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State Tax 360° Conference

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State Tax 360° Conference
November 10, 2026

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40TH ANNIVERSARY CELEBRATION

General Session 1

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View Full Bio



David Bigger is chair of the firm's Tax and Employee Benefits Department, 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 in The Best Lawyers in America®: *Tax Law* (2027)
- Listed as a Connecticut Super Lawyer Rising Star®: *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

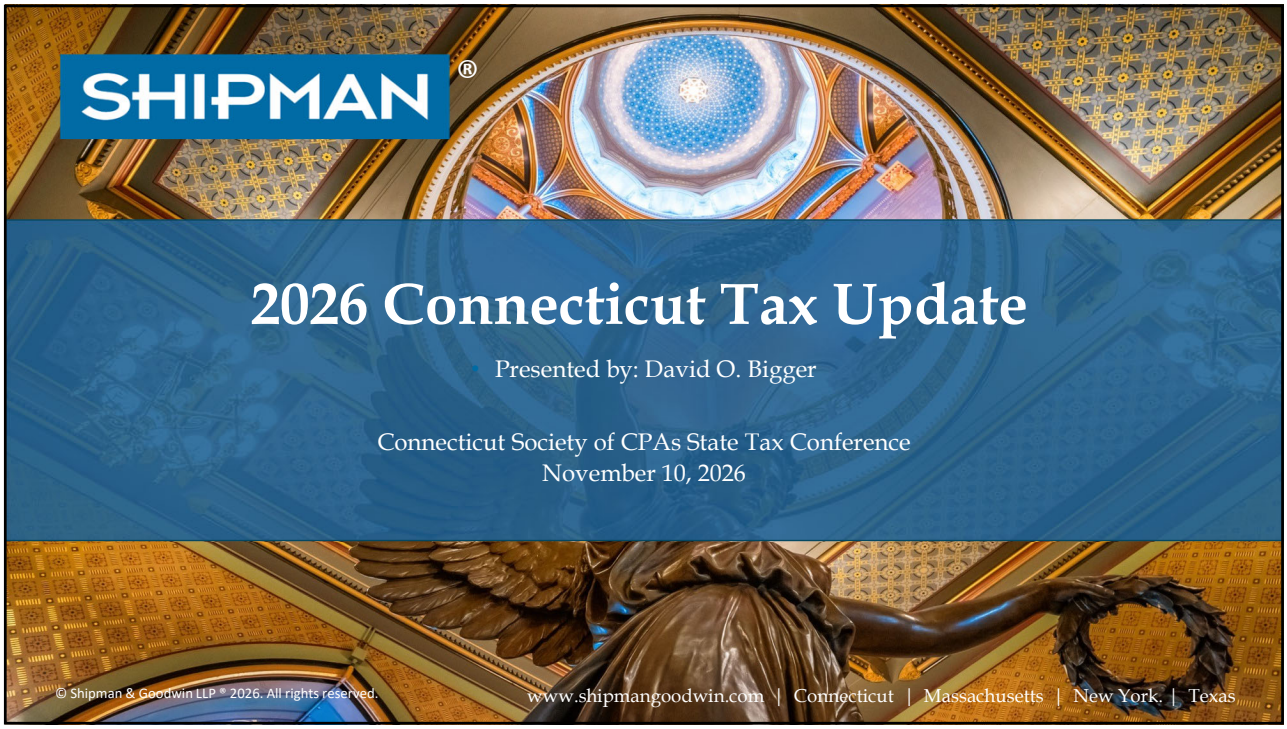
Credentials

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



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2026 Connecticut Tax Update



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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 statutes, 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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Personal Income Tax

Office of Legislative Research Report March 20, 2026

Table 9: Comparison of Relative Taxes Owed and Tax Rates Among Select States: Married Filing Jointly With Two Dependents for 2025 Tax Year

Income	$100,000		$200,000		$300,000	
State	Taxes Owed	Tax Rate	Taxes Owed	Tax Rate	Taxes Owed	Tax Rate
California	$2,080	2.08%	$10,111	5.06%	$19,410	6.47%
Connecticut	3,920	3.92%	10,000	5.00%	16,450	5.48%
Illinois	4,386	4.39%	9,336	4.67%	14,286	4.76%
Massachusetts	4,460	4.46%	9,460	4.73%	14,460	4.82%
New Jersey	2,475	2.48%	8,379	4.19%	14,749	4.92%
New York	4,175	4.18%	10,731	5.37%	16,917	5.64%
Rhode Island	2,168	2.17%	6,697	3.35%	14,919	4.97%

Source: OLR calculations based on state tax department forms

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Personal Income Tax

Income Tax Subtraction for Veterans' Honor Guard Compensation.

A new subtraction from Connecticut adjusted gross income is created for compensation received by a member of an honor guard detail for attending a funeral.

To the extent properly includable in gross income for federal income tax purposes, the full amount of such compensation may be subtracted from federal adjusted gross income in computing Connecticut adjusted gross income.

Conn. Gen. Stat. §12-701(a)(20)(B)(xxxviii), as amended by Conn. Pub. Act No. 26-35 §18 (effective July 1, 2026, and applicable to taxable years commencing on or after January 1, 2026).

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Personal Income Tax

Income Tax Subtraction for National Guard Active Service Pay and Honor Guard Detail.

There are two new subtractions from Connecticut adjusted gross income that apply to National Guard and Honor Guard members.

The first, effective in 2027, is a subtraction for pay received by a member of the National Guard as a result of being ordered out for active service. To the extent properly includable in gross income for federal income tax purposes, the full amount of such pay may be subtracted from federal adjusted gross income in computing Connecticut adjusted gross income.

The second, effective in 2026, is a subtraction for any compensation received for attending a funeral as a member of an honor guard detail. To the extent properly includable in gross income for federal income tax purposes, the full amount of such compensation may be subtracted from federal adjusted gross income in computing Connecticut adjusted gross income.

Conn. Gen. Stat. §12-701(a)(20)(B)(xxxviii), as added by Conn. Pub. Act No. 26-35 §18 (effective July 1, 2026, and applicable to taxable years commencing on or after January 1, 2026). Conn. Gen. Stat. §12-701(a)(20)(B)(xxxix), as added by Conn. Pub. Act No. 26-35 §19 (effective July 1, 2026, and applicable to taxable years commencing on or after January 1, 2027).

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Personal Income Tax

Income Tax Deduction for U.S. Public Health Service Commissioned Corps.

A new income tax deduction is created for any income received from the United States government as retirement pay for retired members of the U.S. Public Health Service's commissioned corps.

In computing Connecticut adjusted gross income, a taxpayer may subtract such retirement income from federal adjusted gross income to the extent it is properly included for federal income tax purposes.

Conn. Gen. Stat. 12-701(B)(20(a) as amended by Conn. Pub. Act No. 26-68 §277 (effective July 1, 2026, and applicable to taxable years commencing on or after January 1, 2026).

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Personal Income Tax

Withholding of Taxes from Lump Sum Retirement Distributions.

In 2024, the legislature eliminated mandatory income tax withholding on certain pension and annuity distributions but retained withholding for lump sum distributions.

In 2025, the legislature suspended mandatory withholding on lump sum distributions from July 1, 2025 through December 31, 2026.

The 2026 legislation extends this suspension period by one year, so that the withholding requirement for lump sum distributions from pensions, annuities, and similar sources will not apply for the period commencing July 1, 2026 and ending December 31, 2027.

During this period, withholding applies to lump sum distributions only if the payee requests it. If a payee does not request withholding, the payer must withhold from the taxable portion of the lump sum distribution at the highest marginal rate, except that no withholding is required if (i) any portion of the lump sum distribution was previously subject to tax, or (ii) the lump sum distribution is a rollover effected as a direct trustee-to-trustee transfer or as a direct rollover in the form of a check made payable to another qualified account.

Conn. Gen. Stat. §12-705(a)(2)(B), as amended by Conn. Pub. Act No. 26-130 §18 (effective July 1, 2026).

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Personal Income Tax Credit

Tax Credit for Family Caregiver Expenditures.

Beginning with the 2027 tax year, a new nonrefundable income tax credit of 50% of eligible expenses incurred, up to $2,000, is available for income-eligible family caregivers who incur eligible expenditures to care for and support an eligible family member.

Eligible expenditures include (1) home modifications to allow the family member to live safely and independently; (2) equipment, including durable medical equipment, needed to help the family member perform daily living activities; and (3) other care-related expenses such as hiring a home health aide, respite care, adult day care, personal care attendants, and health care equipment and technology. General household maintenance activities, such as painting, plumbing, electrical repairs, and exterior maintenance, are excluded.

The credit is available to taxpayers who (A) provide care and support for an eligible family member, (B) have a federal adjusted gross income of less than (1) $50,000 for single filers, a married individual filing separately or a head of household, or (2) less than $100,000 for individuals who file married individuals filing jointly, and (C) has personally incurred uncompensated expenses directly related to the care of an eligible family member.

Conn. Pub. Act No. 26-68 §271 (effective January 1, 2027, and applicable to taxable years commencing on or after January 1, 2027).

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Personal Income Tax Credit

Research and Development Tax Credit for Partnerships and S Corporation that are "Qualified Small Businesses".

A new tax credit to be applied against the personal income tax is created for qualifying small businesses that incur eligible research and development (R&D) spending in Connecticut.

The credit equals 6% of the R&D spending paid or incurred for a tax year. The Department of Economic and Community Development (DECD) is required to administer a voucher system for the credit program.

To qualify, a business must be an S corporation or entity treated as a partnership for federal income tax purposes (or a single member LLC disregarded for tax purposes) and meet the requirements for a qualified small business. The primary qualification is that the company has gross income for the prior year that does not exceed 70 million dollars.

Conn. Pub. Act No. 26-68 §267 (effective May 26, 2026 and applicable to taxable years commencing on or after January 1, 2026).

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Personal Income Tax Credit

Research and Development Tax Credit for Partnerships and S Corporation that are "Qualified Small Businesses".

Credit-eligible R&D spending generally includes (1) federally deductible R&D expenditures incurred and (2) qualifying basic research payments eligible for a federal R&D tax credit, provided the expenditures or payments are for **R&D and basic research done in Connecticut** and are not funded by any grant or contract with a public or private entity.

A qualified small business may reserve up to one million five hundred thousand dollars of credits for any taxable year through a process that will be administered by DECD.

All expenses must be verified with DECD within 90 days after the close of the taxable year.

If the credit exceeds the taxpayer's income tax liability, the taxpayer may apply for a partial refund: 90% of the excess for biotechnology businesses and 65% for other qualified small businesses. The partial refund mechanism is designed to provide meaningful benefit to early-stage businesses that may not yet have sufficient Connecticut income tax liability to absorb the full credit amount.

Conn. Pub. Act No. 26-68 §267 (effective May 26, 2026 and applicable to taxable years commencing on or after January 1, 2026).

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Personal Income Tax Credit

Angel Investor Tax Credit.

The existing Angel Investor Tax Credit allows taxpayers a 25% credit against the personal income tax for investments in certain Connecticut businesses. The credit has been modified in several respects.

First, separate applications from a Connecticut business and related persons thereto are now to be considered a single application for purposes of determining whether and to what extent a Connecticut business is eligible to provide the tax credit to investors in such Connecticut business.

Second, the requirement that the applicant have fewer than 25 employees, not less than 75% of which employees **reside in the state** has been reduced to **not less than 50%,** of such employees residing in the state, thereby broadening the universe of businesses that may attract credit-eligible angel investments.

Conn. Gen. Stat. §12-704d, as amended by Conn. Pub. Act No. 26-76 §50 (effective July 1, 2026).

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Estate and Gift Taxes

Estate Tax –Daniels Supreme Court Decision

Standard of Proof in Estate Tax Domicile Determinations.

On June 16, 2026, in *Daniels v. Commissioner of Revenue Services*, the Connecticut Supreme Court addressed the proper standard of proof applicable to estate tax domicile determinations under Conn. Gen. Stat. §12-391.

The plaintiff, as executor of the estate of Jack Anderson, appealed from the trial court's judgment upholding a deficiency assessment imposed by the Commissioner of Revenue Services.

At the time of his death, Anderson maintained homes in Connecticut, Arizona, and Florida, and divided his time among those three states. The Commissioner determined that Anderson was domiciled in Connecticut at the time of his death and assessed estate tax accordingly. The estate challenged the assessment, arguing that Anderson was domiciled in Florida. The trial court applied the clear and convincing evidence standard of proof and concluded that the executor had failed to demonstrate, by clear and convincing evidence, that Anderson was not a Connecticut domiciliary at the time of his death.

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Estate Tax –Daniels Supreme Court Decision

Standard of Proof in Estate Tax Domicile Determinations.

The Supreme Court held that the trial court ***improperly applied*** the clear and convincing evidence standard rather than the preponderance of the evidence standard.

Because the estate tax statutes are silent as to the standard of proof, *the Court held that the default preponderance of the evidence standard applies to domicile determinations in estate tax appeals*.

The Court distinguished its prior holding in Leonard v. Commissioner of Revenue Services, 264 Conn. 286 (2003), which applied the clear and convincing standard in a sales and use tax appeal, finding that Leonard's rationale did not extend to domicile determinations.

The Court noted that Connecticut courts have frequently applied the preponderance standard in property tax assessment appeals and that a survey of other jurisdictions did not reveal a consensus favoring a heightened standard for domicile disputes.

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Corporate Business Tax

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Corporate Business Tax

Decoupling from Federal Bonus Depreciation for Qualified Production Property.

Connecticut has disallowed the federal bonus depreciation deduction for qualifying property under 26 U.S.C. §168(k) (pursuant to TCJA) for corporation business tax purposes since 2001 (and, following the TCJA, for personal income tax purposes since 2017.

Effective in 2025, the OBBBA adopted a new bonus depreciation for "qualified production property" under Code Section 168(n). For tax year 2025, Connecticut did not require an add back of bonus depreciation taken under Section 168(n).

However, beginning with the 2026 income year, Connecticut disallows the federal bonus depreciation deduction for qualified production property under 26 U.S.C. §168(n). Taxpayers are required to add back this deduction when calculating their net income for Connecticut's corporation business tax.

Conn. Gen. Stat. §12-217(b) as amended by Conn. Pub. Act No. 26-68 §265 (effective May 26, 2026).

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Corporate Business Tax

Delayed Conformity to Federal R&E Expenditure Changes.

OBBBA adopted new Internal Revenue Code Section 174A, which was effective in 2025, and permitted taxpayers to deduct domestic research and experimental (R&E) expenditures in the year paid or incurred, rather than amortizing such expenses over five or, if elected, ten years.

Connecticut disallows this deduction for Connecticut corporate income tax purposes for the 2025 income year. However, for corporate income tax purposes, Connecticut will conform to new Section 174A beginning with the 2026 year.

Any R&E expenditures paid or incurred for the 2022 through 2025 income years shall be treated based on Internal Revenue Code Section 174, as in effect on July 3, 2025.

Federally, eligible small business taxpayers have the option to retroactively apply the changes in OBBBAs starting with the 2022 tax year (by making an election prior to July 4, 2026). Connecticut disallows the retroactive application of this change for Connecticut purposes. Accordingly, even if a small business taxpayer files amended federal returns reflecting immediate R&E expense for 2022 through 2025, that taxpayer must continue to use the amortization method for Connecticut corporation business tax purposes for those years.

Conn. Gen. Stat. §12-217(b) as amended by Conn. Pub. Act No. 26-68 §265 (effective May 26, 2026).

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Corporate Business Tax

Relief from Interest on Underpayments of Estimated Taxes; and Certain Penalties and Interest.

With regard to the specific income years identified in the decoupling legislation, any additional tax due in said income years that is attributable to the timing for Connecticut corporate income tax purposes of the R&E deduction, or the 168(n) deduction, shall not be included when calculating interest on the underpayment of estimated tax.

In addition, the Commissioner of Revenue Services is given the authority to waive penalties and interest on any additional tax that is due as a result of the State's conformity to the research and experimental expenditures provisions of IRC § 174 as they existed on July 3, 2025 for the income years starting on and after January 1, 2022 and prior to January 1, 2026, ***provided any*** additional tax is paid on or before the later of **November 15, 2026** or the due date for the tax return on which the additional tax due is to be reported, regardless of extension. This relief recognizes that taxpayers may not have anticipated the delayed conformity provision when making estimated tax payments for the affected periods.

Conn. Pub. Act No. 26-68 §266 (effective May 26, 2026).

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Business Tax Credits

Business Credits

Individual Coverage Health Reimbursement Arrangement Tax Credit.

A new tax credit is established for qualified small businesses that offer employees an Individual Coverage Health Reimbursement Arrangement (ICHRA), as described in Section 9831(d) of the Internal Revenue Code. The credit may be claimed against the state insurance and health care center taxes, corporate business tax or income tax.

To be eligible, a small business **cannot employ more than 50 employees** in the state when it applies for the tax credit and must have adopted an ICHRA instead of a traditional employer-provider health insurance plan.

The available credit is the lesser of (1) the sum of "qualified contributions" made by the qualified small business during the applicable income or taxable year or (2) $1,000 per covered employee. Credits are available only for the first income or taxable year the business offers the ICHRA and the immediately subsequent year. The credit cannot be refunded and expires in the year it was earned.

The Commissioner of Revenue Services must approve applications on a first-come, first-served basis and issue a certification letter stating the reserved credit amount for each of the two years. The commissioner must also provide Access Health CT with a copy of each certification letter and may enter into a memorandum of understanding with the exchange to facilitate the credit's administration.

Conn. Pub. Act No. 26-68 §263 as amended by Conn. Pub. Act No. 26-76 §85 (effective from passage and applicable to income and taxable years commencing on or after January 1, 2026).

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Business Credits

Commuter Transportation Benefit Tax Credit.

A new tax credit is created for eligible employers that provide "qualified commuter transportation benefits" to their employees. The credit may be claimed against the corporation business tax, the insurance premiums tax, or the pass-through entity tax. This credit replaces the prior commuter tax credit under Conn. Gen. Stat. §12-217s, which is repealed effective January 1, 2027.

The credit phases down over five income years: 25% of "qualified commuter benefit expenditures" in the first year, 20% in the second year, 15% in the third year, 10% in the fourth year, and 5% in the fifth year.

Conn. Pub. Act No. 26-21 §§1, 10 (effective January 1, 2027, and applicable to income years commencing on or after January 1, 2027).

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Business Credits

Commuter Transportation Benefit Tax Credit.

The employer provided benefits must generally be for an employee's commute between home and work, including for: (1) participation in the CTpass program for state agency employees, which provides discounted monthly local bus passes, and (2) any other qualified transportation fringe under federal law.

To claim the credit, an eligible employer must submit a written commuter benefit plan to the **Commissioner of Transportation** for approval and submit documentation of actual expenditures, and upon verification, the commissioner issues a voucher for the applicable credit percentage. Any unused credit may be carried forward for the three immediately succeeding income years.

The credit may also be sold, assigned, or otherwise transferred, in whole or in part, to one or more taxpayers subject to the corporation business tax, and such transferees may further sell, assign, or transfer the credit.

Conn. Pub. Act No. 26-21 §§1, 10 (effective January 1, 2027, and applicable to income years commencing on or after January 1, 2027).

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Business Credits

Film and Digital Media Tax Credit.

The increased redemption rate for film and digital media tax credits claimed against the sales and use tax has been extended. A 2023 act increased the redemption rate from 78% to 92% of the credits' face value for the 2024 and 2025 income years. The 2026 legislation extends this 92% redemption rate for two additional years, to the 2026 and 2027 income years.

Conn. Gen. Stat. §12-217jj as amended by Conn. Pub. Act No. 26-68 § 268 (effective May 26, 2026).

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Business Tax Credits

Additional Film and Digital Media Production Tax Credit.

A new additional film and digital media production tax credit is created for certain eligible production companies that **film in Bridgeport, Hartford, or New Haven**. This credit is intended to incentivize production activity in Connecticut's urban centers, thereby promoting economic development and job creation in those communities.

The additional credit supplements the existing film and digital media tax credit and is available only for productions that conduct principal photography shooting in one or more of the designated municipalities for **at least twenty days**.

The credit equals a percentage of these production expenses and costs, **ranging from 30% to 50%.** Specifically, 30% for expenses and costs between $100,000 and $500,000, 35% for those over $500,000 up to $1 million, and 50% for those over $1 million.

The credit is available **for the 2027 and 2028 income years** and may be applied against the insurance premium, corporation business, cable, satellite, and competitive video, and sales and use taxes for the income year in which the production expenses or costs were incurred, or in the five immediately succeeding income years, and may be sold, assigned, or otherwise transferred according to the process under existing law for the film and digital media production tax credits.

Conn. Pub. Act No. 26-68 §275 as amended by Conn. Pub. Act No. 26-76 §34 (effective July 1, 2027, and applicable to income years commencing on or after January 1, 2027).

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Business Tax Credits

Farm Investment Tax Credit Extension.

The farm investment tax credit, which was adopted last year, has been revised to expand the definition of "eligible farmers" under the provision. As originally adopted, Connecticut taxpayers can qualify if their federal gross income from farming for the income or tax year is at least two-thirds of their federal gross income from all sources over $30,000. As revised, the credit will now also be available to Connecticut taxpayers whose federal gross income from farming for the income or tax year is not less than $250,000.

The credit applies for qualified investments in farm investment property situated in Connecticut. The change is effective for years starting in 2027.

Conn. Gen. Stat. §12-217vv(a), as amended by Conn. Pub. Act No. 26-75 §2 as amended by Conn. Pub. Act. No. 26-76 §70 (effective from passage and applicable to income and taxable years commencing on or after January 1, 2027).

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Sales and Use Tax

Sales and Use Tax

Expansion of Sales Tax Free Week.

- The sales and use tax free week occurs from the third Sunday in August through the following Saturday – this year that will be from August 16 to August 22.
- Sales tax free week normally applies to clothing and footwear. This year the items that can be purchased sales tax free has been expanded to include backpacks and cleated shoes.
- Further, the exemption has been expanded to items costing less than $300 (increased from $100).

Conn. Gen. Stat. §21-407e as amended by Conn. Pub. Act No. 26-68 §262 (effective from passage)

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Sales and Use Tax

Sales and Use Tax Exemption for Nonelectronic School Supplies.

- A new exemption from the sales and use tax is created for **nonelectronic school supplies** that are purchased for **nonbusiness purposes**.
- The exemption applies to all qualifying purchases of nonelectronic school supplies regardless of the time of year in which they are purchased, distinguishing this permanent exemption from the limited sales tax holiday for back-to-school items that some states employ on an annual basis.
- On June 12, 2026, the DRS issued PS 2026(1), which sets out a list of qualifying "nonelectronic school supplies" and sets forth criteria concerning when a purchase is considered made for a business purpose.

Conn. Gen. Stat. §12-412 as amended by Conn. Pub. Act No. 26-68 §272 (effective July 1, 2026, and applicable to sales occurring on or after July 1, 2026).

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Sales and Use Tax

Amendment to the Definition of "gross receipts" to exclude "Subscriber Fees".

- Conn. Gen. Stat. § 12-409(a)(9)(B) has been amended so as to exclude therefrom "the amount of any subscriber fee assessed pursuant to section 16-256*l*."
- This amendment was made so as to make clear that the fees reported by "providers" on their Sales and Use Tax returns pursuant Conn. Gen. Stat. § 16-256*l* are neither to be included in nor considered to be "gross receipts" for sales and use tax purposes.
- A "provider" under Section 16-256l is a telephone company, a telecommunications company, or a provider of commercial mobile radio service (such as wireless or cellular carriers).
- The funds collected by the "providers" are used to fund the firefighter's cancer relief account.

Conn. Gen. Stat. §§16-265l and 12-407(B)(9)(a) as amended by Conn. Pub. Act No. 26-68 §§209-210 (effective May 26, 2026).

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Property Taxes

Property Taxes

Municipal Tax Abatement for Surviving Domestic Partners of First Responders.

- The municipal property tax abatement for surviving spouses of first responders who die in the line of duty has been expanded to include domestic partners of such first responders.
- A "domestic partnership" is a partnership between two people who (1) are at least age 18; (2) are in a committed, intimate relationship with each other; (3) are not married to anyone; (4) would not be prohibited from marrying each other under the state's laws; (5) reside together in a principal residence; and (6) are each other's sole domestic partner.

Conn. Gen. Stat. §12-81x as amended by Conn. Pub. *Act No. 26-12 §62 (effective October 1, 2026).*

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Property Taxes

Homestead Property Tax Exemption.

Municipalities may now adopt a partial property tax exemption for certain primary residences. A municipality that adopts this new exemption must reduce, by $50,000, the assessed value of single-family homes, common interest community units, and condominiums that are owned by, or held in trust for, one or more eligible taxpayers.

To adopt the new exemption, a municipality's legislative body must vote in favor of it. The municipality may limit eligibility to taxpayers who meet length-of-residency requirements it sets. Taxpayers must annually file a form with their assessors declaring that (1) the dwelling is their primary residence, (2) they have no other primary residence, and (3) they have not claimed the exemption for any other residence that year. Taxpayers who do not file this form by November 1 are ineligible for the exemption for such assessment year.

Existing law allows municipalities to provide an exemption for certain owner-occupied primary residences. Under it, municipalities may exempt between 5% and 35% of an eligible property's assessed value. The Act prohibits municipalities from providing this exemption and the new exemption in the same assessment year.

New section and Conn. Gen. Stat. §12-81oo as amended by Conn. Pub. Act No. 26-68 §§224-225 (effective May 26, 2026 and applicable to assessment years starting on or after October 1, 2027).

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Property Taxes

Property Tax Exemption for Class I Renewable Energy Sources.

- The property tax exemption for Class I renewable energy sources installed for generation or displacement of energy previously *was limited to* exemption of equipment and devices that have the primary purpose of generating electricity and shall not apply to any real property on which such equipment and devices are located or installed.
- This limitation has been eliminated.
- Moreover, the property tax exemption for Class I renewable energy sources that consist of equipment and devices that primarily collect solar energy and generate energy by photovoltaic effect *has been limited* to equipment and devices whose owners receive, on or after July 1, 2025, permission to operate from an electric distribution company or municipal electric utility.

Conn. Gen. Stat. §12-81(57) as amended by Conn. Pub. Act No. 26-134 §1 (effective June 4, 2026).

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Property Taxes

Uniform Solar Capacity Tax.

The Act expands the municipal uniform solar capacity tax to permitted systems on or after July 1, 2025.

For those newly captured systems (permission to operate received on or after July 1, 2025 but before July 1, 2026), the tax is imposed for nineteen solar capacity tax years rather than the twenty-year period applicable to systems receiving permission on or after July 1, 2026.

The Act also establishes a transitional notification deadline of July 10, 2026 for owners of systems that received permission to operate before July 1, 2026, and clarifies that municipal stabilization agreements—including those entered into under Chapter 203 prior to July 1, 2025—apply in lieu of the tax where the system owner receives permission to operate on or after July 1, 2025.

Conn. Gen. Stat. §12-121dd as amended by Conn. Pub. Act No. 26-134 §3 (effective July 1, 2026).

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Property Taxes

Property Tax Exemption for Church-Owned Property Leased to For-Profit Daycare.

In *Lee Memorial Methodist Church of Norwich, Connecticut v. City of Norwich*, 237 Conn. App. 826 (2026), the Connecticut Appellate Court affirmed the trial court's judgment that a portion of real property owned by the plaintiff church and leased to a for-profit, licensed daycare facility was entitled to a property tax exemption under Conn. Gen. Stat. §12-81(14).

The plaintiff had leased a portion of its property to Creating Opportunities for Youth, LLC (d/b/a Little Learners), an unaffiliated for-profit entity. The City of Norwich denied the exemption.

The Appellate Court held that the plain language of Conn. Gen. Stat. §12-81(14) requires only that the exempt property be owned by a religious organization and that it be used exclusively as a daycare facility. The statute does not require that the daycare facility be operated by the religious organization or be a not-for-profit entity.

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Property Taxes

Manufacturing Exemption—Generation of Electricity.

In *McHenry Solar, LLC v. Town of Hampton*, 235 Conn. App. 355 (2025), the Appellate Court considered whether machinery and equipment used at a solar facility to generate electricity qualifies for the personal property tax exemption for manufacturing machinery and equipment under General Statutes § 12-81(76).

The plaintiff, which owned solar generation equipment and sold the electricity produced to Connecticut argued that its process of generating solar electricity constituted "manufacturing" as defined in § 12-81(72)(A)(iii)—"the activity of converting or conditioning tangible personal property by changing the form, composition, quality or character of the property for ultimate sale at retail."

The court concluded that the definition of manufacturing is ambiguous as to whether it includes the generation of electricity. Applying the rule that tax exemptions must be strictly construed against the taxpayer, the court held that businesses engaged in the generation of electricity are ineligible for manufacturing exemptions from the sales tax. The court further concluded that it would be illogical to find that the generation of electricity is manufacturing for purposes of the property tax exemption but not the sales tax, given that the legislature made the definition of manufacturing the same under both statutory schemes.

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Miscellaneous Taxes

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Miscellaneous Taxes

Cannabis Tax.

- The current multi-tiered state taxes on retail sales of cannabis plant material, cannabis edible products, and other cannabis (based on THC content) are replaced with a single tax of 10.75% of a retailer's gross receipts from cannabis sales.
- As under existing law, the tax applies to sales by a cannabis retailer, hybrid retailer, or micro-cultivator. The new single-rate tax does not apply to (1) sales of cannabis for palliative (medical) use; (2) sales of cannabis by a delivery service to a consumer; or (3) the transfer of cannabis to a transporter for transport to any other cultivator, micro-cultivator, food and beverage manufacturer, product manufacturer, product packager, dispensary facility, cannabis retailer, hybrid retailer, or producer.
- The tax applies in addition to the 3% municipal cannabis tax and the 6.35% state general sales tax, bringing the total combined tax burden on adult-use cannabis sales to approximately 20.10% (exclusive of municipal property taxes and other charges).

Conn. Gen. Stat. §12-330ll as amended by Conn. Pub. Act No. 26-68 §264 (effective October 1, 2026, and applicable to sales occurring on or after that date).

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Miscellaneous Taxes

Nursing Home and Intermediate Care Facility Day User Fees.

- The user fees that were adopted in 2025 have been repealed. The 2025 legislation had based the user fees on revenues (prior law was based on resident days)
- The new user fees were to go into effect on July 1, 2026.
- With the repeal, the nursing home and intermediate care facility user fees were restored back to fees that are based on resident days, as was the case prior to the adoption of the 2025 legislative changes.

Conn. Gen. Stat. §12-263s(b) as amended by Conn. Pub. Act No. 26-68 §60 (effective July 1, 2026, and applicable to calendar quarters commencing on or after July 1, 2026).

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Miscellaneous Taxes

Significant Changes have been made to the Hospital Provider Tax:

- The tax on inpatient hospital services is decreased.
- The total revenue on which the outpatient hospital services tax is calculated has been decreased.
- The consequences of a hospital dissolution have been revised.
- The applicable federal fiscal year used to calculate the tax has changed.
- Children's general hospitals are required to pay the tax starting July 1, 2026
- Reporting requirement to the DRS have been revised.

Conn. Pub. Act No. 26-68 §§357-362, as amended by Conn. Pub. Act No. 26-76 §§18-20 & 82 (effective various dates).

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Administrative Matters

Administrative Matters

Sourcing Revenue to Municipalities. Existing law requires the DRS commissioner, starting with FY 26, to track and record the source of state sales and use, personal income, and corporation business tax to accurately and fairly attribute the revenue from each of these taxes to municipalities. The Act additionally requires the commissioner to track and record the source of insurance premiums taxes for this same purpose. Conn. Gen. Stat. §12-7e as amended by Conn. Pub. Act No. 26-68 §273 *(effective July 1, 2026).*

Payroll Tax Working Group. A working group is established to study and provide recommendations on establishing a payroll tax program for state employees. The working group is tasked with evaluating the feasibility, structure, and potential revenue impact of such a program, and must report its findings and recommendations to the Finance, Revenue and Bonding Committee by January 1, 2027.

Conn. Pub. Act No. 26-68 §249 (effective May 26, 2026).

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Administrative Matters

Working Group for Volunteer Firefighters. A working group is established to review and make recommendations for legislation regarding tax incentives and credits for volunteer firefighters in the state. Conn. Pub. Act No. 26-12 §63 *(effective May 11, 2026).*

Connecticut Workforce and Productivity Gap Plan. By January 1, 2027, the OPM secretary, in consultation with the revenue services and labor commissioners and chief workforce officer, must submit a plan to the General Assembly to address technological advancements and workforce impacts. The plan must include a formula for a surcharge against employers that maintain a "productivity gap," defined as a measurable increase in revenue-per-employee hours occurring when Connecticut payroll is reduced materially while gross revenue remains stable or increases. The plan must also include a workforce and economic stability account in which the surcharge funds will be used for grants to employers to acquire and train staff on generative or assistive artificial intelligence technologies that demonstrate a measurable increase in per-worker output without a corresponding reduction in headcount.

Conn. Pub. Act No. 26-68 §274, as amended by Conn. Pub. Act No. 26-76 §59 (effective January 1, 2027).

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Tax Studies

Tax Studies

Study of the Human Capital Investment Tax Credit. The Department of Revenue Services, in consultation with the Office of Policy Management, shall study the expansion of the human capital investment tax credit to cover intern compensation paid by (a) employers who earned the online training credential and (b) an S corporation, limited liability company, limited liability partnership, or limited partnership that earned the credential. *Conn. Pub. Act No. 26-12 §61 (effective October 1, 2026).*

Study of Sales and Use Tax Exemption for Veterans' Organizations. The Commissioner of Revenue Services, in consultation with the Commissioner of Veterans Affairs and representatives of military and veterans' organizations that are exempt from federal income tax under Section 501(a) of the Internal Revenue Code and that operate in Connecticut, is directed to conduct a study to (1) determine the amount of tangible personal property or services purchased annually by such organizations, and (2) evaluate the fiscal impact of establishing an exemption from the state sales and use tax for such organizations. The commissioner must submit a report of findings and any recommendations for legislation to the joint standing committee having cognizance of matters relating to veterans' and military affairs not later than January 1, 2027. *Conn. Pub. Act No. 26-35 §23 (effective May 26, 2026).*

Dairy Farming Sustainability Working Group. A Dairy Farming Sustainability Working Group is established within the Department of Agriculture to develop long-term support recommendations for the state's dairy industry. The working group's recommendations must include, but are not limited to: (1) the potential use and efficacy of a reimbursable tax credit program for dairy producers, (2) use of Community Investment Act funding for dairy sustainability, (3) processing capacity within the state, and (4) the use and efficacy of property tax exemptions for farmers, including both mandatory and optional local exemptions. The Commissioner of Agriculture must submit the working group's recommendations to the relevant joint standing committees on or before January 1, 2027. *Conn. Pub. Act No. 26-75 §3 (effective May 27, 2026).*

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Questions?



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General Session 2

Chris Davis is senior vice president of public policy, leading CBIA's advocacy team of in-house and contract lobbyists at the state Capitol.

He oversees the planning and execution of public policy strategy and initiatives to strengthen CBIA's mission to boost Connecticut's economic competitiveness and growth while providing opportunities for all residents.

Davis previously represented the General Assembly's 57th House District (East Windsor and Ellington) for five terms from 2011 to 2021, serving as assistant leader and ranking member of the key Finance, Revenue, and Bonding Committee.

Known for his willingness to work collaboratively in a bipartisan manner to achieve meaningful policy reforms throughout his tenure in the legislature, Davis was one of the architects of the 2017 bipartisan fiscal reforms that led to the state's current fiscal strength.

Prior to CBIA, Davis served as manager of public affairs for the Connecticut Lottery Corporation, overseeing the quasi-public agency's government affairs and public relations activities.

Davis earned both his bachelor's and master's degrees in political science from the University of Connecticut, and has previously served as an adjunct professor of political science at the University of Bridgeport.



Connecticut AI Legislative Update

Chris Davis | SVP, Public Policy | CBIA

CTCPA | 11.10.2026

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About CBIA





- CBIA members can access wide range of benefits that help lower business costs, increase organizational efficiency, and improve employee satisfaction:
  - Advocacy
  - Energy purchasing
  - Events & sponsorships
  - Employee benefits
  - HR, employment law
  - Member Resource Center
- We are the Connecticut designee for:

National Association of State Chambers | National Association of Manufacturers | BR Business Roundtable

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Why AI Policy Matters



Compliance

Meeting new AI disclosure and legal obligations



Workforce Development

Preparing Connecticut workers for AI-driven change



Business Development

Driving innovation and competitive growth

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Why AI policy matters

Connecticut's workforce exposure to AI



Cognitive Roles

~70% of CT workforce in cognitive roles



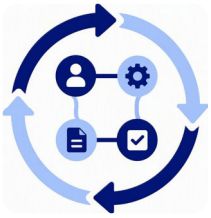
Near-Term Impact

~145,000 FTE demand impacted in 1–3 years



Long-Term Impact

~550,000 FTE demand impacted in 8–10 years



Workflow Shift

Short-term workflow impacts ~30%, rising to ~70%

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Two Waves of Disruption So Far



Wave 1: Automation

Routine cognitive tasks automated (~40% of junior roles)



Wave 2: GenAI

GenAI impacts senior roles (~35% long-term)



Entry-Level Exposure

Entry-level pathways most exposed



Rapid Timeline

Impacts happening in months, not years

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Entering New Wave: Agentic AI

Executes Workflows

Executes entire workflows

Plans & Acts

Plans multi-step work, selects tools, takes actions, maintains context, and operates with less step-by-step human direction

Beyond Assistance

AI can increasingly complete multi-step processes rather than merely assist with individual tasks

Less Human Direction

Operates with less step-by-step human oversight

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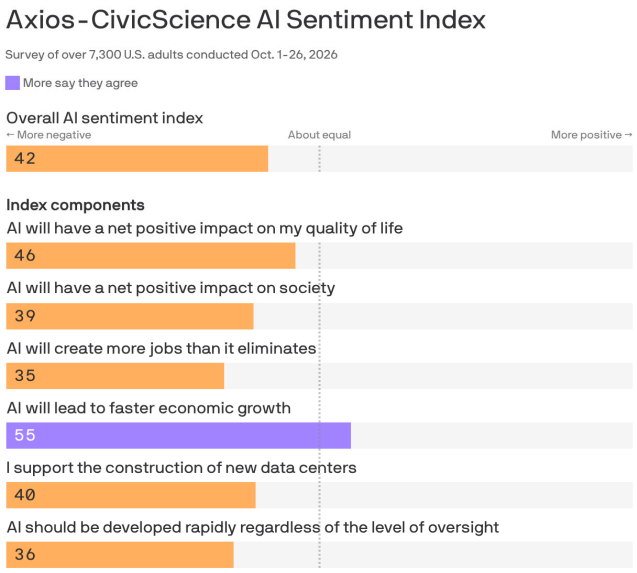
Voter Sentiment Towards AI



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CBIA Consumer Confidence Survey

- University of New Hampshire Survey Center **polled 900 Connecticut residents** between August 20-24; margin of error +/- 3.2%
- 50% say they are **worse off financially** than a year ago, a six-point jump from November 2025
- 87% say the **cost of living** has increased in the past 12 months
- **Groceries, gasoline, electricity** most impacted by price increases
- Only 13% approve of state lawmakers' handling of affordability issues; **73% disapprove**

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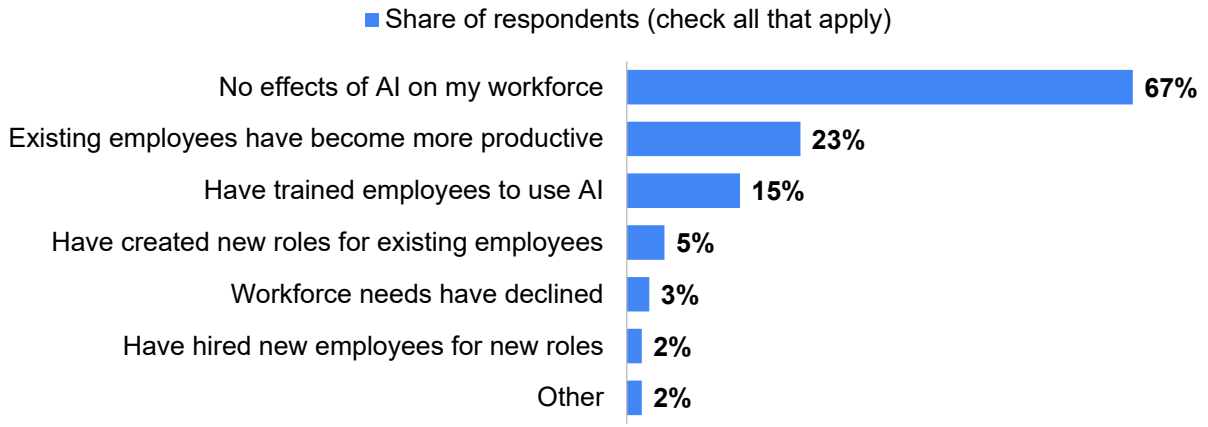
How has AI affected your workforce over the past year?



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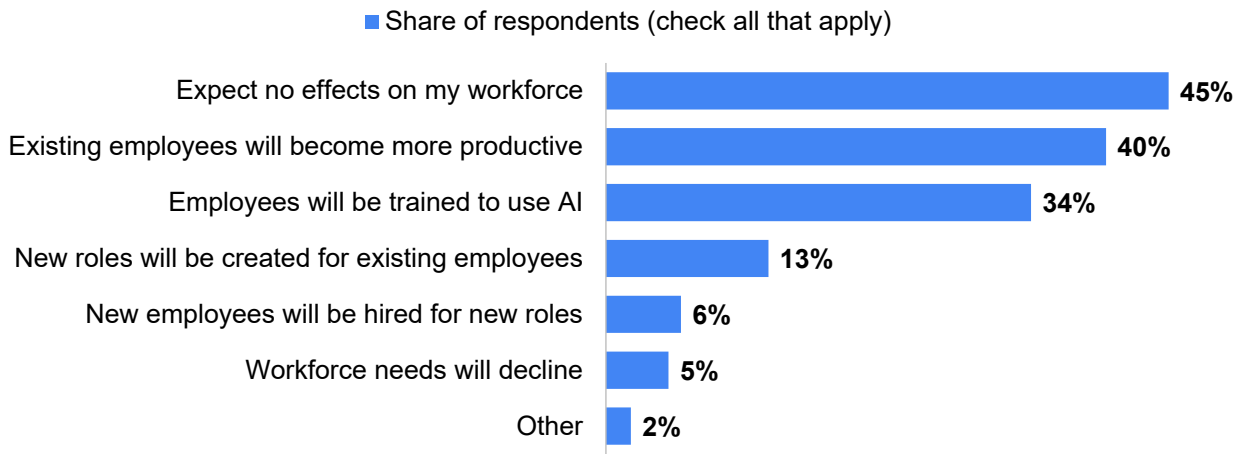
How do you expect AI will affect your workforce over the next year?



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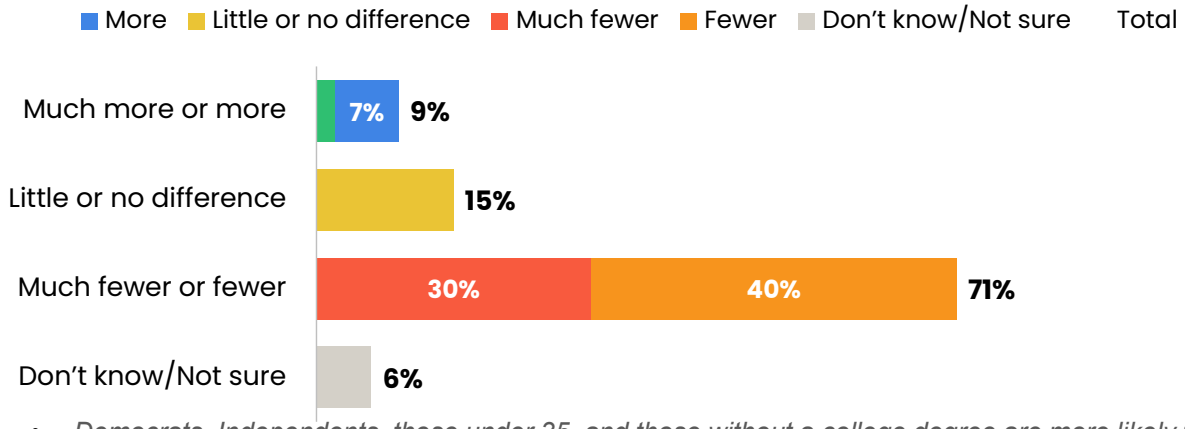
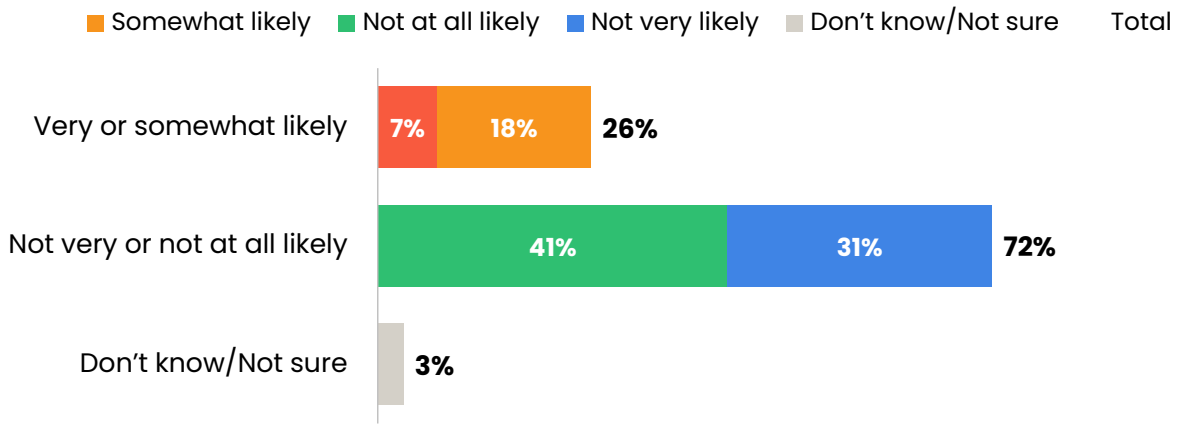
What effect will AI have on jobs in the U.S. over the next 10 years?



- *Democrats, Independents, those under 35, and those without a college degree are more likely to expect fewer or much fewer jobs.*

How likely are you to lose your job due to AI over the next 10 years?



- *Younger workers and those with household income under $75,000 are more likely to say job loss is very or somewhat likely.*

2026 Survey of Connecticut Businesses

- UNH Survey Center **polled 3,300 Connecticut business leaders** between June 2-July 7; response rate 11%
- **70% were profitable** in 2025, 15% broke even, 15% reported losses; 65% expect a profit in 2026
- 90% say the **cost of doing business** has increased in the past 12 months
- 54% say **healthcare costs and accessibility** should be the General Assembly's top priority in 2027, with energy costs close behind at 52%
- Just 16% approve of state lawmakers' handling of the economy and job creation; **47% disapprove,** 38% neutral

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Figure 47a: Is it difficult for your company to find and/or retain workers?

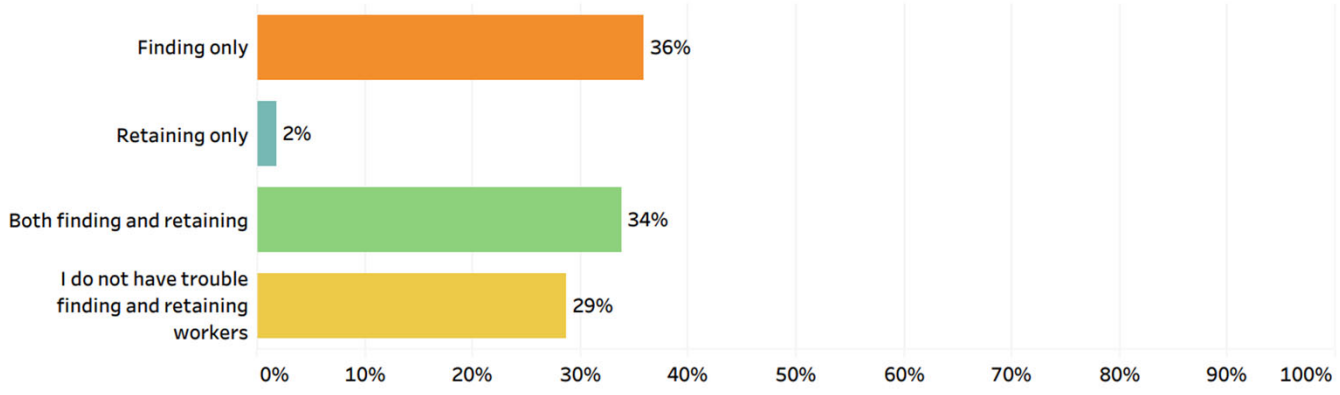

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Figure 33a: What is the main factor hampering your firm's ability to grow in Connecticut? Choose only one.

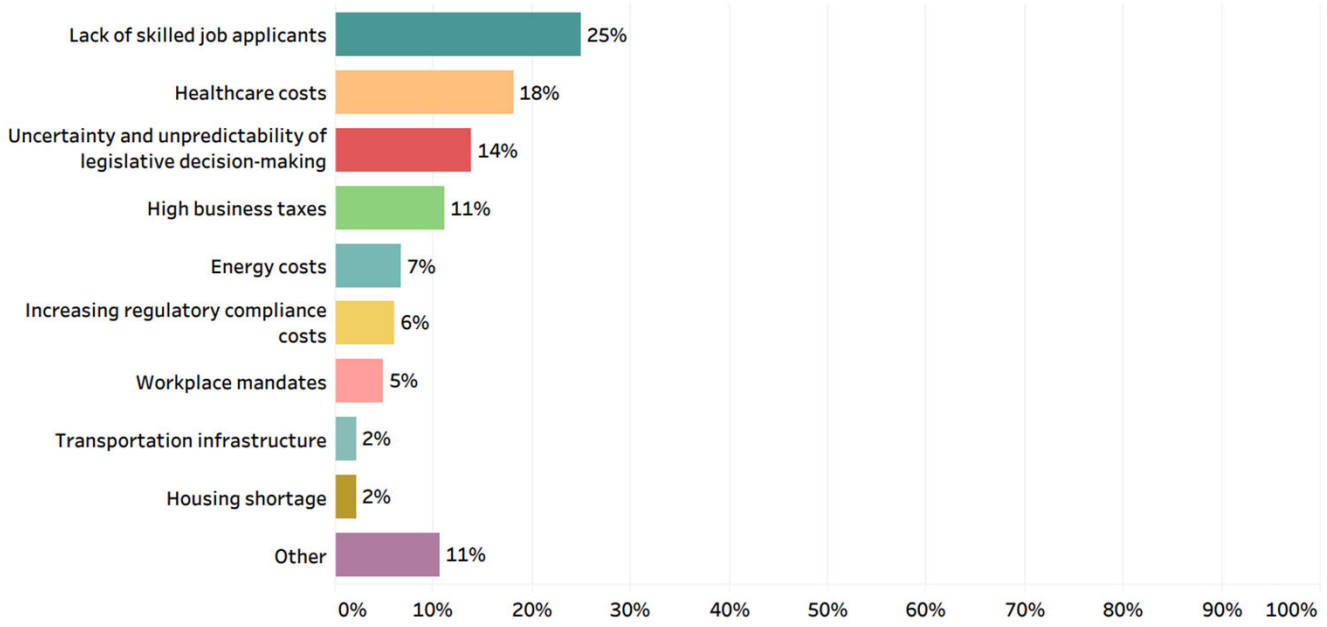

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Figure 52a: How has AI affected your workforce over the past year? Check all that apply.

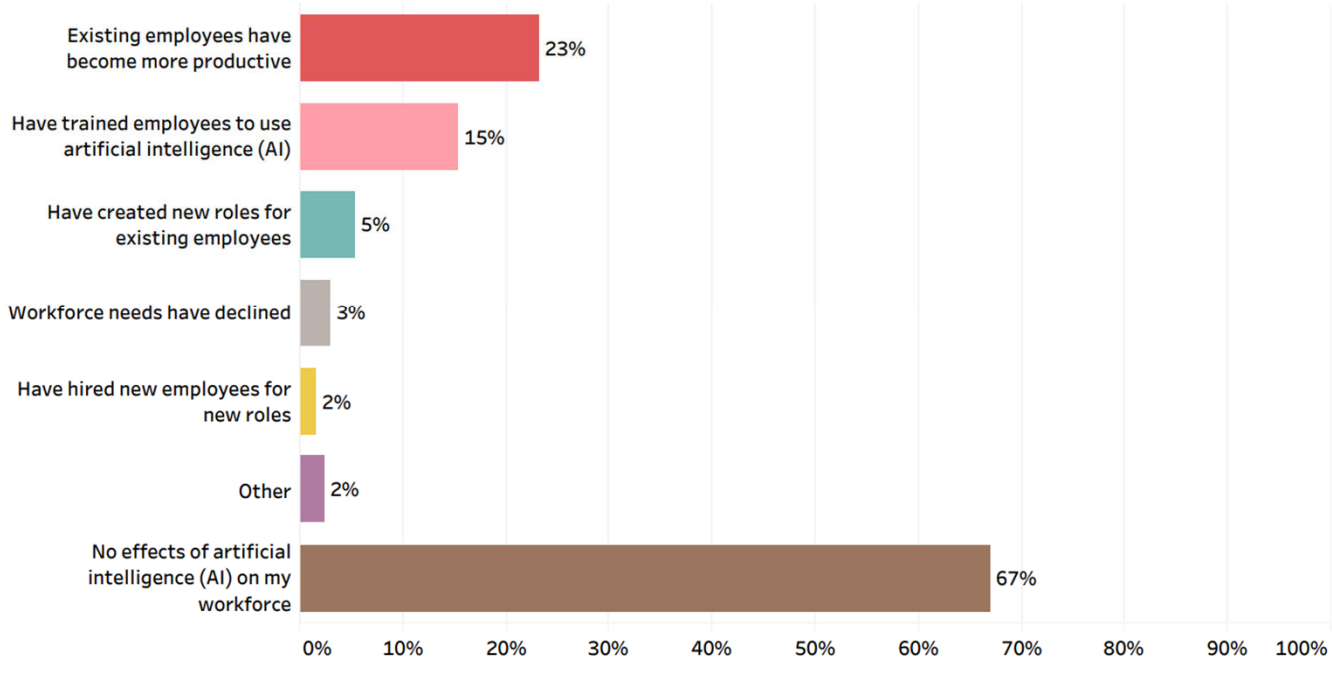

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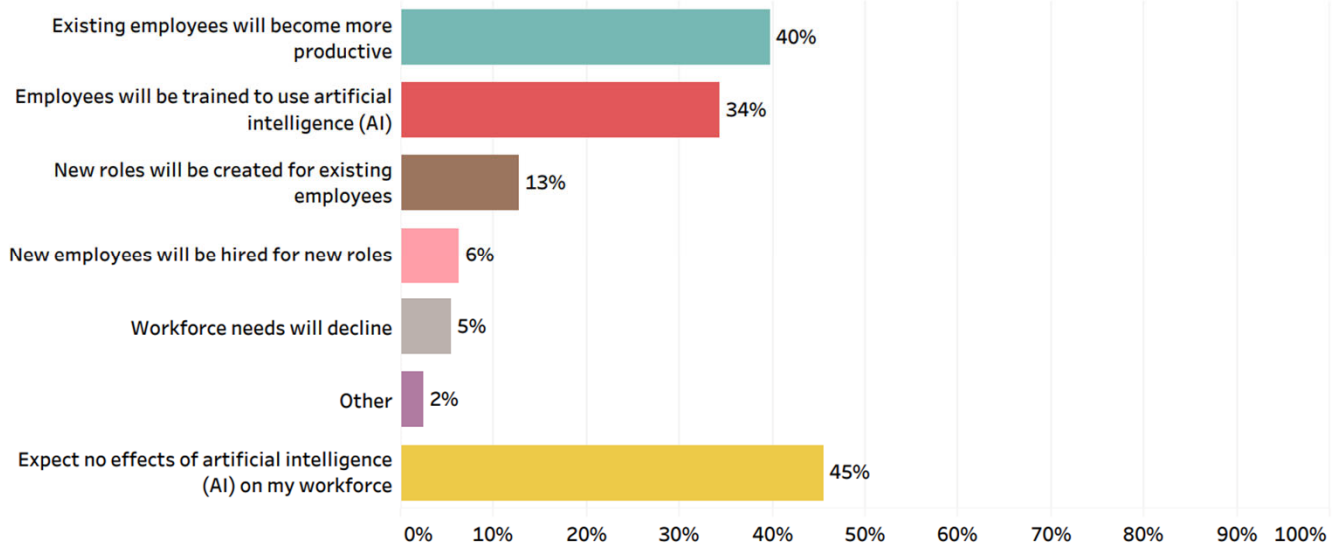
Figure 53a: How do you expect AI will affect your workforce over the next year? Check all that apply.



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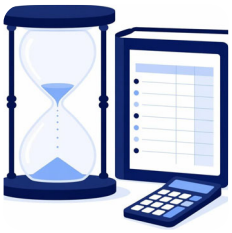
2026 Session Overview



Session Timeline

Legislative session ran February 4 through May 6



Short Session

Lawmakers supposed to be limited to budget adjustments only



1,100+ Bills Introduced

218 bills passed into law this session



Unusual Procedures

Traditional processes were not followed this session

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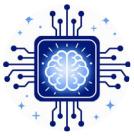
Major AI related bills



Senate Bill 5
Omnibus AI bill



Senate Bill 4
Data privacy and algorithmic pricing



House Bill 5003
Omnibus workforce bill



Senate Bill 417
Small business AI program

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Automated Employment Decision Technology



AI Decision Disclosures
Disclose use for hiring, firing, promoting, and scoring



Data Sources Disclosure
Disclose categories and sources of personal data



Not a Defense
AI use is no defense against discrimination claims



Purpose and Nature
Disclose purpose and nature of AI decisions

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Innovation Support

AI Regulatory Sandbox



Sandbox Program
DECD to design an AI regulatory sandbox



Reduced Requirements
Temporary testing under lighter licensure rules



Competitive Climate
Built to attract AI development and deployment



Multi-State Reach
Explore a reciprocal sandbox with other states

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Testing Pilot

Independent Verification Pilot Program



Third-Party Verification
DCP pilot for independent AI model checks



Harm Prevention
Targets injury, property, and privacy harms



Limited Scope
Up to five entities; ends June 30, 2030



Legal Defense
Verification stands as a compliance defense

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Consumer Privacy and Protection

Data Broker Registration



Broker Registration
Data brokers must register with DCP



Sale Limits
Bans selling or licensing personal data



Deletion Mechanism
Accessible deletion checked every 45 days



Geolocation Ban
Prohibits selling precise location data

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Consumer Protection and Privacy

Algorithmic Pricing & Right to Delete Public Data



Pricing Disclosure
Reveal when a device sets online prices



No Surveillance Pricing
Bans surveillance-based retail pricing



Delete Public Data
Right to remove public profile data



Profile Protection
Covers data sold or shared in profiles

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Additional Changes



Subscription Disclosure
Written notice and consent for AI subscriptions



Whistleblower Protections
Anonymous risk reporting at large AI developers



Layoff Notices
Disclose when layoffs tie to AI adoption



Minors & Social Media
Limits algorithmic feeds and adds warnings

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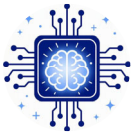
Connecticut AI Academy



Statewide Platform
AI training platform through the Board of Regents



Broad Access
Courses for students, workers, and small businesses



DOL Integration
Built into workforce programs through DOL



Wide Distribution
Shared via housing, unemployment, and outreach

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Education and Talent Preparation



Teacher Prep
AI built into teacher preparation programs



K-12 Curriculum
Computer science and AI required in K-12



Responsible Use
Focus on responsible use of emerging tech



Talent Pipelines
Programs build AI and quantum talent



Pipeline Alignment
Long-term workforce pipeline alignment

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Statewide Workforce Strategy



Higher Ed Alliance
Coordinates AI workforce pipelines statewide



Talent Matching
Connects students with employers



Research Symposium
Annual event driving industry collaboration



Applied Learning
Expands AI internships and applied models

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Productivity Tax Plan

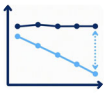
OPM Productivity Gap Proposal



OPM Plan
OPM to design a productivity-gap tax formula



Surcharge & Exemption
Charge on gaps; relief for added output



Productivity Gap
When payroll falls but revenue holds



Reinvest in Workers
Funds retraining and career transition

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Looking ahead: Policy Changes

Where Connecticut policy may go next



Tech Courts
Specialized courts for technology disputes



Third-Party Verification
Verification requirements for AI systems



Workforce Development
Further AI workforce development efforts



Small Business Support
Help for small businesses adopting AI

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Looking ahead for accounting industry

- Accountants produce work faster, but must review AI-generated conclusions
- Greater automation of processes
- Use of GenAI increases for research, organizing material, process improvements, and preparing drafts
- Firms begin to redesign entire processes around people supervising AI agents
- Integrated human-agent teams, continuous audit and compliance, automated client delivery and real-time advisory
- Changes to staffing pyramids, billing models, career ladders and firm economics

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General Session 3

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.

Tony Switajewski, CPA

CLA (CliftonLarsonAllen LLP)



Principal – State & Local Taxes
West Hartford, CT

860-561-6810
Tony.Switajewski@CLAconnect.com

Profile

Tony has more than 35 years of experience in federal and state taxation and has specialized in multistate taxation issues for the past 25 years. He specializes in business, personal, and sales and use taxation for multinational enterprises, as well as for privately held businesses and their owners.

Throughout his career Tony has gained broad industry experience in manufacturing, distribution, retail, construction, biotechnology, software development, e-commerce, professional services and financial services.

Technical experience

- Multi-State Income and Non-Income Taxation
  - Business Taxation (corporate and passthrough entities)
  - Individual Income Taxation
  - Sales and Use Taxation
  - State & Local Tax Audit and Appellate Controversies
- CLA's National SALT Quality Control Representative
- CLA National State Income and Franchise Tax Member

Education and professional involvement

- Certified Public Accountant in the State of Connecticut
- Master of Science in Taxation from University of Hartford
- Bachelor of Science in Accounting from Central Connecticut State University
- American Institute of Certified Public Accountants Member
- Connecticut Business & Industry Association (CBIA) - Tax Committee Member
- Connecticut Certified Public Accountants (CTCPA) - State Tax Committee Co-Chairperson

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WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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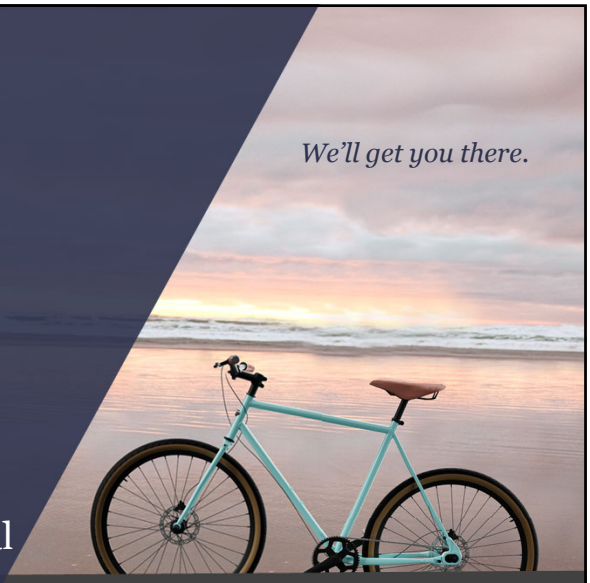
Connecticut's Composite Tax and Passthrough Entity Tax November 10, 2026



Presenters:

- Tony Switajewski, CLA, Tax Principal
- Chrystal Hale, CT DRS, Tax Unit Manager

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Agenda

I. What's New
II. Composite Tax
III. Modifications and Sourcing
IV. Pass-Through Entity Tax
V. Tax Credits
VI. Illustration of PET Base
VII. Questions After Each Section



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I. What's New for 2026

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What's New for Pass-Throughs for 2026

Pass-Through Entity Tax Return

- No significant changes!

Composite Tax Return

- Reduced to 5 pages.
- Schedule CT K-1s must be provided with the return.
  - Order of sections have changed.

Federal Modifications

- No significant changes.

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What's New for Pass-Throughs - Credits

Composite Tax Credits

- **Research and Development Expenditures Tax Credit**
  - The credit is equal to six per cent (6%) of the §174 research and development expenses paid or incurred by a "qualified small business" for a taxable year.
  - No carryback or carryforward but may be exchanged for cash.
  - Application made to the Commissioner of the Department of Economic and Community Development.
- **Exchange of Research and Development Expenditures tax Credit for Cash**
  - After application of the Research and Development credit to tax liability, any remaining credit may be exchanged (65% or 90% if biotechnology business) on the Composite or Individual Income tax return.
- **Individual Coverage Health Reimbursement Tax Credit**
  - May be claimed in the first income year during which the business offered an "individual coverage health reimbursement arrangement" and the immediately succeeding income
  - Any credit that is not used in the income year during which it was earned, expires and is not refundable.
  - Application made to the Commissioner of Revenue Services.

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What's New for Pass-Throughs - Credits (continued)

Composite Tax Credits (continued)

- **Licensed Family Child Care Home Credit**
  - Credit of $500 for any taxpayer who owns a "family childcare home" (which term is defined in Conn. Gen. Stat. § 19a-77) and is licensed under Conn. Gen. Stat. § 19a-87b.
  - Credit may offset up to the Composite liability and can be refunded on an individual income tax return if it exceeds the income tax liability.

- **Farm Investment Property Tax Credit**
  - Credit based on farmers' investments in eligible machinery, equipment, and buildings.
  - Equal to twenty per cent (20%) of the amount paid or incurred during an income or a taxable year for farm investment property by a taxpayer that is an eligible farmer.
  - Credit may offset up to the Composite liability and can be refunded on an individual income tax return if it exceeds the income tax liability.

✓ **You must include the applicable credit forms when filing. An inquiry letter may be sent if supporting documentation is not received with original return, which may delay processing of the return.**

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II. Composite Tax

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Composite Tax Refresher – Compliance Requirements

- Effective 2024, Form CT-1065/CT-1120SI, Connecticut Composite Income Tax Return, is the required form for any entity conducting business in Connecticut or that receives Connecticut source income from a subsidiary PE.
  - Reduced to 5 pages; Schedule CT K-1s must be provided with the return; Order of sections have changed.

- Nonresidents are subject to composite tax (nonresidents cannot opt out and applies whether the PET election is made). The composite tax is due annually by the PE (no estimate tax payments are required).
  - Composite payments are reported on the individual's withholding schedule of the CT-1040 and PE credits are reported on the individual's Schedule CT-PE.
  - If the PE income is a nonresident's only CT source taxable income, other than from other PEs with CT sourced income, they are not required to file a CT nonresident tax return but can file a return and report all their CT sourced income, their composite tax payments, and their PET credits.



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Composite Tax Refresher – Tax Payment Requirement

- For the composite tax, the PE must *remit tax payments on behalf of nonresident owners* that are not C corporations and tax-exempt entities {this includes owners that are nonresident individuals, trusts, estates, and includes other PEs (e.g., partnerships)} that *have > $1,000 of Connecticut source* income sourced to the owner.
- Composite Income Tax is paid *on behalf of*:
  1. Nonresident & part-year individuals
  2. Nonresident & part-year trusts
  3. Nonresident estates
  4. Pass-through entities (i.e., Subsidiary PE making payment base on CTSI of Parent PE):
     - **Elective: You *may look-up to the ultimate members, if you have sufficient information, of the Parent PE to determine the composite tax payment requirement*:**
       - The CT K-1 distributed to a Parent PE should still reflect the entire Connecticut-source income, regardless of the Parent PE's members.
       - *Note*: However, the composite tax payment will not equal 6.99% of the Connecticut-source income if you are looking through to the Parent PE's owners to determine the Parent PE's owners' tax payment.



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Composite Tax Refresher – Determination of Connecticut Sourced Income Subject to Composite Tax

- For the composite return, if the PE is apportioning (not using separate books and records), then the taxable member's (i.e., nonresident individuals, trusts, estates, and all PEs) Connecticut-sourced income/(loss) is determined by combining:

  1. Member's share of federal items of income, gain or loss from PEs own operations *multiplied* by the apportionment fraction (*other than items that are separately sourced to CT such as, rental income/(loss), gain/(loss) from real property, TPP depends on its usage*);

  2. Member's share of PEs own federal modifications *multiplied* by the apportionment fraction; **and**

  3. *If a Parent PE*, Parent PE member's share of amount from Connecticut source income from CT K-1s received - Note that this Connecticut source income is already modified.





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Composite Tax Refresher – Tax Payments

- Estimate tax payments are not required for the composite tax.
- Composite tax liability must be paid on or before the due date of the return (March 15 for 12/31 tax year ends).
- The payments made toward the composite tax liability are income tax payments *on behalf of taxable nonresident members (think withholding).* They are NOT considered entity level business income tax payments (they should not be reported as a tax deduction on the PE return).
- Any overpayment *from the passthrough entity tax (PET) account* can be transferred to the composite tax account as a timely payment in two ways:
  1. *If file a CT-PET*, as *requested* on the CT-PET.
  2. *If a PET election is not made and a CT-PET is not filed*, the payments will *automatically* transfer to the composite tax return.
- Overpayments *from the composite tax account* to the passthrough entity tax account are *not* transferred as timely payments.





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Composite Tax – FAQs

Common filing questions:

- **If the PE has resident members but does not conduct business in Connecticut, does the PE still have to composite return?** No for composite; but maybe for PET.
- **What if the PE doesn't have any physical presence in Connecticut, does the PE still have to file?** It depends. Possible sales threshold ($500,000) economic nexus – see SN 2017(1)
- **What are the requirements of an S corporation F Reorganization?**
  - The new PE is filing a Composite return for the full-year, how do I cease my old account?
  - The PE made payments under the ceased entity, how do I transfer the payments?
- **Others?**



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III. Modifications and Sourcing

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Tax Base Components – Modifications to Federal Taxable Income

Tax Base Common Modifications to Federal Taxable Income:

- **Addbacks**
  - Interest on Non-CT Municipal Tax-Exempt Bonds
  - Fixed Asset Expensing
    - 100% Bonus Depreciation (§168(k))
    - 80% x Section 179 Expensing

    {In general, it is the CT DRS's position that the §168(k) bonus depreciation and §179 addback adjustments are made by the PE owner on their CT individual tax return irrespective of the PE owner's outside stock/partnership basis or PAL limitations. Don't look at owner's ability to deduct due to basis or PAL limitations (DRS position: always an addback)}
  - CT PET Payments:
    - Not other state taxes (PET or otherwise) – just Connecticut PET is added back
    - "Payments" should mean accrued (deducted) if on the accrual basis of accounting
- **Subtractions**
  - U.S. Obligation Interest
  - 25% of Bonus and 179 addback
    - Subtraction is based on the addback year's apportionment percentage – (*caution, tax prep. software may not do this*)
    - Change in ownership of entity - Does not affect the subtraction modification for the PET taxable income base, but affects the owners' composite CT modification (addback and subtraction is personal to each owner – *caution, tax prep. software may not do this*).





Tax Base Components – Modifications to Federal Taxable Income

- No Modifications for PET and PIT – Follows OBBBA federal treatment:
  - IRC §§174A & 174 and OBBBA §7032(f): Domestic & Foreign Research Expenses and OBBBA Transitional Rules.
    - *2026-2, Taxpayer Services Special Bulletin* - Recently Enacted Legislation Impacts Connecticut's Conformity to IRC § 174 and IRC § 174A *for Corporation Business Tax Purpose*
  - §168(n): 100% deduction for certain domestic production facilities





Federal Modifications

- Modifications added and subtracted from Federal AGI to determine Connecticut AGI
- These modifications are currently apportioned (if using an apportionment fraction) in determining Connecticut source income other than:
  - Subtraction modification – 25% of Section 168(k) bonus depreciation added back in *prior years*
  - Subtraction modification – 25% of Section 179 federal deduction added back in *prior years*

Common issues:

- Using the wrong apportionment percentage for the subtraction modifications mentioned above (168(k) and §179 subtractions).
- Adding back passthrough entity tax on the composite return, w/b only added back when determining the PET taxable income base.
- Erroneous other additions and other subtractions.
- Not apportioning modifications *when calculating Connecticut source income.*

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Subtraction Modification Example – Bonus Depreciation

	2024	2025	2026	2027	2028
§168(k) Federal Addition	$100,000				
CT Apportionment %	x 30%	25%	15%	20%	35%
CT Sourced Addback	$ 30,000				
Federal Subtraction*		($25,000)	($25,000)	($25,000)	($25,000)
CTSI Subtraction*		($ 7,500)	($ 7,500)	($ 7,500)	($ 7,500)

Assume:	CTSI (Subtraction)
2025 Ordinary Income	$50,000
CT apportionment 25%	x 25%
CTSI	$12,500
Subtraction from 2024	($ 7,500) {**not** $100,000 **x 25%**)
CTSI	$ 5,000

*Modifications stay with the owner for the individual tax or composite tax. For PET it continues, irrespective of ownership changes.

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Tax Base Components – Separate Sourcing

- Special Treatment of Connecticut Sourcing Items (nonresident sourcing)
  - Investment (intangible asset) Income Treatment
    - CT sourced income *to the extent* attributable to property (the intangible asset, itself) *employed* in a business, trade, profession or occupation carried on in Connecticut {Reg. 12-711(b)(5)}
      - Interest and Dividends
      - Gain on Sale of Partnership Interest or Stock
  - Rental Income:
    - Real Estate Rental Income (separately allocated)
    - Tangible Personal Property Rental Income (included in the sales factor)
  - Gain or Loss Sale:
    - Real Estate Gain/Loss (separately allocated)
    - Tangible Personal Property Gain/Loss - if not inventory (separately allocated, depends)





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Apportionment – Single Sale Factor

- Nexus: When a PE Carries on business both within and outside Connecticut
  - Physical Presence
  - Economic Nexus ($500,000 sales threshold)
  - Market-based sourcing for services – where the service is “used”
  - Protection under P.L. 86-272?
  - CT Based Company (generally, using CT’s nexus rules)?
- The 12-711(c)(2)(E) Exclusion:
  - Gross receipts from the sale or other disposition of tangible personal property or intangible property are excluded from the gross income percentage if such property is not held by the taxpayer primarily for sale to customers in the ordinary course of the taxpayer's trade or business.
  - Goodwill gain from the sale of business assets is not included in the sales factor.
  - Inventory gain, recognized from the sale of business assets, is included in the sales factor and included in the numerator, if the inventory is in CT at the time of the sale.
- Petitions for an alternative method of sourcing receipts to the sales factor is allowed.
- Refer to Special Notice 2017(1) and §12-711(c)(2).





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Connecticut Source Income Limitations

When determining the Connecticut source income, the following should be considered:

- **Separately stated deductions *that are treated as deductions below AGI* are not allowed**
  - QBI Deduction (owner level determination)
  - Itemized Deductions (Schedule A deductions)
    - Charitable contributions
- **Interest Expense**
  - Investment Interest (Schedule A deduction, below AGI owner deduction)
  - §163(j) business interest expense (PE limited - don't look at owner's ability to deduct in the future)
  - Debt financed distributions (separately stated on K-1, deduction determination made at partner level)
- **Cancellation of Debt Income (COD)**
  - Insolvency Exception (Federal rule: don't look at partners ability to exclude COD)

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Modifications and Sourcing - FAQs

- **If items subject to limitations are not included in Connecticut-source income at the PE level, how can the member be informed of these deductions?** Include a statement with the members Schedule CT K-1 stating the deduction, federal amount and what would be considered from Connecticut sources. The disclosure should describe that this amount may be reported depending on the member's limitations.
- **Does §168(k) and §179 modification stay with the owners for purposes of determining the owner's CT sourced income for purposes of the composite tax return and their individual tax return (i.e., what happens to the modifications when there is an ownership change)?** Stays with the owner who had the addback.
- **Others?**

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IV. Passthrough Entity Tax

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Pass-Through Entity Tax Election

How is the Pass-Through Entity Tax Election Made?

- With and When Making Estimated Tax Payments – No
- With the Tax Extension Forms – No
- By Filing Form CT-PET - No
- By Filing Form CT-1065/1120SI – No
- By Filing Form CT-1065/1120SI and Checking the PET Election Box – **Yes**

- Extension requests must be filed for each account (Composite and Pass-Through Entity Tax); the Pass-Through Entity Tax return should be filed the same time as the Composite return.

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Pass-Through Entity Tax - Tax Base Computation

- "Tax Base" is Connecticut AGI which is attributable to taxpayers subject to personal income taxation (individuals, trust, estates).
- It is composed of the sum of two components:
  - I. "Modified Connecticut Source Income"
  - II. "Resident Portion of Unsourced Income"
- The tax base is subject to a 6.99% tax rate to determine the elective PET liability that is to be paid by the PE.
- The PET Credit allocated to each owner is equal to 87.5% of their actual PET liability.



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Pass-Through Entity Tax Base Components – Component I

- "Modified Connecticut Source Income/AGI":
  - "Connecticut sourced income/AGI" x *direct and indirect (Elective: you can look up PE tiers for the taxable members)* ownership percentage of owners who are subject to the personal income tax (*taxable members*: resident and nonresident individual, trust and estate owners only).
    - Connecticut sourced income/AGI is federal taxable income with CT modifications" and using PE apportionment rules.
    - "Connecticut sourced income/AGI" is determined under the personal income tax sourcing/allocation and apportionment rules, regardless of ownership (i.e., don't look at C corp. rules, even if there is a C corp. owner).



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Pass-Through Entity Tax Base Components – Component II

- "Resident Portion of Unsourced Income/AGI":
  - Total Federal (as modified) AGI of the PE
    - (-minus) Connecticut (as modified) sourced income/AGI
    - (-minus) Connecticut (as modified) sourced income/AGI *from other PEs*
    - (-minus) "Other state sourced income/AGI"
      - (x-times) Ownership percentage of *direct* resident *individual* owners

- *CGS 12-699(a)(8) Other State Source Income*: "*Derived from or connected with sources within another state that has jurisdiction to tax the affected business entity and actually imposes tax on the affected business entity or its members who are residents of this state.*"





Pass-Through Entity Tax - Other State Sourced Income

- Connecticut DRS has not issued any guidance on what Other State Sourced Income means:
  - "Jurisdiction to tax" – *DRS Position*
    - What type of "tax": *Income Tax.*
    - *Income tax nexus is generally determined using Connecticut's physical and economic nexus sales threshold rules; not the nexus rules of the other state.*
    - *P.L. 86-272 protected actives do not create a jurisdiction to tax.*
  - "Derived form or connected from sources within another state" – DRS Position
    - *Under Connecticut's sourcing and apportionment rules (ignore the state K-1).*
  - "Actually imposes "tax" on the affected business entity or its resident owners" – *DRS Position*
    - *Must be a PET or a personal income tax at the composite or individual level.*
      - *State tax imposed on an S corporation as a C corporation (e.g., NH, TX), is not a "tax."*
    - What does "actual imposes" mean: *Tax must be paid, by the PE or its resident owners, not just imposed (need to show the DRS that a state tax return was filed by the PE and its CT resident owners and that the tax was paid).*





Pass-Through Entity Tax – Tiered Partnerships

Tiered Partnerships

- Each PE Tier must make its own PET election and compute PET based on its own separately determined PET taxable income base.
- Component I (MCSI): Subsidiary's PE income and apportionment information are not combined with the Parent PE to determine the Parent PE's Modified Connecticut Sourced Income (which is then multiplied by the resident and nonresident ownership %).
  - As previously discussed, the Subsidiary PE may electively look through to the Parent PE's members when determining its Component I.
- Component II (RPUI): Subsidiary PE's Connecticut sourced income is subtracted from the Parent PE's Modified Federal Taxable Income to determine the Parent PE's Resident Portion of unsourced income (which is then multiplied by the resident individual ownership%).
  - When determining RPUI for the Subsidiary PE, the Subsidiary PE would not look through to the Parent PE members for resident individuals, as this could create an issue when filing the Composite return resulting in a refund error.





PET Credit and Composite Tax Paid

- The owners subject to Connecticut personal income tax (individuals, trusts, estates) receive *a refundable credit* against their Connecticut income tax liability equal 87.5% of their share of the PET liability.
  - The "PET Credit" is allocated to each of the owners based on their respective share of the tax base.
  - *The CT PET Credit is taken after the resident credit for taxes paid to other states (including the resident credit for the PET liability paid to other states).*
- Nonresidents are subject to composite tax (nonresidents cannot opt out and applies whether the PET election is made). The composite tax is due annually by the PE (no estimate tax payments are required).
  - Composite payments are reported on the individual's withholding schedule of the CT-1040 and PE credits are reported on the individual's Schedule CT-PE.
  - If the PE income is a nonresident's only CT source taxable income, other than from other PEs with CT sourced income, they are not required to file a CT nonresident tax return but can file a return and report all their CT sourced income, their composite tax payments, and their PET credits.





Pass-Through Entity Tax - Tax Payments

- PET Estimated Tax Payments
  - Required Estimated Tax Payments for PET
    - Safe Harbors Provided
    - Caveat: If the election was not made in the prior year, the required estimates are 90% of the current year's liability; can't be based on prior year tax of $0.
  - Estimated Tax Payments are Not Required for Composite Tax (annual payment)

- PET Overpayments
  - PET overpayments can be applied to next years PET, refunded and/or applied against the composite tax (all three can be done simultaneously as well).
    1. *If file a CT-PET*, as *requested* on the CT-PET.
    2. *If a PET election is not made and a CT-PET is not filed*, the payments will *automatically* transfer to the composite tax return.





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Pass-Through Entity Tax, Composite and Individual Tax Differences

- PET and Composite Tax Differences
  - The composite (or individual's) Connecticut tax liability may differ from the share of the PET due to the CT PET expense/deduction.
    - This is because, the CT PET deduction is an addback modification to determine the PET but is not an addback modification when determining Connecticut source income for the composite or individual tax return (i.e., the PET deduction is allowed to determine Connecticut source income for purposes of determining the composite or individual CT tax).

- Composite and Individual Tax Differences
  - The composite tax may be different than what the tax would be calculated at the owner's level due to variances such as other CT sourced income, modification variances, and graduated tax rates.





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PET Election - FAQs

What if I didn't make a PET election and now want to?

- The election must be made on the composite return (check the election box) on or before the due date of the return or extended due date if an extension was filed. *Superseded return may be allowed.*

What if I erroneously made the PET election?

- If Form CT-PET has already been filed, it is irrevocable. *May be able to fie a superseded return.*
- (1) If the election was made on Form CT-1065/CT-1120SI and a CT-PET was not filed, or (2) If a CT-PET was filed but a CT-1065/CT-1120SI was not, you should receive a letter from DRS with details on the outstanding returns.

What if I made tax payments under the PET but do not elect the PET and don't file CT-PET?

- When Form CT-1065/CT-1120SI is filed, and the PET election is not made on the composite return, the payments in the PET account will *automatically* transfer to the composite account (and, if applicable be refunded from there). This is the case, even if it is not requested on the Composite return.

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V. Tax Credits

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PET and Composite Tax Credits

Pass-Through Entity Tax

1. Apprenticeship Training Credit

Composite Tax

1. ABLE Account Contribution Credit
2. Employer CHET Contributions Credit
3. Angel Investor Credit
4. Accredited Theater Production Credit
5. University of Connecticut Incentive Program Tax Credit
6. Workforce Housing Opportunity Development Credit

continued on next page…





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Tax Credits (continued)

Composite Tax (continued)

7. Youth Development Organization Contribution Credit (sunset 2025)
8. Research and Development Expenditures Tax Credit (new for 2026)
9. Individual Coverage Health Reimbursement Tax Credit (new for 2026)
10. Licensed Family Child Care Home Credit (new for 2026, refundable for Individual Income Tax)
11. Farm Investment Property Tax Credit (new for 2026, refundable for Individual Income Tax)
12. Exchange of Research and Development Expenditures tax Credit (new for 2026, refundable for Composite and Individual Income Tax)





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VI. PET Illustration

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Connecticut Elective PET Illustration

Tax Base Illustration Computation



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Part 1, Schedule B - Pass-Through Entity Income

1.	Connecticut Source PE Income/(Loss) from Part 3, *Schedule A*, Line 18, Column D	1. ►	.00
2.	Distributive Share Percentage from Part 1, *Schedule D*, Line 7, Column C. Enter as a decimal and carry to six decimal places.	2. ►	.
3.	Modified Connecticut Source Income/(Loss): Multiply Line 1 by Line 2.	3. ►	.00
4.	Resident Portion of Unsourced Income from Part 1, *Schedule C*, Line 8	4. ►	.00
5.	PE Income/(Loss) Subject to Tax: Add Lines 3 and 4, and enter on Part 1, *Schedule A*, Line 1.	5. ►	.00

Complete this section only if at least one member is a resident individual (RI).

Part 1, Schedule C - Resident Portion of Unsourced Income

1.	Total PE Income/(Loss) from Part 3, *Schedule A*, Line 18, Column A	1. ►	.00
2.	Connecticut Source PE Income/(Loss) from Part 3, *Schedule A*, Line 18, Column D	2. ►	.00
3.	Connecticut Source PE Income/(Loss) from subsidiary PE(s)	3. ►	.00
4.	Other State Sourced PE Income/(Loss). See instructions.	4. ►	.00
5.	Total subtractions: Add Lines 2 through 4.	5. ►	.00
6.	Net Unsourced Income: Subtract Line 5 from Line 1. If less than zero, enter zero ("0").	6. ►	.00
7.	Resident Individual Distributive Share Percentage from Part 1, *Schedule D*, Line 7, Column E. Enter as a decimal and carry to six decimal places.	7. ►	.
8.	Total Resident Portion of Unsourced Income: Multiply Line 6 by Line 7. If less than zero, enter zero ("0").	8. ►	.00

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Connecticut Elective PET Illustration Disclaimer

Disclaimer:

The illustration is hypothetical and doesn't reflect the operations of any client or company.

These calculations are for general illustration and conceptual purposes only.

Interpretation of tax law is subject to change (pending CT DRS forms and guidance). Do not rely solely on this illustration.

Review CT tax law (C.G.S. §12-699), administrative releases, PET forms and their related instructions for authority and guidance.

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Thank You.



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Additional Handout #1 for General Session 3 "CTPET Illustration"

Connecticut's Elective Passthrough Entity Tax Regime

By: Tony Switajewski, Tax Principal, CliftonLarsonAllen LLP

November 2026

For Illustrative Purposes Only

Disclaimer:
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These calculations are for general illustration and conceptual purposes only.
Interpretation of tax law is subject to change (pending CT DRS forms and guidance). Do not rely solely on this illustration.
Review CT tax law (C.G.S. §12-699), administrative releases, PET forms and their related instructions for authority and guidance.
See PowerPoint presentation disclaimer.

Tax Base Method Components			
Facts: (A) Resident Individual Owners (60%); Nonresident Individual Owners (40%); (B) Owns a partnership; (C) has a 10% CT apportionment factor:			*Parent PE Upper-Tier PE* **S Corporation**
I. Modified Connecticut Sourced Income:			
Federal Taxable Income of S corporation (after PET deduction)			$1,250,000
CT Modifications:			
Bonus Depreciation Addback			$100,000
U.S. Interest			($5,000)
Partnership (Subsidiary) Modifications (as reported on CT K-1)			$99,000
Modified Connecticut Taxable Income			$1,444,000
Add: CT PE Tax (deducted in FTI above)			$56,000
Total Modified Connecticut Taxable Income after CT PE Tax Payments			$1,500,000
Less: Subsidiary PE Modified Connecticut Taxable Income (i.e., federal taxable income w/ CT Modifications - from lower tier partnership ownership)			($500,000)
S corporation's separately generated Modified Taxable Income (Federal taxable income w/ Modifications)			**$1,000,000**
CT Apportionment Percentage (single sales factor, market-state sourcing) - don't flow up apportionment factor information from partnership			10%
CT Sourced Income of S corporation			$100,000
Chapter 229 Owners			
Direct Chpt. 229 Resident and Nonresident Owners (only re: individuals, trusts, and estates) - 100% of the S corporation is owned by individuals, trusts and estates			100%
Indirect Chpt. 229 Resident and Nonresident Owners of an Upper Tier PEs (only re: individuals, trusts, estate owners of UTPE) if known, otherwise UTPE's percentage			N/A
Modified Connecticut Sourced Income (MCSI)		(A)	**$100,000**
II. Unsourced Income (Resident Portion) - For Direct Resident Owners:			
Taxable Income (federal taxable income w/ CT Modifications)			$1,500,000
Connecticut Sourced Modification:			
Connecticut - Sourced Income - Partnership (S corporation's ownership distributive share)			($165,000)
Connecticut Sourced Income - S Corporation			($100,000)
Other State Sourced Income Modification (calculated under CT sourcing and modification rules):			
The state sourced income is based on the income tax nexus and state tax returns filings of both the S corporation and its subsidiary PEs. Other state sourced income is to be determined using CT's modifications and apportionment methodology (i.e., may not be able to rely on what is reported on other state K-1s).	**Calculated Other State Sourced Taxable Income**		
Florida (income tax nexus, but no income taxation - no income tax is being paid)	$20,000		
Iowa (income tax nexus, no PET election, CT resident individuals are taxed)	$5,000		($5,000)
Illinois ("jurisdiction to tax due to income tax nexus," but not filing a tax return and not paying taxes; i.e., IL replacement income tax and personal income tax exposure)	$10,000		
Kansas (P.L. 86-272 protected activities, no income taxation, not paying income tax)	$5,000		
Massachusetts (income tax nexus; filing a tax return; S corp. is subject to income tax and CT resident individuals are taxed)	$25,000		($25,000)
New York State (income tax nexus, filing a tax return as a NYS C Corp.)	$15,000		
New Hampshire (income tax nexus, filing a BPT tax return)	$30,000		
Texas (income tax nexus, filing a Franchise/Margin tax return)	$15,000		
Washington (B&O Gross Receipts Tax is being paid)	$30,000		
Wisconsin (income tax nexus, made WI PET election; entity paid PET - owners do not have to file a WI nonresident return)	$35,000		($35,000)
Unsourced Income (e.g., passive investment/intangible type income and income not sourced to other states for resident individuals; not trust or estates)			$1,170,000
Chapter 229 Direct Resident Individual Owners (not trust or estates)			
Direct *Resident Individual* Chpt. 229 Owners			60%
Resident Portion of Unsourced Income (RPUI)		(B)	**$702,000**
Tax Base		(A)+(B)	**$802,000**
PET Tax Rate			6.99%
Passthrough Entity Tax (PET)			**$56,060**
PET Credit @ 87.5% Allocated Only to Individuals, Trusts and Estates			**$49,052**

Allocation of Direct and Indirect PET Credit to Owners	Ownership %	MCSI Share	RPUI Share	PET Base Share	PET Credit 6.99% x 87.5%
S Corporation					
Direct Resident Owners	60%	$60,000	$702,000	$762,000	$46,606
Direct Nonresident Owners	40%	$40,000	n/a	$40,000	$2,447
Totals	100%	$100,000	$702,000	$802,000	$49,053

To these amounts would be added the PET credit generated from the underlying Subsidiary partnership (as an indirect credit).

Composite Tax (Like a Withholding Tax)	
Nonresident Connecticut Sourced Income	$40,000
Less: PET Deduction	($2,240)
Connecticut Sourced Income (shown on nonresidents K-1)	$37,760
Tax Rate	6.99%
Tax	$2,639
PET Credit	($2,447)
Composite Tax Due	$192

Additional Handout #2 for General Session 3 "CTPET Tax Return Schedules"

Pass-through entity's Federal Employer Identification Number

Part 1, Schedule B - Pass-Through Entity Income

1. Connecticut Source PE Income/(Loss) from Part 3, *Schedule A*, Line 18, Column D	1. ►	100,000	.00
2. Distributive Share Percentage from Part 1, *Schedule D*, Line 7, Column C. Enter as a decimal and carry to six decimal places.	2. ►	1 . 000000	
3. Modified Connecticut Source Income/(Loss): Multiply Line 1 by Line 2.	3. ►	100,000	.00
4. Resident Portion of Unsourced Income from Part 1, *Schedule C*, Line 8	4. ►	702,000	.00
5. PE Income/(Loss) Subject to Tax: Add Lines 3 and 4, and enter on Part 1, *Schedule A*, Line 1.	5. ►	802,000	.00

Complete this section only if at least one member is a resident individual (RI).

Part 1, Schedule C - Resident Portion of Unsourced Income

1. Total PE Income/(Loss) from Part 3, *Schedule A*, Line 18, Column A	1. ►	1,500,000	.00
2. Connecticut Source PE Income/(Loss) from Part 3, *Schedule A*, Line 18, Column D	2. ►	100,000	.00
3. Connecticut Source PE Income/(Loss) from subsidiary PE(s)	3. ►	165,000	.00
4. Other State Sourced PE Income/(Loss). See instructions.	4. ►	65,000	.00
5. Total subtractions: Add Lines 2 through 4.	5. ►	330,000	.00
6. Net Unsourced Income: Subtract Line 5 from Line 1. If less than zero, enter zero ("0").	6. ►	1,170,000	.00
7. Resident Individual Distributive Share Percentage from Part 1, *Schedule D*, Line 7, Column E. Enter as a decimal and carry to six decimal places.	7. ►	. 600000	
8. Total Resident Portion of Unsourced Income: Multiply Line 6 by Line 7. If less than zero, enter zero ("0").	8. ►	702,000	.00

DECLARATION: I declare under the penalty of law that I have examined this return and, to the best of my knowledge and belief, it is true, complete, and correct. I understand the penalty for willfully delivering a false return or document to the Department of Revenue Services (DRS) is a fine of not more than $5,000, imprisonment for not more than five years, or both. The declaration of a paid preparer other than the taxpayer is based on all information of which the preparer has any knowledge.

Sign Here

Keep a copy of this return for your records.

Signature of general partner or corporate officer

Date (MMDDYYYY) __ __ - __ __ - __ __ __ __

Title

Telephone number __ __ __ - __ __ __ - __ __ __ __

May DRS contact the preparer shown below about this return? Yes ☐ No ☐

Email address of general partner or corporate officer

Paid preparer's name (print)

Paid preparer's signature

Date (MMDDYYYY) __ __ - __ __ - __ __ __ __

► Preparer's PTIN

Check if self-employed ☐

Firm's name and address

Firm's FEIN __ __ - __ __ __ __ __ __ __

Telephone number __ __ __ - __ __ __ - __ __ __ __

Pass-through entity's Federal Employer Identification Number

Part 1, Schedule D - Allocation of PE Tax Credit to Members

	Column A Member # **(Do not include CM members.)**	Column B Member Type	Column C Connecticut Source Income - Distributive Share %	Column D Prorated Connecticut Modified Source Income/(Loss)	Column E Total Income - Resident Individual Distributive Share % (Enter for RI members only.)	Column F Prorated Resident Portion of Unsourced Income	Column G PE Income/(Loss) Subject to Tax (Add Column D and Column F.)	Column H Pass-Through Entity Tax (See Instructions.)	Column I PE Tax Credit (Multiply Column H by 87.5% (.875).)
1. ►	1	RI	.600000	60,000 .00	.600000	702,000 .00	762,000 .00	53,264 .00 ►	46,606 .00
2. ►	2	NI	.400000	40,000 .00	.	.00	40,000 .00	2,796 .00 ►	2,447 .00
3. ►			.	.00	.	.00	.00	.00 ►	.00
4. ►			.	.00	.	.00	.00	.00 ►	.00
5. ►			.	.00	.	.00	.00	.00 ►	.00
6. Subtotal(s) from supplemental attachment(s)			.	.00	.	.00	.00	.00 ►	.00
7. **Total** ►			1.000000 ►	100,000 .00 ►	.600000 ►	702,000 .00 ►	802,000 .00 ►	56,060 .00 ►	49,053 .00

(**Column H**: Enter Line 7, Total on Part 1, *Schedule A*, Line 2.)

Column A: Only enter the information of the following member types: RI, NI, RT, NT, RE, NE, and PE. Do not include any CM members.

Column C: Enter for the following member types: **RI, NI, RT, NT, RE, NE, and PE.** CM members should not be included on this schedule.

Column E: Enter for **RI** members only. Enter zero ("0") for all other members.

Pass-through entity's Federal Employer Identification Number

Part 3, Schedule A – Computation of PE's Own Connecticut Source Income/(Loss)

			Column A Amounts Reported by this PE on Federal Schedule K	Column B Amounts From Subsidiary PE(s)	Column C PE's Income/(Loss) From Its Own Activities (Column A minus Column B)	Column D PE's Connecticut Source Income/(Loss) From Its Own Activities (Apportioned or allocated from Column C. See instructions.)
1.	Ordinary business income (loss)	1. ►	1,250,000 .00	401,000 .00	849,000 .00	84,900 .00
2.	Net rental real estate income (loss)	2. ►	.00	.00	.00	.00
3.	Other net rental income (loss)	3. ►	.00	.00	.00	.00
4.	Guaranteed payments	4. ►	.00	.00	.00	.00
5.	Interest income	5. ►	.00	.00	.00	.00
6a.	Ordinary dividends	6a. ►	.00	.00	.00	.00
7.	Royalties	7. ►	.00	.00	.00	.00
8.	Net short-term capital gain (loss)	8. ►	.00	.00	.00	.00
9a.	Net long-term capital gain (loss)	9a. ►	.00	.00	.00	.00
10.	Net section 1231 gain (loss)	10. ►	.00	.00	.00	.00
11.	Other income (loss): Attach statement.	11. ►	.00	.00	.00	.00
12.	Section 179 deduction	12. ►	.00	.00	.00	.00
13.	Other deductions: Attach statement.	13. ►	.00	.00	.00	.00
14a.	Total Income: Add Lines 1 through 11.	14a. ►	1,250,000 .00	401,000 .00	849,000 .00	84,900 .00
14b.	Total Deductions: Add Line 12 and Line 13.	14b. ►	0 .00	0 .00	0 .00	0 .00
14.	**Total:** Subtract Line 14b from Line 14a.	14. ►	1,250,000 .00	401,000 .00	849,000 .00	84,900 .00
15.	Subtractions from Part 3, *Schedule B*, Line 15	15. ►	5,000 .00	0 .00	5,000 .00	500 .00
16.	**Subtotal:** Subtract Line 15 from Line 14.	16. ►	1,245,000 .00	401,000 .00	844,000 .00	84,400 .00
17a.	Connecticut PE tax payments deducted in calculating income/(loss) for federal purposes	17a. ►	56,000 .00	0 .00	56,000 .00	5,600 .00
17b.	Additions from Part 3, *Schedule B*, Line 7	17b. ►	199,000 .00	99,000 .00	100,000 .00	10,000 .00
18.	**Total:** Add Lines 16, 17a, and 17b.	18. ►	1,500,000 .00	500,000 .00	1,000,000 .00	100,000 .00

General Session 4

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.

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.



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.

CONNECTICUT
Revenue Services

2026 OVERVIEW & TAX DEVELOPMENTS

Mark D. Boughton
Commissioner, Department of Revenue Services

John Biello
Deputy Commissioner, Department of Revenue Services

Louis Bucari
First Assistant Commissioner and General Counsel, Department of Revenue Services

Agenda

- DRS PRIORITIES AND PRIDE POINTS
- SPOTLIGHT: TAX GAP AND PATHWAY TO COMPLIANCE
- 2026 LEGISLATIVE OVERVIEW
- "HOT TOPICS"
- QUESTIONS

Proud to serve this administration as Commissioner!



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Our North Star Tax Policy



More Taxpayers, Less Taxes

4

DRS Priorities

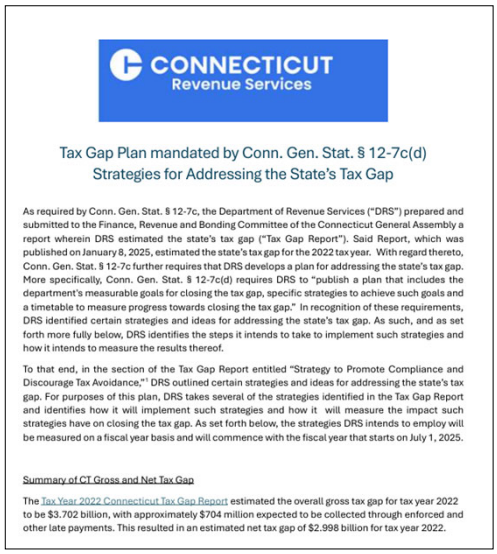
- **Provide world-class customer service**
- **Focus on equitable tax collection**
- **Achieve highest levels of voluntary taxpayer compliance**
- **Data-driven decision making**
- **Support inclusion & open communication**
- **Long-term strategic planning and execution**

Department Pride Points

- DRS staff are highly professional, hard-working, and knowledgeable.
- Proud of reliable partnership with state government for implementation guidance, data capture, and tax policy compliance and direction.
- Significant wins include:
  - Continued completion of statutory tax reports (tax incidence, recommendations to reduce the state's tax gap)
  - Implementing the agency's first-ever chatbot, the eAssistant, on myconneCT
  - Continued focus on outreach and education

Spotlight: Tax Gap and Pathway to Compliance

- DRS was charged with authoring a report with recommended strategies to close the state's tax gap, measured at $2.998 billion (tax year 2022).
- Authorizing Legislation: Conn. Gen. Stat. § 12-7d
- The project was assigned to the Department's Research, Analytics, and Forecasting Unit (RAF), which focuses on data research and collection.



CONNECTICUT
Revenue Services

Tax Gap Plan mandated by Conn. Gen. Stat. § 12-7c(d)
Strategies for Addressing the State's Tax Gap

As required by Conn. Gen. Stat. § 12-7c, the Department of Revenue Services ("DRS") prepared and submitted to the Finance, Revenue and Bonding Committee of the Connecticut General Assembly a report wherein DRS estimated the state's tax gap ("Tax Gap Report"). Said Report, which was published on January 8, 2025, estimated the state's tax gap for the 2022 tax year. With regard thereto, Conn. Gen. Stat. § 12-7c further requires that DRS develops a plan for addressing the state's tax gap. More specifically, Conn. Gen. Stat. § 12-7c(d) requires DRS to "publish a plan that includes the department's measurable goals for closing the tax gap, specific strategies to achieve such goals and a timetable to measure progress towards closing the tax gap." In recognition of these requirements, DRS identified certain strategies and ideas for addressing the state's tax gap. As such, and as set forth more fully below, DRS identifies the steps it intends to take to implement such strategies and how it intends to measure the results thereof.

To that end, in the section of the Tax Gap Report entitled "Strategy to Promote Compliance and Discourage Tax Avoidance,"[1] DRS outlined certain strategies and ideas for addressing the state's tax gap. For purposes of this plan, DRS takes several of the strategies identified in the Tax Gap Report and identifies how it will implement such strategies and how it will measure the impact such strategies have on closing the tax gap. As set forth below, the strategies DRS intends to employ will be measured on a fiscal year basis and will commence with the fiscal year that starts on July 1, 2025.

Summary of CT Gross and Net Tax Gap

The Tax Year 2022 Connecticut Tax Gap Report estimated the overall gross tax gap for tax year 2022 to be $3.702 billion, with approximately $704 million expected to be collected through enforced and other late payments. This resulted in an estimated net tax gap of $2.998 billion for tax year 2022.

Recommended Tax Gap Mitigation Strategies

COMPONENTS OF THE TAX GAP

- Non-filers: The DRS formed a Discovery Unit to identify non-filers.
- Underreporting: The agency has begun to **increase its audit coverage rates**.
- Accounts receivable: The DRS launched its first initiative – "Pathway to Compliance"



New Initiative: Pathway to Compliance

- The **Pathway to Compliance program** is designed to help taxpayers get back on track.
- Eligible tax types: State Income, Withholding, Composite, Corporation, Sales and Use, and Pass-Through Entity.
- For taxpayers to qualify, a CTax initial billing notice must not have been previously issued for the account and no delinquent or estimate bill items ever existed.
- Taxpayers receive a letter of notification and have 30 days to pay the entire amount of taxes owed for penalties and interest to be cancelled.



2026 Legislative Overview



2026 Legislative Overview

Full overview on the DRS website: State Tax Developments

SALES & USE TAXES

- Exemption for non-electronic school supplies
- Expansion of Sales Tax-Free Week

CANNABIS TAX

- The statewide tax on cannabis is no longer based on THC content
  - Now a flat tax

INCOME TAX

- New subtraction modifications
  - Tax credit for eligible family caregivers

"R & D" TAX CREDIT

- A new R&D tax credit available for Partnerships and S Corporations

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ICHRA Credit for Certain Small Businesses

- New tax credit for qualified small businesses that offer an "Individual Coverage Health Reimbursement Arrangement" (ICHRA).
- The credit is available for the first two consecutive years a "qualified small business" offers an ICHRA to its employees.
- Credit amount up to $1K per employee.
- Form now live on website!



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Statutory Studies & Working Groups

- Disaggregated tax report issued October 31, 2026: Disaggregated Tax Reports.
- DRS is part of a group to study the feasibility of implementing a payroll tax.
- The agency will conduct a study to determine the impact of establishing a sales and use tax exemption for federally exempt veterans' organizations. This report is due Jan. 1, 2027.
- DRS is part of a group to make recommendations regarding tax incentives and credits for volunteer firefighters in the state.

Looking Ahead...

- **Focus on Recruitment and Retention**
  - Focused outreach to state colleges and universities to diversify and strengthen the DRS workforce
  - Launched internal employee training module, Docebo, to support continuous learning
- **Increasing Access & Opportunity**
  - Developing strategies to increase the number of EITC claims
  - Initial research into a mobile tax van to provide services anywhere across the state (looking to collaborate with other agencies)
- **Long-Term Strategic Planning**
  - Focus on instituting tax gap strategies
  - Agency organization and enhancements

"Hot Topics"

- **Voluntary Disclosure Program**
  - Information available on the DRS website: Voluntary Disclosure Programs
- **Audit Waivers**
  - What are they? Are there different types?
- **Burden of proof in tax cases**
  - Impact of a recent Connecticut Supreme Court decision involving the Estate tax (Daniels v Commissioner)
  - Next steps?

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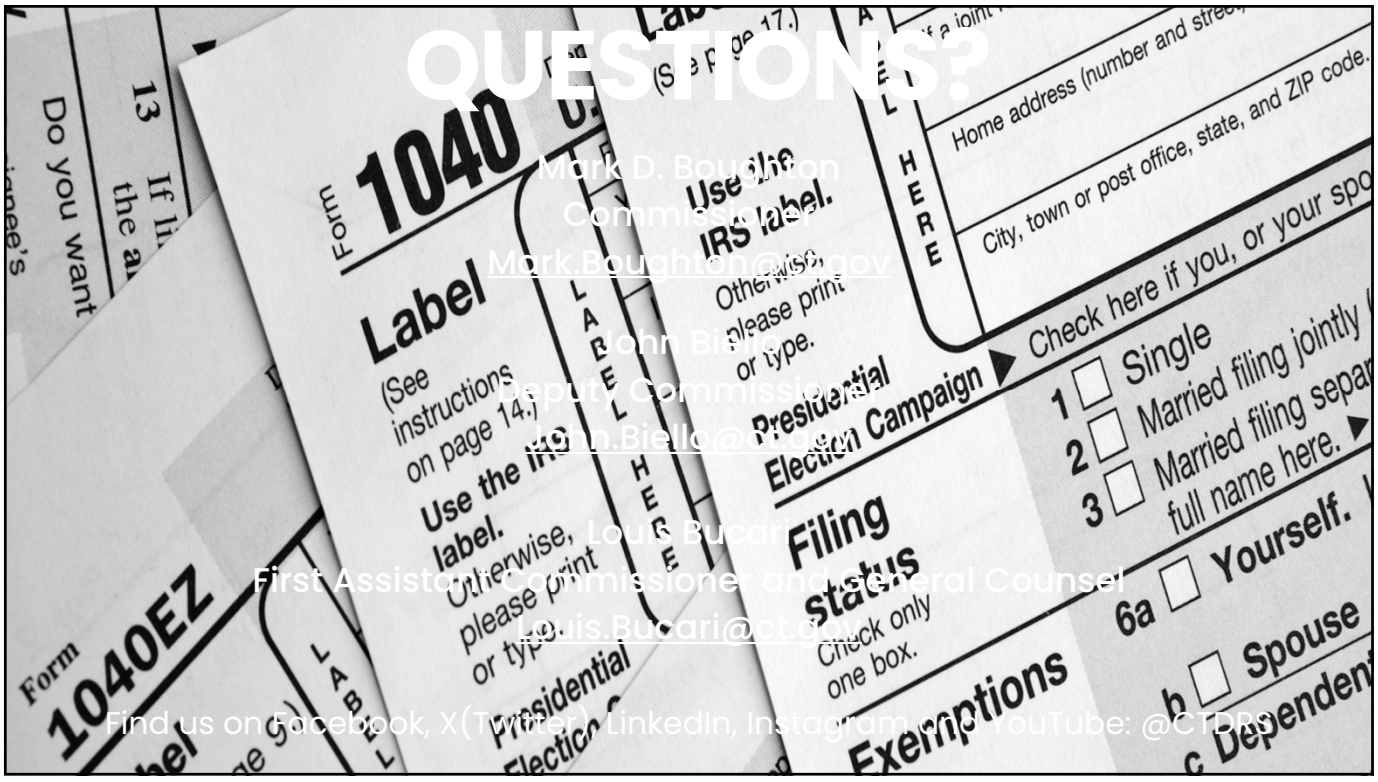

QUESTIONS?

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Louis Bucari
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General Session 5

Hodgson Russ



Timothy P. Noonan

PARTNER

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Tim focuses his practice in the state and local tax area. His work primarily involves New York State and New York City tax litigation and controversy. Over the past 25 years, he has handled more than 3,000 personal income tax, sales tax, corporate tax, or other New York State and City tax audits, and over 100 cases in New York's Division of Tax Appeals. Tim is also a member of the Board of Directors of Hodgson Russ.

Tim leads the firm's Tax Residency Practice and he is one of the leading practitioners in this area of the law. He has handled some of the most high-profile residency cases in New York, including a significant win in the *Gaied* case, one of the first New York residency cases to ever reach New York's highest court. He is often quoted by media outlets, including *The Wall Street Journal*, *The New York Times*, *Bloomberg*, and *Forbes*, on residency and other state tax issues. Under his direction, the Tax Residency Practice authored What to Expect in a Residency Audit, a detailed guide to residency rules and audits in New York and other states. And over the past 25 years, he has guided literally thousands of taxpayers moving from high-tax states to low-tax states and successfully defended them in state residency audits.

As the "Noonan" in "Noonan's Notes," a monthly column in *Tax Notes State*, Tim is a nationally recognized author and speaker on state tax issues. He co-authored the CCH *Residency and Allocation Audit Handbook* and *Contesting New York State Tax Assessment*- Fourth Edition, published by the New York State Bar Association. In addition, Tim has served as a contributing author or editor for several other tax publications and treatises, including the American Bar Association's *Sales and Use Tax Deskbook*, the "New York Sales Tax Guide" published by practicallaw.com, the corporate apportionment chapter in

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BUFFALO

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SERVICES

Tax Residency
Sales & Use Tax
Tax Controversy
State & Local Tax
Voluntary Disclosure - Multistate Programs

EDUCATION

University at Buffalo, B.A., magna cum laude
University at Buffalo School of Law, J.D., magna cum laude

ADMISSIONS

Connecticut

Practice restricted to U.S. law. Prior results do not guarantee a similar outcome.

Thomson Reuters' *Checkpoint Analyst*, the New York chapter of LexisNexis's Practice Insights, and the New York Tax Litigation chapter in Thomson Reuters' *Commercial Litigation in New York State Courts* treatise. He has also written more than 400 articles in state and local tax publications around the country over the past two decades, and he runs the award-winning Noonan's Notes Blog, where he and his colleagues offer regular commentary on developments in the world of New York and multistate tax law.

Tim also has extensive experience on New York City corporate and entity tax matters, and handled a significant number of residency and sales tax issues in other states, including work with many national and international clients on multistate compliance or voluntary disclosures. He has also appeared before the Connecticut Supreme Court and the Michigan Court of Appeals in litigated matters and is admitted to practice law in Connecticut.

New York

U.S. Supreme Court

HodgsonRuss

Residency Rules, Second Homes, and State Tax Implications

CTCPA State Tax 360 Conference

November 10, 2026



TIMOTHY P. NOONAN, ESQ.

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Agenda

–Residency and Other Stuff
–Pied-a-Terre Taxes
–Other State Taxes and CA BTA

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Section 1: Residency and Other Stuff



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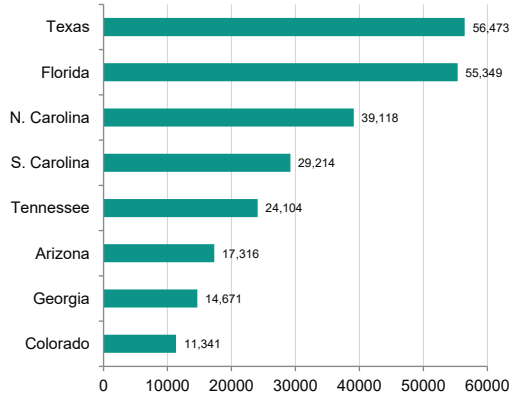
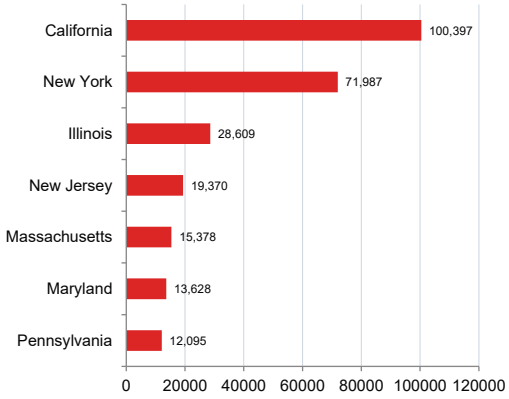
State-Level Winners & Losers in Interstate Migration (2022–2023)

TOP GAINERS (net new tax filers)



TOP LOSERS (net tax filer losses)



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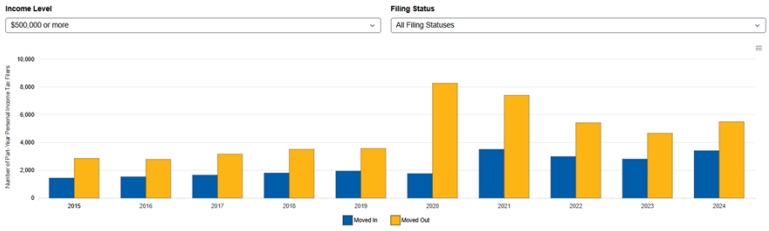
NY Comptroller: NYS Consistently Losing Population



NEW YORK TAXPAYER MIGRATION DATA

Year	Moved In	Moved Out	Net Change	Migration Rate
2015	1,453	2,867	-1,414	-1.26%
2016	1,547	2,798	-1,251	-1.06%
2017	1,671	3,179	-1,508	-1.28%
2018	1,817	3,522	-1,705	-1.32%
2019	1,957	3,580	-1,623	-1.16%
2020	1,772	8,274	-6,502	-4.52%
2021	3,521	7,404	-3,883	-2.75%
2022	3,003	5,428	-2,425	-1.37%
2023	2,820	4,673	-1,853	-0.99%
2024	3,421	5,506	-2,085	-0.97%

Download New York Taxpayer Migration Data

Available at: https://www.osc.ny.gov/reports/taxpayer-migration

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Update on Convenience Rule Litigation

- COVID put NY's "Convenience Rule" in the spotlight
  - Work from home during Covid? NYS doubled-down
  - *Zelinsky v. NYS* (Part II)
    - July 2026: NY court **upholds** application of the convenience rule, even if office was closed.
      - *"Although the executive order required the law school to implement remote instruction, it did not require Zelinsky to teach **from Connecticut**"*
      - Huh?
      - "*A temporary but grave public health emergency, not 'employer necessity' …. explains why Zelinsky worked remotely"*
      - What?
    - The battle continues!

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New York Residency Audit Updates

- **Likelihood of audit?**
  - Regular field audit vs. 2025 “desk audits”
- **Best Practices**
  - Burden of Proof; no close calls on domicile factors
    - 2025 *Hoff* Case
- **You have to prove where you were and where you weren’t**
  - Cell phone data: AT&T vs. Verizon vs. T-Mobile
  - There’s an app for that? Null Island, Monaeo, Domicile360, TaxBird
  - AI??

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Connecticut Residency Updates

- **Likelihood of audit?**
  - Recent resident credit initiative?
- **Best Practices**
  - Reference to NY cases
  - Use of cell phone data?
  - Burden of Proof
    - CT Daniels case: we have to talk about this too!

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Daniels v. Commissioner of Revenue Services: Case Summary & Residency Arguments

357 A.3d 672
(Conn. 2026)

01 · BACKGROUND & FACTS

A multi-state life with competing domicile signals

- Estate executor challenged a Connecticut estate tax assessment based on the decedent's alleged **Connecticut domicile at death**.
- Three homes and sustained personal/social ties in both Connecticut and Florida.

~5.5	~3.5	~3
MONTHS · CT	MONTHS · FL	MONTHS · AZ

- Nine years before death: filed a Florida domicile declaration, moved driver's license and voter registration, and opened a Florida bank account.

02 · TRIAL COURT & APPEAL

Time in Connecticut outweighed formal steps

- On **de novo review**, the trial court required the executor to disprove Connecticut domicile by **clear and convincing evidence**.
- It viewed Florida and Connecticut connections as roughly equal and discounted license and registration changes as "one-time administrative tasks."
- It relied principally on the decedent spending more time in Connecticut than in any other single state, plus substantial ties there.

At Supreme Court argument: the justices raised the proof standard sua sponte. Both parties had assumed the Leonard sales/use tax standard applied; supplemental briefing followed.

03 · SUPREME COURT HOLDING

The default civil standard governs

Clear and convincing → **Preponderance**

1. **Leonard was limited:** Connecticut courts had not extended its heightened standard beyond sales/use tax.
2. **Domicile is intent-based:** a fact question, not a technical/objective agency finding warranting deference.
3. **No exceptional interest:** heightened proof is generally reserved for quasi-criminal matters or fundamental rights.
4. **Statutory silence:** Conn. Gen. Stat. § 12-391(h)(1) specifies no burden; the civil default applies.

Disposition: remanded for a new trial on domicile under the lower, preponderance standard.

Source: Noonan & Chase, Tax Notes State (Aug. 17, 2026)

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Impact on Personal Income Tax Residency Cases

THE DOCTRINAL SHIFT

One intent-based domicile inquiry—whether the tax is imposed on an estate or an individual.

PRIOR APPROACH
Clear & convincing
Amen and Rizzuto extended Leonard and stressed the importance of domicile.

→

AFTER DANIELS
Preponderance of evidence
More likely than not—the ordinary civil burden.

The heightened standard – "clear and convincing" – is "effectively dead" for Connecticut domicile cases.

Why Daniels travels beyond estate tax: personal income tax residency uses the same fact-intensive inquiry into intent. Daniels rejected a tax-wide extension of Leonard's sales/use tax rule.

01
Lower taxpayer hurdle
Taxpayers seeking to prove a move away from Connecticut need only show their position is more likely than not.

02
Audit and appeal strategy
Evidence should be assessed cumulatively under the lower burden—not dismissed merely because connections remain in Connecticut.

03
Agency adjustment
Connecticut DRS will need to recalibrate how it evaluates and litigates domicile in residency audits and appeals.

04
Open practical question
Future litigation will show exactly how much the changed burden improves taxpayer outcomes in close cases.

BOTTOM LINE **Income and estate tax domicile disputes should now proceed under preponderance—not clear and convincing evidence.**

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Hot Topic: Resident Credits

- **Basic Principles**
  - Taxpayers should not pay state tax on same income…..generally
  - But states will only give credit for tax paid to other state on income "properly" taxed in that other states
  - And "home state" sourcing rules control….at least between NY and CT
    - So a CT resident who pays tax to NY is entitled to a credit for NY sourced income, determined based on CT sourcing rules; and the same goes the other way
      - Example: CT resident allowed a credit for NY tax paid in "1060 cases"?
    - But sometimes other state rules are used, e.g., NY resident paying CT tax on flow-through income…..other state method should be followed
    - NJ: broader resident credit regime

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NY Resident Credit Examples

- **Resident Credits and Dual Residency**
  - Example: CT domicile and NY Statutory Resident
  - The *Chamberlain/Edelman v. NY* Cases
    - Lack of credit for tax paid on intangible income survives constitutional challenge
- ***Greenberg v. NYS***
  - NYS denied credit for CT tax paid on carried interest
    - New York State Tax Appeals Tribunal: income from intangible property is not taxed in New York unless the intangible itself is employed in a trade or business
  - HELD: no resident credit for tax paid to Connecticut on carried interest
  - Compare: CT *Sobel* case?
- **Recent Audit: New Yorker telecommuting to CT**
  - NY audit position:
    - No credit for CT tax paid on 2020 telecommuting days?!
    - No credit if limited work in CT during year

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CT Resident Credit Examples

- ***Sobel v. CT***
  - Greenberg reversed: CT resident working for NY hedge fund
  - 10-year oddessy!
  - Taxpayer went to work in New York every day, made trades, managed lots of money
  - HELD: carried interest was part of his New York trade or business
  - Decision upheld on appeal for procedural reasons, therefore no precedent set
- ***Costas v. CT***
  - CT resident pays NY tax on stock option income
    - NY rule: workdays over grant-to-vest period
    - CT rule: compensation paid over grant-to-exercise years
  - Dispute over CT allocation rules, not resident credits
    - Taxpayer position: Option granted in Jan 2006, exercised Dec 2007: look to comp paid for work performed in 06-07, when taxpayer was working 80% in NYS
    - DRS position: look to all comp paid in 06-07, including bonus paid in 2006 for work performed in 2005….when NY work percentage was 20%
  - HELD: DRS can look to ALL comp received (even though that makes no logical sense…..)

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Resident Credits: Timing Issues

- **Normal SOL Rules**
  - 3 years to claim credit/refund
- **SOL Rules in Resident Credit Context**
  - NY: 3 years, period…..no extra time given
  - NJ: within 1 year of other state audit conclusion
    - But be careful: tax must have been paid initially to the other state to trigger this rule
  - CT: within 90 days of other state audit conclusion
- **Protective Claims?**
  - NY: permitted
  - CT: no, but workaround?
  - NJ: probably yes, but be careful!

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Section 2: Pied-a-Terre Taxes

The RealDeal, Oct 30, 2026

Pied-à-terre tax twist: Primary resident hit with $47K surcharge

He lives and pays taxes in NYC, but that didn't exempt him



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What Is the NYC Pied-à-Terre Tax?

Key Facts

$500M
Projected annual revenue

January 5, 2026
First residency determination date

July 1, 2026
First fiscal year start

Sept 18, 2026
Extended primary residence appeal deadline

Jan 1, 2027
First payment due

June 30, 2031
Tax sunset date

BACKGROUND & LEGISLATIVE PURPOSE

The New Law

Enacted May 28, 2026 — first pied-à-terre tax in New York State history.

Adds Article 30-C to the Tax Law and Chapter 32 to Title 11 of the NYC Administrative Code.

Takes effect immediately; applies to fiscal years commencing on or after July 1, 2026.

Sunset date: June 30, 2031 (allegedly…!?).

Legislative Rationale

Targets ultrawealthy out-of-city residents & global elites using NYC real estate as wealth storage.

Projected to generate $500 million in annual revenue to maintain city services.

Non-primary-residence owners benefit from NYC's economy & services without contributing daily.

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TAX RATES

Class One - 1-3 Family Homes

VALUE	BRACKET	RATE	SURCHARGE
$5,000,000	$5M–$15M	0.8%	$40,000
$10,000,000	$5M–$15M	0.8%	$80,000
$25,000,000	**$15M–$25M**	**1.05%**	**$262,500**

At exactly $25M the rate stays at 1.05%, not 1.3%; $25,000,001 would push into the 1.3% bracket.

Class Two (Phase One) — Condos/Co-ops

VALUE	BRACKET	RATE	SURCHARGE
$1,000,000	$1M–$3M	4.0%	$40,000
$5,000,000	**$3M–$5M**	**5.25%**	**$262,500**
$10,000,000	>$5M	6.5%	$650,000

Phase One condo/co-op values rely on DOF's income-based method, often only 10–15% of true sale value.;

Phase Two condo/co-ops will be based on new market-values, and rates will align with Class One rates

TAX LAW § 1353(A)–(B)

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Primary Residence Exemption

- **FAMILY MEMBERS AND TENANTS**
  - The exemption extends to use by an immediate family member (spouse, child, sibling, parent, grandparent, grandchild) of a natural-person covered owner, and to a bona fide, arm's-length lease of at least one year to a natural-person tenant. A sham or below-market lease will not qualify.
- **TRUSTS, LLCS, PARTNERSHIPS, AND CORPORATIONS (LOOK-THROUGH)**
  - The "covered owner" is the sole beneficiary (or beneficiaries) of a trust, or a majority interest holder (partner/member/shareholder) of an entity that itself holds an undivided fee interest (or all co-op shares). Contingent/remainder trust interests are disregarded. No multi-tier look-through is permitted — tiered ownership chains (including disregarded entities!) generally defeat the exemption.
- **STATUTORY RESIDENTS DOMICILED ELSEWHERE**
  - A taxpayer who is a NYC statutory resident (183+ days) but domiciled outside NYC likely gets no protection — their domicile is their primary residence, so the NYC pied-à-terre is precisely the property this surcharge targets. The Final Rules do not resolve this potential double tax exposure.
- **PRIMARY RESIDENCE IN CASE OF DEATH OR ILLNESS**
  - Final rules clarify that an individual's primary residence continues for one year immediately following their death, hospitalization, or temporary stay in a rehabilitation or nursing home.

TAX LAW § 1351(D)(4)-(5), (M); RULE § 62-02

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Litigation!

- ***O'Brien v. City of New York***
  - Challenging DOF's roll out and implementation of the surcharge, mainly arguing that DOF did not make the requisite "initial determination".
  - On September 29, the trial court judge ruled that DOF's notices were void. This was immediately appealed by the City.
  - The Second Department supposed to rule by November 10, 2026.
- ***Ross v. State of New York***
  - Constitutional challenge
  - Surcharge is, in substance, an ad valorem tax on real property, not allowed under NY constitution
  - Discriminates against nonresidents of New York City, in violation of the Privileges and Immunities Clause, the Commerce Clause, and the Equal Protection Clauses of the U.S. and New York Constitutions by burdening nonresidents while exempting primary-resident owners.
- ***Freidman v. State of New York***
  - Another constitutional challenge of the tax. This one also claims discrimination against nonresidents by taxing only properties not sued as a primary residence, claiming violations of the Privileges and Immunities Clause as well as the dormant Commerce Clause.
  - Additionally, this challenge also argues that the tax is unconstitutionally retroactive (applying as of a January 5, 2026 date, months before the May 28, 2026 enactment) which deprived taxpayers of notice and interfered with existing contracts, in violation of the Due Process Clause and the Contracts Clause of the U.S. Constitution.

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Primary Residence Initial Appeals

Which appeals are being granted exemptions, and which are being denied?

- **Passing Grades:**
  - Property owned by a trust, where the resident is the sole beneficiary or is immediate family members with all beneficiaries
  - Property owned by an LLC (or tiered SMLLCs) where the resident is the majority interest holder or immediate family members with the majority interest holder
  - Tenants of properties, even when not leasing the entire space
  - Combined properties when documentation is available that the units/properties are used together
- **Failing Grades:**
  - Property that are owned in tiered structures where a trust is on top
  - Primary resident is family member of 50% or less owner
  - Property that is "excluded" (i.e., under complete renovation, uninhabitable, or misclassified)
  - Lack of documentation, either around resident usage, tenant usage, ownership, or connection to the owner
  - 2nd homes or non-combined units in NYC owned by a primary resident.

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Rhode Island Taylor Swift Tax

- Annual property tax measure that permits the state to collect $2.50 for every $500 that a second home's value is assessed over $1 million.
- Took effect on July 1, 2026.
- Complaint filed in August 2026 by over forty owners of property subject to the tax alleges the tax violates certain constitutional rights by targeting out-of-state residents
  - The suit cites legislative hearings during which one of the bill's sponsors said, "none of these people can vote against me"



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More State Taxes on HNY Taxpayers?

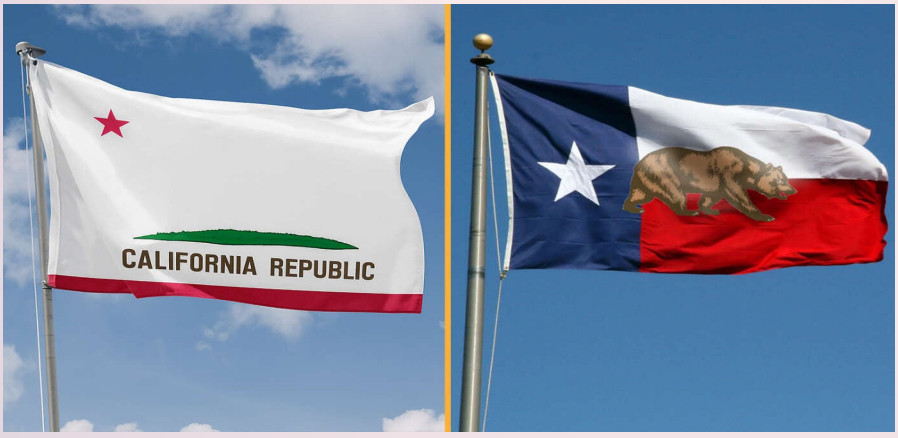

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Photo: Babylon Bee

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Recently increased rates on wealthy residents

California:	1% surtax on income over $1M (13.3% all in)
Maine:	2% surtax on income over $1M (effective 2026)
Massachusetts:	4% surtax on income over $1.1M (since 2025)
Minnesota:	1% surtax on net investment income over $1M (since 2024)
New Jersey:	10.75% for income over $1M (since 2020)
New York:	10.9% on income over $25M (since 2021)
Rhode Island:	3% surtax on income over $1M (three-year phase in)
Washington:	9.9% on income over $1M (effective 1.1.28)

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California Wealth Tax: Coming to a State Near You?

- Alleged “one time” tax on targeted individual or fiduciary “wealth”
- Broad, aggressive definition of “wealth” measured as of December 31, 2026
- Applicable to all California “residents” as of January 1, 2026
- Could generate up to $100 billion in revenue, if approved
  - More details & context on the Act, from reliable sources, available here: https://www.hodgsonruss.com/assets/htmldocuments/Tax%20Notes%2002232026%20-%20Noonan%20Kelly%20Chase.pdf
- So….was it approved?
- And what about other states?

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What Comes Next?

- **Litigation**
  - Facial challenges to the constitutionality of the Act must be filed as a "validation action"
    - These challenges must be brought in the Sacramento County Superior Court
    - After voter approval, challengers have 60 days to bring these actions
  - Direct appeal path to the California Supreme Court on an expedited basis
- **Audits?**
  - $50M for the home team!
  - The FTB has a 10-year window from the filing date to mail a notice of proposed deficiency
  - Residency audits galore?
- **Rulemaking?**
  - The FTB has broad discretion (and a short timeframe) to issue binding guidance through 2027 without the usual APA protections

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General Session 6

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Chris has more than 20 years of experience serving clients in a wide variety of industries, including technology, aerospace, manufacturing, retail, and construction. In this role, Chris focuses on state and local tax advisory services such as nexus studies, taxability analyses and determinations, sales sourcing reviews, voluntary disclosures, and planning opportunity reviews.

Technical experience

- Tax advisory
- Tax compliance
- State and local taxes

Education and professional involvement

- Bachelor of Science in Business Administration from Siena College, Loudonville, New York
- Master of Business Administration from The College of Saint Rose, Albany, New York
- Juris Doctor from Western New England University School of Law, Springfield, Massachusetts
- Connecticut Bar Association

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SaaS, Software & Sales Tax: What You Need to Know

Chris Buno
CliftonLarsonAllen LLP





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Agenda

1. Introduction to Topic
2. Classification
   a. What are you selling or purchasing?
3. Bundling
   a. How does this impact taxability?
4. Sourcing
   a. Which jurisdiction gets to tax it?
   b. Impact on nexus for seller
5. Exemptions and Exclusions
   a. Potential exemptions and importance of documentation
6. Recent Legislative Changes and Proposals

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Introduction to Topic

Brief History on Sales Tax on Software



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Sales Tax History

- Retail sales tax was initially created to tax tangible property in the 1930s (items that can be touched, seen and measured).
- General presumption for sales tax is tangible goods taxable unless exempt and services are only taxable if specifically enumerated.
- Modern technology changed how products and services are delivered. Resulted in ambiguity whether sales tax applied.

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States Adapted Sales Tax Statutes for Technology

- States responded to technology advancement by creating a variety of categories to tax:
  - Remotely accessed software
    - Added within the definition of tangible property or as an enumerated service.
  - Specified digital products
  - Information services
  - Data processing
  - Digital automated services
  - Telecommunication or communication messaging service

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Sales Tax on Software: A Timeline

From "is software tangible?" to taxing remote access

1960s–70s
Is software tangible?
Tenn. court (1976) holds software intangible and not taxable

1970s–80s
Canned vs. custom
Prewritten software on disk taxable; custom = nontaxable service

1980s–90s
Perceptible to senses
Courts treat software as tangible; TX, CT, OH tax data processing

1990s–2000s
Downloads
States tax electronically delivered canned software; PA Dechert (2010)

1999–2010
Cloud arrives
SaaS mostly untaxed; MA, AZ, NY early exceptions

2007–10
New categories
SST software definitions; WA digital automated services

2010s
States split on SaaS
Constructive possession vs. no transfer; MPU certificates

2018–now
Post-Wayfair
Remote-seller collection; more states codify SaaS rules

Jan. 1, 2027
CA & CO tax SaaS
CA SB 122 taxes remotely accessed software; CO follows

Through-line: the 1970s canned vs. custom split survives today; CA's 2027 law still exempts custom software.

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Classification

What are you selling or purchasing?



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What factors could impact classification and taxability of a product or service?

- How is it described on the invoice to the customer?
- How is it described in the contract with the customer?
- How is it described in marketing material or vendor website?
- How is it being accessed or delivered?
  - Tangible format or load and leave
  - Downloaded
  - Remotely accessed
- What kind of interaction does the consumer have with the product?
  - Is there a login and password?
  - Can reports that analyze information be generated?
- How is it priced?

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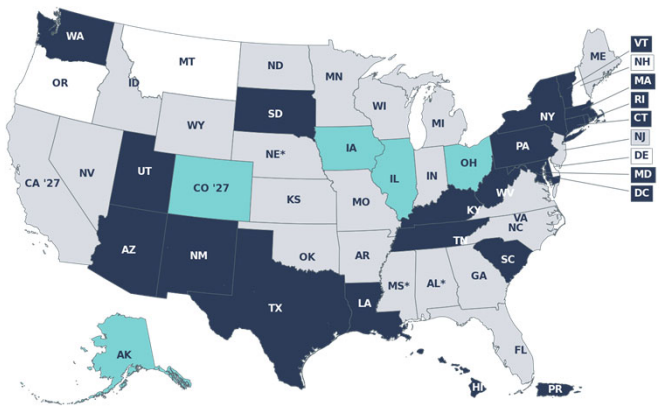
SaaS Sales Tax by State

State-level treatment as of 2026; based on public vendor guides (TaxConnex, Anrok)



Taxable (incl. partial, e.g., TX 80%, CT 1% business rate)

Conditional: B2B/B2C (IA, OH) or local-only (AK, CO, IL)

Not taxable at state level

No statewide sales tax

'27 CA and CO begin taxing SaaS at the state level Jan. 1, 2027

***** Sources disagree (AL, MS, NE) - verify with the state DOR

Taxability only matters where the seller has nexus. Bundled services (setup, training, support) may also be taxable.

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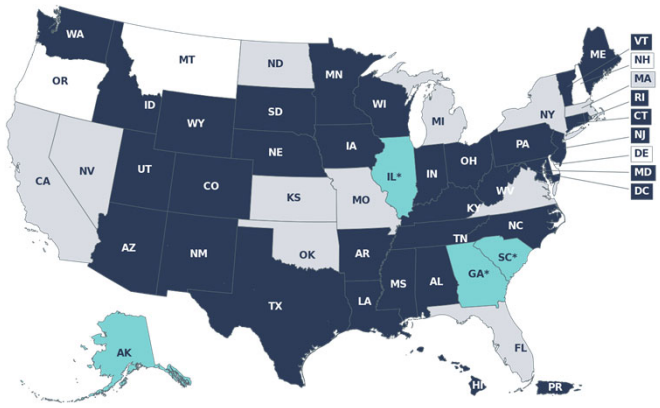
Digital Products Sales Tax by State

Digital audio, video, books and other downloads (not SaaS); 2026 vendor guides (Avalara, ResaleCertificate.org)



- Taxable (generally, downloaded digital products)
- Limited or local-only (AK local; GA, IL, SC limited/unclear)
- Not taxable at state level
- No statewide sales tax

* Sources disagree (GA, IL, SC) - verify with the state DOR

Treatment can differ by product type (e.g., streaming vs. download, permanent vs. limited use).

Taxability only matters where the seller has nexus. Several states (e.g., CO, IL) also have home-rule local taxes on digital products.

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Bundling

How does this impact taxability?



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Bundled Transactions

- Bundled transactions generally include the sale of a service, tangible property, and or a digital products, which are distinct and identifiable, and sold for a single non-itemized price.
- Distinct and identifiable generally means that each item in the bundle could be separated and sold individually.
- A bundled transaction that includes a taxable item with a non-taxable item may result in the entire charge being subject to sales tax unless the taxable item is de minimis.
  - The definition of de minimis is dependent on the state but may be a value of less than 10% of the total sales price.
  - May be difficult to substantiate if those items are never sold separately
- What if the transaction does not include distinct and identifiable components?

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SSUTA Definition – Bundled Transaction

- SSUTA member states adopt a uniform definition of “bundled transaction” but are not restricted in their tax treatment of bundled transactions.
- Under SSUTA, a bundled transaction is the retail sale of two or more products, except real property and services to real property, where (1) the products are otherwise distinct and identifiable, and (2) the products are sold for one non-itemized price.
- A bundled transaction does not include the sale of any products in which the sales price varies, or is negotiable, based on the selection by the purchaser of the products include in the transaction.

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True Object

- Some transactions may include items that are integrated and not separately identifiable. An example is a professional service that results in a tangible deliverable.
- A state that applies a true object test is attempting to determine what the purchaser really wants from the transaction.
  - If the true object of the transaction is to purchase something taxable, the entire transaction is taxable.
  - If the true object of the transaction is to purchase something non-taxable, the entire transaction is non-taxable.
- Other tests like the true object test may be applied by states:
  - Dominant purpose test
  - Incidental to service test

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Sourcing

Which jurisdiction gets to tax it?



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Sourcing of Digital Transactions

- States typically source sales tax based on a destination rule. May be difficult to apply when products or services delivered electronically.
- Destination could mean:
  - Location where a service is provided
  - Location where the benefit of a service is received
  - Customer headquarters or primary use locations
  - Multiple points of use or allocation of use
- Examples of potential issues:
  - Software housed / located in one jurisdiction but access in multiple jurisdictions
  - Vendors and purchasers not knowing where users will be located
  - Live presentations that include in-person attendees and remote virtual attendees
  - Temporary staffing resources providing work for a client remotely

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SSUTA Destination Sourcing Rule Hierarchy

1. Seller sources the sale to the seller's business location for over-the-counter transactions
2. Seller sources sale to shipping address for transactions that are delivered
3. If the "shipped to" address is not known to the seller, the sale is sourced to the purchaser's address as maintained by the seller in the ordinary course of business
4. If none of these locations is known, the sale is sourced to the location indicated by an address for the purchaser obtained during the consummation of the sale, including the address of the purchaser's payment instrument, if no other address is available.
5. When the destination rules do not apply, the Agreement contains a default rule whereby the sale is sourced to the origin of the sale.

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Sourcing Impact on Nexus

- Can sellers of software licenses used by customers across multiple states use a pro rata allocation method when determining economic nexus for its sales tax filing obligations?
- A state that accepts a multiple point of use certificate does not necessarily allow that allocation when determining if a seller has sufficient nexus for sales tax filing purposes. Must check the sourcing rules in that jurisdiction.
- When performing a nexus analysis, consider the sourcing rule and hierarchy in each state and do not presume a universal acceptance of allocation by user locations.

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Exemptions and Exclusions

Potential exemptions and importance of documentation



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Exemptions for Digital Transactions

- Resale exemption
- Business use / inputs exemptions
  - Reduced rate in Connecticut and Maryland
  - Exempt in Iowa and New Jersey (electronically delivered software)
- Multiple points of use “exemption”
- Industry – specific exemptions (e.g., manufacturing, data centers, etc.)
  - Important note the state rules that may exist for industry-specific exemptions such a pre-approval by the Department of Revenue or Taxation.



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Purchase for Resale

- Specific requirements to claim the exemption vary by state
- Requirements may include:
  - The purchaser is engaged in the business of selling tangible personal property or taxable services
  - The item will be resold in the ordinary course of business
  - The item will be resold in the form or condition in which it was acquired
  - The purchaser must be registered with the Department of Revenue
  - There must not be any intervening use by the purchaser



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Multiple Points of Use Exemptions

- Some states allow purchasers to provide vendors with multiple points of use ("MPU") certificates to apportion sales in accordance with users across various states
- The certificate generally exempts vendors from collecting sales tax and transfers the tax burden to the purchaser.
- Applies to digital goods, electronically delivered software and SaaS.
- Buyer must be aware of the responsibility of importance of maintaining sufficient recorded to self-assess use tax based on user locations and knowing the rules in those states.

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Recent Legislative Changes and Proposals



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California – Sales Tax Expansion

- Effective January 1, 2027, sales tax will extend to remotely accessed and electronically transferred software.
- Exclusions and exemptions:
  - Exclusions for digital assets, digital audio work, digital audiovisual work, digital book, digital infrastructure, digital video game product, and digital visual work.
  - Human effort exemption
  - Custom computer software excluded from tax.
- Sales tax sourcing will be based on the buyer's address (typically billing address).
- Use tax sourcing will be based on place of use.
- Buyers can issue exemption certificate when making purchases for non-CA use.
- Buyers purchasing more than $5 million in remotely accessed or electronically transferred software from a single retailer annually must self-assess and remit use tax directly to the state.
- The CDTFA will finalize emergency regulations before the end of the year.



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Colorado – Sales Tax Expansion

- Effective January 1, 2027, the definition of taxable tangible personal property is expanded to include computer software regardless of delivery method.
- Prior law only treated computer software as tangible personal property if software prepackaged for repeated sale / license, governed by a non-negotiable agreement and delivered to the customer in a tangible medium.
- Under new law, computer software is a set of coded instructions that are designed to cause a computer to perform a task and delivered by any means. It includes applications installed on cellular phones, tablets, or other mobile devices.
- Exemptions for software that is either: 1) governed by a negotiable license agreement; or 2) developed for use by a particular user.
- Colorado Department of Revenue intended to circulate draft regulations.
- Colorado home-rule localities are not bound by these state-level changes.



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Maryland Information Technology Services Taxable at 3%

- Effective as of July 1, 2025, Maryland imposed a new 3% sales tax on information technology and data services, defined by certain NAICS codes, includes:
  - Data or information technology services described under NAICS Sector 518, 519, or 5415
  - System software or application software publishing services described under NAICS Sector 5132
- Eliminates the sales/use tax exemption for custom software and related services.
- Revises the taxability of SAAS sales used by commercial customers in an enterprise environment from exempt to taxable at 3%.

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Washington Revised Digital Services and Advertising Taxation

- Effective October 1st, 2025. adds the following activities to the definition of retail sales:
  - Information technology, training, technical support, and other similar services.
  - Custom website development services.
  - Investigation, security, security monitoring, and armored car services.
  - Temporary staffing services.
  - Advertising services.
  - Live presentations.
  - Sales of custom software and customization of prewritten software.
- Creates an exclusion from retail sales for certain sales of digital products between members of an affiliated group.

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New York Recent Cases

- Beeline.com (N.Y. App. Div., 3d Dep't 2026): Vendor management offering was held to be taxable prewritten software; the license language, customer access and platform functionality outweighed the service characterization; charges were not separately stated.
- Strata Skin Sciences (N.Y. App. Div., 3d Dep't 2024, leave den.): Charges for laser device codes for individual treatments were held to be taxable retail sales of tangible personal property notwithstanding bundled training, maintenance, marketing and reimbursement support; the devices were sold on a standalone basis.
- Dynamic Logic (N.Y. 2025): Customized advertising measurement reports were held to be taxable information services; "personal or individual" exclusion did not apply because reuse of client data was "substantial" on account of its qualitative role in later benchmarks.

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Other State Proposals

- Nebraska LB 1244: expands taxable "gross receipts" to include 40+ B2B categories including data processing, management consulting, debt collection, and staffing services.
- Nebraska LB 1257: inserts "Until January 1, 2027" across 60+ exemption statutes, sunsetting exemptions for manufacturing machinery, agricultural inputs, energy, transportation equipment, telecom infrastructure, and data center inputs.
- Missouri Governor's Agenda: eliminate individual income tax; offset with sales taxes on digital services, subscriptions, online advertising, e-books, and AI platforms.
- Minnesota S.F. 5052: expand sales tax to more enumerated professional services.
- Utah S.B. 162 (ENACTED): clarifies digital audio works, audio-visual works, digital books, and gaming services are subject to sales tax whether streamed or downloaded.

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Thank you!

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