

State Tax Observations

Connecticut Quietly Shrinks Its Budget Deficit through Increased Taxes

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Connecticut was once a tax haven. Those days are long gone. Now, it suffers from a branding problem. It is perceived as a state providing its constituents with one of the highest tax burdens in the country. According to some studies and pundits, this appears to be somewhat accurate. However, other findings show that it is more in the middle of the pack.

Nevertheless, recently Connecticut passed legislation intending to resolve a \$3.7 billion deficit. It did this, naturally, through tax and revenue hikes. However, there was little protest in the air. Primarily this was because tax rates, for the most part, were not increased. Instead, by sleight of hand, tax revenue was raised by extending surcharges, reducing credit amounts allowed, and taxing non-constituents. Where a new tax was added, it was a sin tax with which the bulk of taxpayers are comfortable. Further, there was the elimination of a few taxes.

In this article are the top 10 most significant 2019 Connecticut budget legislation tax changes.

Corporation Business Tax

- **Phase out of capital base tax.** The corporation business tax has two bases: income and capital tax. The latter will be phased out over a four-year period, beginning with the tax year 2021.
- **Extension of the corporate surcharge.** There is nothing more permanent than a temporary tax charge. Connecticut confirms this by once again renewing its 10% corporate surcharge. This time it is extended to tax years 2018 to 2020.
- **Credit cap.** In a prior legislative session, Connecticut reduced the amount of credit that could be taken in one year for most credits to 50.01% of the tax due. Two credits escaped that limitation. But no longer. For taxable years beginning on or after January 1, 2019, the amount by which a company may reduce its tax liability using Research and Development and Urban Reinvestment Act credits is reduced from 70% to 50.01%.

Tax on Pass-Through Entities

- **Elimination of the BET.** The \$250 business entity tax, truly one nuisance of a tax, which is currently due every other taxable year and is paid by S corporations, LPs, LLPs, and LLCs is eliminated beginning January 1, 2020.
- **Reduction in the PET credit for partners/members of the pass through entity.** The pass-through entity tax (PET) was enacted in 2018. The rate remains the same at the entity level. However, effective for tax years beginning on or after January 1, 2019, the PET credit is reduced from the current 93.01% to 87.5%, effectively increasing the impact of the PET tax.

Sales and Use Tax

- **Economic and click-through nexus.** Effective July 1, 2019, every person making retail sales (now including sales of services) from outside Connecticut to a destination in the state must collect and remit sales tax if they make 200 transactions and have gross receipts of \$100,000 (previously \$250,000) during a 12-month period.
- **Rate changes.** Effective October 1, 2019, the sales and use tax rate on digital goods (including audio-visual works and ringtones) and canned or prewritten software that is electronically accessed or transferred, other than when purchased by a business for use by such business, will be subject to the full 6.35% sales tax rate. These will no longer be considered computer and data processing services, which are only subject to a 1% rate. In addition, the rate on the sale of meals sold by eating establishments, caterers or grocery stores; and spirituous, malt or vinous liquors, soft drinks, sodas or beverages ordinarily dispensed at bars and soda fountains is increased to 7.35% from 6.35%.
- **Elimination of certain exemptions.** Sales tax exemptions for safety apparel, specified parking services, laundry services (except coin operated laundry services) and interior design services are eliminated as of January 1, 2020 unless purchased by a business for use by such business.

New Taxes Added by the Legislation

- **Mansion Tax.** The legislation has added the so called “mansion tax,” which effectively increases the Real Estate Conveyance Tax for homeowners moving out of state and selling their homes for more than \$2.5 million from 1.25% to 2.25% on real estate sales.
- **Tax on E-Cigarette Wholesalers.** Connecticut will now impose a sales tax on electronic cigarette (e-cigarette) products by e-cigarette wholesalers. The tax is imposed each calendar month, beginning October 1, 2019, at a rate of 40 cents per milliliter of e-cigarette liquid and 10% of the wholesale price of all other e-cigarette products.

Contact Us

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