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STATE OF CONNECTICUT DEPARTMENT OF REVENUE SERVICES

SN 2019(6)

SPECIAL NOTICE

2019 Legislative Changes Affecting the Pass-Through Entity Tax

Purpose: This Special Notice describes legislation enacted during the 2019 regular session of the Connecticut General Assembly affecting the Pass-Through Entity Tax (PE Tax).

Effective Date: The effective dates of the legislative changes are noted herein.

Guaranteed Payments Included in PE Tax Bases: For taxable years beginning on or after January 1, 2019, guaranteed payments are included in the calculation of the Standard Base and the Alternative Base for the PE Tax.

For taxable year 2018, guaranteed payments were not included in the calculation of either base.

Conn. Gen. Stat. § 12-699, as amended by 2019 Conn. Pub. Acts 186, § 1.

Estimated Payment Exemption: For taxable years beginning on or after January 1, 2019, pass-through entities (PEs) with required annual payments of less than \$1,000 will not be required to make estimated payments.

A PE's required annual payment is equal to the lesser of:

- 90% of the PE Tax shown on the PE's current year Connecticut PE Tax return; **or**
- 100% of the PE Tax shown on the PE's prior year Connecticut PE Tax return if the PE filed a prior year return that covered a 12-month period.

Conn. Gen. Stat. § 12-699a, as amended by 2019 Conn. Pub. Acts 186, § 2.

Waiver of 2018 Penalty and Interest: For taxable years beginning on or after January 1, 2018, and prior to January 1, 2019, the Commissioner will waive any late payment penalty and related interest imposed on a PE Tax liability so long as the full amount of the tax due (excluding penalty and interest) is paid within one year of the original due date of the return (March 15, 2020, for calendar year filers).

The Department of Revenue Services (DRS) will automatically process the waiver of penalty and interest for PEs. PEs are not required to submit any form or documentation to DRS to request the waiver.

PE members subject to tax under Chapter 229 (individuals, trusts and estates) affected by the enactment of the PE Tax should review the instructions to **Form CT-CWPI, Request for Waiver of 2018 Penalty and Interest Due to the Enactment of the Pass-Through Entity Tax (Individuals, Trusts and Estates Only)**, to determine if they are eligible for a waiver of penalties and interest imposed on their 2018 tax liabilities.

2019 Conn. Pub. Acts 186, § 32.

PE Tax Credit Reduction: For taxable years beginning on or after January 1, 2019, the PE Tax Credit percentage has been reduced to 87.5%. A member in a PE is now entitled to a credit equal to 87.5% of the member's direct and indirect share of the PE's tax liability. The PE Tax Credit can be used against the member's Corporation Business Tax liability or Income Tax liability. For taxable year 2018, the credit percentage was 93.01%.

Nonresident Composite Income Tax Remittance Option: For taxable years beginning on or after January 1, 2019, DRS will allow a PE to make an annual election to remit composite income tax on behalf of its nonresident individual members. The elective composite income tax remittance is in addition to any PE Tax due. If a PE elects to remit composite income tax, its nonresident members will be excused from filing their own Connecticut personal income tax returns if they have no Connecticut source income other than from the electing PE.

An electing PE will remit composite income tax equal to the combined amount of each nonresident member's distributive share of the PE's Connecticut source income multiplied by 6.99% less each nonresident member's PE Tax Credit. The composite income tax calculation must include each nonresident member and in no event shall the amount due on behalf of any nonresident member be less than zero. DRS will develop a schedule for an electing PE to calculate its

composite income tax remittance. PEs will report the amount remitted on behalf of each nonresident member on their respective **Schedule CT-K1, Member's Share of Certain Connecticut Items**.

To make the election, a PE must check the appropriate box on its PE Tax return and attach the schedule to such return. The election will only be valid if it is made on a PE Tax return filed on or before the due date or extended due date. Once the election is made, it is irrevocable for that year.

A PE electing to remit composite income tax is agreeing that all composite income tax payments will be made together with and in the same manner and at the same time as PE Tax payments. If an electing PE fails to timely remit composite income tax payments, penalty and interest will be imposed on the PE, as applicable.

If a nonresident member is not excused from filing, or otherwise chooses to file a Connecticut personal income tax return, the member should claim the composite income tax payment made by the PE on his or her behalf along with any PE Tax Credit available to him or her. The member must also include his or her distributive share of the PE's Connecticut source income on his or her return.

For nonresident members who are excused from filing and do not choose to file their own personal income tax returns, their returns will be deemed to be filed on the day their PE files its PE Tax return.

Conn. Gen. Stat. § 12-699, as amended by 2019 Conn. Pub. Acts 117, § 333.

Effect on Other Documents: DRS is updating **OCG-6, Office of the Commissioner Guidance Regarding the Calculation of the Pass-Through Entity Tax**, and **OCG-7, Office of the Commissioner Guidance Regarding the Pass-Through Entity Tax Credit**, to reflect the changes made by the legislation described in this Special Notice.

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 DRS.

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

- **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 portal.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 portal.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. Choose a payment date up to the due date of the tax and mail a paper return to complete the filing process.