



STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

25 Sigourney Street Ste 2
Hartford CT 06106-5032

SN 2012(6)

SPECIAL NOTICE

2012 Legislative Changes Affecting the Income Tax

Purpose: This Special Notice describes changes made to the income tax during the 2012 session of the Connecticut General Assembly.

Effective Date: Effective for taxable years beginning on or after January 1, 2012.

Statutory Authority: 2012 Supplement to the General Statutes, §32-4i, as amended by 2012 Conn. Pub. Acts 75, §1; 2012 Supplement to the General Statutes, §32-9zz, as amended by 2012 Conn. Pub. Acts 1, June 12 Spec. Sess., §§193 and 194; 2012 Supplement to the General Statutes, §12-217pp, as amended by 2012 Conn. Pub. Acts 1, June 12 Spec. Sess., §§61, 62 and 199; Conn. Gen. Stat. §12-704c, as amended by 2011 Conn. Pub. Acts 6, §111.

Manufacturing Reinvestment Account (MRA): Section 32-9zz of the 2012 Supplement to the General Statutes was revised to make distributions from an MRA subject to the income tax provisions of Chapter 229.

An MRA is a trust account created or organized by a manufacturer and held by a Connecticut bank for the benefit of such manufacturer. The account is an interest-bearing account into which the manufacturer may make contributions in any income year. The contributions cannot exceed the lesser of (A) \$50,000 in any income year commencing on or after January 1, 2011 and prior to January 1, 2012, or \$100,000 in income years commencing on or after January 1, 2012, or (B) the manufacturer's domestic gross receipts.

A "manufacturer" is any business entity engaged in the business of manufacturing, as defined in section 12-81(72), and subject to tax under chapter 208 or 229.

Distributions from the MRA must be used by the manufacturer to purchase machinery or equipment for use in Connecticut, or manufacturing facilities, as

defined in section 12-81(72), or for workforce training, development or expansion in Connecticut.

Moneys in the MRA cannot be invested in life insurance contracts or commingled with other property. Money may be held in an MRA for no more than 5 years. Any money remaining in the MRA at the end of the 5 years after such account's creation or organization, including interest earned, must be returned to the manufacturer.

Distributions from an MRA are subject to the income tax provisions of Chapter 229.

DECD is required to establish criteria and guidelines to select not more than 100 manufacturers that may establish MRAs. The criteria must include a requirement that such manufacturer must have no more than 50 employees. DECD must establish an ongoing list of selected manufacturers.

2012 Supplement to the General Statutes, §32-9zz, as amended by 2012 Conn. Pub. Acts 1, June 12 Spec. Sess., §§193 and 194.

Subtraction Modification for Contributions to a Manufacturing Reinvestment Account (MRA):

For taxable years commencing on or after January 1, 2011, in computing Connecticut adjusted gross income, a taxpayer making a contribution to an MRA established pursuant to section 32-9zz, to the extent such contribution is not deductible in determining federal adjusted gross income, is allowed a subtraction modification to his or her federal adjusted gross income for the amount of such contribution.

Conn. Gen. Stat. §12-701(a)(20)(B), as amended by 2012 Conn. Pub. Acts 1, June 12 Spec. Sess., §197.

Addition Modification for Distributions from a Manufacturing Reinvestment Account (MRA):

For taxable years commencing on or after January 1, 2011, in computing Connecticut adjusted gross income, a taxpayer receiving a distribution from an MRA established pursuant to section 32-9zz, must add back to his or her federal adjusted gross income, to the extent not properly includible in gross income for federal income tax purposes:

- 50% of any distribution from such MRA used to purchase machinery or equipment for use in Connecticut or manufacturing facilities, as defined in subdivision (72) of section 12-81, or for workforce training, development or expansion in Connecticut;

- 100% of any distribution from such MRA **not** used to purchase machinery or equipment for use in Connecticut or manufacturing facilities, as defined in subdivision (72) of section 12-81, or for workforce training, development or expansion in Connecticut; **and**

- 100% of any return of money remaining in the MRA at the end of the five-year period after such account's creation or organization, including any interest earned.

Conn. Gen. Stat. §12-701(a)(20)(A), as amended by 2012 Conn. Pub. Acts 1, June 12 Spec. Sess., §197.

Job Expansion Tax Credit: Beginning on or after January 1, 2012, a taxpayer may be allowed a credit for each new qualifying employee or veteran employee hired on or after January 1, 2012, and prior to January 1, 2014. The credit may be applied against the tax imposed under chapters 207, 208, 212 or 229, but not against the withholding tax liability imposed under §12-707. The credit cannot exceed the amount of the tax due. The amount of the credit is

- \$500 per month for each new employee; **or**
- \$900 per month for each qualifying or veteran employee.

A **new employee** means a person who resides in Connecticut and is hired by a taxpayer on or after January 1, 2012 and prior to January 1, 2014, to fill a new job. It does not include a person who was employed in Connecticut by a related person with respect to a taxpayer during the prior 12 months.

A **veteran employee** means a new employee who, at the time of being hired by the taxpayer, is a member of, was honorably discharged or released from active

service in the armed forces, as defined in §27-103 of the general statutes.

A **qualifying employee** means a new employee who, at the time of hiring by the taxpayer, is receiving unemployment compensation, has exhausted unemployment compensation without an intervening job, is receiving vocational rehabilitative services from the Department of Rehabilitation Services, is receiving employment services from the Department of Mental Health and Addiction Services, or is participating in employment opportunities and day services operated or funded by the Department of Developmental Services.

Taxpayer is a person that has been in business for at least 12 consecutive months prior to the date of the taxpayer's application to the Department of Economic and Community Development (DECD) for certification for the credit, **and** is subject to tax under chapter 207, 208, 212 or 229 of the general statutes.

Full-time job means a job in which an employee is required to work at least 35 hours per week for not less than 48 weeks in a calendar year. It does not include a temporary or seasonal job.

New job means a job that did not exist in Connecticut prior to the taxpayer's application to DECD for certification for the tax credit, is filled by a new, qualifying or veteran employee, and is (A) a full-time job, or (B) in the case of a qualifying employee, is a job in which an employee is required to work at least 20 hours per week for not less than 48 weeks in a calendar year.

Related person means A) a corporation, limited liability company, partnership, association or trust controlled by the taxpayer; B) an individual, corporation, limited liability company, partnership, association or trust that is in control of the taxpayer; C) a corporation, limited liability company, partnership, association, or trust controlled by an individual, corporation, limited liability company, partnership, association or trust that is in control of the taxpayer; or D) a member of the same controlled group as the taxpayer.

The taxpayer must claim and use the credit in the taxable year in which it is earned and, if eligible, the two immediately succeeding taxable years, provided the new, qualifying or veteran employee is still employed at the close of the taxpayer's taxable year. A credit cannot be claimed for a new, qualifying or veteran employee who is an owner, member or partner in the business, or for a new, qualifying or

veteran employee for whom credit is claimed against any tax under another statutory provision. The credit is not refundable and any tax credit not used in the taxable year will expire.

The tax credit may be claimed by the shareholders or partners, if the qualified small business is an S corporation or an entity treated as a partnership for federal income tax purposes. If the taxpayer is a single member limited liability company that is disregarded as an entity separate from its owner, the tax credit may be claimed by the owner of the limited liability company, provided the owner is a taxpayer subject to Connecticut income tax.

To be eligible to claim the credit, the taxpayer must apply to DECD. DECD must render a written decision within 30 days after the date the application is received. If approved, DECD will issue a certification letter to the taxpayer indicating that the credit will be available to be claimed.

In addition to other requirements, to be eligible to claim the credit, taxpayer must meet the following criteria on the date of application to DECD for certification under the program:

- A taxpayer that employs not more than 50 employees in full-time jobs in Connecticut must create at least one new job in Connecticut;
- A taxpayer that employs more than 50 but not more than 100 employees in full-time jobs in Connecticut must create at least five new jobs in Connecticut;
- A taxpayer that employs more than 100 employees in full-time jobs in Connecticut must create at least ten new jobs in Connecticut.

For purposes of determining the number of new jobs the taxpayer is required to create in order to claim the tax credit, the number of full-time employees of the taxpayer on the date of the taxpayer's application to DECD for certification for the tax credit, shall apply to such taxpayer for the duration of the certification.

If the taxpayer was issued a certification letter by DECD, prior to January 1, 2013 to receive a qualified small business rehabilitation tax credit, the provisions of the qualified small business rehabilitation tax credit will apply for the duration such certification.

If the taxpayer was issued a certification letter by DECD prior to January 1, 2012 to receive the vocational rehabilitation job creation tax credit, the provisions of the vocational rehabilitation job creation tax credit will apply for the duration of such certification.

2012 Supplement to the General Statutes, §12-217pp, as amended by 2012 Conn. Pub. Acts 1, June 12 Spec. Sess., §§61, 62 and 199.

Property Tax Credit Limitation: The annual increase to the property tax credit limitation threshold for single filers in effect for the 2011 taxable year remains in effect for the 2012 taxable year. The property tax credit limitation threshold for single filers will increase for the 2013 taxable year.

Conn. Gen. Stat. §12-704c, as amended by 2011 Conn. Pub. Acts 6, §111.

Learn Here, Live Here Program: The statutory language of Section 32-4i of the 2012 Supplement to the General Statutes was revised to expand the program to include not only graduates from a public institution of higher education in Connecticut or regional vocational-technical school, but also graduates from a private university or college, or health care training school in Connecticut.

Health care training school means a medical or dental school, chiropractic college, school or college of optometry, school or college of chiropody or podiatry, school of occupational therapy, hospital-based occupational school, school or college of naturopathy, school of dental hygiene, school of physical therapy or any other school or institution giving instruction in the healing arts.

2012 Supplement to the General Statutes, §32-4i, as amended by 212 Conn. Pub. Acts 75, §1.

Effect on Other Documents: None affected.

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 *How Do I?* from the upper navigation bar.