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State Tax Observations

Marking End of a Bitter Political Battle, Connecticut Governor Signs Long Awaited Budget Bill

By Sandy Weinberg, JD, Principal

After months of political deadlock, Governor Dannel Malloy signed into law a bi-partisan budget bill. The Governor used his line-item veto to reject a new taxing arrangement on hospitals, but signed into law the bulk of a new, two-year state budget. What follows are the enacted tax changes by category.

Sin Taxes

Following a national trend, Connecticut has gone after an easy target: sins. Under the legislation, the state will raise the cigarette tax by 45¢ per pack. It will also impose a 10.5% gross receipts tax on fantasy sports contests.

Estate and Gift Taxes

Regarding the estate and gift taxes, a key provision is a phased-in increased exemption. Under the new legislation, Connecticut's estate tax exemption amount increases to $2.6 million in 2018, $3.6 million in 2019, and would match the federal exemption amount beginning in 2020.

Further, the estate tax maximum tax cap is lowered. Starting in 2016, Connecticut implemented a cap on the maximum amount of gift and estate taxes a taxpayer would need to pay to Connecticut. The original cap was $20 million, which translates to lifetime Connecticut gifts and transfers on death of approximately $170 million. The new legislation reduces the cap to $15 million starting in 2019, which translates to approximately $129 million based on 2019 tax rates.

Income/Gross Receipt Taxes

The budget contains no changes to the personal or corporate tax rates — but not every taxpayer will go unaffected. The good news for certain income taxpayers is that the legislation establishes a refundable personal income tax credit for college graduates who are employed in the state. It also increases the income thresholds at which taxpayers qualify for a 100% income tax exemption for their Social Security benefits.

Bad news for certain taxpayers is that the budget limits eligibility for the property tax credit against the personal income tax to people who are either age 65 or older or can validly claim at least one dependent on their federal income tax return for that year. The legislation also reduces the earned income tax credit from 30% to 23%.

In the fledgling transportation network business, companies such as as Uber and Lyft will pay a 25¢ fee on each ride originating in Connecticut.

In addition, the bill extends, from seven to 30 years, the period over which certain publicly-traded companies may claim a corporation income tax deduction if combined reporting triggers an aggregate:

(1) increase in their net deferred tax liabilities; (2) decrease in their net deferred tax assets; or (3) change from a net deferred tax asset to a net deferred tax liability.

Tax Credits

The legislation eliminates or reduces certain tax credits as follows:

- The annual aggregate neighborhood assistance tax credit cap is lowered;
- The green building tax credit is eliminated; and
- The permanent moratorium on issuing film and digital media production tax credits to certain motion pictures is made permanent.

Fresh Start Program

The new legislation authorizes the Department of Revenue Services (DRS) Commissioner to establish a fresh start program in which he may, at his discretion, enter into agreements with qualified taxpayers to waive all of the penalties and half of the interest due on delinquent state taxes (other than motor carrier road taxes).

Contact Us

If you have any questions regarding the new Connecticut legislation or, more generally, state taxes, contact Sandy Weinberg at sweinberg@pkfod.com .