

PKF PERSPECTIVES

Connecticut Tax Law Changes



Connecticut Governor John Rowland recently signed the state budget bill which contains various changes to tax law. The most significant of these changes will affect nonresident partners of partnerships and nonresident shareholders of S corporations doing business in Connecticut. Below is a summary of the new provisions.

Income Tax Payments Applicable to Nonresidents

Partnerships

Effective for tax years beginning on or after January 1, 2004, partnerships with Connecticut source income must pay Connecticut income tax on behalf of its nonresident partners. For this purpose, **partnership** means general partnerships, limited partnerships, and limited liability companies treated as partnerships for Federal income tax purposes.

A partnership is now required to file Form CT-1065/CT-1120SI, *Connecticut Composite Income Tax Return*, and make a composite payment on behalf of each nonresident partner, unless (1) the partner's distributive share of income derived from Connecticut sources is less than \$1,000, or (2) an election to be included on Form CT-G, *Connecticut Group Income Tax Return* has been made by the nonresident partner.

The composite payment is calculated by multiplying the partnership's Connecticut source income, allocable to its nonresident partners, by 5%. Required payments must be made (for calendar year partnerships) as follows:

- 25% of the estimated composite tax liability by April 15th;
- 50% by June 15th;
- 75% by September 15th; and
- 100% by the next January 15th.

NOTE: For calendar year filers, a total of 50% of the 2004 tax liability must be paid on or before June 15, 2004.

The Connecticut Department of Revenue Services was expected to start mailing income tax payment coupons on or about May 24th.

S Corporations

Rules similar to those above will apply to nonresident shareholders where the shareholder's allocable portion of Connecticut source income will be \$1,000 or more and where an election to be included on Form CT-G, *Connecticut Group Income Tax Return*, has **not** been made by the nonresident shareholder. (Previously, an S corporation was not required to make a composite Connecticut income tax payment on behalf of any nonresident shareholder who elected to pay Connecticut by filing Form CT-1NA, *Nonresident Income Tax Agreement*, with the S corporation. This election, if previously made, becomes void beginning on or after January 1, 2004).

Similar to partnerships, calendar year corporations are required to make applicable payments of 50% of the 2004 tax liability by **June 15, 2004**.

Items in this publication should not be considered official statements of position, nor advice for individuals or organizations without consulting a tax advisor. For more information, please contact Howard Pell or Leo Parmegiani at:

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