



MULTISTATE TAX

## Connecticut enacts biennium budget bill Tax Alert

### Overview

On June 23, 2021, Connecticut Governor Ned Lamont signed a biennium budget into law, [House Bill 6689](#) and [Senate Bill 1202](#) (collectively the “budget bill”). The budget bill extends the 10% surcharge imposed on corporate business taxpayers to the 2021 and 2022 income years, delays the phaseout of the capital base tax by three years, and extends the phaseout period. The budget bill also provides tax relief through a tax amnesty program and includes changes to several tax credits.

This Tax Alert summarizes some of the relevant provisions of the budget bill.

### Income tax provisions

#### Corporate surcharge

The budget bill extends the 10% corporation business tax surcharge for two additional years to the 2021 and 2022 income tax years. The surcharge applies to companies that have more than \$250 in corporation tax liability and either (1) have at least \$100 million in annual gross income in those years or (2) are taxable members of a combined group that files a combined unitary return, regardless of their annual gross income amount. The surcharge is calculated on the tax liability due before application of any credits.

#### Capital base tax phaseout

Under prior law, the capital base tax was to begin phasing out in 2021 over a three-year period. The budget bill pushes the beginning of the phaseout to 2024 and extends the phase out period to four years. The capital base tax will now be eliminated for tax years commencing on or after January 1, 2028 (rather than January 1, 2024).

#### Interest on underpayments of estimated taxes

The budget bill provides that taxpayers are not subject to interest on underpayments of estimated tax for the 2021 income year for any additional tax due as a result of corporation business tax changes included in the budget bill for amounts due up through the date of enactment.

## Tax amnesty program

The budget bill provides for the Connecticut Department of Revenue (“Department”) to establish a tax amnesty program to run from November 1, 2021 to January 31, 2022. The amnesty applies to any taxable period ending on or before December 30, 2020, for any state tax collected by the Department except motor carrier road tax.

- Successful applicants are eligible for a 75% reduction in interest on the amount of tax owed for the affected tax period and penalties will be waived.
- Amnesty will not be granted if an applicant has already paid the liability for an affected tax period. However, amnesty may be granted if the applicant files to report an additional amount of tax for the same period.
- An amnesty application may not result in a refund for previously paid tax or interest.
- Successful applicants relinquish all administrative and judicial rights to appeal.
- Amnesty cannot be granted to applicants who are under criminal investigation or who are litigating a liability as of July 1, 2021.
- Amnesty cannot be granted to applicants who are a party to a managed audit agreement, a closing agreement, or made an offer of compromise that was accepted.

## Tax credits

### **Research and development tax credit**

The credit cap increases from 50.01% to 70% of annual tax liability. The increase will be phased in over two years, with 60% available for tax years beginning on or after January 1, 2022 and the full 70% available for tax years beginning on or after January 1, 2023. The budget bill limits the carry forward of any unused credit to fifteen years beginning with the 2021 income year.

### **Invest CT tax credit**

The aggregate cap increases from \$350 million to \$550 million, with the program’s annual cap remaining at \$40 million.

### **Earned income tax credit**

For tax years beginning on or after January 1, 2021, this refundable credit increases from 23% to 30.5% of the federal credit amount.

### **Child tax credit**

The budget bill requires the Office of Policy and Management Secretary to create a plan to establish a state-level child tax credit if certain changes to the federal child tax credit occur.

### **Property tax credit against income tax**

The limits on eligibility for the property tax credit against the personal income tax are extended to the 2021 and 2022 income tax years.

### **Film production tax credit**

For tax years beginning on or after January 1, 2022, eligible production

companies may claim these credits against the sales and use tax under certain conditions.

## Other tax provisions

### Income tax exemptions for certain retirement income

The budget bill phases out, over four years, the income tax on income from investment retirement accounts (“IRAs”), other than Roth IRAs, for taxpayers with qualifying incomes, starting with the 2023 tax year. It also clarifies that teachers that qualify for the general pension and annuity exemption may take either the teachers’ pension exemption or the general pension and annuity exemption, whichever is greater.

### Admissions tax

The admissions tax is eliminated beginning July 1, 2021 for all places of amusement, entertainment, or recreation except movie theatres.

### Sales and use tax

Breast pumps and certain related parts, supplies, kits, and repair services are exempt from the sales and use tax beginning July 1, 2021 when sold to an individual for home use.

### Meals and beverages tax

Certain businesses can keep the sales tax they collect on sales of meals, as defined by G.S. § 12-412(13), during one of three specified weeks during August 2021, December 2021, or May 2022.

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