



2014 Legislative Changes Affecting the Income Tax

Manufacturing Reinvestment Account (MRA):

For taxable years beginning on or after January 1, 2014, 100% of any distributions from an MRA used for eligible purposes are exempt from personal income tax. The entire amount of any distributions from an MRA **not** used for eligible purposes and the entire amount of any money returned from such account remains subject to income tax.

Apportionment of Nonresident Business

Income: A business, trade, profession or occupation carried on in Connecticut and outside Connecticut, must determine the items of income, gain, loss and deduction derived from or connected with Connecticut sources by using an apportionment formula.

The gross income factor of the apportionment formula is computed by dividing the gross receipts from sales of property or services earned within Connecticut by the total gross receipts from sales of property or services, whether earned within or outside Connecticut.

For taxable years beginning on or after January 1, 2014, the gross receipts from sales of property are considered to be earned within Connecticut when the property is delivered to or shipped to a purchaser within Connecticut, regardless of the F.O.B. point or other conditions of sale.

Fiduciary Adjustment for Lump Sum

Distributions: For taxable years beginning on or after January 1, 2014, in determining the fiduciary adjustment, the fiduciary is required to include as an addition modification the total amount of a lump-sum distribution for the taxable year, if such distribution is not already included in the federal taxable income prior to distributions to beneficiaries.

Nonqualified Deferred Compensation:

Effective June 11, 2014, Connecticut source income for a nonresident includes compensation from nonqualified deferred compensation plans attributable to services performed within Connecticut.

Sale or Disposition of Property Interest in an

Entity: For taxable years beginning on or after January 1, 2014, Connecticut source income for a nonresident or nonresident trust includes certain gains and losses from the sale or disposition of an interest in a partnership, limited liability company or S corporation that owns real property in Connecticut, if the Connecticut real property has a fair market value that equals or exceeds 50% of all the assets of the entity on the date of sale or disposition of the nonresident's interest.

If an individual sells or disposes of an interest in an entity that is part of a tiered structure of entities, the law applies to the sale or disposition if any entity in the tiered structure owns real property located in Connecticut.

This law does not affect the existing tax treatment of gain and loss passed through to partners, members, and shareholders where the entity itself sells real property located in Connecticut.

CHET Individual Savings Plan and CHET Baby Scholars Fund:

Effective July 1, 2014, any taxpayer filing an income tax return may contribute any part of his or her income tax refund to a CHET individual savings plan or to the CHET Baby Scholars fund.

DRS will revise the Connecticut income tax return to allow a taxpayer to elect to contribute to a CHET individual savings plan or to the CHET Baby Scholars fund.

Money invested in CHET will not be considered an asset for purposes of determining an individual's eligibility for the following:

- Assistance under the temporary family assistance program;
- Programs funded under the federal Low Income Home Energy Assistance Program block grant;
- The federally appropriated weatherization assistance program;
- Need-based, institutional aid grants offered to an individual at the public eligible educational institutions in the state.

Income Tax Exemption for Teacher Pensions:

In determining Connecticut adjusted gross income, a taxpayer will be allowed to subtract from his or her federal gross income the following percentage of the pension received from the Connecticut teacher's retirement system, provided such pension is properly includible in gross income for federal income tax purposes:

For taxable year beginning:

- January 1, 2015: 10 percent (10%)
- January 1, 2016: 25 percent (25%)
- January 1, 2017 and each taxable year thereafter: 50 percent (50%)

Homeownership Incentive Program: Effective July 1, 2015, certain municipalities can designate an area as a homeownership incentive block. One of the incentives would be exemption from personal income tax for the owner and each "eligible renter" within an "owner-occupied home," as those terms are defined by statute. The income tax exemption continues until certain homeownership goals are met, at which point the tax exemption will phase out over a five-year period in increments of 20% each year.

Statutory Authority: Conn. Gen. Stat. §12-701(a)(20)(A), as amended by 2014 Conn. Pub. Acts 69; Conn. Gen. Stat. §12-711(c), as amended by 2014 Conn. Pub. Acts 155; Conn. Gen. Stat. §12-701(a)(10), as amended by 2014 Conn. Pub. Acts 155; Conn. Gen. Stat. §12-711(a), as amended by 2014 Conn. Pub. Acts 155; Conn. Gen. Stat. §12-711(b), as amended by 2014 Conn. Pub. Acts 155;

Conn. Gen. Stat. §12-743, as amended by 2014 Conn. Pub. Acts 217; 2014 Conn. Pub. Acts 217; Conn. Gen. Stat. §12-701(a)(20)(B), as amended by 2014 Conn. Pub. Acts 47; 2014 Conn. Pub. Acts 174.

Effect on Other Documents: None.

Effect of This Document: A Special Notice announces a new policy or practice in response to changes in state or federal laws or regulations or to judicial decisions. A Special Notice indicates an informal interpretation of Connecticut tax law by the Department of Revenue Services (DRS).

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); **or**
- **860-297-5962** (from anywhere).

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Visit the DRS website at www.ct.gov/DRS to download and print Connecticut tax forms and publications.

Paperless Filing/Payment Methods (fast, easy, free, and confidential): Business and individual taxpayers can use the **Taxpayer Service Center (TSC)** at www.ct.gov/TSC to file a variety of tax returns, update account information, and make payments online.

File Electronically: You can choose first-time filer information and filing assistance or log directly into the **TSC** to file returns and pay taxes.

Pay Electronically: You can pay taxes for tax returns that cannot be filed through the **TSC**. Log in and select the *Make Payment Only* option. Designate a payment date up to the due date of the tax and mail a paper return to complete the filing process.

DRS E-Alerts Service: Get connected to the latest news from DRS. Receive notification by email of changes to legislation, policies, and procedures. **DRS E-Alerts** provide information for employer's withholding tax, News – Press Releases, and Top 100 Delinquency List. Visit the DRS website at www.ct.gov/DRS and select *Sign up for e-alerts* under *How Do I?* on the gold navigation bar.