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Connecticut Pass-Through Entity Tax Information

<https://portal.ct.gov/DRS/Taxes/Pass-Through-Entity/Tax-Information> (visited 7/29/23)

What's New for 2022

Apprenticeship Tax Credit

Legislation expands the manufacturing apprenticeship tax credit so that credits earned can be applied against the tax imposed under Chapter 228z (pass-through entity tax). The legislation also specifies how an affected entity that applies a credit against the tax imposed under Chapter 228z (pass-through entity tax) is to be distributed to the members of said entity. The legislation is effective for taxable years beginning on or after January 1, 2022.

Entities can claim the Apprenticeship Training tax credit by completing **Form CT-1120AT**, *Apprenticeship Training Tax Credit*. Enter the amount from Form CT-1120AT, Line 1 on **Form CT-1065/CT-1120SI**, Part 1, *Schedule A*, Line 3, to report the Apprenticeship Training tax credit.

Codification of Composite Return

This legislation codifies that a pass-through entity may file a composite income tax return on behalf of its nonresident members or partners.

Definitions

Pass-through entity (PE) means a partnership or an S corporation.

Partnership means and includes a general partnership, limited partnership, limited liability partnership, publicly traded partnership, limited liability company (LLC) treated as a partnership for federal income tax purposes, or other entity treated as a partnership for federal income tax purposes.

Parent pass-through entity (parent PE) is a PE which is a member of another PE. A PE may be both a parent PE (with respect to one or more PEs) and a subsidiary PE (with respect to one or more PEs).

Subsidiary pass-through entity (subsidiary PE) is a PE which has at least one member which is itself a PE. A PE may be both a subsidiary PE (with respect to one or more PEs) and a parent PE (with respect to one or more PEs).

S corporation means a corporation which is an S corporation for federal income tax purposes.

Member means and includes a partner of a partnership, a member of an LLC treated as a partnership for federal income tax purposes, or a shareholder of an S corporation.

Member's share means a partner's distributive share of partnership income, gain, loss, or deduction; a member's distributive share of LLC income, gain, loss, or deduction; or a shareholder's pro-rata share of S corporation income, gain, loss, or deduction.

Noncorporate member means each member that is a resident individual, resident trust, resident estate, nonresident individual, nonresident trust, nonresident estate, part-year resident individual, or part-year resident trust.

Nonresident noncorporate member means each noncorporate member who is a nonresident individual, nonresident trust, nonresident estate, part-year resident individual, or part-year resident trust.

Corporate member means each member which is a C corporation for federal income tax purposes, LLC which has elected to be taxed as a C corporation for federal income tax purposes, real estate investment trust, real estate mortgage investment conduit, regulated investment company, individual retirement account described in 26 U.S.C. § 408(a), trust described in 26 U.S.C. § 401(a), or organization exempt from federal income tax (including organizations described in 26 U.S.C. § 501(c) or (d)).

For **Distributive Share Percentage**, see the instructions for Part 3 - Member Information, in the Form CT-1065/CT-1120SI instructions.

Who Must File a Pass-Through Entity Tax Return

Every PE that does business in Connecticut or has income derived from or connected with sources within Connecticut must file Form CT-1065/CT-1120SI regardless of the amount of its income or loss. The PE must first complete either federal Form 1065, U.S. Return of Partnership Income, or federal Form 1120S, U.S.

Income Tax Return for an S Corporation. Information on the federal return is needed to complete Form CT-1065/CT-1120SI.

PEs that receive a **Schedule CT K-1**, *Member's Share of Certain Connecticut Items*, from another PE must also file Form CT-1065/CT-1120SI.

Substantial Economic Presence

A PE having a substantial economic presence in Connecticut will be deemed to be doing business in Connecticut. A PE has substantial economic presence in Connecticut if it purposefully directs business toward the state. The purpose can be determined by the frequency, quantity, and systematic nature of its economic contact with Connecticut. See **Informational Publication 2010(29.1)**, *Q & A on Economic Nexus*.

How to File

File Electronically

Form CT-1065/CT-1120SI, *Connecticut Pass-Through Entity Tax Return*, **Form CT-1065/CT-1120SI EXT**, *Application for Extension of Time to File Connecticut Pass-Through Entity Tax Return*, and **Form CT-1065/CT-1120SI ES**, *Estimated Connecticut Pass-Through Entity Tax Payment Coupon*, must be filed and paid electronically. These returns can be filed and paid through **myconneCT** or the MeF Program. For additional information on paying electronically, see **Informational Publication 2022(6)**, *Filing and Paying Connecticut Taxes Electronically*.

[Click here to File, Pay, or Register Now on myconneCT!](#)

The following schedules may **not** be filed through **myconneCT**:

- **Schedule CT-AB**, *Alternative Base Calculation*
- **Schedule CT-CE**, *Combined Election*
- **Schedule CT-NR**, *Elective Composite Income Tax Remittance Calculation*

Additionally, a PE cannot elect to be included in a combined group through **myconneCT**.

A PE that files any of the above schedules, or that elects to be included in a combined group, should use the program to file Form CT-1065/CT-1120SI along with any associated schedules.

Modernized e-File Program (MeF)

DRS accepts PE Tax returns, extensions and estimated payments through the MeF Program. Check with your software provider for availability.

When to File (Tax Due Date and Extensions)

Form CT-1065/CT-1120SI is due on or before the fifteenth day of the third month following the close of the taxable year (March 15 for calendar year filers).

If the due date falls on a Saturday, Sunday, or legal holiday, the return will be considered timely if filed by the next business day.

If Form CT-1065/CT-1120SI is filed late or all the tax due is not paid with the return, see [Interest and Penalties](#) to determine if interest and penalty must be reported with this return.

To request additional time to file, use **Form CT-1065/CT-1120SI EXT**, *Application for Extension of Time to File Connecticut Pass-Through Entity Tax Return*. For detailed information, see the Form CT-1065/CT-1120SI EXT instructions.

To request additional time to pay, use **Form CT-1127**, *Application for Extension of Time for Payment of Income Tax*. For detailed information, see the Form CT-1127 instructions.

Electronic Payment Options

Visit **myconneCT** to make an electronic payment. After logging into **myconneCT**, find your tax account on the Summary screen, select the Make a Payment link and choose your payment method.

- **Pay by Direct Payment:** Using this option authorizes DRS to electronically withdraw a payment from your bank account (checking or savings) on a date you select up to the due date.
- **Pay by Credit Card or Debit Card:** You may elect to pay your tax liability using a credit card (American Express®, Discover®, MasterCard®, VISA®) or comparable debit card. A convenience fee will be charged by the credit card service provider. You will be informed of the amount of

the fee and may elect to cancel the transaction. Your payment will be effective on the date you make the charge.

At the end of the transaction, you will be given a confirmation number for your records. As a reminder, even if you pay electronically, you must still file your return by the due date. Tax not paid on or before the due date will be subject to penalty and interest.

Estimated Tax Payments

Every PE whose required annual payment is equal to or greater than \$1,000 must make estimated payments in four installments. The required annual payment is the lesser of:

- 90% of the PE Tax shown on Part 1, Schedule A, Line 2a of the return for the current taxable year, or, if no return is filed, 90% of the PE Tax for such year; **or**
- 100% of the PE Tax shown on Part 1, Schedule A, Line 2a of the return for the previous taxable year, if the previous taxable year was a taxable year of 12 months and if the PE filed a return for the previous income year.

Estimated Tax Payments

Estimated Tax Due Dates		Required Payment Amounts
		The estimated payments for the income year are the lesser of:
First	Fifteenth day of the fourth month of the taxable year (April 15th for calendar year filers)	25% of prior year tax or 22.5% of current year tax
Second	Fifteenth day of the sixth month of the taxable year (June 15th for calendar year filers)	* 50% of prior year tax or 45% of current year tax
Third	Fifteenth day of the ninth month of the taxable year (September 15th for calendar year filers)	* 75% of prior year tax or 67.5% of current year tax
Fourth	Fifteenth day of the first month after the end of the taxable year (January 15th for calendar year filers)	* 100% of prior year tax or 90% of current year tax * Taking into account all prior estimated payments made for this year

Use **Form CT-1065/CT-1120SI ES**, *Estimated Connecticut Pass-Through Entity Tax Payment Coupon*, to make estimated Connecticut income tax payments. For detailed information about estimates, see the Form CT-1065/CT-1120SI ES instructions.

Interest and Penalties

In general, interest and penalty apply to any portion of the tax not paid on or before the original due date of the return.

Interest

If the PE does not pay the tax when due, it will owe interest at the rate of 1% per month or fraction of a month until the tax is paid in full.

Interest on underpayment or late payment of tax cannot be waived.

Penalty for Late Payment or Late Filing

The penalty for late payment or underpayment of tax is 10% of the tax not paid on or before the original due date of the return. The PE can avoid a penalty for failure to pay the full amount due by the original due date if:

- The PE files Form CT-1127;
- An extension of time to pay is granted; **and**
- The PE pays all the tax due in full by the end of the extension period.

For detailed information, see the Form CT-1127 instructions.

If no tax is due, the Commissioner of Revenue Services may impose a \$50 penalty for the late filing of any return or report required by law to be filed.

Electronic Payment Penalties

The following graduated penalty amounts will apply if you fail to remit payments electronically:

- First offense – 10% penalty on the amount of the tax payment, but not more than \$2,500;
- Second offense – 10% penalty, but not more than \$10,000; **and**
- Third and subsequent offenses – 10% penalty.

When initiating a payment through your financial institution's online banking system you **must** verify that your financial institution is sending an EFT, not a check.

Penalty for Failure to File

If the PE does not file its return and the Commissioner of Revenue Services files a return for it, the penalty for failure to file is 10% of the balance due or \$50, whichever is greater.

If the PE is required to file an amended Form CT-1065/CT-1120SI and fails to timely do so, a penalty may be imposed.

Penalty for Willful Failure to File or Pay

If you willfully fail to pay the tax or file a return, you may be fined up to \$1,000 or imprisoned up to one year, or both, in addition to any other penalty.

Penalty for Willful Filing of a Fraudulent or Materially False Return

If you willfully file a tax return you know to be fraudulent or false in any material matter, you may be fined up to \$5,000 or imprisoned for not more than five years, or both.

Disregarded Entities

If the PE reports income or loss from a disregarded entity (DE), prepare a statement to include the DE's name and Federal Employer Identification Number (FEIN).

The PE filing Form CT-1065/CT-1120SI electronically should retain a copy of the completed statement for three years from the date of filing. The statement must be provided to DRS upon request. Taxpayers filing by paper, must attach the statement to their paper return.

A PE Must Provide Schedule CT K-1s to All Members

A PE must furnish **Schedule CT K-1**, *Member's Share of Certain Connecticut Items*, to all members on or before the fifteenth day of the third month following the close of the taxable year (March 15 for calendar year filers).

If the PE requested an extension of time to file Form CT-1065/CT-1120SI by timely electronically filing **Form CT-1065/CT-1120SI EXT**, *Application for Extension of Time to File Connecticut Pass-Through Entity Tax Return*, the deadline for furnishing Schedule CT K-1 to members is automatically extended to the fifteenth day of the ninth month following the close of the taxable year (September 15 if the PE's taxable year for federal purposes is the calendar year).

Do not file Schedule CT K-1s with DRS when Form CT-1065/CT-1120SI is electronically filed with DRS. If Form CT-1065/CT-1120SI is filed by paper with DRS, attach Schedule CT K-1s to the end of Form CT-1065/CT-1120SI. Regardless of how Form CT-1065/CT-1120SI is filed, Schedule CT K-1s must still be issued to all members.

How Members Report Income

If the member is a resident individual, his or her share of PE income or loss is included in his or her federal adjusted gross income and, therefore, is includable in the federal adjusted gross income reported on the member's **Form**

CT-1040, *Connecticut Resident Income Tax Return*. The PE must provide the member with Schedule CT K-1 reporting Connecticut modifications that the member must include on Form CT-1040, Schedule 1, along with the member's portion of the PE Tax Credit that the member must report on **Schedule CT-PE**, *Pass-Through Entity Tax Credit*.

A member who is a nonresident individual is not required to file **Form CT-1040NR/PY**, *Connecticut Nonresident and Part-Year Resident Income Tax Return*, if his or her only source of Connecticut income is from a PE **and**:

- He or she receives a Schedule CT K-1 and the PE Tax Credit properly reported fully satisfies his or her Connecticut income tax liability; **or**
- He or she receives a Schedule CT K-1 and the box "PE filed **Schedule CT-NR**, *Elective Composite Income Tax Remittance Calculation*" is checked. For more information, see Nonresident Composite Income Tax Remittance Election in the Form CT-1065/CT-1120SI instructions.

A nonresident individual may still choose to file a Form CT-1040NR/PY even if he or she is not required to file.

A PE must provide the member with a Schedule CT K-1 reporting Connecticut modifications that the member must include on Form CT-1040NR/PY, Schedule 1, and amounts of PE income or loss derived from or connected with Connecticut sources, the member must include **Schedule CT-SI**, *Nonresident or Part-Year Resident Schedule of Income from Connecticut Sources*. The PE must also report on Schedule CT K-1 the amount of the member's portion of the PE Tax Credit and, if applicable, any composite income tax remitted on the member's behalf.

If the member is a resident trust, resident estate, nonresident trust, or nonresident estate, its share of PE income or loss is included in federal taxable income and, therefore, is includable in the federal taxable income reported on the member's **Form CT-1041**, *Connecticut Income Tax Return for Trusts and Estates*. The PE must provide the member with a Schedule CT K-1 reporting Connecticut modifications, amounts of PE income or loss derived from or connected with Connecticut sources, and the member's portion of the PE Tax Credit.

For filing requirements of a nonresident trust or estate, see the instructions for Form CT-1041.

If the member is a PE, it is referred to as a parent PE and the PE of which it is a member is referred to as a subsidiary PE. The subsidiary PE must furnish a Schedule CT K-1 to the parent PE and report:

- Connecticut modifications that the parent PE must include on its Form CT-1065/CT-1120SI, Part 1, Schedule C, Columns A and B and Part 5;
- Amounts of the subsidiary PE's income or loss derived from or connected with Connecticut sources that the parent PE must include on its Form CT-1065/CT-1120SI, Part 1, Schedule D, Column B and Part 4, Column B;
- Amounts of PE Tax Credits allocated by the subsidiary PE to the parent PE that the parent PE should report on its Form CT-1065/CT-1120SI, Part 1, Schedule D, Column C and should allocate to its members on Part 9, Column C; **and**
- Amounts of tax credits that the parent PE must include on Form CT-1065/CT-1120SI, Part 7.

The parent PE must, in turn, provide its members with:

- A Schedule CT K-1 reporting their share of the Connecticut modifications as reported on the parent PE's Form CT-1065/CT-1120SI, Part 5;
- Their share of the amounts of the income or loss derived from or connected with Connecticut sources as reported on the parent PE's Form CT-1065/CT-1120SI, Part 6;
- Their share of the PE Tax Credit reported on the parent PE's Form CT-1065/CT-1120SI, Part 9; **and**
- Their share of the income tax credits as reported on the parent PE's Form CT-1065/CT-1120SI, Part 7.

Order in Which to Complete Schedules

Complete the schedules for **Form CT-1065/CT-1120SI**, *Connecticut Pass-Through Entity Tax Return*, in the following order:

- Pass-Through Entity Information;
- Select a Filing Method;
- Combined Election (if applicable);
- Composite Election (if applicable);
- Part 2 – Allocation and Apportionment of Income;
- Part 1, Schedule D – Subsidiary PE Information;
- Part 1, Schedule C – PE’s Connecticut Modifications;
- Part 1, Schedule B – Computation of PE’s Own Connecticut Source Income/(Loss);
- Part 1, Schedule A – Computation of Pass-Through Entity Tax Due;
- Part 3 – Member Information;
- Part 4 – PE’s Total Connecticut Source Income/ (Loss);
- Part 5 – Member’s Total Share of Connecticut Modifications;
- Part 6 – Member’s Total Connecticut Source Income/ (Loss);
- Part 7 – Connecticut Income Tax Credit Summary;
- Part 8 – Direct PE Tax Credit Calculation;
- Part 9 – Allocation of PE Tax Credit to Members; **and**
- **Schedule CT K-1**, *Member’s Share of Certain Connecticut Items*.

If the PE makes the Alternative Base Election, also complete **Schedule CT-AB**, *Alternative Base Calculation*. See Select a Filing Method in the Form CT-1065/CT-1120SI instructions.

If the PE makes the Combined Election, it may also be required to complete **Schedule CT-CE**, *Combined Election*. See *Combined Election in the Form CT-1065/CT-1120SI* instructions.

If the PE elects to remit additional composite income tax on behalf of its nonresident individual members, it must complete **Schedule CT-NR**, *Elective Composite Income Tax Remittance Calculation*. See Nonresident Composite Income Tax Remittance Election in the Form CT-1065/CT-1120SI instructions.

