

State Tax Observations

Connecticut: New Tax Amnesty, Cannabis Tax, Tax Phase-Out Delay – *But No Increase in Tax Rates*

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Fighting its reputation as a high tax state, Connecticut did not raise general tax rates this year. However, through three new pieces of legislation, the state managed to raise tax revenue.

The centerpiece for tax revenue-generating purposes was the budget-implementing legislation that added a new amnesty, extended the 10% corporation business tax surcharge, and delayed the phase-out of the capital base tax by four years. Separately, a new law legalized the recreational adult-use of cannabis in Connecticut while commencing a 6.35% state sales tax and two other taxes on cannabis products. In a third piece of legislation, the state passed a new mileage tax for large commercial trucks based on highway usage.

Specifically, the budget legislation:

- Creates a new tax amnesty program for businesses and individuals that will run from November 1, 2021 through January 31, 2022 covering most taxes and tax years before December 30, 2020. The program will allow a reduction of interest owed by 75% and, upon payment of tax and interest determined to be due, an elimination of civil penalties and no criminal prosecution. There is an additional amnesty program for captive insurance programs starting on July 1, 2022 to cover periods before July 1, 2018 which would allow penalties to be abated.
- Extends the 10% corporation business tax surcharge that was set to expire. The surcharge applies to companies whose total income reported on line 11 of federal Form 1120 equals or exceeds \$100 million, or who file as part of a combined unitary group. The surtax does not apply to the minimum tax of \$250. It will now apply to tax years beginning before January 1, 2023.
- Delays the phase-out of the capital base tax on corporations. Originally, the phase-out would have been accomplished from tax years 2021-2023 with no capital base tax in 2024 but will now be from tax years 2024-2027 with no capital base tax in 2028. The new law instead keeps the rate at 3.1 mills through 2023, and the rate reduction schedule will now be as follows: 2.6 mills in 2024, 2.1 mills in 2025, 1.6 mills in 2026, 1.1 mills in 2027 and 0 in 2028.
- Favorably increases the Connecticut Research and Development Tax credit limit of tax to be offset from 50.01% to 60% for tax years starting January 1, 2022, and 70% for tax years starting on or after January 1, 2023. However, it decreases the non-incremental R&D tax credit carryforward from an unlimited period to 15 years.
- Temporarily allows some hospitality businesses to retain sales tax receipts for one of three designated weeks in August, December and May of 2022 to help offset pandemic-related losses.
- Expands Connecticut's Earned Income Tax Credit from 23% to 30.5% of the federal EITC.

New Cannabis Tax

Connecticut also passed legislation legalizing the recreational cannabis use in Connecticut. Cannabis is now subject to three different Connecticut taxes: a 6.35% state sales tax, a local tax collected by communities with dispensaries, and an excise tax based on the THC potency of a product. Overall, the tax

has been estimated to be a 20% tax for consumers, and has been estimated to generate tax revenue in excess of \$750 million over five years.

New Mileage Tax on Trucking

In a third piece of legislation, Connecticut passed a new mileage tax for large commercial trucks based on highway usage. The new law is effective beginning January 1, 2023, and the tax ranges from 2.5 cents per mile for vehicles weighing 26,000 to 28,000 pounds to 17.5 cents per mile for trucks weighing more than 80,000 pounds. The tax would apply to travel on all roads, not just on limited-access highways in Connecticut.

Contact Us

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