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State Tax Observations

Connecticut Adopts a Budget

PTET Changes, Cuts to Lower Income Tax Rates and a Corporate Tax Surcharge Extension are Highlights

By Nicholas Rochedieu, Director and Sandy Weinberg, Partner

The recently enacted Connecticut biennial budget for fiscal years 2024 and 2025 makes the pass-through entity tax (PTET) optional and decreases the state's two lowest personal income tax rates. These significant tax law changes are discussed in this bulletin.

Pass-Through Entity Tax

Effective for tax years beginning January 1, 2024, the pass-through entity tax is made optional, rather than mandatory. Flow-through entities must make the election to use the Connecticut PTET no later than the due date (including extensions) of the return each year.

The Bill also reinstates the requirement that entities pay the PTET on behalf of any nonresident member for whom the business is the only source of Connecticut income. This amount would be reduced by the PTET credit of 87.5%. Additionally, Connecticut now requires entities that do not elect the PTET to file a composite return for non-resident, noncorporate members.

In addition, the corporate tax credit for pass-through entity taxes paid and the option for entities to file a combined return with one or more commonly owned entities are eliminated.

Notably, the credit for owners/partners remains at 87.5% instead of the Governor's proposed reinstatement of the 93.01% credit.

Corporate Tax

The corporation business tax surcharge of 10% will remain in effect for an additional three years through 2025.

Certain corporate tax credits have been enhanced. These include:

- **The Human Capital Investment Credit** – Effective January 1, 2024, the Bill increases the human capital investment credit to 10% from 5% for most eligible investments and to 25% for investments in childcare centers and childcare worker subsidies, including donations to tax-exempt organizations that establish childcare centers.

- **The Film/Digital Media Credit** – For income years commencing on or after January 1, 2024, but prior to January 1, 2026, the redemption rate for film and digital media tax credits claimed against the sales tax is increased from 78% to 92% of the credit's face value.

- **The Angel Investor Credit** – The credit has been eliminated for investment in cannabis businesses.

Regarding the federal Cannabis Deduction (IRC §280E), for tax years commencing January 1, 2023, the enacted Connecticut law impacts personal income and corporation business taxpayers holding medical marijuana or adult-use cannabis licenses. For Connecticut state tax purposes, these taxpayers can deduct the amount of ordinary and necessary business expenses that would be eligible for a federal tax deduction but are disallowed because marijuana is a controlled substance under the federal Controlled Substance Act.

Personal Income Tax

For tax years beginning January 1, 2024, personal income tax rates of 5% and 3% are reduced to 4.5% and 2%, respectively. The benefits are capped at $150,000 for single filers and $300,000 for joint filers.

Further, the earned income tax credit is now 40% of the federal credit, up from 30.5%, for 2023 forward.

Contact Us

If you have questions or need assistance with the above changes or other state tax issues, contact your PKF O'Connor Davies engagement partner or any of the following:

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