# **ECTCPA**State Tax 360° Conference

Thursday, November 13 • Cromwell & Online • 8 CPE Credits







Offshore Expertise in Tax, Accounting, Audit & Assurance, and Fractional CFO

# Why Us?

**Experienced Team - Trained professionals capable** of handling high-level reviews, not just data entry.

Scalable Staffing - Quickly source top talent from a vast pool of resumes within 1-2 weeks.

**Dedicated Contacts - Domain-specific points of** contact, including a local US representative.

**US-Aligned Timings - Flexible schedules matching** US work hours; no adjustments on your end.

Data Security - SOC II Type 2 and ISO 27001 certifications in progress, ensuring robust data security by July 2025.

Process-Driven - Seamless approach from resource identification to onboarding and integration.

Software Expertise - Proficient in widely-used Tax, Accounting, and Audit & Assurance software.

#### About Us

Madras Accountancy offers small & mid-sized CPA firms in the U.S. a smarter route to growth with offshored Tax, Audit, Accounting, and Fractional CFO services.

10+	3	HQ
Years of	Offshore	In CA, USA
Operations	Centers in	
	India	

160+	60+	98%
Employees on	CPA Partner	Client
payroll	Firms	Retention

#### **Services**

- Tax Preparation & Planning
- Accounting & Book-keeping
- Audit & Assurance
- Payroll & 1099 filing
- Sales Tax
- Fractional CFO

#### Few of Our Trusted Clients











# **Affiliations & Associations**



**=**rightworks

### Hear it from a few of our clients





Josh T. Hansen, CPA Founder & Managing Partner Hansen CPA

Partnering with Madras Accountancy has been a game-changer for us. Their team's expertise in both tax preparation and bookkeeping has brought consistency and reliability to these critical areas. What stands out is their proactive approach - ensuring tasks are completed on time with a high level of accuracy and responsiveness. They have become an integral part of our team, always willing to adapt and support us whenever needed. The collaboration has been smooth and has added tremendous value to our operations and provided that much needed capacity as our business grows. We tried a couple of other providers and hands down, Madras has been a great fit. We're grateful for the professionalism they bring to the table and the positive impact on our practice.





Jonathan McCormick, EA, MST Co-Founder & COO **Hillhurst Tax Group** 

Madras Accountancy has been more than just a partner to Hillhurst Tax Group - they have been our trusted friends for over a decade. Working with Balaji and his exceptional team has been a remarkable journey. They've seamlessly supported us in both tax and bookkeeping services, enabling us to focus on growing our business and strengthening our client relationships. What sets Madras Accountancy apart is their personal touch. Balaji and his team truly care about our success and go beyond being just an offshore service provider. Their dedication, attention to detail, and commitment to excellence have made them an integral part of our firm's story. We deeply value this relationship and look forward to many more years of collaboration.





**Kerry Kitchka Managing Director BG Advisors** 

"Madras Accountancy has been a vital partner in elevating our tax practice at BG Advisors. Their meticulous approach and ability to support critical reviews have been instrumental in ensuring the accuracy and reliability of our work.

Their team consistently demonstrates professionalism and a commitment to excellence, making them a trusted extension of our tax department. We value their partnership and dedication to our success."





**Dave Myers COO RS & F LLC** 

Madras Accountancy has been an impactful partner and quickly became our primary offshore provider. We started working with them when we were not able to find higher-caliber talent from other providers. Madras Accountancy quickly found us several very strong candidates, and we have not looked back. At both preparatory and more importantly for us, detail review levels, their staff are excellent. They integrate seamlessly with our tax department, and we are very fortunate to have them support our firm. Their leadership team is also excellent, truly seeking to understand our business and our unique requirements, and will not rest until they find us those candidates. Their team's proactive communication and unwavering commitment have made them an indispensable part of our operations. We are grateful for the strong partnership we have built with them.



STOWE&DEGON

Prasanna G. Kidambi, CPA, MBA **Tax Partner** Stowe & Degon

Madras Accountancy has been an exceptional partner for us at Stowe & Degon. Their team's expertise in tax preparation and review, combined with their meticulous attention to detail, has significantly enhanced our efficiency during peak seasons.



#### **State Tax 360° Conference**

November 13, 2025

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# **General Session 1**



### Louis B. Schatz

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View Full Bio



Louis Schatz served as chair of Shipman's Tax and Employee Benefits Practice Group for more than 20 years and, from 2007 to 2017, served on the firm's Management Committee. A past chair of the Tax Section of the Connecticut Bar Association, Lou draws on his decades of experience in federal and Connecticut tax matters to help clients understand the real-world impact of complex tax laws and regulations, make effective tax-planning decisions, and resolve disputes with tax authorities.

In addition to being a tax-specific counsel, Lou serves as a trusted, primary relationship partner for many of his clients. He has developed strong relationships within the accounting community and has a deep understanding of the connection between business performance and tax strategy. Lou uses these insights to help clients identify and assess potential opportunities and challenges and engage appropriate counsel and other advisors to address a broad range of legal, financial and business issues.

Lou advises clients from across the spectrum — including high-net-worth individuals, family-owned and privately held businesses, and national and multinational, companies. He has particular experience representing closely-held businesses organized as limited liability companies, partnerships and S corporations; real estate joint ventures; and taxpayers involved in federal and Connecticut tax controversies. In recognition of his experience and legal acumen, he has been appointed to several State of Connecticut tax panels, advisory boards and special committees tasked with reviewing and providing recommendations on a range of state tax laws.

Lou was a primary organizer of the firm's Opportunity Zones team, a multidisciplinary group that advises clients on the federal program that provides incentives to invest in economically distressed urban and rural communities. In this regard, Lou counsels clients — including institutional investors, developers, banks, private equity and venture capital firms, fund sponsors, private investors, family

offices and nonprofits — from across the country on opportunity zone matters both within and without the State of Connecticut.

Committed to educating business leaders as well as the next generation of legal and tax professionals, Lou is a frequent lecturer on Federal and Connecticut tax, partnership and limited liability company issues. For many years, he has provided annual updates on Connecticut tax developments to accountants practicing in New York and New Jersey. His recent lectures include presentations to the Connecticut Bar Association, the Connecticut Society of CPAs, the Connecticut Business and Industry Association, the National Conference of CPA Practitioners, the New York State Society of CPAs, the Long Island Tax Practitioner Symposium, the National Business Institute, the University of Connecticut Income Tax School, the New England Tax Institute and the Foundation for Accounting Education in New York City. He is frequently asked to author articles about state and local tax developments, such as the *Tax Notes* article entitled "Big Changes Coming to Connecticut's Passthrough Entity Tax" which was published in 2023.

Lou is widely published; among numerous articles, book chapters and commentaries, he authored the latest edition of <u>Connecticut Limited Liability Act: Forms and Practice Manual</u>, the leading treatise in Connecticut on limited liability companies.

#### **Distinctions**

- Listed in <u>The Best Lawyers in America</u><sup>®</sup>: Litigation and Controversy Tax (2012, 2015–2017, 2019–2026); Tax Law (2012–2026)
- Named "<u>Lawyer of the Year</u>" Best Lawyers Hartford Region Tax Law (2013, 2018, 2022, 2024); Tax Litigation & Controversy (2017, 2019, 2021)
- Listed as a Connecticut Super Lawyer®: Tax (2006–2025)
- Connecticut Department of Revenue Services Business/Practitioner Liaison Group, External Advisory Board (2016–present)
- Connecticut Bar Association, House of Delegates (2010–2016)
- Connecticut State Tax Panel, appointed by General Assembly's Finance, Revenue and Bonding Committee and directed to review overall state and local tax structure (2014–2015)
- Special Committee appointed by the Department of Revenue Services Commissioner to consider changes to Connecticut's partnership tax sourcing laws (2010)
- Connecticut Tax Court, Special Master
- Special Committee appointed by Connecticut Law Revision Commission to consider changes to the application of Connecticut's limited liability company (LLC) law to professionals (2002)
- AV Preeminent® Rated, <u>Martindale-Hubbell</u>
- Connecticut Bar Foundation, James W. Cooper Life Fellow

#### **Teaching Positions**

- University of Connecticut Income Tax School
- University of Hartford Barney School of Business: Guest Lecturer

#### **Professional Affiliations**

- American Bar Association, Taxation Section
- Connecticut Bar Association, Past Chair of Tax Section
- Connecticut Bar Association, Tax Section Executive Committee, Business Law Section; Former Chair, Limited Liability Company Subcommittee; Former Chair, Property and Conveyance Tax Subcommittee
- New York Bar Association
- ISA (Independent State and Local Tax Alliance): Only Member whose practice is based in Connecticut

#### **Credentials**

#### Education

- New York University School of Law, LL.M. (in Taxation), 1980
- Cornell Law School, J.D., 1979
- · Cornell University, B.A., 1976

#### Bar Admissions

- New York, 1981
- Connecticut, 1988

#### Court Admissions

U.S. Tax Court, 1988



# David O. Bigger

Partner

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Hartford, CT

View Full Bio



David Bigger is chair of the firm's Tax and Employee Benefits Practice Group, providing comprehensive counsel on international, federal, state and local tax matters to individuals and businesses active in a broad range of industries. His clients include individual entrepreneurs, business owners and executives, as well as companies at every stage of the business lifecycle, from startup to established enterprise.

David focuses his practice primarily on privately held and family-owned mid-size companies, recognizing that — in today's interconnected economy — businesses of all sizes are likely to face tax-related issues from numerous jurisdictions and tax authorities. After beginning his legal career at Shipman, he served as in-house federal tax counsel at MassMutual, where he assisted with a wide range of investment and employment tax matters. Returning to Shipman and the private practice of law, this in-house experience further deepened his insights into the priorities, challenges and issues facing his clients.

David counsels clients on the full spectrum of income, sales and use, property, capital gains and other taxes. He has particular experience in tax-related issues that arise in the context of major corporate events — including business formations, mergers, acquisitions, dispositions and other transactions — and with respect to specific entity structures, including limited liability companies, partnerships and S-corporations, insurance tax and other general business tax matters. He advises clients on issues arising out of bankruptcies, restructurings and reorganizations, as well as with respect to investment strategies and federal and state tax-credit, incentive and economic-development programs, including the Qualified Opportunity Zones program.

When disputes arise, David represents and defends taxpayers before relevant tax authorities. He has advised clients on and negotiated resolutions to enforcement and collection matters, appeals of tax

rulings, and other federal and state tax controversies.

David has spoken at and served as a panelist for numerous legal and industry events, including webinars, seminars and roundtables, where he has discussed a range of tax issues, including updates to Connecticut state tax law and the ever-changing Internal Revenue Code. He also regularly provides continuing legal education (CLE) instruction through firm- and third-party-sponsored courses.

#### **Distinctions**

- Listed as a Connecticut Super Lawyer <u>Rising Star</u>®: Tax (2018, 2022-2023)
- Montana Law Review, Articles Editor
- National Moot Court Team, Northwest Regional Best Oral Advocate
- Order of the Barristers

#### **Professional Affiliations**

- American Bar Association
- Connecticut Bar Association: Tax Section, Executive Committee
- · Hartford County Bar Association
- Lawyers Collaborative for Diversity, Board Member

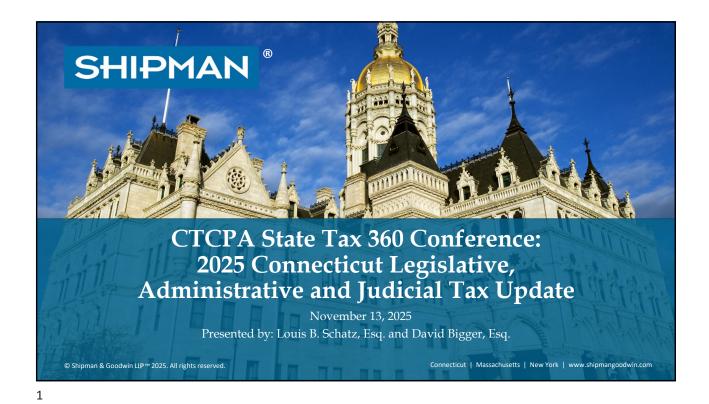
#### **Credentials**

#### Education

- New York University School of Law, LL.M. (in Taxation), 2013
- University of Montana School of Law, J.D., 2012, with high honors
- Utah State University, M.A., 2008
- Brigham Young University, 2005

#### Bar Admissions

Connecticut



# 2025 Connecticut Legislative,

Administrative and Judicial Tax Update



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Lou practices in the areas of federal and State of Connecticut tax with attention to the representation of closely held businesses organized as limited liability companies, partnerships and S corporations; real estate joint ventures; and the representation of taxpayers involved in federal and Connecticut tax controversies (at the audit, appellate and court levels). He is a frequent lecturer on federal and State of Connecticut tax, partnership and limited liability company issues. For many years he has been providing annual updates on Connecticut tax developments to accountants practicing in Connecticut, New York and New Jersey. His recent lectures include presentations to the Connecticut Bar Association, the Connecticut Society of CPA's, the Connecticut Business and Industry Association, the National Conference of CPA Practitioners, the New York State Society of CPA's, the Long Island Tax Practitioner Symposium, the National Business Institute, the University of Connecticut Income Tax School, the New England Tax Institute, and the Foundation for Accounting Education in New York City. Lou is widely published, *including his October 2023 article in State Tax Notes titled "Big Changes Coming to Connecticut's Passthrough Entity Tax* and his authorship of the latest edition of "Connecticut Limited Liability Act: Forms and Practice Manual," the leading treatise in Connecticut on limited liability companies.



#### 2025 Connecticut Legislative, Administrative and Judicial Tax Update

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David Bigger is chair of the firm's Tax and Employee Benefits Practice Group, providing comprehensive counsel on international, federal, state and local tax matters to individuals and businesses active in a broad range of industries. His clients include individual entrepreneurs, business owners and executives, as well as companies at every stage of the business lifecycle, from startup to established enterprise.

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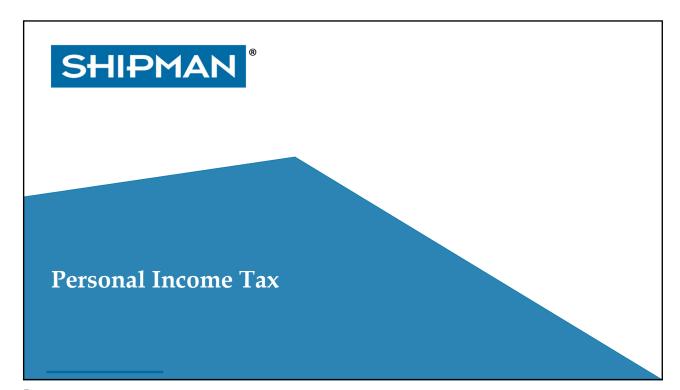


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#### Disclaimer

- This presentation is intended to provide general information and no tax advice is intended to be given.
- Any written tax content, comments, or advice contained in this presentation is limited to the matters specifically set forth herein. Such content, comments, or advice may be based on tax statues, regulations, and administrative and judicial interpretations thereof and we have no obligation to update any content, comments or advice for retroactive or prospective changes to such authorities. This communication is not intended to address the potential application of penalties and interest, for which the taxpayer is responsible, that may be imposed for non-compliance with tax law.
- NOTE: As the interpretation of the law that is presented here is developing, please refer to the law for your own interpretation as well as the Connecticut Department of Revenue Services guidance that has been issued.
- The examples contained in this presentation are for conceptual and illustration purposes only.





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#### Income Tax Withholding on Lump Sum Distributions

- During the 2024 legislative session, the General Assembly required income tax withholding on certain lump sum distributions from pensions, annuities, and other specified sources.
- From July 1, 2025, through December 31, 2026, the mandatory income tax withholding on lump-sum distributions from pensions, annuities, and similar sources will be suspended.
- However, payers must withhold taxes if requested by the payee.
- A "lump sum distribution" is defined as a payment over \$5,000 or more than 50% of the account balance, whichever is less, excluding taxes and fees.

Source: Conn. Gen. Stat. §12-705(a)(2), as amended by Conn. Pub. Act No. 25-168 §401 (effective July 1, 2025)



#### **Increase in Earned Income Tax Credit**

- Connecticut residents who qualify for and claim the federal EITC can currently receive a refundable state EITC equal to 40% of the federal amount.
- For the 2025 tax year, the state EITC credit is increased by an additional \$250 for eligible filers with at least one qualifying child.
- The federal EITC is available to low- and moderate-income workers, with credit amounts based on income and number of children.
- For 2025, the maximum Connecticut EITC is \$3,218 (for taxpayer's with three or more children). If the credit exceeds the taxpayer's state income tax liability, the excess is refunded.
- Note that Governor Lamont had proposed a child tax credit, but his proposal was not adopted in any of the bills passed in this legislative session.

Source: Conn. Gen. Stat. §12-704e, as amended by Conn. Pub. Act No. 25-168 §371 (effective from passage and applicable to taxable years commencing on and after January 1, 2025).



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# Income Tax Credit for Family Child Care Homeowners

- Connecticut has established a new refundable \$500 income tax credit for taxpayers who own a state-licensed "family child-care home"
- This credit applies to personal income tax but not to withholding tax.
- Owners of S corporations and partnerships can have their shareholders or partners claim the credit, while single-member LLCs disregarded for federal tax purposes may have the owner claim it, provided they are subject to personal income tax.
- If the credit exceeds the taxpayer's liability, the excess will be refunded without interest. However, the DRS may withhold refunds to cover outstanding tax liabilities or other state debts.

Source: Conn. Pub. Act No. 25-168 §372 (effective January 1, 2026, and applicable to taxable years commencing on or after January 1, 2026)



# Income Tax Credit for Taxpayers who Successfully Challenge the application of another State's "Convenience of the Employer Rule"

- A Connecticut resident who is subject to and successfully challenges another state's "convenience of the employer" rule will be entitled to a credit against the personal income tax equal to 60% of the amount of taxes such resident owes to Connecticut as a result of the readjustment to the credit for taxes paid to such other state.
- In order to be get the benefit of the credit, the resident: (1) must have paid income tax or wage tax to another jurisdiction for the 2020 tax year and afterwards, (2) applied for and been denied a refund from the other jurisdiction for taxes paid on income derived from services rendered while the resident was in Connecticut, (3) filed a formal appeal with the respective jurisdiction, and (4) obtained a final decision from the jurisdiction that resulted in such jurisdiction refunding to the Connecticut resident taxes paid on income derived from services rendered while the Connecticut resident was in Connecticut.
- · Penalties and interest will be waived in certain circumstances on the late payment of any CT taxes due.

Source: Conn. Pub. Act No. 25-172 §1 and §2 (effective upon passage)



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### **CT PET Update**

- CT Legislature made no changes to CT PET Provisions. For 2025 and forward, CT PET remains as an elective tax.
- Changes made to the federal SALT limitation by OBBBA:
  - Cap temporarily raised to \$40,000 in 2025, \$40,400 in 2026 and then 1% annual increases over the prior year for 2027, 2028 and 2029. Reverts back to \$10,000 in 2030
  - Phases down (but not below \$10,000 for those with modified adjusted gross income over \$500,000 in 2025 and \$505,000 in 2026 and then increased 1% annually in each of the three following years.
  - No limitations on State level SALT cap workarounds
- Does a CT PET election still make sense in light of the expanded SALT deduction?



#### **Connecticut Student Loan Reimbursement Program**

Effective January 1, 2025, Connecticut has authorized a new program that will annually reimburse eligible individuals for <u>up to \$5,000</u> of their student loan payments <u>for up to four years</u> (up to \$20,000 total).

The Connecticut Office of Higher Education has been charged with establishing the program, and anyone with questions should go to the Office of Higher Education website. Applications became available in August 2025 and will remain available until December 2025, or until funds exhausted.

To be eligible, the person must:

- Be a Connecticut resident and have lived in Connecticut for at least five years prior to the date of their application;
- Must have attended and graduated from a Connecticut program with an associates or bachelor's degree; and
- Earned less than \$125,000 (single) or \$175,000 (joint).

For each year of participation in the program, individuals are required to volunteer for *at least 50 unpaid hours*. The nonprofit at which the student volunteers must be registered with the Department of Consumer Protection or municipal government.

Payments received under this program are <u>deductible from their Connecticut AGI</u> to the extent the payments are included in federal gross income for income tax purposes (recipients will receive a Federal Form 1099-Misc).



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# CT Remains Decoupled from Federal Bonus Depreciation and Section 179 Deductions

- OBBB brought back 100% Bonus Depreciation. Under the new law, qualified property acquired and placed in service after January 19, 2025, will be eligible for full expensing in the first year.
  - Remember, that under Connecticut income tax law, Connecticut has decoupled from bonus depreciation.
  - Instead of obtaining the full benefit of the federal deduction in the same year it is taken for federal purposes, Connecticut requires that the full amount of the bonus depreciation be "added back" when computing Connecticut adjusted gross income.
  - After the addback year, the taxpayer is allowed a subtraction modification on the taxpayer's Connecticut return in each of the four succeeding taxable years equal to 25% of the bonus depreciation added back (note that there is no add back for the corporation income tax).

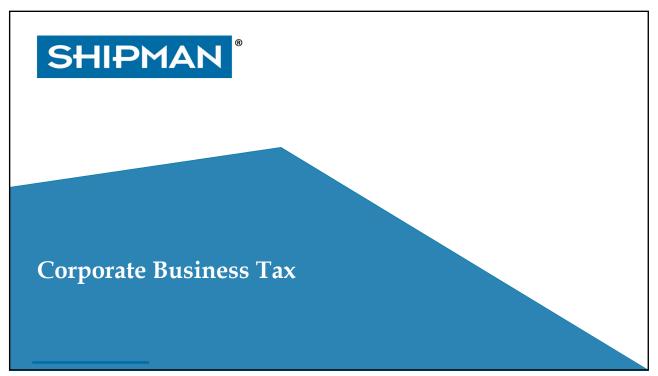


# CT Remains Decoupled from Federal Bonus Depreciation and Section 179 Deductions

- OBBA also expanded benefits for Section 179 deductions. Specifically, the maximum amount of cost a taxpayer may elect to deduct under Code Section 179 is increased to 2.5 million for taxable years beginning after December 31, 2024.
  - Connecticut has also decoupled from the timing of the federal Code Section 179 deduction.
  - Under Connecticut tax law, the taxpayer is required to "add back" 80% of the federal Code Section 179 deduction claimed for federal income tax purposes.
  - The taxpayer is then permitted a "subtraction modification" over the next four taxable years of 25% per year of the amount added back.



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#### **NOL Deduction**

- Under current law, combined groups with over \$6 billion in net operating losses (NOLs) from pre-2013 tax years were permitted to make a one-time election during the 2015 tax year, which allowed combined groups to forfeit 50% of their pre-2015 NOLs in exchange for the ability to use the remaining losses to reduce their annual tax liability by up to \$2.5 million in any subsequent income year.
- New legislation repeals this special NOL provision. Starting with the 2025 income year, affected groups must recalculate their remaining NOL carry forward as if they had never forfeited 50% of their pre-2015 losses.

Source: Conn. Gen. Stat. §12-217(a)(4), as amended by Conn. Pub. Act No. 25-168 §353 (effective from passage and applicable to income years commencing on or after January 1, 2025)



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#### No Cap on Combined Group Tax Liability

- Beginning with the 2025 income year, the \$2.5 million cap on the amount a combined group's tax, calculated on a combined unitary basis, can exceed the tax it would have paid on a separate basis, has been eliminated.
- Note: of the 33 states and the District of Columbia in the country that have adopted a form of unitary tax, Connecticut was the only state that imposed a cap on the amount of additional tax resulting from filing on a combined unitary basis.

Conn. Gen. Stat. §12-218e(k), as amended by Conn. Pub. Act No. 25-168 §354 (effective from passage).

#### **Interest Relief for Related Underpayments**

• Due to the changes to the alternative NOL rule for certain combined groups and the elimination of the \$2.5 million cap, the amount of tax due on a combined unitary basis as a result of legislative changes is not be included when calculating interest. (effective from passage).



#### **Corporate Business Tax Surcharge**

• The 10% corporation business tax surcharge has been extended for three additional years. The surcharge was set to expire after the 2025 tax year—now it has been extended through 2028. The 10% surcharge applies to companies with over \$250 in tax liability that either generate at least \$100 million in annual gross income or are part of a combined group filing a unitary return, regardless of income. However, for the capital base tax component, the surcharge will only apply in 2026 and 2027, as the capital base tax remains scheduled for elimination beginning in 2028.

 $Conn. \ Gen. \ Stat. \ \S\$12-214(b)(4), \ 12-219(b)(4), \ as \ amended \ by \ Conn. \ Pub. \ Act \ No. \ 25-168 \ \S\$356-357 \ (\textit{effective from passage}).$ 

#### **Deduction for Certain Combined Groups**

Beginning with the 2026 income year, existing law allows certain combined groups to claim a 30-year corporation business tax deduction to offset balance sheet adjustments caused by the shift to combined reporting. This deduction equals one-thirtieth of the amount needed to offset increases in their "valuation allowance" against Connecticut net operating losses and tax credits. The Act amends current law by requiring that the increase in valuation allowance be calculated based on changes reported in the group's 2015 financial statements, rather than 2016 as previously required.

Conn. Gen. Stat. §12-218h(b)(3) as amended by Conn. Pub. Act No. 25-168 §392 (effective from passage).



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**Domicile and Estate and Gift Taxes** 

#### **Connecticut Domicile**

- In Leslie B. Daniels, Executor of the Estate of Jack Andersen v. Commissioner of Revenue Services, the taxpayer appealed a final determination against the taxpayer by the DRS finding that the taxpayer owed Connecticut estate tax because the taxpayer failed to prove that the decedent was not a domiciliary of Connecticut at the time of his death.
- The taxpayer's position was that the decedent was a domiciliary of Florida at the time of his death. The court recognized that the taxpayer had satisfied many of the 28 factors set forth in DRS regulations, which are to be taken into account in determining domicile. However, it noted that many of these factors were "one-time administrative tasks accomplished with little more than an afternoons or a day efforts and carry little practical significance or impact on [the taxpayer's] day to day life."
- In a decision issued in Oct, 2024, the court concluded that where the taxpayer chose to spend his time was the most persuasive indicator of his intent. In this case the taxpayer had established a pattern of spending 5 ½ months in Connecticut, 3 months in Arizona and 3½ months in Florida each year. Based on that the Court could not conclude that there was a high probability that the taxpayer was a Florida domiciliary and found in favor of the Commissioner.
- The estate has appealed the Superior Court's decision to the Appellate Court, which has in turn transferred the case to the Connecticut Supreme Court. Oral arguments have not yet been scheduled.

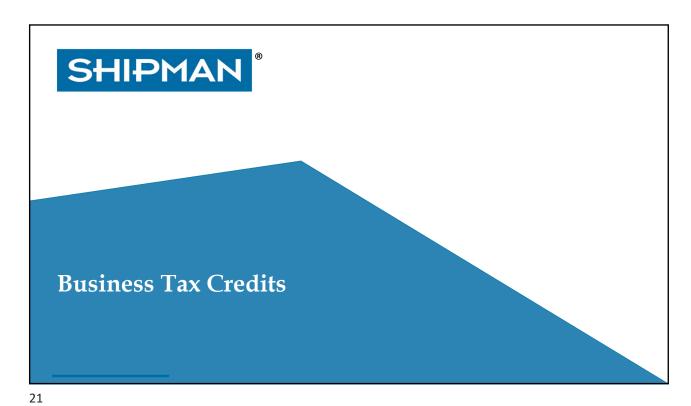


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#### Status of Connecticut's Estate and Gift Tax Exemption

- Since 2023, the exemption from the Connecticut estate and gift tax has been equal to the federal exemption.
- For 2025, the federal estate exemption is \$13,990,000 per person. Accordingly, the exemption in Connecticut for decedents who die in 2025 is also at \$13,990,000.
- Under the Tax Cuts and Jobs Act, the federal exemption was set to drop to around \$7 million in 2026.
- Under the OBBBA, the federal estate exemption was permanently increased to 15 million dollars (providing longer-term stability in estate planning).
- Accordingly, as of January 1, 2026, the Connecticut estate exemption will be \$15,000,000, indexed for inflation for subsequent years





# **R&D** and **R&E** Credits for Qualifying LLCs

- Certain single-member LLCs are permitted to earn research and development (R&D) and research and experimental expenditures (R&E) tax credits if they have over 3,000 employees in Connecticut and are engaged in manufacturing with expertise in mechatronics, alignment and sensor technology, and optical fabrication.
- If the LLC is disregarded for federal income tax purposes, the LLC's employee count includes its employees and those of its owner.
- R&D and R&E tax credits can be applied against the corporation business tax. Although LLCs that are disregarded are not subject to the corporation business tax, the LLC's owner may claim the credits if it is liable for the corporation business tax, effectively enabling qualifying owners to benefit from credits earned by their wholly owned LLCs.

Source: Conn. Gen. Stat. §§12-217n, 12-217j, as amended by Conn. Pub. Act No. 25-168 §§58-59 and Conn. Pub. Act. No. 25-165 §§1-2 (effective from passage and applicable to income and taxable years commencing on or after January 1, 2025).



# Repeal of Digital Animation Credit

- The digital animation tax credit, which was originally adopted in 2007, has been repealed.
- The credit had been available to companies with in-state studios and at least 200 Connecticut-based employees who incurred eligible production expenses.
- The credit was structured in three tiers ranging from 10% to 30% based on spending, and could be applied against the corporation business and insurance premiums taxes, with a \$15 million annual cap.
- However, no credits have been issued under the program since 2016.

Source: Conn. Gen. Stat. §§12-211a(a), 12-217jj(h)(1), & 12-217ll, as amended by Conn. Pub. Act No. 25-168 §§63-64 & 68 (effective from passage).



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# Refund Value of R&D and R&E Credits for Qualifying Small BioTech Companies

- The refundable portion of research and development (R&D) and research and experimental (R&E) tax credits will increase from 65% to 90% of the value of such credits for qualifying small biotechnology companies.
- To qualify, companies must have had gross income of \$70 million or less in the previous year, including income from related entities, and must be unable to use the credits due to a lack of corporate tax liability.
- Refunds are capped at \$1.5 million per company per income year.
- Eligible businesses may also choose to carry forward unused credits instead of requesting a cash refund.
- Under current law, small businesses that do not qualify as biotechnology companies remain eligible for a 65% refund of their credit amount.

Source: Conn. Gen. Stat. §12-217ee, as amended by Conn. Pub. Act No. 25-168 §358 (effective July 1, 2025, and applicable to income years commencing on or after January 1, 2025).



#### **Farm Investment Tax Credit**

- A new refundable business tax credit has been created for farmers who invest in eligible machinery, equipment, or buildings. The credit is equal to 20% of the amount paid or incurred during an income year for farm investment property by a taxpayer that is an eligible farmer.
- To qualify, a farmer must earn at least two-thirds of their federal gross income from farming, with a minimum of \$30,000, based on a single year or a three-year average.
- Eligible property must be located in Connecticut, have a class life over four years, and be *used in agricultural production* for at least five years after being acquired or placed in service.
- "Agricultural production" means engaging in any of the following as a trade or business: (1) raising or harvesting
  any agricultural or horticultural commodity; (2) dairy farming; (3) forestry; (4) raising, feeding, caring for,
  shearing, training, or managing livestock; or (5) raising and harvesting fish, oysters, clams, mussels, or other
  molluscan shellfish
- The credit applies to *personal income or corporation business tax*, and may be claimed by owners of *S corporations*, *partnerships, or single-member LLCs*. If the credit exceeds the taxpayer's tax liability, the excess is refunded without interest, though refunds may be withheld for outstanding debts.
- A recapture provision requires repayment of 100% of the credit if the property ceases to be used in farming within
  three years, or 50% if within five years, with interest on late payments. Replacement property is not eligible for the
  credit.

Source: Conn. Pub. Act No. 25-168 §373 (effective January 1, 2026, and applicable to taxable years commencing on or after January 1, 2026)



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#### **CHET Contribution Tax Credit**

- A new business tax credit has been created for employers who contribute to their employees'
  Connecticut Higher Education Trust (CHET) accounts.
- The credit is equal to 25% of the contribution, up to \$500 per employee per year.
- The credit can be applied against the *corporation business, insurance premiums, or personal income taxes* (excluding withholding tax).
- The credit is only available for contributions made to employees who are not the employer's owners, partners, members, or family.
- For S corporations or taxpayers treated as partnerships for federal income tax purposes, the taxpayer's shareholders and partners may claim the credit. If the employer is a single member LLC that is disregarded for federal income tax purposes, the LLC's owner may claim the credit as long as the owner is subject to insurance premiums, corporation business or personal income tax.

Source: Conn. Pub. Act No. 25-168 §374 (effective July 1, 2025, and applicable to taxable years commencing on or after January 1, 2025).



#### **Housing Tax Credit Contribution Program**

- The Commissioner is no longer required to approve the Connecticut Housing Finance Authority's written procedures to implement the housing tax credit contribution program.
- CHFA administers this program, which provides tax credits to businesses making cash contributions of at least \$250 to nonprofits that develop, sponsor, or manage housing programs benefitting low- and moderate-income households

Source: Conn. Gen. Stat. §8-395(k) as amended by Conn. Pub. Act No. 25-168 §398 (effective from passage)

#### Workforce Housing Opportunity Development Tax Credit

- The workforce housing opportunity development tax credit has been amended to provide that the amount of the credit is 50% of eligible cash contributions rather than an amount specified by the DOH commissioner.
- The tax credit is available for people or entities making cash contributions of at least \$250 to eligible
  developers building or rehabilitating qualifying workforce housing opportunity development projects in
  federally designated opportunity zones. The tax credit may be applied against the personal income tax or
  corporation business tax.

Source: Conn. Gen. Stat. §8-395a(b) as amended by Conn. Pub. Act No. 25-168 §97 (effective from passage and applicable to income and taxable years commencing on or after January 1, 2025).



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#### Youth Development Organization Tax Credit

- The youth development organization tax credit has been amended to limit eligible donations to those made to qualifying nonprofits located in Connecticut, rather than allowing contributions to any eligible nonprofit regardless of location.
- Under current law, the credit, available for the 2024 and 2025 tax years, is available for cash contributions to youth development organizations to fund programs such as afterschool tutoring, mentoring, and workforce training. It offers a 50% credit on qualifying donations, capped at \$100,000 annually for corporations and \$20,000 for individuals, with a total program cap of \$2.5 million per fiscal year. The credit applies to corporate and personal income taxes, but not to withholding taxes.

Source: Conn. Gen. Stat. 12-217rr(a) as amended by Conn. Pub. Act No. 25-168 §54 (effective from passage and applicable to applications filed on or after said date).



### **UCONN Tax Credit Incentive Program**

- UConn may create and administer a tax credit incentive program that promotes the university, its programs, services and mission.
- Under this program, individuals or businesses can receive a tax credit equal to 50% of payments made to UConn through a written agreement, starting July 1, 2025, or earlier if UConn finalizes its policies. The credit is capped at \$500,000 per taxpayer annually, with a total statewide cap of \$5 million per year. UConn is responsible for establishing and updating the necessary policies and procedures to implement the program. Taxpayers may apply the credit against personal income tax, corporation business tax, insurance premiums tax, passthrough entity tax, air carriers' tax, railroad companies' tax, cable and satellite TV companies' tax, and utility companies' tax, but not withholding tax. For corporation business taxpayers, the credit may reduce up to 100% of their tax liability. Taxpayers may carry forward unused credits for 15 years until they are fully taken.

Source: Conn. Pub. Act No. 25-168 §§384-385 (effective from passage and applicable to taxable and income years commencing on or after January 1, 2025).



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## JobsCT Tax Rebate Program

- The JobsCT tax rebate program gives companies in specified industries rebates against insurance premiums, corporation business taxes, and pass-through entity taxes for reaching certain job creation targets.
- The DECD commissioner may now give preference to applications under the JobsCT tax rebate program that:
  - (1) make significant investments in environmentally sustainable practices;
  - (2) are in economic sectors like renewable energy, energy efficiency, and zero emission vehicles; or
  - (3) are for sustainable farming.

Source: Conn. Gen. Stat. §32-7t(c)(3) as amended by Conn. Pub. Act No. 25-125 §4 (effective from July 1, 2025).



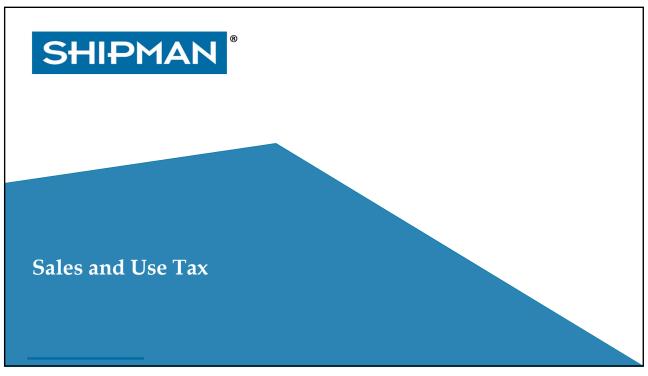
# Film and Digital Media Production and Film Infrastructure Tax Credit

- Eligible production companies may qualify for a tax credit if such company conducts (1) not less than fifty per cent of principal photography days within the state, or (2) expends not less than fifty per cent of postproduction costs within the state, or (3) expends not less than one million dollars of postproduction costs within the state.
- However, companies that produce an interactive website for public distribution or exhibition is exempt from this requirement. In addition, the Act requires all eligible production companies to apply to the DECD for a film and digital media production credit voucher within 90 days after completing an independent certification of their production costs, rather than within 90 days after incurring their last production expense; 2. specifies that the administrative fee DECD charges to cover the department's costs to analyze film and digital media and film infrastructure tax credit applications is nonrefundable.

Source: Conn. Gen. Stat. §\$12-217jj & 12-217kk as amended by Conn. Pub. Act No. 25-165 §3-4 (effective from July 1, 2025, and applicable to applications open or filed on or after July 1, 2025).



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### **New Sales Tax Exemptions**

- Sales and Use Tax Exemption for Ambulances. Beginning July 1, 2025, Connecticut will exempt from sales and use tax (1) ambulance-type vehicles used solely to transport medically incapacitated individuals, unless used for paid transport, and (2) ambulances licensed or certified by the Department of Public Health (DPH). Conn. Gen. Stat. §12-412(127), as amended by Conn. Pub. Act No. 25-168 §368 (effective July 1, 2025, and applicable to sales occurring on or after July 1, 2025).
- Sales and Use Tax Exemption for Precious Metals and Rare or Antique Coins. The sales and use tax exemption for certain precious metal transactions has been modified by (1) eliminating the \$1,000 minimum threshold, making the exemption applicable to all sales; (2) including palladium and platinum bullion; and (3) limiting the exemption for gold and silver bullion to items with at least 90% purity. Conn. Gen. Stat. §12-412(45), as amended by Conn. Pub. Act No. 25-168 §444 (effective July 1, 2027, and applicable to sales occurring on or after July 1, 2027).
- Dues Tax Exemption. Effective July 1, 2025, the exemption threshold for Connecticut's 10% dues tax will be raised from \$100 to \$250 for annual dues and initiation fees paid to social, athletic, or sporting clubs. The tax, which is imposed on member-owned clubs and reimbursed by members, continues to exempt clubs affiliated with charitable or religious organizations, government agencies, nonprofit educational institutions, fraternal organizations, and lawn bowling clubs. Conn. Gen. Stat. §12-543, as amended by Conn. Pub. Act No. 25-168 §370 (effective July 1, 2025).
- Sales Tax Exemption for Certain Aircraft Industry Joint Ventures. Connecticut has extended the sales tax exemption for certain aircraft industry joint ventures from 40 to 50 consecutive years for those established before January 1, 1986. For all other qualifying joint ventures, the exemption remains for 20 consecutive years. Conn. Gen. Stat. §12-412(58), as amended by Conn. Pub. Act No. 25-168 §369 (effective July 1, 2025).

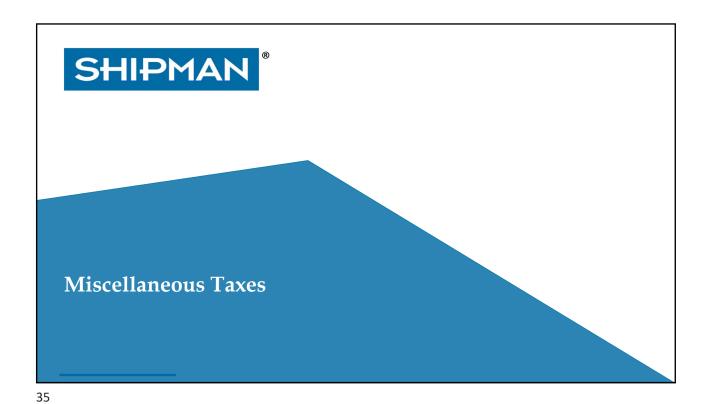


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#### **Sales Tax Procedures**

- Procedures for Retailers Claiming Credit for Sales Tax Previously Paid on Worthless Accounts Receivable. The DRS has clarified the method and manner in which payments made by a purchaser are to be applied by a retailer for purposes of determining a credit for sales tax paid on worthless accounts receivable. Under the updated Policy Statement, any payments a retailer receives must first be applied towards the sales tax. Retailers are precluded from first applying payments to their own charges like penalty, interest or other fees. This policy is effective for transactions occurring on or after July 8, 2019. PS 2001(1.1), Procedures for Retailers Claiming Credit for Sales Tax Previously Paid on Worthless Accounts Receivable.
- DRS Will Consider Alternate Methods for Exempt Purchasers to Establish that Purchases Were Made from Its Own Funds. The DRS has clarified the types and forms of payment that exempt organizations can use to make purchases with various sales and use tax exemption certificates (CERT-112, CERT-113, CERT-119, CERT-122, CERT-123, CERT-134 and CERT-136). Previously, the instructions to these certificates provided that a seller may accept a check drawn on the checking account issued in the name of the exempt organization or a credit card issues in the name of the organization as the only forms of payments for purchases made using said certificates. The DRS will accept certificates that establish that these purchases were paid for from the tax-exempt entity's own funds with alternative forms of payment that are not a check drawn on the checking account of the organization or a credit card issues in such organization's name. TSSB 2025-1, DRS Will Consider Alternate Methods for Exempt Purchasers to Establish that Purchases Were Made from Its Own Funds.





# Tax on Nursing Home and Intermediate Care Facilities

- Rate and Basis. Beginning July 1, 2026, Connecticut will replace the current quarterly user fee on nursing homes and intermediate care facilities for individuals with intellectual disabilities (ICFs) with a 6% tax on revenue from services covered under the state's Medicaid program, excluding Medicare payments. This tax applies to "nursing facility service revenue" and "intermediate care facility service revenue" (ICF), regardless of whether the services were provided to Medicaid recipients, unless the Centers for Medicare & Medicaid Services (CMS) deems the tax impermissible. State-operated ICFs, except those run by a receiver, are exempt. Conn. Gen. Stat. §§12-263p, as amended by Conn. Pub. Act No. 25-168 §359 (effective July 1, 2026). Additionally, facilities will be required to report this revenue on their quarterly tax returns, and the option to request payment extensions will be eliminated. Conn. Gen. Stat. §12-263s(b), as amended by Conn. Pub. Act No. 25-168 §361 (effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026).
- Exemption and Reduced Tax Rate for Certain Nursing Homes. The Department of Social Services (DSS) commissioner must seek federal approval from the CMS by January 1, 2026, to exempt certain continuing care retirement communities—specifically those licensed on or before July 1, 2017—from the nursing home tax. It also directs the commissioner to request CMS approval to apply a reduced 4.6% tax rate on nursing facility service revenue for municipally owned nursing homes and those with more than 230 beds. These provisions mirror existing requirements for the current nursing home user fee and will only take effect if CMS grants approval. As with current law, these waiver requests are exempt from the requirement that the DSS commissioner notify the Appropriations and Human Services committees before submitting Medicaid state plan amendments to the federal government. Conn. Gen. Stat. §12-263r as amended by Conn. Pub. Act No. 25-168 §363 (effective July 1, 2026).



### **Hospital Provider Tax**

- Inpatient and Outpatient Hospital Services. Beginning July 1, 2026, the tax on inpatient hospital services will be 6% of each hospital's audited net revenue for the applicable federal fiscal year, replacing the current rate based on FY 2016 audited net revenue. The outpatient hospital services tax rate will be based on \$1.195 billion minus the total inpatient hospital tax, divided by each hospital's audited net outpatient revenue for the applicable federal fiscal year. This replaces the current formula, which uses FY 2016 revenue and a fixed base of \$820 million. Conn. Gen. Stat. § 12-263q, as amended by Conn. Pub. Act No. 25-168 §360 (effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026).
- Exemption for Children's Hospitals. The social services commissioner is directed to seek approval from CMS to eliminate the hospital provider tax exemption for children's general hospitals. If approved, these hospitals—licensed as short-term children's hospitals by the Department of Public Health—will be taxed on inpatient and outpatient services at the same rates as other hospitals, starting July 1, 2026. Specialty hospitals remain excluded. Conn. Gen. Stat. § 12-263q, as amended by Conn. Pub. Act No. 25-168 §360 (effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026).



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### **Hospital Provider Tax**

- Hospital Dissolutions or Cessation of Operations. If a hospital dissolves or is no longer subject to the hospital tax, the tax owed by each remaining hospital must be recalculated for the following fiscal year and beyond. These recalculations will now be based on audited net revenue from the applicable federal fiscal year, rather than FY 2016. Conn. Gen. Stat. § 12-263q, as amended by Conn. Pub. Act No. 25-168 §360 (effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026).
- Information Reporting Requirements. Hospitals subject to the provider tax must submit required financial data to the DRS commissioner by January 1, 2026; January 1, 2029; and every four years thereafter. This data is used to calculate audited net inpatient, outpatient, and total revenue for the applicable fiscal year. If the commissioner hasn't initiated an audit, the reported figures are accepted as of the start of the state fiscal year. If an audit is underway, hospitals must respond to additional information requests within 14 days. Failure to submit data or comply with requests results in a \$1,000 daily penalty. The commissioner may also hire an independent auditor to assist, as allowed under current law. Conn. Gen. Stat. § 12-263q, as amended by Conn. Pub. Act No. 25-168 §360 (effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026).



### **Hospital Provider Tax**

- Administrative Protests. Hospitals under audit may file an administrative protest if they disagree with the DRS commissioner's determination of additional audited net revenue. The commissioner must notify the hospital by the start of the state fiscal year, and the determination becomes final after 14 days unless a written protest is filed. If protested, the commissioner must review the case and may hold a hearing upon request. A final decision, including findings and reasoning, is mailed to the hospital and becomes final after one month unless appealed in court. While a protest or appeal is pending, the hospital must use its reported figures to calculate taxes. If the outcome changes the reported amounts, the commissioner must adjust tax assessments or issue refunds accordingly. Conn. Gen. Stat. § 12-263q, as amended by Conn. Pub. Act No. 25-168 §360 (effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026).
- Quarterly Reports to OPM and DSS. Beginning November 15, 2026, the DRS commissioner must submit quarterly reports to the
  DSS commissioner and the OPM secretary detailing each hospital's tax payments for the most recent calendar quarter, along with
  any outstanding taxes, penalties, or interest. However, these reports must still comply with existing confidentiality laws
  regarding tax return information, except in limited cases where disclosure is permitted. Conn. Gen. Stat. § 12-263q, as amended
  by Conn. Pub. Act No. 25-168 §360 (effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026).
- Payment Extensions Disallowed. The bill removes the option for hospitals to request a payment extension for the hospital provider tax due to financial hardship. Previously, extensions could be granted if a hospital demonstrated a substantial risk of defaulting on a bond or similar obligation. The DRS commissioner could approve such requests only upon verifying genuine undue hardship—not for general hardship or convenience. Conn. Gen. Stat. § 12-263s, as amended by Conn. Pub. Act No. 25-168 §361 (effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026).



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#### **Definition of Cigarettes**

• The definition of "cigarette" under Connecticut's cigarette tax has been updated to align with the definition used in the tobacco master settlement agreement, which is a 1998 agreement between Connecticut and leading tobacco companies. It expands the definition to include any nicotine-containing product intended to be burned or heated, such as paper-wrapped tobacco rolls, tobacco in forms likely to be sold as cigarettes based on appearance or packaging, and tobacco rolls wrapped in tobacco-containing substances. It also explicitly includes tobacco sticks, rolls, or capsules designed for heating. As under current law, products with wrappers made mostly or entirely of tobacco and weighing more than three pounds per thousand remain excluded.

Source: Conn. Gen. Stat. § 12-285(b), as amended by Conn. Pub. Act No. 25-168 §394 (effective July 1, 2025).

# **Electronic Cigarettes**

- The provisions governing the regulation of electronic cigarettes are conformed to the provisions governing the regulation of traditional cigarettes.
- This amendment authorizes the DRS commissioner to impose a civil penalty of up to \$10,000 for any violations

Source: Conn. Gen. Stat. §§ 21a-418, as amended by Conn. Pub. Act No. 25-168 §395 (effective July 1, 2025).



### **Cigarette Dealer Licenses**

- Connecticut law allows municipalities to require cigarette dealer license renewal applicants to notify local law enforcement of the application.
- Previously, the chief law enforcement official, or their designee, could submit comments to the DRS for consideration before the license was granted. New legislation provides that the DRS commissioner must respond in writing to such official before deciding (prior law only required consideration of comments). Additionally, while current law lets ten town residents file objections (remonstrances) to a license based on non-zoning concerns, the Act expands this to include zoning-related objections as well.

Source: Conn. Gen. Stat. §§ 12-287 & 12-287a, as amended by Conn. Pub. Act No. 25-166 §§1-2 (effective July 1, 2025).



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#### PILOT Program to Collect Certain Delinquent Taxes

- The Office of Policy and Management (OPM) secretary and the DRS commissioner shall establish a pilot
  program aimed at recovering unpaid state taxes, penalties, and interest from individuals receiving payments
  from any state agency (including departments, boards, councils, commissions, institutions, or other executive
  branch entities).
- The program must (1) be designed to minimize administrative burdens on DRS and other state agencies, and (2) be presented to the Finance, Revenue and Bonding Committee by January 1, 2026. Conn. Pub. Act No. 25-168 §397 (effective from passage).

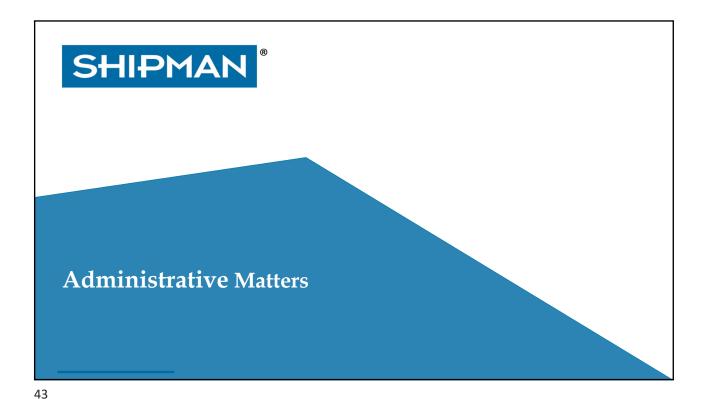
Source: Conn. Gen. Stat. §§ 12-287 & 12-287a, as amended by Conn. Pub. Act No. 25-166 §§1-2 (effective July 1, 2025).

#### **Certain Exemptions from Bottle Bill**

• THC (tetrahydrocannabinol)-infused beverages and hard cider are excluded from the definition of "carbonated beverage" for purposes of the bottle bill and cannot be redeemed.

Source: Conn. Gen. Stat. §22a-243, as amended by Conn. Pub. Act No. 25-174 §193 (effective from passage).





#### **Diesel Fuels Tax**

• Effective July 1, 2024, the motor vehicle fuels tax rate per gallon on the sale or use of diesel fuel is decreased from 52.4 cents to 48.9 cents. AN 2025(2), Motor Vehicle Fuels Tax Rate on Diesel Fuel Effective July 1, 2025.

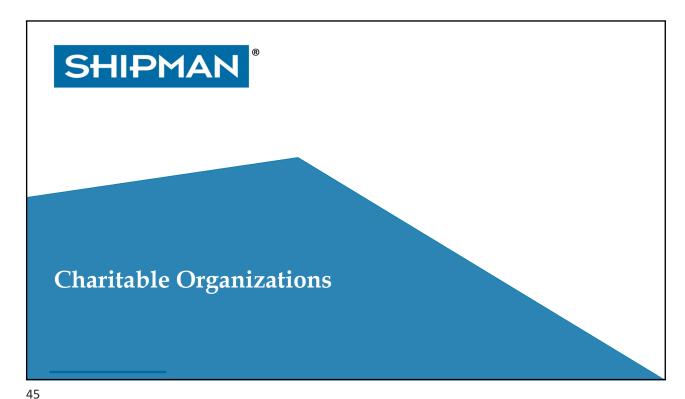
#### **Fuel Conversion Factors**

• Effective July 1, 2024, the conversion factors used for calculating the tax on motor vehicle fuels occurring in gaseous form are as follows: (i) compressed natural gas, one gallon is equal to 123.57 cubic feet or 5.66 pounds; (ii) for liquefied petroleum gas, one gallon is equal to 1.353 gallons or 5.75 pounds; and (iii) for compressed propane, one gallon of propane equals 35.97 cubic feet of propane. AN 2024(1), Conversion Factors for Motor Vehicles Fuels Occurring in Gaseous Form Beginning July 1, 2024.

#### Prepaid Wireless E 9-1-1 Fee

• Effective July 1, 2025, the **prepaid wireless E 9-1-1 fee is decreased from 73 cents to 69 cents**. This rate will remain in effect through June 30, 2026. TSSB 2025-3, Prepaid Wireless E 9-1-1 Fee Increase Effective July 1, 2025.





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### **Lease of Property to Day Care Facility**

- In *Lee Memorial Church of Norwich v. City of Norwich*, 2024 WL 2932628 (Conn. Super. Ct. June 5, 2024), the taxpayer leased a portion of its property to an unaffiliated, for-profit company for use as a daycare facility. The City of Norwich denied the taxpayer's tax-exemption under Conn. Gen. Stat. 12-81(14).
  - Conn. Gen. Stat. 12-81(14) requires only that exempt property be owned by a religious organization and that it be used exclusively as a daycare facility. It does not require that the day care center also be operated by the religious organization. It was undisputed that the property is owned by the taxpayer, and that the taxpayer is a religious property. It was also undisputed that the property is exclusively used as a daycare facility.
  - The court held that the property is entitled to the tax exemption as set forth in the statute.

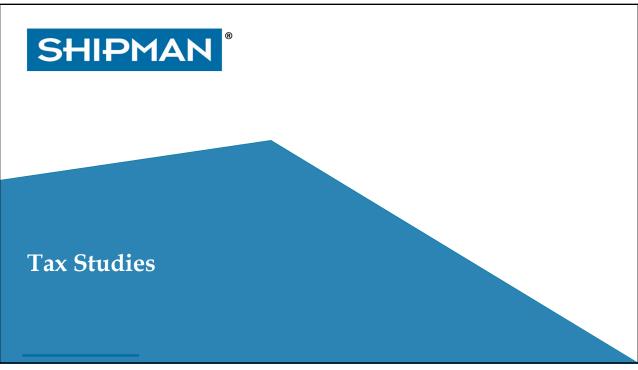


# Personal Property Exemption at Subleased Facility

- In *The William W. Backus Hospital v. Town of Stonington*, 349 Conn. 713 (2024), a hospital appealed a decision of the Town of Stonington's Board of Assessment Appeals, which denied the taxpayer's application for tax exemption for certain personal property it used to provide outpatient services at a subleased facility. The issue in the case was whether Conn. Gen. Stat. 12-66a applied to the personal property
  - The statute provides in relevant part that certain real and personal property are taxable as follows "(1) Real property that is acquired by a health system on or after October 1, 2015, that, at the time of such acquisition, is subject to taxation under the provisions of this chapter and chapters 201 and 204, provided such acquiring health system had, for the fiscal year ending September 30, 2013, net patient revenue from facilities located within the state of one billion five hundred million dollars or more, and (2) any personal property incident to the rendering of health care services at the real property describe in subdivision (1) of this section."
  - The court found in favor of the town stating that the personal property owned by the taxpayer used "incident to the rendering of health care services" at the rehabilitation facility, which is located in a suite, subleased to the plaintiff, of a building that Hartford Healthcare acquired by lease, is rendered taxable by § 12-66a, even if otherwise exempt from taxation under § 12-81(7) or (16).



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#### **Tax Studies**

- Sourcing of Tax Revenues. Starting with the fiscal year beginning July 1, 2025, the Commissioner must track and allocate state sales and use, personal income, and corporation business tax revenues to municipalities in a fair and accurate manner. The commissioner is responsible for determining the method of attribution but must assign sales and use and corporation business tax revenue to the municipality where the taxpayer maintains an office or facility in Connecticut, and, to the extent possible, attribute personal income tax revenue from earned income to the municipality where the employer's office or facility is located for employees who primarily work there. Taxpayers are required to submit disaggregated data and any additional information the commissioner needs to fulfill these obligations. The report is due October 31, 2026, and annually thereafter, and must be published on the DRS' website. Conn. Pub. Act No. 25-168 §391(effective from passage).
- The "tax gap" is the difference between (1) state taxes and fees owed under full compliance with all state tax laws and (2) the state taxes and fees voluntarily paid, which may be caused by failing to file taxes, underreporting tax liability, or not paying all taxes and fees owed. The DRS is required to estimate and analyze the state's tax gap, develop a strategy to address it, and report this information to the legislature. The DRS now has until December 15, 2026 instead of December 15, 2025 to submit the next required tax gap. The subsequent reports are required to be submitted every two years, rather than annually. Conn. Gen. Stat. § 12-7d, as amended by Conn. Pub. Act No. 25-168 §387 (effective from passage).



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#### **Tax Studies**

- The Attorney General is required to study specific steps his office, the governor's office, and the General Assembly can take to defend Connecticut residents from having taxes imposed by another jurisdiction on income derived from services rendered while they were in Connecticut. The Attorney General must submit a report with their findings and recommendations to the Finance, Revenue and Bonding Committee by January 1, 2026. Conn. Pub. Act No. 25-172 §1 and §2
- The DRS is required to submit a tax incident report every two years. Now, the report must include projections for the property tax and any other tax that generated \$100 million or more in the prior fiscal year. The next report is due December 15, 2025, and the report after that will be do on December 15, 2029 (every four years instead of every two years). Conn. Gen. Stat. § 12-7c, as amended by Conn. Pub. Act No. 25-168 §387 (effective from passage).



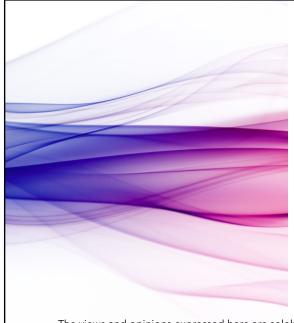




# General Session 2

Nicholas Rochedieu has over 20 years of experience in public accounting and specializes in state and local taxation and credits at the federal, state and local level. Nick collaborates with key clients in all aspects of state and local taxation including state income tax, sales and use tax, payroll tax and various transactional taxes. He works extensively on nexus studies, voluntary disclosure agreements, audit defense and federal/state credit studies. Nick's extensive compliance background allows a pragmatic view in tax mitigation and planning strategies.

In addition, Nick contributes articles to the Firm's Thought Leadership series.



# Convenience of the Employer Rule: Litigation, Legislation, and the Connecticut Response

Nicholas Rochedieu
PKF O'Connor Davies Advisory, LLC

The views and opinions expressed here are solely those of the author and do not necessarily reflect the views, policies, or positions of PKF O'Connor Davies Advisory, LLC or any related entities.

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# **New York**

+ TSB-M-06(5)I: New York Tax Treatment of Nonresidents and Part-Year Residents - Application of the Convenience of the Employer Test to Telecommuters and Others (1/1/06)

NY Regulation Section "132.18(a) of the personal income tax regulations provides, in pertinent part: If a nonresident employee ... performs services for his employer both within and without New York State, his income derived from New York State sources includes that proportion of his total compensation for services rendered as an employee which the total number of working days employed within New York State bears to the total number of working days employed both within and without New York State. . . . However, any allowance claimed for days worked outside New York State must be based upon the performance of services which of necessity, as distinguished from convenience, obligate the employee to out-of state duties in the service of his employer. [The convenience of the employer test.]"

# **New York: Exceptions**

- + The "zero day exception": Matter of Hayes v State Tax Commn., 61 AD2d 62, 64 [3d Dept 1978]
- + If the employee's assigned or primary work location is at an established office or other bona fide place of business of the employer outside New York State, then any normal work day worked at home would be treated as a day worked outside New York State.
- + Bona Fide Home Office

Primary Factor OR:

4 Secondary Factors AND 3 "Other" Factors

3

# **Bona Fide Home Office**

- + Primary: Specialized facilities (Test Track)
- + Secondary:

Home office required for employment

Meet or deal with clients

Employer does not provide regular work
accommodations

Core duties of employment performed at the home
office

Employer reimburses all home office expenses

+ Other

The employer maintains a separate telephone line and listing for the home office.

The employee's home office address and phone number is listed on the business letterhead and/or business cards of the employer.

The employee uses a specific area of the home exclusively to conduct the business of the employer that is separate from the living area. The home office will not meet this factor if the area is used for both business and personal purposes.

# **Convenience Rule Limits**

- + The Convenience Rule only applies to income tax withholding.
- + US Department of Labor "waterfall test"
  - + Localization of Service
  - + Base of Operations
  - + Direction and Control
  - + Residence of employee
- + Only applies non- and part year residents

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# Zelinsky 1

 Matter of Zelinsky v Tax Appeals Trib. of State of N.Y. 2003 NY Slip Op 18774 [1 NY3d 85] November 24, 2003

Years at issue: 1994-1995

Dormant Commerce Clause: Fairly Apportioned

The convenience test was originally adopted to prevent abuses arising from commuters who spent an hour working at home every Saturday and Sunday and then claimed that two sevenths of their work days were non-New York days and that two sevenths of their income was thus non-New York income, and either free of tax (if the state of their residence had no income tax) or subject to a lower rate than New York's.[FN4] In the present case, the taxpayer's efforts to reduce the amount of tax owed to New York on his New York source income earned during the work week raise similar concerns.

Since the New York tax is fairly apportioned, the resultant double taxation does not serve to invalidate the tax. For while a state may indeed constitutionally tax the worldwide income of its residents, it will typically provide a credit for income tax paid to another state as New York does. Here, it is Connecticut's refusal to provide a credit to its resident for all of the nonresident income tax that the taxpayer paid to New York that has created the threat of double taxation. It is not, however, the "purpose of the Commerce Clause to protect state residents from their own state taxes" (Goldberg, 488 US at 266).

# **Zelinsky 2**

+ Matter of Edward A. and Doris Zelinsky (DTA Nos. 830517 & 830681)

Years at issue: 2019-2020

As evidenced by the many cases applying and/or upholding -10- the convenience of the employer test with practical, legally-sound results (see e.g. Matter of Huckaby v New York State Div. of Tax Appeals, 4 NY3d 427, 436 [2005], cert denied 546 US 976 [2005] [brackets and citations omitted]; Zelinsky, 1 NY3d 85; Fischer v State Tax Commn, 107 AD2d 918 [3d Dept 1985] appeal dismissed, 65 NY2d 690 [1985]; Kitman v State Tax Commn, 92 AD2d 1018 [3d Dept 1983], appeal denied 59 NY2d 603 [1983]; Wheeler, 72 AD2d 878), neither of such exceptional circumstances are present here.

Covid in 2020: income from March-December was by necessity in CT

Kitman, 92 AD2d at 1019 [noting "[b]ecause of the obvious potential for abuse where the home is the workplace in question, the commission has generally applied a strict standard of employer necessity in these cases, which, with rare exception, has been upheld by the courts"]

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# Other Cases

+ Bryant, DTA number 830818 (2024):

Office closed, but 'essential'

Lack of Proof of employer requirement to work elsewhere

+ Myers and Langan, DTA No. 850197 (2025)

The ALJ noted that Bank of Montreal's decision to close its office did not qualify Mr. Myers' remote work as a necessity for the company, and there was no evidence or explanation in the record as to why BMO closed its offices.

Also an essential business

# **Connecticut**

+ Under Public Act 18-49 and 18-169 (2019):

CGS 12-711(b)(2)(C): "For purposes of determining the compensation derived from or connected with sources within this state, a nonresident natural person shall include income from days worked outside this state for such person's convenience if such person's state of domicile uses a similar test"

+ 2021-R-0008: Office of Legislative Research

Five states (Arkansas, Delaware, Nebraska, New York, and Pennsylvania) apply the convenience rule. Connecticut applies the rule only if a nonresident taxpayer's resident state applies a similar rule. In other words, Connecticut applies the rule to nonresident employees of a Connecticut employer who work from a remote location and reside in one of the five states listed above. Consequently, wages earned by these nonresidents are allocated to Connecticut unless they are working remotely (i.e., in an out-of-state location) due to the necessity of the employer rather than the employee's convenience

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# **New Jersey**

+ Under P.L. 2023, c. 125 (July 21, 2023, Eff 1/1/23)

Under the convenience rule, a nonresident taxpayer's employee compensation from a New Jersey employer for the performance of personal services is sourced to the employer's location (New Jersey) if the employee is working from an out-of-state location (e.g., at home in their resident state) for their own convenience rather than for the necessity of their employer. In determining whether compensation earned by a nonresident telecommuting for a New Jersey employer will be deemed New Jersey sourced income, New Jersey will apply a similar rule which would be the same as the triggering state's rule. For example, compensation earned by a New York resident telecommuting for a New Jersey employer will be deemed New Jersey sourced income by applying the New York "convenience of the employer" test.

Not Appliable to Pennsylvania residents; Connecticut reciprocity assumed

+ New Jersey credit is applicable to Tax Years 2020 to 2023. To qualify, a taxpayer must:

Be a New Jersey resident;

Pay income tax or wage tax to another state;

Apply for and be denied a refund from the other state on income earned while working remotely (e.g., from home) in New Jersey;

 $File \ an \ appeal \ of \ the \ other \ state's \ tax \ assessment \ in \ an \ out-of-state \ tax \ court \ or \ tribunal;$ 

Obtain a final judgment in their favor from that tax court or tribunal; and

Receive a refund from the other state as a result.

+ The refund from the other state requires an adjustment to New Jersey's credit for taxes paid to another state and will likely result in additional tax due to New Jersey. However, the credit established under the law is equal to 50% of the additional tax that is owed to New Jersey. Since the credit is refundable, the resident can receive the full value, even if the credit reduces New Jersey taxes to below zero. To date, one taxpayer has utilized this program to obtain a refund of over \$7,000 from New Jersey, representing a credit of 50% of the additional tax owed to New Jersey as a result of a successful challenge to New York.

# Connecticut: Public Act No. 25-172 (Eff: 2020)

+ Attorney General must have a study with recommendations by 1/1/26

"specific steps the office of the Attorney General, office of the Governor or the General Assembly may take to defend residents of this state from having taxes imposed by another state of the United States or a political subdivision thereof or the District of Columbia on income derived from services rendered while such resident was within this state."

+ 60% Credit:

Paid any income tax or wage tax imposed for the taxable year by another state of the United States or a political subdivision thereof or the District of Columbia;

Applied for and been denied a refund from such other jurisdiction for taxes paid to such other jurisdiction on income derived from services rendered while such resident was within this state;

Filed an appeal with a court or tribunal through which such resident formally protested such denial: and

Obtained a final decision that resulted in such other jurisdiction refunding to such resident taxes paid to such other jurisdiction on income derived from services rendered while such resident was within this state.

www.cga.ct.gov/2025/ACT/PA/PDF/2025PA-00172-R00SB-01558-PA.PDF

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# Connecticut: OLR: 2025-R-0067

- + In 2023, New Jersey enacted an income tax credit designed to encourage resident taxpayers to challenge another state's convenience rule. Specifically, it allows a refundable income tax credit equal to 50% of the tax owed to New Jersey for residents who worked remotely for an out-of-state company between 2020 and 2023 and were denied a refund from that state. In order to claim the credit, a taxpayer must file and win an appeal with the other state's tax court and obtain a refund from that state. "specific steps the office of the Attorney General, office of the Governor or the General Assembly may take to defend residents of this state from having taxes imposed by another state of the United States or a political subdivision thereof or the District of Columbia on income derived from services rendered while such resident was within this state."
- + In Connecticut, for example, the resident credit is only allowed for taxes paid on income that Connecticut would deem taxable by the other state under Connecticut's sourcing rules. This means that before Connecticut adopted its reciprocal convenience rule (pre-2019), it did not allow a resident credit for taxes paid to other states on income sourced to such states under a convenience rule. Consequently, Connecticut residents who worked for a New York employer and owed taxes to New York for income sourced there under New York's convenience rule could not claim a resident credit against their Connecticut income taxes for those taxes paid to New York. Since 2019, however, Connecticut has allowed a resident credit for taxes paid on such income (PA 18-49, § 20, and PA 18-169, § 43, codified as CGS § 12-711(b)(2)(C)).

# **Take Aways**

+ New Hampshire v. Massachusetts: Requested by Biden administration to not be heard: Solicitor General opined that the Court should deny cert.

Massachusetts' regulation taxing the income of New Hampshire residents who employed in Massachusetts but were working remotely from New Hampshire during the COVID pandemic

New Jersey said it expected to credit "anywhere from \$928.7 million to \$1.2 billion" to its residents for income taxes paid to New York in the 12 months starting in March 2020. Connecticut said it expected to credit its residents \$339 million to \$444.5 million, mostly in New York taxes, but also in Massachusetts taxes. <a href="https://www.wmur.com/article/supreme-court-rejects-new-hampshire-massachusetts-incme-tax-dispute/36865454">https://www.wmur.com/article/supreme-court-rejects-new-hampshire-massachusetts-incme-tax-dispute/36865454</a>

New Jersey, Connecticut, Hawaii and Iowa filed a joint amicus brief.

- + Co-work spaces?
- + Residency Audits

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# **Contact:**

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# **General Session 3**



Andrew DiSalvo Director – CohnReznick Advisory LLC Office | 404-250-4039 Atlanta, GA



### Areas of expertise

<u>Industries:</u> Consumer & Industrial Real Estate Renewable Energy

Services: Tax State & Local Tax

Andrew J. DiSalvo is a member of the State and Local Tax (SALT) practice with over 25 years of experience.

### **Experience and credentials**

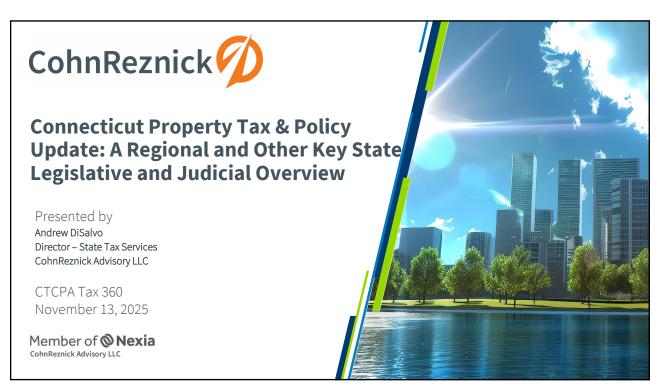
- Certified Public Accountant
- Over 20 years of property tax experience that includes real estate and personal property taxation
- Has significant large account management experience in directing personal property tax engagements for major retail, real estate development, renewable energy, and diversified multinational industrial accounts
- Specializes in all aspects of multi-state taxation, including income and franchise compliance and planning, state tax M&A, sales and use tax volume compliance, sales and use tax audit defense and planning, personal and real property tax compliance and audit defense, and engagement management

### **Education**

Master of Science, Taxation – University of Hartford B.S., Accounting – University of Hartford

### **Professional affiliations**

American Institute of Certified Public Accountants
Connecticut Society of Certified Public Accountants, State Tax Committee (2022-Present)
Connecticut Business and Industry Association, State Tax Committee (2008-2020)



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# Trends in Connecticut Property Tax

- Property Taxation Basics
- Review of Judicial and Legislative Changes
  - Connecticut
  - Massachusetts
  - Florida
  - Texas
- Questions





# Property Taxation Basics 3 CohnRemick Advisory LLC

Trends in Connecticut Property Tax

# What is the property tax?

- "Ad Valorem" Tax
- Tax based on the assessed value of a given piece of property at a specific point in time.
- In Connecticut, property taxes are levied by the 169 municipalities and some special tax districts.
- In other states, taxes may be levied by school districts, special tax districts, a city or the county.
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### Who administers the tax?

- Assessor-responsible for assigning value to all property, compiling the "Grand List" and for local administration of State sponsored property tax programs.
- Tax Collector-responsible for billing and collection of taxes.
- Connecticut General Assembly/Governor-responsible for making and amending statutes.

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# Trends in Connecticut Property Tax

### Who administers the tax?

- Board of Assessment Appeals-appointed or elected board responsible for independent administrative review of contested assessments.
- Superior/Appellate/Supreme Courts-adjudicate cases relating to assessment disputes.
- Revaluation Companies/Consultants or Personal Property Auditors-independent certified contractors who act as agents of assessors and can perform some limited functions such as administrative appeal hearings.

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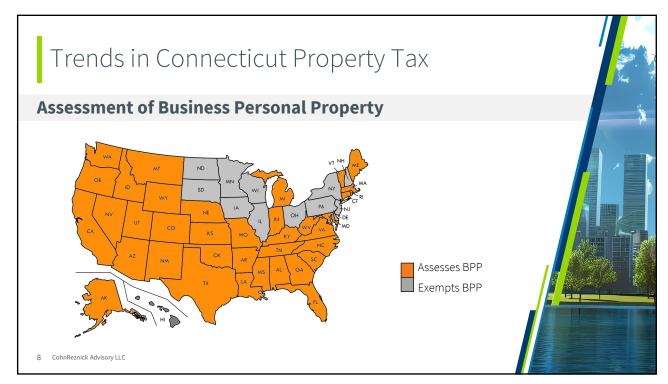
# What types of property tax are subject to the property tax?

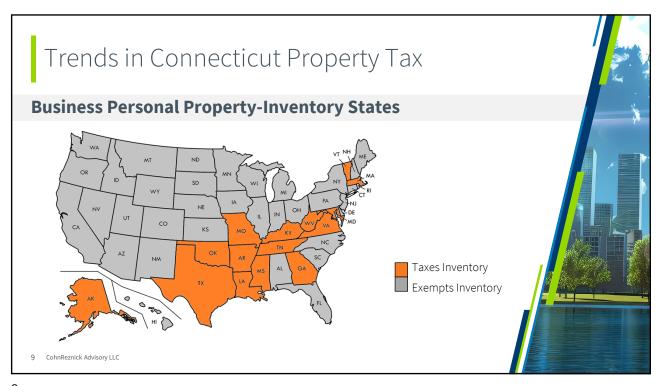
- "All property unless specifically exempt by statute"
- Real Estate (all states and D.C.)
- Business Personal Property (37 states and D.C.)
- Motor Vehicles (some states)
- Inventory (14 states)

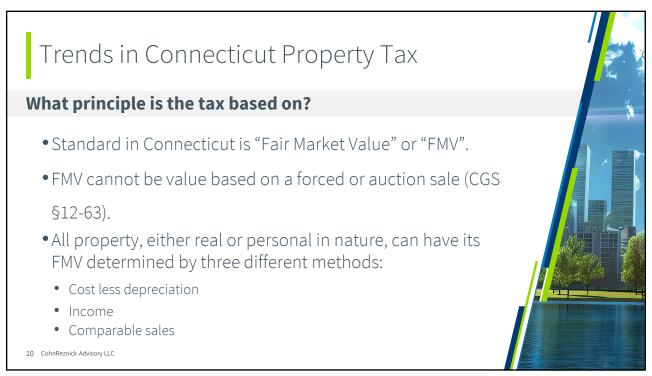
Virtually all assessment is done by mass appraisal. This means that your assessment is based on data general to your class of property. Therefore, if your property is in the middle of a curve, it is likely to be equitably assessed. If it is unique, it could be over or under assessed.

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### How does the tax work?

- Assessment date for all property taxes in Connecticut is October 1, personal property declarations are due November 1 (or next business day if 11-1 is a Saturday or Sunday).
- To be considered timely, returns must be filed or postmarked by the due date.

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# Trends in Connecticut Property Tax

### How does the tax work?

- Extensions are granted for good cause if requested and accepted by the assessor in writing prior to November 1, with extensions for up to 45 days (until a maximum of December 15).
- Extensions of exempt assets -§ 12-81(k) (M-65) and the M-44 dilemma.
- Tip-Ask for a 45-day extension in writing before November 1. Granting of the 45 days is not automatic in statute.
- If denied, file an estimated return by 11-1 and amend as soon as the data is available, but before 12-31.

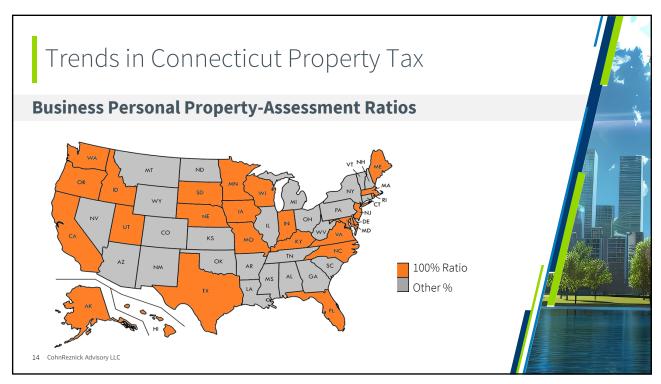


### How does the tax work?

- The Grand List for October 1, 2025, covers tax payments due July 1, 2026, and January 1, 2027 (some jurisdictions allow 4 payments).
- Assessed value in Connecticut is equal to 70% of FMV.
- Tax is calculated by taking assessed value times the mill rate (\$/\$1,000 of assessed value).

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### **Assessment Practice in Connecticut**

- Real Estate (RE) is revalued every 5 years with a physical inspection required at least once every 10 years.
- Personal property is revalued annually based on the filed declaration.
- CT PA 22-74 changed the revaluation schedule to allow for regional efficiencies in performing revaluations. As a result, some towns revaluations were accelerated, and others were delayed. Towns can still ask for a short extension (1 year) to perform their revaluations.
- https://portal.ct.gov/-/media/opm/igpp-data-grants-mgmt/revaluation/revaluation-schedule.pdf

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# Trends in Connecticut Property Tax

### 2025 CT Revaluation Schedule

C ity / T o w n		
A s h fo rd	G re e n w ic h	Plymouth
B e a c o n F a lls	H a d d a m	S a lis b u ry
B rid g e p o rt	H a rtla n d	S helto n
C lin to n	L e d y a r d	Somers
Colebrook	Marlborough	S o u thing to n
Deep R iver	M e rid e n	S ta ffo rd
D e rb y	M id d le b u ry	S tratford
Durham	M ilford	T homaston
E a s t H a m p to n	N e w M ilford	Westport
E lling to n	N e w in g to n	Wolcott
F a irfie ld	N orth S toning ton	Woodstock

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# What is real property?

- IRS 39-year property
- Land and land improvements (fences, utilities, parking lots, light poles)
- Buildings and building components

- Carpeting and floorings
- Drop ceilings
- Wiring
- Sprinklers



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# Trends in Connecticut Property Tax

# Leasehold Improvements (RE or BPP?)

- Treatment varies by jurisdiction and type of improvement.
- <u>Key Question</u>: Are the costs reflected on the real property record card? If yes, then not reportable as BPP. If no, they should be reported as BPP.
- Also need to check the overall value of the RE to ensure the improvements are not being counted twice.



### **Gray Areas (RE or BPP?)**

- Fire and security systems.
- Sprinkler and piping are almost always real property.
- Conveyor systems or permanently affixed items.
- Again Key Question: Are the costs reflected on the real property record card? If yes, then not reportable as BPP. If no, they should be reported as BPP.
- Sometimes a split of RE and BPP is in order.

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# **Income and Expense Reporting for Commercial Real Estate**

Owners of properties with the potential to produce rental income in Connecticut are generally required to file annual income and expense reports by June 1 of each year for the preceding calendar year. The failure to timely file the report will produce a 10% assessment penalty. Public Act No. 23-152 clarified certain requirements regarding the filing of these reports and the imposition of penalties as follows:

- Taxpayers now have until June 1 (the due date) to request an extension to file the report. The assessor can extend the deadline to July 1.
- It is now clear that an income and expense report is considered timely filed if postmarked on or before the due date.



### **Income and Expense Reporting for Commercial Real Estate**

- The 10% penalty will now be reflected on the next property tax bill or on a supplemental bill rather than on the next October 1 grand list. This means that the penalty will be payable much closer in time to the due date of the relevant report.
- Owner Occupied or related party leases may still get the I&E request.
  You can simply note these fact on the form and send it in. You are not
  required to disclose internal information. It is best practice to file, as
  you may be penalized if you do not and removing the penalty will be
  arduous.

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# Trends in Connecticut Property Tax

# **Property Taxation Basics**



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### What is BPP?

- Anything that is not real estate.
- Machinery and equipment.
- Traditional M&E, F&F, Computer Equipment.
- Other Fixed Assets and Supplies.



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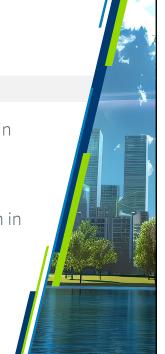
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# Trends in Connecticut Property Tax

# The "90 Day Rule"?

- Non-residents owning tangible personal property located in any town for three months or more during the assessment year immediately preceding the assessment date are required to list such property, and Section 12-43 provides that, "such personal property shall not be liable to taxation in any other town in this state."
- This rule is practically applied to contractors.





### **Exemptions**

- Registered Motor Vehicles >26,000 GVW for hire and new commercial vehicles >55,000 GVW (5-year exemption) §12-81(74)(A)(ii).
- Software § 12-71(d)(1).
- Business inventories § 12-81(50) and (54).
  - Renewable Energy Systems § 12-81(57.)
    - Form M-44 required in first year, and you will need to refile if there is a change in control. Beware the extension trap.
- Water and air pollution control equipment.
  - Exempt under §§12-81(51) and 12-81(52).

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# Trends in Connecticut Property Tax

### **Exemptions**

Manufacturers Machinery and Equipment-Equipment must be engaged in the manufacturing process, research & development or in biotechnology to be eligible for exemptions under §12-81(72) and 12-81(76).

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# Audit and Appeals



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# Trends in Connecticut Property Tax

# **Audits (CGS §12-53)**

- Assessors have the right to audit filed and non filed declarations.
- Can request books and records, tax returns and other supporting documentation.
- Assessor must give notice in writing of audit within 3 years of assessment date for which the declaration was to be filed.
- Omitted property is subject to a 25 percent penalty plus interest.
- You are entitled to a hearing regarding the audit and to defend the audit.

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### **Appeals- Board of Assessment Appeals § 12-111**

- Talk to the Assessor or their representative first to try to resolve the issue at the informal level.
- If unsuccessful, the deadline for appeal to the Board of Assessment Appeals (BAA) is February 20<sup>th.</sup> The board can elect not to hear nonresidential appeals >\$1MM.
- NOTE: Boards are not subject to postmark rules or next business day rules.
   Check with the assessor to ensure that your appeal is not subject to a "received by" rule or actually due before February 20th if President's Day falls on the appeal deadline (this year it's the 16th and the 20th is a Friday).
- You must file at the Board first and appear at the Board, even if you are sure the case will be going to court.

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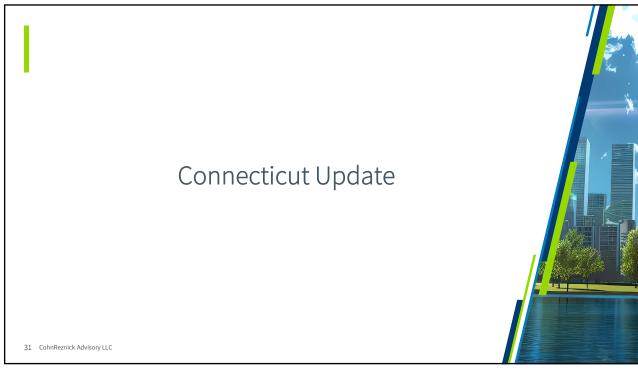
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# Trends in Connecticut Property Tax

### Appeals - CGS §12-119 (Direct Judicial Appeal)

- Basis for Appeal
  - Not taxable in city or town that imposed the tax.
  - Assessment is manifestly excessive and not computed in accordance with the relevant statutory provisions.
- Not for cases of valuation only.
- Must be filed within one year of assessment date (i.e., by 9/30).
- Payment of tax.





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# Trends in Connecticut Property Tax Connecticut Judicial Update Solar Power Equipment Not Entitled to Connecticut Manufacturing Exemption The Connecticut Appellate Court upheld Tax Court Judge Henry Cohn's ruling that equipment used to generate electricity from solar power was not entitled to a property tax exemption for manufacturing machinery and equipment found at Connecticut General Statutes Sec. 12-81(76). The Appellate Court based its holding on its conclusion that the manufacturing machinery and equipment exemption statute and its legislative history did not clearly include equipment used to generate electricity while other property tax exemption statutes clearly did. It also relied upon a long-standing Connecticut Supreme Court decision that reached a similar conclusion when interpreting a sales tax statute. McHenry Solar, LLC v. Town of Hampton, 235 Conn. App. 355 (2025). 1) Gregory F. Servodidio CRE https://www.pullcom.com/for-what-it-may-be-worth/solar-power-equipment-not-entitled-to-connecticut-manufacturing-exemption

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### **Connecticut Judicial Update**

### **Updating Your Address is important**

- An issue in the case before the Appellate Court was Connecticut General Statutes § 12-63c, which allows municipalities to impose a 10% penalty increase on assessed value on property of taxpayers who do not timely file required income and expense (I&E) reports by June 1 of each year.
- The owner of a piece of real property in Greenwich did not receive an I&E reporting form from the town until *after* the filing had become due. As a result of the late filing, the town imposed a 10% penalty on the property taxes for that grand list year.
- The property owner changed their mailing address three years earlier, and the town sent the I&E form to the owner's prior mailing address.

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# Trends in Connecticut Property Tax

### **Connecticut Judicial Update**

### **Updating Your Address is important**

- The property owner argued that mailing the I&E form to its old mailing address did not satisfy the town's burden under Connecticut General Statutes § 12-63c(a).
- The Appellate Court compared Connecticut General Statutes § 12-63c(a) with other statutory provisions that impose more robust delivery requirements (e.g., Connecticut General Statutes § 12-53(a) which states that the tax collector shall "mail or hand a bill to the owner") and determined that had the legislature intended that the I&E form be actually *received* by property owners, they could have written the law that way.
- The Court ruled that municipalities need only "make available" to taxpayers the I&E forms required by Connecticut General Statutes § 12-63c(a).



### **Connecticut Judicial Update**

### **Updating Your Address is important**

- The property owner testified to the fact that they had sent a universal mailing to
  each of their vendors after they changed addresses, which they argued would have
  included the town and ought to satisfy their burden to update the town as to the
  current mailing address. However, the property owner was unable to provide any
  documentary evidence to verify any such mailing to the town.
- The Court held in favor of the town, that mailing the I&E report to the most recent known mailing address of a property owner was sufficient to meet its obligations under Connecticut General Statutes § 12-63c(a).
  - Ryan P. Schaikin https://www.pullcom.com/for-what-it-may-be-worth/return-to-sender-when-not-updating-your-address-becomes-legal-headache

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### **Connecticut Judicial Update**

### Solar Property Tax Exemptions Granted by Connecticut Tax Court

- In two recent decisions, Connecticut Tax Court found that three facilities consisting of solar panels and related equipment were entitled to property tax exemptions pursuant to Connecticut General Statutes § 12-81(57)(D).
- All three solar facilities were to participate in a virtual net metering (VNM) program
  whereby the energy produced was essentially purchased from the intermediary
  electric distribution company by specific state colleges and universities as well as
  municipal governments.
- In these cases, the solar facilities were not located in or co-located with the purchasing governmental entities.



### **Connecticut Judicial Update-**

### Solar Property Tax Exemptions Granted by Connecticut Tax Court

- In VNM arrangements, the taxpayer uses the subject solar equipment at the subject properties to generate excess electricity.
- The excess electricity is transferred to the utility and the general power grid and thereby creates VNM credits. The Utility then distributes the excess electricity to the beneficial account holders, and the beneficial account holders pay the taxpayer for generating the credits."
- The towns denied the owners' property tax exemption because the solar panels and equipment used in the VNM arrangements were not deemed to be used for a "commercial" purpose as required by the exemption statute.

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# Trends in Connecticut Property Tax

### **Connecticut Judicial Update-**

### Solar Property Tax Exemptions Granted by Connecticut Tax Court

- The Court disagreed and found that the "transfer of electrical energy, the generation of VNM credits, and the sale of those VNM credits to the state beneficial account holders demonstrates that the subject solar equipment is being used for 'commercial' purposes."
- CFC-HBAN Solar Trust c/o The Huntington National Bank v. Town of Stonington and CFC-HBAN Solar Trust c/o The Huntington National Bank v. Town of North Stonington, Docket Nos. HHB-CV-22-6075999-S and HHB-CV-22-6075998-S, 2025 WL1639457 (Conn. Super. Ct. June 6, 2025); AFL-HBAN Solar Trust c/o The Huntington National Bank v. Town of Hampton, Docket No. HHB-CV-21-6076299-S, 2025 WL 1502858 (Conn. Super. Ct. May 23, 2025)



### **Connecticut Judicial Update**

Supreme Court Weighs In On Property Tax Appeals: Failure To Timely File Appraisal Reports Not Automatically Fatal To Taxpayers' Cases

- The Connecticut Supreme Court recently held in 7 Germantown Rd., LLC v. City of Danbury, No. 21024, 2025 WL 309848 (Conn. Jan. 28, 2025) ("Germantown") that a taxpayer's failure to timely satisfy the appraisal filing requirement pursuant to C.G.S. § 12-117a does not result in the automatic dismissal of its case.
- In Superior Court property tax appeals involving real property assessed at one million dollars or more, a taxpayer "shall file with the court, not later than one hundred twenty days after [commencing the court case] an appraisal of the real property. If the appraisal is not timely filed, the court may dismiss the [case]." The statute also gives the trial court discretion to extend the 120-day deadline for good cause shown.

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# Trends in Connecticut Property Tax

### **Connecticut Judicial Update**

Supreme Court Weighs In On Property Tax Appeals: Failure To Timely File Appraisal Reports Not Automatically Fatal To Taxpayers' Cases

- The plaintiffs in Germantown produced their appraisal reports to the City of Danbury but failed to file the reports with the court as the law requires.
- The City argued that the plaintiffs' failure to file their reports with the trial court triggered mandatory dismissals of their cases.
- The Connecticut Supreme Court disagreed.
- In Germantown, the Court noted that when a statute uses both "shall" and "may," it
  suggests an intent to apply the terms differently— "shall" as mandatory and "may" as
  discretionary.



### **Connecticut Judicial Update**

# Supreme Court Weighs In On Property Tax Appeals: Failure To Timely File Appraisal Reports Not Automatically Fatal To Taxpayers' Cases

- Since the Germantown Court found dismissal to be discretionary when a taxpayer fails
  to timely satisfy the statutory appraisal requirement, it upheld the trial court's decision
  not to dismiss the plaintiffs' cases and remanded the tax appeals back to the trial court
  to be decided on the merits.
  - $4) \qquad {\sf Gregory}\,{\sf F.\,Servodidio}\,{\sf CRE}\,{\sf https://www.pullcom.com/for-what-it-may-be-worth/solar-property-tax-exemptions-granted-by-connecticut-tax-court}$



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# Trends in Connecticut Property Tax

### **Connecticut Legislative Update**

### Commercial/Large-Scale Solar Capacity Tax Enacted

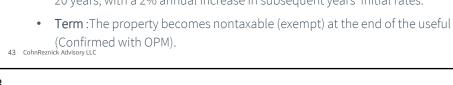
- Current Law: Currently, commercial and industrial solar systems can be exempt
  from personal property taxes if they meet certain criteria, such as not exceeding
  the electricity load for the location and receiving proper approvals. The
  application of these exemptions can vary by municipality.
- Upcoming Change (Uniform Capacity Tax): The Connecticut General Assembly has enacted legislation establishing a statewide uniform solar capacity tax for large-scale projects to replace the current, sometimes inconsistent, property tax framework.



### **Connecticut Legislative Update**

### Commercial/Large-Scale Solar Capacity Tax Enacted

- Effective Date: This new tax takes effect on July 1, 2026.
- Applicability: It applies to solar PV systems with a nameplate capacity exceeding one megawatt (1 MW) or two megawatts (2 MW), depending on the specific bill version cited, that receive operational approval on or after the effective date.
- Tax Rate: The tax is set at a specific amount per megawatt of capacity (e.g., \$11,000 per MW for systems approved in the initial year) payable annually for 20 years, with a 2% annual increase in subsequent years' initial rates.
- Term: The property becomes nontaxable (exempt) at the end of the useful life





# Trends in Connecticut Property Tax

### **Connecticut Legislative Update**

In 2025, Connecticut passed House Bill 7067, which:

- Grants enhanced property tax exemptions to veterans who are permanently and totally disabled as determined by the U.S. Department of Veterans Affairs.
- Applies the exemption to either a primary residence or a vehicle, depending on the veteran's choice.

Also, Local Option Homestead Tax Exemption CT Public Act 25-168 § 393

• Allows municipalities at local option to exempt from 5-35% of the assessed value of owner- occupied properties. Municipalities may also set eligibility limits by capping assessed value, requiring a minimum residency period or both.





### **Connecticut Legislative Update**

In 2025, Connecticut passed Public Act 25-168 § 455, which:

- Increased the exemption for farm machinery (excluding motor vehicles) from \$100,000 to 250,000.
- Municipalities at local option can also offer an additional \$250,000 to the base exemption at their discretion. In order to qualify, the farmer must generate at least \$15,000 of farm revenue and have at least \$15,000 of farm related expenses for the assessment year.



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# Trends in Connecticut Property Tax

### **Connecticut Legislative Update**

### **Motor Vehicle Valuations by Connecticut Assessors**

- Over the past year, multiple changes have been authorized that impact the valuation of Motor Vehicles in Connecticut.
- Prior to October 1, 2024, assessors across Connecticut calculated the value of a motor vehicle as 100% of the retail price according to the National Automobile Dealers Association (NADA) appraisal guide.
- Starting October 1, 2024, assessors now value motor vehicles using the manufacturer's suggested retail price (MSRP)
- Where the prior valuation method valued vehicles at 100% of retail value, under the new method, the MSRP value is reduced to account for depreciation based on the age of the vehicle.



### **Connecticut Legislative Update**

### **Motor Vehicle Valuations by Connecticut Assessors**

- Municipalities have the authority to determine the rate at which they calculate such depreciation. The default depreciation schedule provides that a vehicle up to 1 year of age holds 85% of its MSRP value, which drops by 5% each year to a floor of \$500.
- Public Act 25-2 authorizes municipalities to adopt an alternative depreciation schedule, which values a motor vehicle under 1 year of age at 90% of MSRP value. The alternate depreciation schedule reduces the value of the MSRP value by 5% each year, with a floor of \$500.



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### **Connecticut Legislative Update**

### **Motor Vehicle Valuations by Connecticut Assessors**

- Adoption of the alternative depreciation schedule allows municipalities to assess vehicles at a higher value than vehicles graded according to the default depreciation schedule, resulting in higher tax bills.
- All motor vehicles are assessed at a 70% assessment ratio and is then multiplied by the motor vehicle mill rate which is capped by statute at 32.46 mills to arrive at the billed amount.
- See the links below.



### **Connecticut Legislative Update**

### **Motor Vehicle Valuations by Connecticut Assessors**

- Office of Legal Research report on the change: <a href="https://www.cga.ct.gov/2025/rpt/pdf/2025-R-0097.pdf">https://www.cga.ct.gov/2025/rpt/pdf/2025-R-0097.pdf</a>
- OPM guidance with a demonstrative example of how the change impacts taxpayer tax bills: <a href="https://portal.ct.gov/-/media/opm/igpp-data-grants-mgmt/motor-vehicle-changes-for-taxpayer.pdf?rev=04c7e13e9caa4c418f0aec8759624a2d&hash=63E551199BD0BDEE53BC8A4D33C9878">https://portal.ct.gov/-/media/opm/igpp-data-grants-mgmt/motor-vehicle-changes-for-taxpayer.pdf?rev=04c7e13e9caa4c418f0aec8759624a2d&hash=63E551199BD0BDEE53BC8A4D33C9878</a>
- Ryan P. Schaikin https://www.pullcom.com/for-what-it-may-be-worth/understanding-new-approach-motor-vehicle-valuations-connecticutassessors



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# Trends in Massachusetts Property Tx

### Massachusetts

- The Massachusetts Department of Revenue (the "DOR") recently adopted a new "millionaire's tax" via 830 CMR 62B.2.4 (the "Regulation"). The Regulation imposes new withholding tax requirements on transfers of real estate within the Commonwealth involving a gross sales price equal to or exceeding \$1 million.
- The Regulation applies withholding obligations to all real estate transfers
  occurring on and after November 1, 2025, regardless of whether the property is
  commercial or residential, unless the transferor otherwise qualifies for an
  exemption under the Regulation.





### Trends in Massachusetts Property Tax

#### **Massachusetts**

#### **Exemption to the Tax Rules**

- The Regulation exempts certain transfers to the extent that the gain would not be
  recognized under state law, such as the transfer of a principal residence, transfers
  between spouses made pursuant to a divorce decree or settlement, transfers that qualify
  for nonrecognition under Internal Revenue Code (IRC) Section 351, and transfers that
  qualify as a tax-free reorganization under IRC Section 368.
- Other exempt transferors include pass-through entities, publicly traded partnerships, resident trusts or estates with a resident decedent, certain tax-exempt entities, and U.S. and state government entities (and their political subdivisions and agencies.
- In the case of like-kind exchanges under IRC Section 1031, withholding is not required to the extent of the gain being deferred.

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### Trends in Massachusetts Property Tax

#### Massachusetts

#### **Exemption to the Tax Rules**

• For individuals, the tax rate for calculating the withholding amount ranges from 4%-5%, depending on whether the transferor chooses to calculate the withholding based on the gross sales amount or the alternative withholding amount, which is an amount based on the transferor's estimated net gain (as such capitalized terms are further defined in the Regulation





### Trends in Florida Property Tax

#### **Florida**

The Florida House introduced eight bills aimed at reducing property taxes. The proposals primarily target expanding homestead exemption for non-school property taxes, while others look to limit annual increases or eliminate non-school property taxes.

#### **ELIMINATING PROPERTY TAXES**

- HB 201 All non-school property taxes for those with homestead exemptions would be eliminated starting Jan. 1, 2027.
- HB 205 Non-school property taxes for residents over 65 with a homestead exemption would be eliminated. Note, this would eliminate County and City/Town property taxes but not School District, which accounts to roughly 70% of property taxes.

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### Trends in Florida Property Tax

#### **Florida**

#### **EXPANDING HOMESTEAD EXEMPTION**

- HB 203 Non-school property taxes for homestead properties would be phased out over 10 years. The exemption would increase \$100,000 in assessed property value each year.
- HB 207 The current homestead exemption for non-school taxes would be increased to 25% of the assessed value of the home.
- HB 209 Those with a homestead exemption who also have property insurance will see their exemption increased by \$100,000.
- HB 211 The \$500,000 cap on transferring the homestead exemption from one property to another would be eliminated.





### Trends in Florida Property Tax

#### **Florida**

#### LIMITING PROPERTY TAX INCREASES

- HB 213 The current 3% cap on the annual growth in assessed value for homestead properties and 10% cap on non-homestead properties would be lowered to 3% over three years for homestead properties and 15% over three years for non-homestead properties.
- HB 215 Any vote to increase a property tax rate would require a two-thirds vote.
- HB 213 represents the only proposed legislation that would impact non-homestead properties. The bill would limit assessed value increases for non-homesteaded properties from a maximum of 33% over a three-year period to 15%.

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### Trends in Florida Property Tax

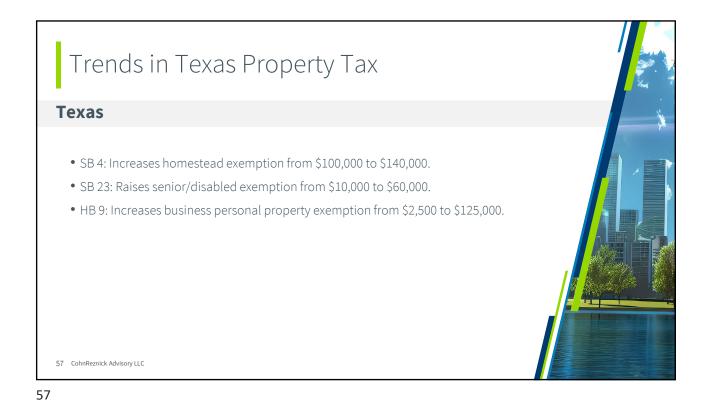
#### **Florida**

#### LIMITING PROPERTY TAX INCREASES

- All but HB 215 will appear on the 2026 ballot as proposed in the Florida Constitutional Amendments. For passage, bills require 60% vote approval by both Florida House and Senate, as well as 60% voter approval.
- Florida also eliminated the business rent tax (effective Oct 1, 2025).







Trends in Connecticut Property Tax

THANK YOU FOR ATTENDING!

QUESTIONS?

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### **General Session 4**

#### **DRS Focus**

Mark D. Boughton was nominated for a second term as commissioner of the Connecticut Department of Revenue Services by Governor Ned Lamont. A resolution confirming his nomination was approved by House members of the General Assembly's Executive and Legislative Nominations Committee on January 26, 2023, and by the Connecticut House of Representatives on February 9, 2023.

At the Department of Revenue Services (DRS), Commissioner Boughton has prioritized fair and equitable tax administration, excellent customer service, and utilizing data and analytics to increase efficiencies and contribute to the economic well-being of Connecticut He is leading the Department during a multi-year modernization initiative, which will stage an environment that supports data-driven tax collection, offers enhanced online tax filing and payment options, and promotes voluntary taxpayer compliance. The department's mobile-friendly online portal, myconneCT, is now available for taxpayers and tax practitioners to manage their taxes 24/7.

In addition to his duties with DRS, Governor Ned Lamont named Commissioner Boughton as his senior advisor for infrastructure in December of 2021. In this role, Commissioner Boughton acts as the Lamont administration's senior voice on infrastructure. He coordinates a multi-agency approach to administering \$245 million in funds received to date from the bipartisan Infrastructure Investment and Jobs Act. Commissioner Boughton and his infrastructure team ensure that the investments made with these federal funds are coordinated, strategic, and equitable.

Born and raised in Danbury, Mark attended Danbury public schools and graduated from Danbury High School in 1982. Upon graduation, he remained in his home state and attended Central Connecticut State University, earning a Bachelor of Science in History. He went on to receive his Master's in Educational Psychology from Western Connecticut State University in Danbury.

Mark served in the United States Army Reserve from 1983-89, where he achieved the rank of Sergeant. He returned to Danbury High School in 1987 to teach Social Studies. As a highly regarded educator, he continues to be a leading advocate of quality education for all children.

Having always had a deep love for public service, Mark served as a member of the Danbury Planning Commission from 1995-98 and later went on to serve three years as Connecticut's 138th District State Representative. During his time as State Representative, he achieved a perfect voting record in the General Assembly, where he was ranking member of the Environment Committee and a member of the Education Committee.

Mark was the longest-serving mayor in Danbury's history, elected to office for a tenth term

in 2019. During his time in office, he was committed to top-notch education, infrastructure enhancement, and public safety. For several years, Danbury was selected as the "Safest City" in Connecticut, and among the top best places to live in the U.S.

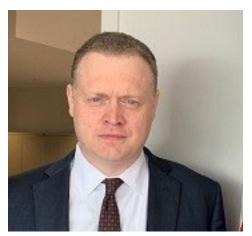
#### John Biello Deputy Commissioner Connecticut Department of Revenue Services

John Biello is the current Deputy Commissioner and Director of the Audit and Compliance Division of the Connecticut Department of Revenue Services. He also served as the Acting Commissioner for much of 2020 where he led the agency through the Covid-19 pandemic.

Throughout his 34-year career at DRS, Mr. Biello has played an active role with emerging issues. He most recently led the agencies Strategic Plan Administration Unit overseeing a portfolio of agency projects and initiatives. He has also served as an audit representative on various Department of Revenue Services committees including the department's Tax Policy Group, Interdivisional Tax Team, the department's Speakers Bureau, Withholding Tax Implementation Team, and Forms Committee.

Mr. Biello has had the opportunity to speak at many seminars and conferences including those sponsored by the UConn Tax School, The Federation of Tax Administrators, The Connecticut Society of CPA's, The Connecticut Bar Association, The Northeastern States Tax Officials Association, The UConn Law School Tax Clinic, The Cornell University State and Local Tax Group and the NYU State and Local Tax Group.

Mr. Biello serves on the Malcom Baldridge School of Business Executive Advisory Board for Post University. He holds a bachelor's degree in accounting as well as a Master's degree in Public Administration.



Lou Bucari is the First Assistant Commissioner and General Counsel for the Connecticut Department of Revenue Services. Mr. Bucari has held this position since 2008. Prior to assuming his current position, he was an attorney with the Agency, serving in the Legal Division and as Director of the Litigation Division.

As First Assistant Commissioner and General Counsel, Mr.

Bucari has direct oversight of the Department's Legal Services

Bureau, which includes the Department's Appellate Division, the Department's Litigation & Collections Enforcement Unit, and the Department's Criminal Investigation Division.

Mr. Bucari has extensive experience litigating tax cases before the Connecticut Tax Court and the Connecticut Supreme Court. Mr. Bucari has also drafted numerous administrative pronouncements issued by the Department and has significant experience in legislative drafting. Mr. Bucari has spoken on state and local tax issues at numerous forums, including the Georgetown Law Advanced State and Local Tax Institute.

Mr. Bucari is admitted to practice law in Connecticut.



Mark D. Boughton

Commissioner, Connecticut Department of Revenue Services

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### Agenda



**ADMINISTRATIVE UPDATES** 



DRS PRIORITIES AND PRIDE POINTS



STATE TAX LANDSCAPE & 2025 UPDATES



LOOKING AHEAD



**QUESTIONS** 

# Proud to serve this administration as Commissioner!

\*Reappointed in 2023



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### Provide world-class customer service

Focus on equitable tax collection

## Achieve highest levels of voluntary taxpayer compliance

Expand RAF Unit and deliver statutory tax reports as requested

# **DRS Priorities**

Support inclusion & open communication

Promote new Constituent Services Office

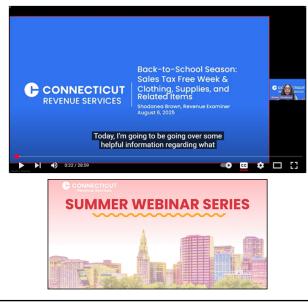
# Department Pride Points

- DRS staff are highly professional, hardworking, and knowledgeable.
- Proud of reliable partnership with state government for implementation guidance, data capture, and tax policy compliance and direction.
- Significant wins include:
  - Implementing Earned Income Tax
     Credit (EITC) and middle-class tax
     cuts
  - Delivering multi-year IT modernization project
  - Creation of RAF Unit and Office of Constituent Services
  - Completed statutory tax reports (tax incidence, tax gap)

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## Spotlight: Education & Outreach Team 58 Events in FY24-25





### State Tax Landscape & 2025 Updates



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### State Tax Landscape



#### **REVENUE**

- Connecticut remains on solid financial footing and is watching current conditions carefully
- Continuing to pay down pension liabilities



#### **AGENCY STATUS**

- Created
   Constituent
   Services Office
- Continued promotion of myconneCT to help achieve high taxpayer compliance



#### 2025 SESSION

- New expansion of EITC for qualifying taxpayers with at least one child
- New tax credits for farmers, child home care providers, and ambulance sales

### 2025 Legislative Updates



#### **INCOME TAX**

- Taxpayers eligible for CT's Earned Income Tax Credit and have at least one qualifying child can receive an additional \$250.
- A new credit of \$500 is available for taxpayers who own a family childcare home.
- A new credit is available for farmers investing in eligible machinery, equipment, and buildings.



#### INCOME TAX CONT.

Legislation authorizes
 UConn to establish a tax
 credit incentive program to
 promote its programs,
 services, and mission.



#### SALES & USE TAXES

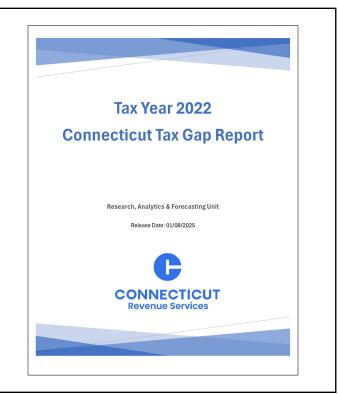
 Legislation now exempts sales of any ambulance-type motor vehicle and any ambulance operating under a license or certificate issued by the state.

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### Remote Work Tax Credit

- New law provides income tax credit to Connecticut residents who successfully challenge another state, political subdivision, or the District of Columbia for taxing their income earned while working in Connecticut and denying them a refund on those taxes.
- Applicable to tax years that began on or after Jan. 1, 2020.
- The law also instructs Connecticut's Attorney General to study steps to defend residents from having taxes imposed on income earned while working in the state.

### **New Statutory** Reports



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Tax Gap

 DRS is required to estimate the state's "tax gap," conduct analyses related to tax compliance, and develop strategies to address tax avoidance.

#### Tax Incidence

 The biennial tax incidence report provides an overview of how taxpayers experience taxes while evaluating the progressivity and/or regressivity of state tax types.

#### • Tax Gap Mitigation Strategies

• This report contains the agency's recommended strategies to mitigate the state's tax gap, with a focus on voluntary compliance.

### **New Statutory** Reports

### Looking Ahead...

#### Focus on Recruitment

- Focused outreach to state colleges and universities to diversify and strengthen the DRS workforce
- Earned Income Tax Credit (EITC)
  - Developing strategies to increase the number of EITC claims
  - Promotion of expanded EITC credit for qualifying individuals with at least one child
- <u>Implementing Strategies to Close the</u> <u>State's Tax Gap</u>
  - Formation of Discovery Unit to identify non-filers
  - Increasing audit coverage rates
  - Targeted collection activities

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### **QUESTIONS?**

Website links: portal.ct.gov/DRS

Find us on Facebook, X (Twitter), LinkedIn, Instagram, and YouTube: @CTDRS





Overview of Discussion

- Administrative update
- Legal update
  - Legislative update
  - Litigation update
- Questions



#### Administrative Update

- · Recently issued studies
  - Tax Gap report
  - Tax Gap mitigation strategies issued July 1, 2025:
- Studies to be issued
  - Tax Incidence report due by December 15, 2025
- Other items of interest
  - Audit initiatives
  - Refund protection



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#### Legislative Update

- State Legislation
  - Special Session?
- 2025 Connecticut State Tax Developments (overviews available of Department's website)
- 2025 Legislative Overview Corporation Business Tax and Tax Credits
- 2025 Legislative Overview Income Tax
- 2025 Legislative Overview Sales and Use Taxes and Admissions and Dues
   Taxes
- 2025 Legislative Overview Miscellaneous Taxes and Administrative Provisions



#### Legislative Update

- Federal legislation
  - Public Law 119-21, The One Big Beautiful Bill Act
  - Taxation of tips and overtime compensation
  - Bonus Depreciation for Real Property Used for Manufacturing, Refining or Production (IRC § 168(n))
  - Domestic Research or Experimental Expenditures
- Fiscal impact on Connecticut
  - Guidance issued to the General Assembly



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#### **Litigation Update**

Matters pending before the Connecticut Supreme Court or Appellate Court

- Daniels v Commissioner Residency in the context of Connecticut's Estate and Gift Tax; currently pending before State's Appellate
  Court
- Matter transferred to the State's Supreme Court

Matters pending before the Connecticut Tax Court

Better Way Wholesale Autos, Inc. v.
 Boughton - Taxability of warranty contracts sold in connection with automobiles that are registered outside of Connecticut; matter scheduled for trial in December of 2025

Bankruptcy matter (Northern District of Texas Dallas Division)

 Prospect Medical Holdings, Inc., et al. – Filed in January of 2025; implicates second hospital user fee liabilities of three Connecticut hospitals owned by the Debtor





• Any questions?





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#### Thanks!

#### Contact information:

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### **General Session 5**

#### Richard Cram Bio

Richard Cram is the Director of the Multistate Tax Commission's National Nexus Program in Washington, D.C. The National Nexus Program provides a Multistate Voluntary Disclosure Program that 39 states and the District of Columbia participate in. Cram has recently contributed articles to Tax Analysts *State Tax Notes*. Prior to his current position, Cram served for 15 years as the Director of Policy & Research in the Kansas Department of Revenue, and for 2 years as an attorney in the Legal Services Bureau of the Department, in Topeka, Kansas. He has worked as a research attorney for the Kansas Supreme Court, and practiced law as an associate in law firms in Chicago, Illinois and Goodland, Kansas. Cram graduated from the University of Kansas School of Law. He currently resides in Alexandria, Virginia.

# Current trends in state income and sales tax

Multistate Tax Commission Presented by: Richard Cram





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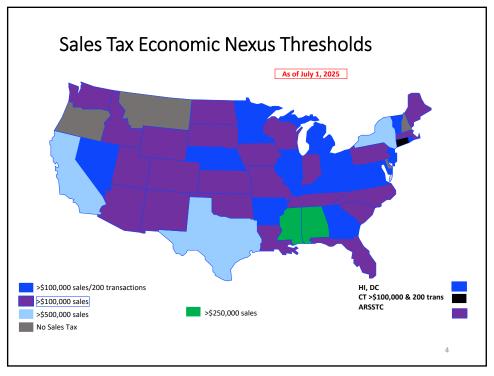
#### Agenda

- Sales/use tax economic nexus and differing rules
- Marketplace facilitator tax collection issues
- Use tax apportionment?
- Sales tax on digital goods
- P.L. 86-272 recent developments
- · Recent income tax nexus decisions
- Recent income tax sourcing and apportionment decisions

#### Economic nexus = "substantial nexus"

- Quill (1992): physical presence required for sales/use tax "substantial nexus"
- South Dakota v. Wayfair (2018): Quill physical presence nexus requirement overruled; economic presence sufficient for "substantial nexus"
- "[N]exus is established when the taxpayer avails itself of the substantial privilege of carrying on business in that jurisdiction."

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#### Local Sales Tax Simplification

- Alabama Simplified Sellers Use Tax—flat rate for remote sellers
- Texas Comptroller—flat rate for remote sellers
- Alaska Remote Seller Sales Tax Commission--centralized administration of some "home rule" local taxes; see website at <a href="https://www.arsstc.org">www.arsstc.org</a> for more information.
- **Colorado** Department of Revenue--Sales and Use Tax System (SUTS), "one-stop" portal for remote sellers to file returns for state and participating "home rule" local jurisdictions. Two-thirds of home-rule muni's have joined. Destination sourcing is in effect (exception for small businesses).
- Louisiana Sales and Use Tax Commission for Remote Sellers serves as the sole entity in Louisiana to collect and remit sales and use tax from remote sellers; see website at https://remotesellers.louisiana.gov for more information.

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#### Remote Seller Sales/Use Tax Economic Nexus Issues

State's sales tax economic nexus thresholds and effective dates? See state agency website or https://www.streamlinedsalestax.org/for-businesses/remote-seller-faqs/remote-seller-state-guidance

Threshold based on annual sales volume only? Alternative annual transactions threshold? Both sales volume and transactions thresholds?

Does annual sales volume threshold include gross sales? Retail sales? Taxable sales?

How soon must remote seller register and start collecting after hitting threshold?

States vary-- Examples:

CA, IN--immediately

CO--1st day of month following 90th day after threshold exceeded

IA, KY—1st day of month not more than 30 days after threshold exceeded

LA (DOR FAQ)—register within 30 days after exceeding threshold, commence tax collection with 60 days after exceeding threshold

MA (DOR FAQ)--  $1^{\rm st}$  day of the first month beginning two months after the month in which the threshold was exceeded

TN—1st day of third month following month when threshold exceeded

 $TX-1^{st}$  day of month of  $4^{th}$  month following month in which threshold exceeded within a consecutive 12-month period

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What is the state's measuring period for determining if the economic nexus threshold is exceeded?

Examples:

AR CA DC GA ID IN IA KY NE NV NJ NC: current or prior calendar year

AL CO MI: prior calendar year

MN MS TX: consecutive 12-month period

NY: prior 4 quarters

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#### How is the threshold measured?

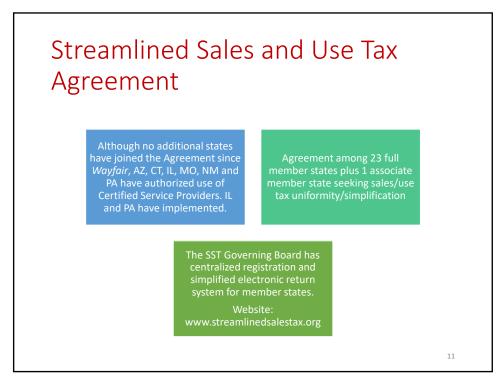
- Gross sales: majority of enacting states
- Retail sales: Alabama, Arizona, Colorado, Georgia, Minnesota, Mississippi, Nebraska, New Mexico, Nevada, Tennessee, Virginia, Washington
- Taxable sales: Florida, Missouri, North Dakota, Oklahoma

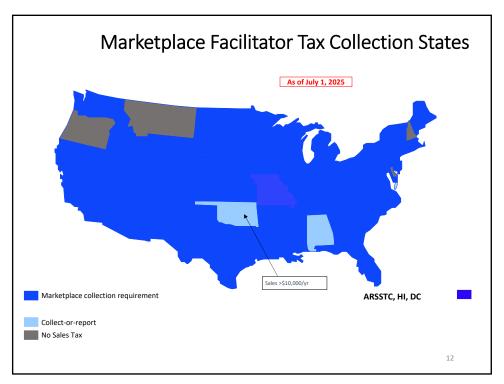
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How long does "trailing nexus" last?

Colorado DOR: remote seller is "doing business" in the state for entire calendar year, if remote seller has exceeded the economic nexus threshold in the preceding calendar year. Rule 39-26-102(3).

Texas Comptroller requires remote seller's Texas sales to fall below \$500,000 for a 12-consecutive-month period, before "trailing nexus" would end. FAQ





#### Special excise tax collection

- Montana SB 52 imposing collection obligation on short-term rental markets for lodging facility use tax and sales tax on lodging and rental cars eff. 10/1/2021
- New Hampshire HB 15-rental facilitators are required to collect the meals and rooms tax on facilitated car rentals and room facilitators are required to collect the meals and rooms tax on facilitated room rentals eff. 10/1/2021

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#### Retail delivery fees

- Colorado--\$.29 (\$.28 eff. 7/1/2025) per retail sale of tangible personal property subject to sales tax delivered by motor vehicle in the state, excluding businesses whose retail sales of tangible personal property, commodities, or services in Colorado in the previous year totaled \$500,000 or less
- Minnesota--\$.50 fee on retail deliveries to consumers, similar to Colorado's, with an exemption for retailers with annual sales below \$1 million and marketplace providers with annual facilitated sales below \$100,000, effective July 1, 2024

## Laws centralizing administration of local hotel/short term rental taxes

 Maryland 2025 SB 929 requires accommodations intermediaries to collect local hotel (including short term rental) taxes and remit to Comptroller eff. 1/1/2028

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#### Marketplace Facilitator Issues

How is the term "marketplace facilitator" defined: narrowly or broadly?

#### Narrow marketplace facilitator definition

contracts with a seller to facilitate for consideration, regardless of whether fees are deducted from the transaction, the sale of the seller's products through a physical or electronic marketplace owned by the person and

either directly or indirectly through its contract or agreements with a seller collect the payment from the purchaser and transmits all or part of the payment to the seller

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### Broad marketplace facilitator definition

Contains two lists of different activities. If the business performs at least one activity in each of those lists, the business falls within the definition.

List 1-directly or
indirectly,
through 1 or
more related
persons,
engaging in
any of the
following:

transmitting or otherwise communicating the offer or acceptance between the buyer and the seller;

owning or operating the infrastructure, electronic or physical, or technology that brings buyers and sellers together;

providing a virtual currency that buyers are allowed or required to use to purchase tangible personal property or services from the seller;

or software development or research and development activities related to any of the activities described in subsection

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List 2--And any of the following activities with respect to the seller's tangible personal property or services:

- (i) payment processing services;
- (ii) fulfillment or storage services
- (iii) listing tangible personal property or services fo sale;
- (iv) setting prices:
- (v) branding sales as those of the marketplace facilitator;
- (vi) order taking;
- (vii) advertising or promotion;

or (viii) providing customer service or accepting or assisting with returns or exchanges

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### **Exclusions from the marketplace facilitator definition**

- · advertising services?
- payment processor?
- delivery service provider?
- sales of travel or accommodations services, such as hotel intermediaries?
- car rental service?

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Can the marketplace facilitator and seller negotiate which party has the sales/use tax collection obligation?

Criteria: size requirement for the seller (\$1 billion in

annual national sales)?

seller in a certain industry (such as telecommunications)?

### Can the state tax agency waive the marketplace facilitator collection obligation?

#### Criteria:

- substantially all of the marketplace facilitator's sellers are registered with the state to collect and remit the tax?
- marketplace facilitator and seller both agree to waiver?

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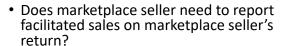
### Certification requirement

Is the marketplace facilitator required to certify to its marketplace sellers that it is collecting sales/use tax on facilitated sales, and if so, how is that certification made?

Certification requirements: CO CT FL IL ME MA ND NY RI TX VT WI

#### Marketplace Seller Issues

- Does sales/use tax economic nexus threshold for marketplace sellers include both direct sales and facilitated sales, or is it limited only to direct sales?
- Does marketplace seller have to register if marketplace seller makes only facilitated sales through a marketplace facilitator that is collecting on those sales?





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#### Use tax apportionment?

JB Hunt Transport, Inc., a multistate trucking company, has petitioned the Massachusetts Appellate Tax Board to abate as unlawful and unconstitutional (violating commerce and due process clauses, among other claims) the Department's use tax assessment on 100% of the value of trucks and trailers ("rolling stock") purchased out-of-state but partially used in the state during the audit period, claiming use tax should have been apportioned based on mileage used in the state.

## Use tax apportionment not constitutionally required

In Ellingson Drainage, Inc. v. South Dakota
 Department of Revenue, 2024 SD 8, 3 N.W.3d 417
 (2024), cert. denied, the South Dakota Supreme
 Court upheld against commerce clause challenge
 the Department's use tax assessment on the
 depreciated value of mobile construction
 equipment purchased out-of-state and brought
 into the state for temporary use on drainage
 construction projects during the audit period,
 finding no apportionment requirement when a
 credit for sales/use tax paid to other states was
 provided.

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## Multiple points of use exemption for digital product/software purchases

Massachusetts and Washington MPU exemption certificates allows purchaser/lessee of certain digital products/software concurrently available for use in multiple tax jurisdictions to claim exemption from sales/use tax by agreeing to remit applicable taxes to the jurisdictions where the item will be used, using reasonable apportionment method.

## Sales tax—digital goods TPP?

• In Netflix, Inc. v. Department of Revenue of the State of Colorado, No. 24CA1019, the Colorado Court of Appeals on July 3, 2025 held that Netflix's sales of subscriptions were sales of tangible personal property and subject to Colorado sales tax. Department promulgated Rule 39-26-102(15)(4) concerning digital goods, which stated that the method of delivery of tangible personal property included "internet streaming." The General Assembly also amended the definition of "tangible personal property" to include "digital goods," regardless of the method of delivery, including "streaming." Netflix collected sales tax on its subscription sales but later sought a refund, which was denied. Netflix appealed, arguing that streaming movies, etc. was not tangible personal property. The district court had ruled in favor of Netflix. The appellate court reversed, agreeing with the Department's interpretation that corporeal property included things that can be perceived by any of the senses-not exclusively by touch.

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## Public Law 86-272 issues

- 15 U.S.C. Sec. 381-384
  - O Preempts state <u>net income taxation</u> of business entities if their only contact with the state is salespeople who <u>merely solicit orders</u> for the sale of tangible personal property, approved outside the state, where the goods are subsequently delivered to the customer from a point outside the state.



## **Recent Non-Solicitation Case**

Uline, Inc. v. Commissioner of Revenue, No. A23-1561 (Minn. 2024): Wisconsin S Corp distributor of industrial and packaging products sent sales representatives into Minnesota to solicit orders but also regularly generated reports with information from customers about Uline's competitors, including detailed product information such as manufacturer and brand, competitors' product pricing, product lead time, payment terms, annual rebates, and discounts. Loss of P.L. 86-272 protection for non-solicitation activity.

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## In-state Inventory

Marketplace sellers participating in the Amazon FBA Program with inventory in Amazon facilities in Washington, had nexus with Washington and were responsible for paying business & occupation tax as well as collecting and remitting Washington sales tax on their facilitated sales to Washington customers. *Orthotic Shop, Inc. v. Washington Department of Revenue,* Court of Appeals of Washington, Div. 3, No. 393216 (2024).

Commonwealth Court of Pa. came to opposite conclusion for income and sales tax nexus in *Online Merchants Guild v. Hassell*, Memorandum Opinion, Case No. 179 M.D. 2021 (Sept. 9, 2022).

## Non-Solicitation Activity: Taking Back Rejected Product

Procacci Brothers Sales Corporation v. Director, Division of Taxation, Docket No. 015626-2014 (May 25, 2021)

Out-of-state wholesale produce distributor delivered produce to commercial customers in New Jersey. Federal law required distributor to take back produce rejected by customers prior to acceptance. Taking back product returned to it prior to acceptance by the customer held ancillary to its solicitation of sales and thus protected activity pursuant to P.L. 86-272. However, picking up product rejected by the customer after acceptance, if not *de minimis*, would be considered non-solicitation activity.

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# Sale of SaaS a service or tangible personal property?

ASAP Cruises, Inc. v. Wisconsin Department of Revenue, Case No. 2023AP1251, Wisconsin Court of Appeals, District I (6/3/2025): ASAP Cruises, Inc., Florida corporation, had agreements with travel agents in Wisconsin. Agents sold cruises, tours, and travel packages, from which ASAP retained 15% of the sales as income and provided the remainder (85%) to the agent as a commission. The agents accessed the travel packages they sell through an online platform provided by ASAP. The Department assessed ASAP for income tax, and ASAP argued protection under P.L. 86-272 because it was selling SaaS, considered tangible personal property. Department contended unprotected sales of services: travel packages, not Saas. Court of Appeals agreed. Petition for review to Wisconsin Supreme Court pending.

## MTC Revised Statement on P.L. 86-272

- Updated 8/4/2021 to reflect post-Wayfair environment
- General rule: When a business interacts with a customer via the business's website or app, the business engages in a business activity within the customer's state. But static text or photos on the seller's website will not be considered business activity within the state.

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## MTC Revised Statement on P.L. 86-272

- Protected: post-sale assistance by posting a list of static FAQs with answers on the business's website
- Unprotected: post-sale assistance via electronic chat or email initiated by clicking on icon on seller's website
- Unprotected: soliciting and receiving on-line applications for seller's branded credit card via its website

# Challenge to MTC's revised Statement on P.L. 86-272

American Catalog Mailers Association v.
Franchise Tax Board: California Superior Court granted plaintiff's summary judgment motion challenging FTB's TAM No. 2022-01 and Publication 1050 that adopted portions of the MTC's revised Statement on P.L. 86-272, determining that those were void as regulations in violation of the California Administrative Procedure Act.

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# Other states adopting MTC's revised Statement

New York State Department of Taxation and Finance has adopted regulations including portions of the MTC's revised Statement on P.L. 86-272. Substantive challenge in *American Catalog Mailer Association v. Department of Taxation and Finance*, NY district court, dismissed 4/28/2025, appeal pending at S. Ct. of NY

New Jersey Division of Taxation has published TB-108, issued September 5, 2023, including a list of activities that are protected or not protected by P.L. 86-272, largely adopted from the MTC revised Statement of Information concerning P.L. 86-272. The Division has also issued proposed rule 57 N.J.R. 305(a) dated 2/18/2025 incorporating portions of the revised Statement. Substantive challenge pending in New Jersey Tax Court in American Catalog Mailer Association v. Division of Taxation.

Minnesota Department of Revenue circulated for public comment on April 25, 2023 draft Revenue Notice # 23-XX adopting the interpretations and examples contained in the MTC's revised Statement of Information concerning Public Law 86-272.

# Other states adopting MTC's revised Statement

Massachusetts Department of Revenue amendment (effective 10/10/2025) to 830 CMR 63.39.1 provides: instate activities conducted by vendor through Internet website accessible by persons in the state may include activity not entirely ancillary to solicitation of orders of tangible personal property, such as placing Internet cookies on computers or other electronic devices of instate customers to gather customer search information used to adjust production schedules and inventory amounts, develop new products, or identify new items to offer for sale.

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# NY "convenience of employer" rule upheld: *In re Zelinsky*

New York Tax Appeals Tribunal (2025) affirmed administrative law judge's denial of Professor Zelinsky's income tax refund claim challenging the constitutionality of New York's "convenience of the employer" rule during the governor's "stay home" order in effect during COVID 19. Professor Zelinsky worked from home in Connecticut while teaching law in New York City during the "stay home" order. Appeal to Supreme Court of New York pending

# Recent: NY nexus on gain income—nonresid. pass-through entity owner

In re Goldman Sachs Petershill Fund Offshore Holding Corp, New York Supreme Court (2022): Foreign corporation through LP owned minority interest in investment management company doing business in NYC. Owner carried on no activities in NYC, no presence there, not unitary with and did not participate in management. Interest later sold for large gain. General corporation tax assessment on apportioned gain upheld: privileges and immunities extended by NYC to investment management company doing business there inured to benefit of owner.

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# Welch: MA nexus on gain income "derived from employment"

Massachusetts Appeals Court affirmed the Appellate Tax Board's decision upholding the Commissioner's assessment on the taxpayer's gain income from the sale of stock in a software company located in Massachusetts that the taxpayer founded and worked for since 2003. The taxpayer also resided in Massachusetts until moving to New Hampshire, shortly before retiring from the company and selling his stock in 2015. Court concluded gain was Massachusetts source income "derived from or effectively connected with" the taxpayer's trade or business or employment per G. L. c. 62, § 5A (a), even though at the time of the sale he was no longer actively engaged in employment in the Commonwealth. Review declined (6/25).

## Income tax economic nexus thresholds

- Alabama corporate income tax (\$500,000 ann. sales)
- California corporate income tax (\$500,000 ann. sales, \$50,000 property or payroll, or 25% of any factor, adjusted for inflation)
- Colorado corporate income tax (\$500,000 ann. sales)
- Connecticut corporation business tax (\$500,000 ann. sales)
- Hawaii corporate income tax (\$100,000 ann. sales or 200 transactions)
- Maine corporate income tax (\$500,000 ann. sales, \$250,000 property or payroll, or 25% of any factor)
- Massachusetts general business corporation tax (\$500,000 ann. sales)
- Michigan corporate income tax (\$350,000 ann. sales)
- New Jersey corporation business tax (\$100,000 ann. sales or 200 transactions)
- New York franchise tax (\$1.283 million ann. sales for 2024)
- Tennessee business tax (\$500,000 ann. sales)

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# Gross receipts tax economic nexus thresholds

- Hawaii general excise tax (\$100,000 annual sales or 200 transactions)
- Nevada commerce tax (>\$4 million annual revenue)
- Ohio commercial activity tax (\$50,000 payroll, \$50,000 property, or \$500,000 taxable gross receipts, or 25% of one of those factors--\$3 million exclusion eff. 2024, \$6 million eff. 2025)
- Oregon commercial activity tax (>\$750,000 commercial activity)
- Texas franchise or "margin" tax (\$500,000 annual gross receipts)
- Washington business & occupation tax (>\$100,000 gross receipts)

## Income Tax Nexus Jurisdiction

- Wayfair: Quill "physical presence" rule is no more.
   But is due process "minimum contacts" jurisdictional standard changing? Some brewing nexus controversies:
  - 1. Receiving income from intangible property as a basis for asserting nexus
  - 2. Remotely delivered services

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## Louisiana Jeopardy Case

- Jeopardy earned royalties through agreements with CBS to distribute show to TV stations (some in Louisiana), and IGT to license the use of trademarks on gaming machines (some in Louisiana). DOR filed suit in state court to collect corporate and franchise tax.
- **Dismissed**: lack of personal jurisdiction and due process. No intentional contact with state, no control over the unrelated third parties independently entering into agreements for distribution of the show and use of the trademarks in state. No reason to reasonably anticipate being brought into court.

## Remote broadcasting nexus

Time Warner Inc. v. Department of Revenue, No. TC-MD 220337N (OR March 31, 2025): Subsidiaries were "interstate broadcasters" under ORS 314.680(3). Under agreements, subsidiaries transmitted programming to third-party networks, which broadcast to viewers nationwide. Subsidiaries received income based on the number of subscribers. Income apportionable based on the relative Oregon audience size. No requirement that broadcaster have contractual relationship with audience. Taxpayer argued unsuccessfully that third-party networks were broadcasters and subsidiaries had no contractual relationship with Oregon viewers. Substantial nexus with Oregon, based on the subsidiaries' national advertising and monthly revenues attributable to the number of Oregon subscribers. No due process violation--subsidiaries generated significant income – including from Oregon viewers – through the activity of distributing cable programming.

See NBC Universal Enterprise Inc. v. Department of Revenue, TC-MD 170037R (OR March 25, 2025)

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## **Remotely Provided Services**

Is making remotely provided services available through a website, without any directed advertising, "purposeful availment" of the webuser's marketplace?

## Remotely Provided Services—Oregon E911 Tax

Ooma, Inc. v. Dep't of Revenue, 369 Or. 95 (2021)

VOIP provider with no physical presence in Oregon had sufficient economic nexus for E911 tax on VOIP services to Oregon customers. VOIP provider marketed services and employed business strategies targeting customers nationwide, including Oregon residents, shipped marketing and promotional materials to national retailers, including in Oregon. VOIP provider generated billings from Oregon customers in excess of \$2.2 million during assessment period. Purposeful availment and sufficient economic presence established.

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## Income Sourcing: Humana

The Minnesota Supreme Court in *Humana MarketPoint, Inc. v. Commissioner of Revenue* (A25-0058, Sept. 24, 2025), affirmed the Department's approach to sourcing service receipts under the state's market-based sourcing statute.

Humana MarketPoint's affiliate, Humana Pharmacy Solutions (HPS), provided pharmacy benefit management (PBM) services to another Humana entity, Humana Insurance Company (HIC). On 2016 return, HPS sourced all PBM receipts to Wisconsin, the HIC headquarters. The Department denied the refund claim, concluding that the services were "received" by insurance plan members in Minnesota.

Court held: "received" is not limited to the direct contractual customer but "broad enough to encompass receipt by a customer's customer"—health plan members in Minnesota. No substantiation that all services were received outside Minnesota. Per stipulation, all receipts sourced together; refund properly denied.

## Income Sourcing: Betts Patterson& Mines v. Washington

Law firm's Washington B&O tax refund claim denied; gross receipts for legal services rendered to out-of-state insurance companies in policy defense litigation are sourced to the litigation location in Washington, determined to be where the "benefits of the services were received," not the insurance companies' out-of-state billing addresses.

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## Internal consistency test applied: Zilka

Philadelphia resident working in Wilmington, DE challenged under internal consistency test Philadelphia's income tax (3.922%), which provided no credit for DE state income tax (5%) paid. PA income tax (3.07%) and Wilmington income tax (1.25%) also applied. PA Supreme Court held that internal consistency test required hypothetical that other states and local governments adopt state and local taxes identical to Philadelphia's and PA's, so test passed. SCOTUS denied cert. (2025).

# Internal consistency test: *JetBlue Airways v. Florida* (2025)

JetBlue unsuccessful in challenging Florida's income tax apportionment formula as not fairly apportioned: gross income times fraction of revenue miles traveled in Florida/revenue miles traveled everywhere; Florida revenue miles included ocean area contiguous to coastal areas. Trial court interpreted test as requiring other states to enact formula identical to Florida's (although not possible) to identify inherent discrimination against interstate commerce and found none.

# **General Session 6**

Chrystal Hale is a Tax Unit Manager in the Pass-Through Audit Unit at the Connecticut Department of Revenue Services, where she has been employed for 20 years. She has extensive experience working with individual, pass-through, and trust & estate income taxes. Chrystal received a Bachelor's degree in Accounting and Mathematics, and a Master's degree in Accounting and Taxation from University of Hartford. Chrystal also teaches mathematics and accounting courses at Goodwin University in East Hartford, CT and is a Certified Fraud Examiner.



Connecticut Composite Income and Pass-through Entity Tax:
Department of Revenue Services
Update

Chrystal Hale
Tax Unit Manager
Chrystal Hale@ct.gov

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# **Agenda**



Overview of the 2024 Pass-Through and Composite Returns



2025 Updates



Example - Calculating Connecticut-Sourced Income



**Question & Answer** 

But first, a quiz...

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## Overview of the Pass-Through and Composite Tax returns

- Composite return is required if the entity does business in Connecticut and/or has flowthrough income from another entity that does business in Connecticut
- The pass-through entity tax return is elective and cannot be revoked or amended
- If electing the pass-through entity tax, both returns must be filed
- The pass-through entity tax credit can offset the composite liability for taxable members
- Even if a pass-through entity has all resident members, a Composite return is still required
- Estimated payments are required only for the Pass-Through Entity Tax
- Due date is March 15 for calendar year filers

## What's new for 2025

No drastic changes to the filing requirements for Pass-Through Entity Tax Return or the Composite Income Tax Returns.

JobsCT rebate can offset the Pass-Through Entity Tax liability. For more information on the rebate, please visit Connecticut Department of Economic and Community Development.

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# Example – Calculating Connecticut– Sourced Income

#### **Facts**

#### Client A

- operates a business throughout New England, with 50% apportionment to Connecticut, and
- has an ownership in a subsidiary PE, Subsidiary B, where all of the rental property is located in Connecticut

Client A received the following Schedule CT K-1 from Subsidiary B:

Department of Revenue Services State of Connecticut (Nev. 12/24)	Schedule CT K-1 Member's Share of Certain Connecticut Items					20	24
Complete in blue or black ink o						1000	
For calendar year 2024 or othe		_	, 2024, and >			, 20_	_
Pass-through e Federal Employer ID Number (FEIN)	ntity (PE) information CT Tax Registration Number	1000	Me r's Social Security Number	mber informa			_
Name	► The respectation in the second	Name	I S OUGH ORGENY HUMA	e (aunt) at FE		:H:	SN
<ul> <li>Subsidiary B</li> </ul>		► C	lient A				
Number and street address	PO Box	Numbe	r and street address		PO B	ON.	
City or town	State ZIP code	City or	town		Stat	e ZIP code	
•		-					_
	ended or a final Schedule CT K-1. K-1 ▶∏ Final Schedule CT K-1	P-1	of member (check on	- □	RT NT	► XPE	
Part 1- Connecticut Mod		-	INI PLINE	-		- LICM	
Additions Enter all amounts a					From Form	CT-1065/CT-112051	Part 5
	obligations other than Connecticut.				1.		00
	est dividends from non-Connecticut		municipal		2		00
3. Certain deductions relatin	g to income exempt from Connectio	ut incor	ne tax		3.		00
Section 168(k) federal borduring this year	nus depreciation deduction allowed		erty placed in service	0	4.	25,000	00
5. 80% of Section 179 federa	al deduction				5		00
					6.		00
Subtractions Enter all amount	s as positive numbers						
7. Interest on U.S. governme					7.		00
	rtain qualifying mutual funds deriver	d from I	J.S. government obl	igations.	8.		00
9. Certain expenses related t	o income exempt from federal incom	e tax b	at subject to Connect	icut tax. >	9.		00
10. 25% of Section 168/k) fed	eral bonus depreciation deduction ac	dded ba	ck in preceding four	veers	10.		00
	al deduction added back in precedin				11.		00
12. Ordinary and necessary b	usiness expenses for taxpayers licer deral income tax purposes	nsed un	der Chapter 420f or	420h	12.		00
13. Other - specify					13.		00
	ced Portion of Items From K-1 of Form 1065 or 1120S		Column i		From Form	Column B CT-1065/CT-112081	Part
<ol> <li>Ordinary business income</li> </ol>		1.	100,000		▶ 75,0		00
2. Net rental real estate inco		2	250,000		<ul><li>≥275,</li></ul>	000	00
3. Other net rental income (k	066)	3		00			00
4. Guaranteed payments		4.		00			00
5. Interest income		5		00			00
6a. Ordinary dividends		6a		00			00
7. Royalties		7.		00			00
8. Net short-term capital gain		8.		00			00
9a. Net long-term capital gain	(ioss)	9a		00			00
10. Net section 1231 gain (los		10.		00			00
11. Other income (loss): Attac	h statement.	11.		00			00
12. Section 179 deduction		12		00			00
13. Other deductions: Attach :	statement.	13.		00	-		00

# Example – Calculating Connecticut– Sourced Income

#### **Facts**

		PART 1, SCHEDULE C - FEDERAL SCHEDULE K INFORMATION							
		Column A	Column B	Column C					
		Amounts Reported by the PE on Federal Schedule K	Amounts from Subsidiary PE(s)	Column A - Column B					
			, ,,						
1. (	Ordinary business income (loss)	300,000	100,000	200,000					
2. 1	Net rental real estate income (loss)	250,000	250,000	0					
3. (	Other net rental income (loss)								
4. (	Guaranteed payments								
5.	Interest income								
6a. (	Ordinary dividends								
7.	Royalties								
8. 1	Net short-term capital gain (loss)								
9a. I	Net long-term capital gain (loss)								
10.	Net section 1231 gain (loss)								
11. (	Other income (loss)								
12.	Section 179 deduction								
13. (	Other deductions								

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## FAQs received during the past tax year

Q&A

Q: Is an extension required for both the Composite and Pass-Through Entity Tax?

A: For 2024, the Agency created an automatic extension for both taxes even if only one extension was filed. Beginning 2025, the Agency will require separate extensions for each tax.

Q: I did not include subsidiary PE payment on the Composite return and I am now receiving a bill. What do I do?

A: Please amend your return and report the subsidiary income and payment on Part 1 Schedule D of the Composite return.

Q: I made all of the payments under the Pass-Through entity tax but do not want to elect to file this return. How do I receive my payments back?

A: When filing the Composite return, you can report the payments on Line 5b of Part 1 Schedule A. Please do not check off the Pass-Through Election when filing the Composite return.

Online questions via Slido

## Resources

# Composite and Pass Through Entity Tax Forms and Instructions

https://portal.ct.gov/drs/drs-forms/current-year-forms/pass-through-entity-tax-forms

### **Composite Tax Information**

https://portal.ct.gov/drs/taxes/composite-incometax/tax-information

## Pass-Through Entity Tax Information

https://portal.ct.gov/drs/taxes/pass-through-entity/tax-information

#### JobsCT Tax Rebate Program

https://portal.ct.gov/decd/content/businessdevelopment/jobsct/jobsct-tax-rebate-program



#### PART 1, SCHEDULE C - FEDERAL SCHEDULE K INFORMATION

		Column A	Column B	Column C
		Amounts Reported by the PE on Federal Schedule K	Amounts from Subsidiary PE(s)	Column A - Column B
1.	Ordinary business income (loss)	300,000		
2.	Net rental real estate income (loss)	250,000		
3.	Other net rental income (loss)			
4.	Guaranteed payments			
5.	Interest income			
6a.	Ordinary dividends			
7.	Royalties			
8.	Net short-term capital gain (loss)			
9a.	Net long-term capital gain (loss)			
10.	Net section 1231 gain (loss)			
11.	Other income (loss)			
12.	Section 179 deduction			
13.	Other deductions			

#### PARTIAL SCHEDULE CT K-1 ISSUED BY SUBSIDIARY PE

Par	t 1- Connecticut Modifications				From Form	CT-1065/CT-1120SI,	Part 5
Add	itions Enter all amounts as positive numbers.						
1. 2.	Interest on state and local obligations other than Connecticut  Mutual fund exempt-interest dividends from non-Connecticut sta government obligations	te or	municipal				00
3.	Certain deductions relating to income exempt from Connecticut						00
	Section 168(k) federal bonus depreciation deduction allowed for during this year	prop	erty placed in servi	ce		25,000	00
5.	80% of Section 179 federal deduction				5.		00
6.	Other - specify				6.		00
Sub	tractions Enter all amounts as positive numbers.						
7.	Interest on U.S. government obligations				7.		00
8.	Exempt dividends from certain qualifying mutual funds derived fi	rom l	J.S. government ob	ligations.	8.		00
9.	Certain expenses related to income exempt from federal income			•	-		00
10.	25% of Section 168(k) federal bonus depreciation deduction added back in preceding four years						00
11.	25% of Section 179 federal deduction added back in preceding		, ,	,			00
12.	Ordinary and necessary business expenses for taxpayers license that are not claimed for federal income tax purposes	ed ur	der Chapter 420f or	420h			00
13.	Other – specify				13.		00
	2- Connecticut-Sourced Portion of Items From Federal Schedule K-1 of Form 1065 or 1120S		From Federal Sche	edule K-1		Column B CT-1065/CT-1120SI,	_
	Ordinary business income (loss)	_	100,000		▶75,00		00
	Net rental real estate income (loss)		250,000		▶275,0	000	00
	Other net rental income (loss)			00	-		00
	Guaranteed payments			00	-		00
	Interest income			00	-		00
	Ordinary dividends			00	-		00
	Royalties			00	-		00
	Net short-term capital gain (loss)			00	-		00
	Net long-term capital gain (loss)			00	-		00
	Net section 1231 gain (loss)			00	-		00
	Other income (loss): Attach statement.			00	-		00
	Section 179 deduction			00	1		00
13.	Other deductions: Attach statement.	13.		00	<b></b>		00

#### PART 1, SCHEDULE C - FEDERAL SCHEDULE K INFORMATION

		Column A	Column B	Column C
		Amounts Reported by the PE on Federal Schedule K	Amounts from Subsidiary PE(s)	Column A - Column B
1.	Ordinary business income (loss)	300,000	100,000	200,000
2.	Net rental real estate income (loss)	250,000	250,000	0
3.	Other net rental income (loss)			
4.	Guaranteed payments			
5.	Interest income			
6a.	Ordinary dividends			
7.	Royalties			
8.	Net short-term capital gain (loss)			
9a.	Net long-term capital gain (loss)			
10.	Net section 1231 gain (loss)			
11.	Other income (loss)			
12.	Section 179 deduction			
13.	Other deductions			

#### PARTIAL SCHEDULE CT K-1 ISSUED BY SUBSIDIARY PE

Add	litions Enter all amounts as positive numbers.						
1.	Interest on state and local obligations other than Connecticut				1.		00
2.	Mutual fund exempt-interest dividends from non-Connecticut sta government obligations	ate or	municipal				00
3.	Certain deductions relating to income exempt from Connecticut	incor	ne tax		3.		00
4.	Section 168(k) federal bonus depreciation deduction allowed for during this year				4.	25,000	00
5.	80% of Section 179 federal deduction				5.		00
6.	Other - specify				6.		00
Sub	tractions Enter all amounts as positive numbers.						
7.	Interest on U.S. government obligations		***************************************		7.		00
8.	Exempt dividends from certain qualifying mutual funds derived f				8.		00
9.	Certain expenses related to income exempt from federal income	tax b	ut subject to Connec	cticut tax >	9.		00
10.	25% of Section 168(k) federal bonus depreciation deduction add	ed ba	ack in preceding four	years▶	10.		00
11.	25% of Section 179 federal deduction added back in preceding	four y	years	<b>&gt;</b>	11.		00
12.	Ordinary and necessary business expenses for taxpayers licens		nder Chapter 420f or	420h			
	that are not claimed for federal income tax purposes				12.		00
	that are not claimed for federal income tax purposes  Other – specify			<b>&gt;</b>			00
				<b>&gt;</b> <b>&gt;</b> A	13.	<b>Column B</b> CT-1065/CT-1120SI, F	00
Par	Other – specify		Column From Federal Sche	A adule K-1	13.	CT-1065/CT-1120SI, F	00
Par	t 2- Connecticut-Sourced Portion of Items From Federal Schedule K-1 of Form 1065 or 1120S	. 1.	From Federal Sche	A edule K-1	13.	CT-1065/CT-1120SI, F	00 Part 6
Par	t 2- Connecticut-Sourced Portion of Items From Federal Schedule K-1 of Form 1065 or 1120S Ordinary business income (loss)	. 1.	Column From Federal Sche	A edule K-1	From Form  ► 75,00  ► 275,0	CT-1065/CT-1120SI, F	00 Part 6
1. 2.	t 2- Connecticut-Sourced Portion of Items From Federal Schedule K-1 of Form 1065 or 1120S  Ordinary business income (loss)	. 1. 2. 3.	Column From Federal Sche	A edule K-1 00 00	13. From Form ▶ 75,00 ▶ 275,0	CT-1065/CT-1120SI, F	00 oo
1. 2.	t 2- Connecticut-Sourced Portion of Items From Federal Schedule K-1 of Form 1065 or 1120S  Ordinary business income (loss)	. 1. . 2. . 3.	Column From Federal Sche	A dedule K-1 00 00 00	13. From Form ▶ 75,00 ▶ 275,0	CT-1065/CT-1120SI, F	00 00 00
1. 2. 3. 4.	t 2- Connecticut-Sourced Portion of Items From Federal Schedule K-1 of Form 1065 or 1120S  Ordinary business income (loss)	. 1. 2. 3. 4.	Column From Federal Sche	A adule K-1 00 00 00 00 00	13. From Form ▶ 75,00 ▶ 275,0 ▶ ▶	CT-1065/CT-1120SI, F	00 00 00 00
1. 2. 3. 4. 5. 6a.	t 2- Connecticut-Sourced Portion of Items From Federal Schedule K-1 of Form 1065 or 1120S  Ordinary business income (loss)	. 1. 2. 3. 4. 5. 6a.	Column From Federal Sche	A sidule K-1 00 00 00 00 00 00	13. From Form ▶ 75,00 ▶ 275,0 ▶ ▶ ▶	CT-1065/CT-1120SI, F	00 00 00 00 00
1. 2. 3. 4. 5. 6a.	t 2- Connecticut-Sourced Portion of Items From Federal Schedule K-1 of Form 1065 or 1120S  Ordinary business income (loss)	. 1. 2. 3. 4. 5. 6a. 7.	Column From Federal Sche	A sdule K-1  00 00 00 00 00 00 00	13. From Form  ▶ 75,00  ▶ 275,10  ▶  ▶  ▶  ▶  ▶	CT-1065/CT-1120SI, F	00 00 00 00 00 00
1. 2. 3. 4. 5. 6a. 7.	t 2- Connecticut-Sourced Portion of Items From Federal Schedule K-1 of Form 1065 or 1120S  Ordinary business income (loss)	. 1. 2. 3. 4. 5. 6a. 7.	Column From Federal Sche	A sdule K-1  00 00 00 00 00 00 00 00	13. From Form Form > 75,00 > 275,0	CT-1065/CT-1120SI, F	00 00 00 00 00 00 00
1. 2. 3. 4. 5. 6a. 7. 8.	t 2- Connecticut-Sourced Portion of Items From Federal Schedule K-1 of Form 1065 or 1120S  Ordinary business income (loss)	. 1. 2. 3. 4. 5. 6a. 7. 8.	Column From Federal Sche	A sdule K-1  00 00 00 00 00 00 00 00 00	13. From Form Form > 75,00 > 2	CT-1065/CT-1120SI, F	00 00 00 00 00 00 00 00
1. 2. 3. 4. 5. 6a. 7. 8. 9a. 10.	t 2- Connecticut-Sourced Portion of Items From Federal Schedule K-1 of Form 1065 or 1120S  Ordinary business income (loss)	1. 2. 3. 4. 5. 6a. 7. 8. 9a.	Column From Federal Sche	A edule K-1  00 00 00 00 00 00 00 00 00 00 00	13. From Form Form > 75,00 > 2	CT-1065/CT-1120SI, F	00 00 00 00 00 00 00 00 00
1. 2. 3. 4. 5. 6a. 7. 8. 9a. 10. 11.	t 2- Connecticut-Sourced Portion of Items From Federal Schedule K-1 of Form 1065 or 1120S  Ordinary business income (loss)	. 1. 2. 3. 4. 5. 6a. 7. 8. 9a.	Column From Federal Sche	A edule K-1  00 00 00 00 00 00 00 00 00 00 00 00 0	13. From Form > 75,00 > 275,00	CT-1065/CT-1120SI, F	00 00 00 00 00 00 00

#### PE'S CONNECTICUT MODIFICATIONS / CT-SOURCED PORTION OF MODIFICATIONS

	Column A	Column B	Column C	Column D
	Total Modifications	Subsidiary PE(s) Modifications	PE's Own Modifications	PE's Own CTSI Modifications
ADDITIONS:				
Interest on state and local government obligations other than CT				
Mutual fund exempt-interest dividends from non-CT state or municipal government obligations				
Certain deductions relating to income exempt from CT income tax				
4. Section 168(k) federal bonus depreciation allowed for property placed in service during this year	100,000			
5. 80% of Section 179 federal deduction				
6. Other: Attach Statement				
7. Total additions: Add Lines 1 through 6				
SUBTRACTIONS:				
8. Interest on U.S. government obligations				
9. Exempt dividends from certain qualifying mutual funds derived from U.S. government obligations				
10. Certain expenses related to income exempt from federal income tax but subject to Connecticut tax				
11. 25% of Section 168(k) federal bonus depreciation added back in preceding four years				

#### TOTAL CONNECTICUT SOURCED INCOME (LOSS)

Connecticut Apportionment Fraction: 50% (as audited - Refer to the Apportionment of Income Worksheet for additional information)

from subsidiary PE(s) sub PE income/(loss) own activities own income/(loss) own income/(loss) modifications (as m		Column A	Column B	Column C	Column D	Column E	Column F
1. Ordinary business income (loss) 2. Net rental real estate income (loss) 3. Other net rental income (loss) 4. Guaranteed payments 5. Interest income 6a. Ordinary dividends 7. Royalties 8. Net short-term capital gain (loss) 9a. Net long-term capital gain (loss) 10. Net section 1231 gain (loss)		from	of	from	of	of	Total CT-sourced income/(loss) (as modified)
2. Net rental real estate income (loss) 3. Other net rental income (loss) 4. Guaranteed payments 5. Interest income 6a. Ordinary dividends 7. Royalties 8. Net short-term capital gain (loss) 9a. Net long-term capital gain (loss) 10. Net section 1231 gain (loss)		(from Part 1 Schedule C, Col B)		(from Part 1 Schedule C, Col C)		(from Col D above)	(Col B + Col D + Col E)
3. Other net rental income (loss)  4. Guaranteed payments  5. Interest income  6a. Ordinary dividends  7. Royalties  8. Net short-term capital gain (loss)  9a. Net long-term capital gain (loss)  10. Net section 1231 gain (loss)	1. Ordinary business income (loss)						
4. Guaranteed payments       6. Interest income       6. In	2. Net rental real estate income (loss)						
5. Interest income       6a. Ordinary dividends       6a. O	3. Other net rental income (loss)						
6a. Ordinary dividends       6	4. Guaranteed payments						
7. Royalties	5. Interest income						
8. Net short-term capital gain (loss)	6a. Ordinary dividends						
9a. Net long-term capital gain (loss)  10. Net section 1231 gain (loss)	7. Royalties						
10. Net section 1231 gain (loss)	8. Net short-term capital gain (loss)						
	9a. Net long-term capital gain (loss)						
11. Other income (loss)	10. Net section 1231 gain (loss)						
	11. Other income (loss)						
<b>12.</b> Section 179 deduction	12. Section 179 deduction						
13. Other deductions	13. Other deductions						

Total Connecticut income/(loss):

12. 25% of Section 179 federal deduction added back in preceding four years

14. Other: Attach Statement

15. Total subtractions: Add Lines 8 through 14

13. Ordinary, necessary business expenses under Chapter 420f or 420f not claimed for federal income tax purposes