return with one or

more commonly-owned pass-through businesses that are subject to the entity tax. (“Commonly-owned” means that more than 80% of the voting control of a pass-through business is directly owned or indirectly owned, as determined under federal tax law, by a common owner or owners.) Each taxable year, any business that chooses to file in this manner must notify the DRS commissioner in writing, along with the written consent of the other commonly-owned businesses, by the tax’s due date or extended due date (if applicable).

The act generally requires pass-through businesses filing a combined return to net their taxable incomes after such amounts are separately allocated by each business. If the combined group elects to calculate the tax due on the alternative basis (see above), the businesses must instead net their alternative tax bases.

Under the act, each business electing to file a combined return is jointly and separately liable for the entity taxes due. The election does not affect the calculation of any other state taxes due except for the calculation of the tax credits the act authorizes.

Reporting of Members’ Shares of Entity Tax Payments

The act requires pass-through businesses to report for each taxable year each member’s (1) direct pro rata share of entity tax imposed on the business and (2) indirect pro rata share of the entity tax imposed on any upper-tier entities of which the business is a member.

Businesses that elect to file a combined report must report to the DRS commissioner the direct and indirect pro rata share of the entity tax paid under the combined return that is allocated to each of their members. The report must be filed with the combined return, and the allocation is irrevocable.

The act additionally requires that this information be included in the returns that pass-through businesses doing business in the state must file with the DRS commissioner. It also moves up, from the fourth to the third month following the taxable year, the date by which these returns must be filed.

Estimated Payments

By law, Connecticut personal income taxpayers must make income tax payments throughout the tax year through withholding, quarterly estimated payments, or both (CGS § 12-722). Prior to this act’s passage, members of pass-through businesses typically made estimated payments on the income they expected to receive from such businesses.

The act requires pass-through businesses to make estimated entity tax payments on a quarterly basis, in a similar manner to the estimated income tax payments under existing law. (Because taxpayers may take expected tax credits into account when calculating their quarterly estimated income tax payments, many pass-through business members will no longer need to make such payments on their pass-through business income.)

Under the act, these businesses’ quarterly estimated payments are (1) generally equal to 25% of the “required annual payment” and (2) due on the 15th day of the taxable year’s fourth, sixth, and ninth month, and on the 15th day of the first month of the next taxable year. The “required annual payment” means the

lesser of (1) 90% of the entity tax reported or due for the current taxable year or (2) 100% of the entity tax reported on the entity tax return for the preceding taxable year, if the pass-through business filed a return for that year that covered a 12-month period.

The act allows businesses to make payments based on the “annualized income installment” calculation if such a calculation results in a lower installment payment for any required installment. Under the act, the annualized income installment is the amount by which the product of the applicable percentage (see Table 1) and the amount of entity tax that would be due if the business’s taxable income for the months in the taxable year prior to the installment’s due date exceeds the aggregate amount of any prior required installments for the taxable year. Any installment reduction that results from such a calculation must be recaptured by increasing the next required installment and, if the reduction has not been recaptured, subsequent installments.

Table 1: Applicable Percentages of Annualized Installment Calculation

<i>Installment</i>	<i>Applicable Percentage</i>
First	22.5%
Second	45%
Third	67.5%
Fourth	90%

If a pass-through business underpays the required estimated tax, the act imposes an interest penalty of 1% of the underpayment amount per month, or part of a month, of the underpayment period. The underpayment amount is the amount by which the required installment exceeds the payment made, if any, on or before the installment’s due date. The underpayment period runs from the installment’s due date to the earlier of (1) the 15th day of the third month of the next taxable year or (2) the date on which the underpayment is paid. Estimated tax payments must be credited against unpaid or underpaid installments in the order in which the installments must be paid.

The act allows businesses to make any required payment before its due date. Under the act, estimated entity tax payments are considered payments toward the business’s annual entity tax liability.

For taxable years of fewer than 12 months, the act specifies that its provisions apply in a manner consistent with the income tax regulations for the relevant taxable years.

BACKGROUND

SALT Deduction

The federal SALT (i.e., state and local taxes) deduction allows taxpayers to reduce their taxable income by the amount they paid in certain state and local taxes during the tax year. Under prior law, taxpayers could claim the deduction

(with no dollar limit) for four types of nonbusiness taxes, including state personal income taxes and property taxes. Under the federal Tax Cuts and Jobs Act, for the 2018 to 2025 tax years, the deduction is limited to \$10,000 (\$5,000 for married taxpayers filing separately) for such taxes paid or accrued in the tax year. Taxpayers may still claim a deduction with no dollar limit for state and local property taxes related to a business (e.g., property taxes paid for rental property) (26 U.S.C. § 164, as amended by P.L. 115-97, § 11042).

Volatility Cap

Established in the 2018-2019 biennial budget act, the “volatility cap” is a mechanism for diverting volatile tax revenue to the Budget Reserve Fund (BRF). It effectively caps the amount of personal income tax estimated and final payments that may be used to balance the budget, thus requiring any excess amounts to be transferred to the BRF after the close of General Fund accounts each fiscal year. By law, certain state bonds must include a pledge to bondholders that the state will comply with certain state laws, including the volatility cap, except in limited circumstances.

§ 9 — DEADLINE FOR RECORDING TAX RECEIPTS AS REVENUE FOR A FISCAL YEAR

Moves up the deadline by which DRS must receive certain tax receipts in order for the comptroller to record them as revenue for a fiscal year

The act moves up the deadline by which DRS must receive corporate income tax receipts in order for the comptroller to record them as revenue for a fiscal year, applying the same deadline as that of other taxes (i.e., five business days after July 31, rather than after August 15, immediately following the fiscal year). The act also applies this deadline to pass-through entity tax receipts.

EFFECTIVE DATE: Upon passage

§ 10 — PROPERTY TAX CREDIT FOR DONATIONS TO COMMUNITY SUPPORTING ORGANIZATIONS

Allows municipalities to provide a residential property tax credit to eligible taxpayers who make voluntary payments to municipally-approved organizations

The act allows municipalities to provide a residential property tax credit to eligible taxpayers who make voluntary, unrestricted, and irrevocable contributions to a community supporting organization approved by the municipality.

Under the act, a “community supporting organization” (hereafter “organization”) is a charitable nonprofit that is organized exclusively to support municipal spending on programs and services such as public education. A “municipality” is any town, city, borough, consolidated town and city, or consolidated town and borough.

Under the act, the credit applies only to taxes on “residential property,” which the act defines as (1) buildings with three or fewer dwelling units, the parcel of land on which the building is situated, and any accessory buildings or other

improvements on the parcel; (2) residential condominiums; and (3) common interest communities.

EFFECTIVE DATE: July 1, 2018

Municipal Approval of Credit

In order to provide the credit authorized under the act, a municipality must annually approve it by a vote of its legislative body or the board of selectman if the municipality's legislative body is a town meeting. In its approval, the municipality may include a residency requirement or other requirement that it deems necessary or desirable. The municipality must approve the credit by October 1 in order to provide the tax credit in the following fiscal year.

Under the act, the municipality determines the tax credit amount, which may not exceed the lesser of:

1. the amount of property tax owed or
2. 85% of the taxpayer's donation, or the amount donated on his or her behalf, to an organization during the calendar year before the year in which the tax credit application is filed.

Organization Designation and Municipal Grant Process

Any municipality that approves a credit must designate a single organization to receive qualifying cash donations, and the municipality's chief executive and the designated organization must enter into an agreement. The agreement must require the organization to:

1. accept only voluntary, unrestricted, and irrevocable cash donations;
2. give the municipality, on or after July 1 but no later than July 31 in each fiscal year for which a credit has been approved, (a) a grant equal to the amount of all donations it received in the prior fiscal year and (b) a written statement of all the donations it received, including each donor's name and residential address; the name and residential address of the property owner if the donation was made on his or her behalf; and donation date; and
3. give donors a contemporaneous written contribution receipt.

The agreement must require the municipality to (1) give the organization a written statement of the municipal programs and services supported by the grant by December 31 following the end of a fiscal year in which an organization paid a grant to the municipality; and (2) serve as the organization's administrative and fiscal agent (the act limits administrative expenses to 15% of the total grant amount).

Under the act, a municipality can appropriate and spend grant funds it receives from the organization.

Donations and Credit Application

Upon the municipality's approval of the tax credit, the act allows a residential property owner, or a person on his or her behalf, to make a donation to the organization designated by the municipality.

In order to receive the property tax credit, the act requires a taxpayer to apply to the tax collector in the municipality where the property is located between

January 1 and April 1 of the fiscal year prior to the fiscal year for which the taxpayer will claim the credit. The application must include (1) evidence, satisfactory to the tax collector, of the amount of the taxpayer's donations to the organization in the prior calendar year and (2) an affidavit on an Office of Policy and Management-prescribed form affirming that the taxpayer's donations were made in cash and were voluntary, unrestricted, and irrevocable.

Upon receiving the application and required documentation, the tax collector must apply the tax credit, subject to any limits the municipality applied to the tax credit in its authorizing ordinance, to the property tax due for the fiscal year for which the application was made. The act prohibits taxpayers from using a donation made to an organization to claim a tax credit for more than one fiscal year.

Under the act, a taxpayer who knowingly submits false records or makes a false affidavit in order to claim a tax credit must (1) pay a fine of up to \$500 and (2) refund to the municipality the entire amount of the tax credit the taxpayer improperly received.

§§ 11-13 — BUSINESS TAX DEDUCTIONS

Requires taxpayers to spread out the federal bonus depreciation and asset expensing deductions over four and five years, respectively; establishes a deduction for contributions made by the state or local governments; requires that expenses related to dividends equal 5% of all dividends received by a corporation during an income year; and decouples the state corporation business tax from the new federal limitation on business interest expenses

Bonus Depreciation (§ 11)

Beginning with the 2017 tax year, the act requires individuals receiving income from pass-through businesses to add back the federal bonus depreciation deduction for property placed in service after September 27, 2017, when calculating their Connecticut adjusted gross income for the state personal income tax. But it allows them to deduct 25% of the disallowed deduction for each of the four succeeding tax years. Existing law, unchanged by the act, disallows the federal bonus depreciation deduction for state corporation business tax purposes.

The federal Tax Cuts and Jobs Act of 2017 authorizes a first-year bonus depreciation deduction of 100% on qualified new and used property businesses place in service after September 27, 2017, and before January 1, 2023 (the rate phases down by 20% each year thereafter) (26 U.S.C. § 168(k)). Prior law generally provided for a 50% bonus depreciation deduction in 2017, 40% in 2018, and 30% in 2019.

Section 179 Property (§§ 11 & 12)

The act requires individuals and corporations, for state personal income and corporation business tax purposes respectively, to apportion the federal deduction for the cost of qualifying property (“section 179 property”) over a five-year period. They must do so for tax years (for personal income tax) or income years (for corporation business tax) beginning on or after January 1, 2018. Under the act, individuals and corporations (1) must add back 80% of the federal deduction

in the first year and (2) may deduct 25% of the disallowed portion of the deduction in each of the four succeeding tax years (i.e., 20% a year for five years).

Under federal law, businesses can elect to treat the cost of section 179 property as a deductible expense rather than a capital expenditure, subject to a maximum deduction and investment limitation (26 U.S.C. § 179). The federal Tax Cuts and Jobs Act of 2017 expands the type of property that taxpayers may elect to treat as section 179 property and increases the (1) maximum deduction for section 179 expensing from \$510,000 to \$1 million and (2) investment limitation from \$2.03 million to \$2.5 million.

State or Local Government Contribution Deduction (§ 13)

The act establishes a corporation business tax deduction for the amount of any contributions made by the state of Connecticut or its political subdivisions on or after December 23, 2017, to the extent that such contributions are included in a corporation's gross income under federal law. (PA 18-169, § 41, contains an identical provision.)

The federal Tax Cuts and Jobs Act of 2017 generally requires a corporation to include in its gross income any contribution made after December 22, 2017, by a government entity or civic group (other than a contribution made by a shareholder as such) (26 U.S.C. § 118(b)(2)). These contributions could include, for example, state grants to a corporation for meeting certain employment or investment requirements.

Dividends Received Deduction (§ 13)

Existing law generally allows corporations to deduct from their gross income the dividends they receive from other corporations in which they have an ownership stake, but not the expenses related to those dividends. The act specifies that expenses related to dividends equal 5% of all dividends received by a company during an income year. For multi-state companies or financial service companies, it requires the net income associated with the disallowed expenses to be apportioned according to the existing requirements for doing so. (PA 18-169, § 41, contains an identical provision.)

Business Interest Deduction (§ 13)

The federal Tax Cuts and Jobs Act of 2017 generally limits the amount of business interest a company may deduct from gross income to 30% of its adjusted taxable income. (The limitation generally applies to all taxpayers, except small businesses with average gross receipts of \$25 million or less, adjusted for inflation.)

For income years beginning on or after January 1, 2018, the act requires the business interest deduction for state corporation business tax purposes to be determined as provided under federal law, except that the limitation does not apply. (PA 18-169, § 13, contains an identical provision.)

EFFECTIVE DATE: Upon passage and applicable to income years (for the corporation tax provisions) or tax years (for the personal income tax provisions)

beginning on or after January 1, 2017, except that the corporation asset expensing deduction is effective upon passage (§ 12).

§§ 14-18 — GIFT AND ESTATE TAX

Beginning in 2020, sets the estate and gift tax threshold at \$5.49 million and imposes a marginal rate schedule for gifts and estates over that amount

Beginning in 2020, the act sets the estate and gift tax threshold at \$5.49 million and imposes a marginal rate schedule for gifts and estates over that amount. Prior law set the threshold, beginning in 2020, at the federal basic exclusion amount (hereafter “federal threshold”) and applied a single rate to the excess over the federal threshold, depending on the value of the taxable estate or gift. The federal Tax Cuts and Jobs Act of 2017 doubled the federal threshold to \$11 million in 2018, after adjusting for inflation. (However, PA 18-81, §§ 66-68, instead sets the gift and estate threshold at \$5.1 million for 2020, \$7.1 million for 2021, \$9.1 million for 2022, and the federal basic exclusion amount for 2023 and thereafter.)

Table 2 shows the act’s threshold and rate changes.

Table 2: Estate and Gift Tax Rates, 2020 and Thereafter

<i>Prior Law</i>		<i>Act</i>	
<i>Value of Taxable Estate and Gift</i>	<i>Rates</i>	<i>Value of Taxable Estate and Gift</i>	<i>Marginal Rates</i>
Up to federal threshold	None	Up to \$5,490,000	None
Federal threshold to \$6,100,000	10% of the excess over the federal threshold	\$5,490,001 to \$6,100,000	10%
\$6,100,001 to \$7,100,000	10.4% of the excess over the federal threshold	\$6,100,001 to \$7,100,000	10.4%
\$7,100,001 to \$8,100,000	10.8% of the excess over the federal threshold	\$7,100,001 to \$8,100,000	10.8%
\$8,100,001 to \$9,100,000	11.2% of the excess over the federal threshold	\$8,100,001 to \$9,100,000	11.2%
\$9,100,001 to \$10,100,000	11.6% of the excess over the federal threshold	\$9,100,001 to \$10,100,000	11.6%
Over \$10,100,000	12% of the excess over the federal threshold	Over \$10,100,000	12%

The act makes conforming changes to requirements for filing tax returns with DRS and the probate court. By law, all estates, regardless of their gross value, must file an estate tax return. If the estate's value is more than the taxable threshold, the executor must file the return with DRS, with a copy to the probate court for the district where the decedent lived or, if the decedent was not a Connecticut resident, where the Connecticut property is located. If the estate's value is below the tax threshold, the return must be filed only with the appropriate probate court. The probate judge must review the return and issue a written opinion to the estate's representative if the judge determines it is not subject to the

estate tax.

Under prior law, for deaths on or after January 1, 2020, the threshold for filing an estate tax return only with the probate court was the federal estate tax threshold. The act instead sets the threshold at \$5.49 million.

EFFECTIVE DATE: Upon passage

§ 19 — INCOME TAX CREDIT FOR TAXES PAID TO OTHER JURISDICTIONS

Allows Connecticut residents to take an income tax credit for certain payroll taxes paid to other jurisdictions

Existing law authorizes Connecticut full- and part-time residents to take a credit against their personal income tax for income taxes paid to another U.S. state, political subdivision, or the District of Columbia on income that is also subject to Connecticut income taxes. The act allows residents to claim this credit for certain payroll taxes paid to other jurisdictions. It does so by providing that, for purposes of calculating the credit, a tax on wages that is paid to another jurisdiction for which a credit is allowed by that jurisdiction must be considered an income tax, and resident taxpayers may claim a comparable credit in the form and manner the DRS commissioner prescribes, subject to the credit's existing limitations. (PA 18-169, § 42, contains an identical provision.)

EFFECTIVE DATE: Upon passage, and applicable to tax years beginning on or after January 1, 2019.

§ 20 — “CONVENIENCE OF THE EMPLOYER” TEST FOR NONRESIDENT TAXPAYERS

Subjects residents of states with a “convenience of the employer” test to similar rules for work done for a Connecticut employer

By law, people who reside in other states must pay Connecticut income taxes on income they derive from a business, trade, profession, or occupation conducted here. The act specifies that such income includes income from days the nonresident taxpayer worked outside Connecticut for his or her convenience if the taxpayer's domicile state imposes a similar requirement. (PA 18-169, § 43, contains an identical provision.)

States using such a test, commonly referred to as a “convenience of the employer” test, generally allocate a taxpayer's income to the state of his or her principal place of employment, even if it is attributable to work performed outside the state, if the taxpayer was performing the work outside of the state for his or her convenience, rather than at the employer's direction.

EFFECTIVE DATE: Upon passage and applicable to tax years beginning on or after January 1, 2019.

§ 21 — OPPORTUNITY ZONES STUDY

OLR PUBLIC ACT SUMMARY

Requires the economic and community development commissioner to study and report on the best practices for marketing the benefits of qualified opportunity zones to increase investment in distressed census tracts and municipalities

The act requires the Department of Economic and Community Development commissioner to conduct a study identifying best practices for marketing the benefits of qualified “opportunity zones,” as defined by federal law, to increase investment in distressed census tracts and municipalities. By January 1, 2019, the commissioner must report the findings to the Commerce; Planning and Development; and Finance, Revenue and Bonding committees.

The federal Tax Cuts and Jobs Act of 2017 allows state chief executive officers to nominate low-income communities for designation as qualified opportunity zones and establishes tax incentives for investing in the designated zones through a qualified fund.

EFFECTIVE DATE: Upon passage