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Recent Connecticut Tax Law Changes

The Connecticut General Assembly passed a budget bill seeking to put into place several new tax law changes. The bill was enacted and became effective on September 8, 2009, interestingly without the governor's signature. The following are a few of the tax-related highlights of the recently-enacted legislation.

Personal Income Tax Rate Adjustment

Effective for tax years beginning on or after January 1, 2009, a new 6.5% tax bracket has been permanently added for:

- joint and surviving spouse filers with income over $1,000,000;
- single and married filing separately with income over $500,000; and
- head of household filers with income over $800,000.

Previously, the highest tax rate for individuals was 5%. The flat income tax for trusts and estates has been increased from 5% to 6.5%.

Economic Nexus

Effective for tax years beginning on or after January 1, 2010, this provision imposes an economic nexus standard under which a corporation will be subject to Connecticut income tax. This means that (to the extent

constitutionally allowed) corporations deriving income from sources within Connecticut will be subject to Connecticut corporate income tax. The same economic nexus standard will apply to partnerships and S corporations, which will subject partners and members of such pass-through entities to the personal income tax.

The new economic nexus standard is affected through the application of a "substantial economic presence" test. Under this test, economic presence is evidenced by the purposeful direction of business towards Connecticut – examining the frequency, quantity and systematic nature of the company's contact with Connecticut.

Domestic Production Activity Deduction

The federal tax law currently affords taxpayers a 6% deduction for income from qualified domestic production activities (9% in 2010 and beyond). Connecticut's newly enacted tax law decouples from the provision for tax years beginning on or after January 1, 2009. In other words, the new law disallows the federal deduction for purposes of the corporate and personal income tax.

Corporate Tax Surcharge

For tax years beginning on or after January 1, 2009 and prior to January 1, 2012, an additional 10% corporation tax surcharge has been imposed. Companies with gross income for the income year of less than $100 million (other than companies filing combined or unitary returns or whose tax liability does not exceed the $250 minimum tax) are not subject to the surcharge.

Estate and Gift Tax

Effective for deaths and gifts occurring on or after January 1, 2010, estate and gift taxes would apply to estates or gifts over $3.5 million (currently $2 million) and the tax is then applied to a marginal value over the threshold according to a table of rates.

For more information, contact Tax Partner Susan Teicher at 212-697-6900, STeicher@hrrllp.com.

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