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## Connecticut General Statutes 12-699 to 699a

**Sec. 12-699.** Definitions. Imposition of tax. Rate. (a) As used in this section and section 12-699a:

- (1) “Partnership” has the same meaning as provided in Section 7701(a)(2) of the Internal Revenue Code, as defined in section 12-213, and regulations adopted thereunder. “Partnership” includes a limited liability company that is treated as a partnership for federal income tax purposes;
  - (2) “S corporation” means a corporation or a limited liability company that is treated as an S corporation for federal income tax purposes;
  - (3) “Affected business entity” means a partnership or an S corporation, but does not include a publicly-traded partnership, as defined in Section 7704(b) of the Internal Revenue Code, that has agreed to file an annual return pursuant to section 12-726 reporting the name, address, Social Security number or federal employer identification number and such other information required by the Commissioner of Revenue Services of each unitholder whose distributive share of partnership income derived from or connected with sources within this state was more than five hundred dollars;
  - (4) “Member” means (A) a shareholder of an S corporation, (B) a partner in (i) a general partnership, (ii) a limited partnership, or (iii) a limited liability partnership, or (C) a member of a limited liability company that is treated as a partnership or an S corporation for federal income tax purposes; and
  - (5) “Taxable year” means the taxable year of an affected business entity for federal income tax purposes.
- (b) Each affected business entity that is required to file a return under the provisions of section 12-726 shall, on or before the fifteenth day of the third month following the close of each taxable year, pay to the commissioner a tax as determined under this section.
- (c) The tax due under subsection (b) of this section shall equal (1) (A) the separately and nonseparately computed items, as described in Section 702(a) of the Internal Revenue Code with respect to a partnership or Section 1366 of the Internal Revenue Code with respect to an S corporation, of the affected business entity, excluding any item treated as an itemized deduction for federal income tax purposes, plus any item described in Section 707(c) of the Internal Revenue Code with respect to a partnership, to the extent any such items under this subparagraph are derived from or connected with sources within this state, as determined under the provisions of chapter 229, (B) as increased or decreased by any modification described in section 12-701 that relates to an item of the affected business entity's income, gain, loss or deduction, to the extent derived from or connected with sources within this state, as determined under the

provisions of chapter 229, (2) multiplied by six and ninety-nine-hundredths per cent. If the amount calculated under subdivision (1) of this subsection results in a net loss, such net loss may be carried forward to succeeding taxable years until fully used.

(d) If an affected business entity, the lower-tier entity, is a member of another affected business entity, the upper-tier entity, the lower-tier entity shall, when calculating the amount under subdivision (1) of subsection (c) of this section, subtract its distributive share of income or add its distributive share of loss from the upper-tier entity to the extent that the income or loss was derived from or connected with sources within this state.

(e) A nonresident individual who is a member of an affected business entity shall not be required to file an income tax return under the provisions of chapter 229 for a taxable year if, for such taxable year, the only source of income derived from or connected with sources within this state for such member, or the member and the member's spouse if a joint federal income tax return is or shall be filed, is from one or more affected business entities and such nonresident individual member's tax under chapter 229 would be fully satisfied by the credit allowed to such individual under subparagraph (A) of subdivision (1) of subsection (g) of this section.

(f) Each affected business entity shall report to each of its members, for each taxable year, such member's direct share of the tax imposed under this section on such affected business entity and indirect share of the tax imposed on any upper-tier entity of which such affected business entity is a member.

(g) (1) (A) Each person that is subject to the tax imposed under chapter 229 and is a member of an affected business entity shall be entitled to a credit against the tax imposed under said chapter, other than the tax imposed under section 12-707. Such credit shall be in an amount equal to such person's direct and indirect share of the tax due and paid under this section by any affected business entity of which such person is a member multiplied by eighty-seven and one-half per cent. If the amount of the credit allowed pursuant to this subdivision exceeds such person's tax liability for the tax imposed under said chapter, the commissioner shall treat such excess as an overpayment and, except as provided in section 12-739 or 12-742, shall refund the amount of such excess, without interest, to such person.

(B) Each person that is subject to the tax imposed under chapter 229 as a resident or a part-year resident of this state and is a member of an affected business entity shall also be entitled to a credit against the tax imposed under said chapter, other than the tax imposed under section 12-707, for such person's direct and indirect share of taxes paid to another state of the United States or the District of Columbia, on income of any affected business entity of which such person is a member that is derived therefrom, provided the taxes paid to another state of the United States or the District of Columbia results from a tax that the commissioner determines is substantially similar to the tax imposed under this section. Any such credit shall be calculated in the manner prescribed by the commissioner, which shall be consistent with the provisions of section 12-704.

(2) Each company that is subject to the tax imposed under chapter 208 and is a member of an affected business entity shall be entitled to a credit against the tax imposed under said chapter. Such credit shall be in an amount equal to such company's direct and indirect share of the tax paid under this section by any affected business entity of which such company is a member multiplied by eighty-seven and one-half per cent. Such credit shall be applied after all other credits are applied and shall not be subject to the limits imposed under section 12-217zz. Any

credit that is not used in the income year during which the affected business entity incurs the tax under this section shall be carried forward to each of the succeeding income years by the company until such credit is fully taken against the tax under chapter 208.

(h) Upon the failure of any affected business entity to pay the tax due under this section within thirty days of the due date, the provisions of section 12-35 shall apply with respect to the enforcement of this section and the collection of such tax. The warrant therein provided for shall be signed by the commissioner or an authorized agent of the commissioner. The amount of any such tax, penalty and interest shall be a lien, from the last day of the last month of the taxable year next preceding the due date of such tax until discharged by payment, against all real estate of the taxpayer within the state, and a certificate of such lien signed by the commissioner may be recorded in the office of the clerk of any town in which such real estate is situated, provided no such lien shall be effective as against any bona fide purchaser or qualified encumbrancer of any interest in any such property. When any tax with respect to which a lien has been recorded under the provisions of this section has been satisfied, the commissioner, upon request of any interested party, shall issue a certificate discharging such lien, which certificate shall be recorded in the same office in which the lien was recorded. Any action for the foreclosure of such lien shall be brought by the Attorney General in the name of the state in the superior court for the judicial district in which the property subject to such lien is situated, or, if such property is located in two or more judicial districts, in the superior court for any one such judicial district, and the court may limit the time for redemption or order the sale of such property or make such other or further decree as it judges equitable.

(i) If any tax is not paid when due as provided in this section, there shall be added to the amount of the tax interest at the rate of one per cent per month or fraction thereof from the date the tax became due until it is paid.

(j) (1) Any affected business entity subject to tax under this section may elect to file a combined return together with one or more other commonly-owned affected business entities subject to tax under this section. Each affected business entity making such election shall submit written notice of such election to file a combined return, including the written consent of the other commonly-owned affected business entities to such election, to the commissioner not later than the due date, or if an extension of time to file has been requested and granted, the extended due date, of the returns due from such entities. An affected business entity shall submit such written notice and consent for each taxable year such entity makes the election under this subdivision. Each affected business entity electing to file a combined return under this subdivision shall be jointly and severally liable for the tax due under this section. For the purposes of this subdivision, "commonly-owned" means that more than eighty per cent of the voting control of an affected business entity is directly or indirectly owned by a common owner or owners, either corporate or noncorporate. Whether voting control is indirectly owned shall be determined in accordance with Section 318 of the Internal Revenue Code.

(2) Except as provided in subdivision (5) of this subsection, affected business entities that elect to file a combined return under subdivision (1) of this subsection shall net the amounts each such entity calculates under subdivision (1) of subsection (c) of this section after such amounts are separately apportioned or allocated by each affected business entity in accordance with this section.

(3) Affected business entities that elect to file a combined return under subdivision (1) of this subsection shall report to the commissioner the portion of the direct and indirect share of the tax paid with the combined return that is allocated to each of their members. Such report shall be filed with the combined return and the allocation reported shall be irrevocable.

(4) The election made under this subsection shall not affect the calculation of tax due under any other provision of the general statutes other than with respect to the calculation of the credits under subsection (g) of this section.

(5) Affected business entities that elect to file a combined return under subdivision (1) of this subsection shall calculate their tax due in accordance with subsection (c) of this section unless each such entity elects under subsection (k) of this section to calculate its tax due on the alternative basis under subsection (l) of this section. If such election is made, the affected business entities shall net their alternative tax bases instead of netting the amounts under subdivision (2) of this subsection.

(k) In lieu of calculating the tax due in accordance with subsection (c) of this section, any affected business entity may elect to calculate the tax due on the alternative basis under subsection (l) of this section. An affected business entity making such election shall submit to the commissioner written notice of such election not later than the due date, or if an extension of time to file has been requested and granted, the extended due date, of the return due from such entity. An affected business entity shall submit such written notice for each taxable year such entity makes the election under this subsection. The election made under this subsection shall not affect the calculation of tax due under any other provision of the general statutes other than with respect to the calculation of the credits under subsection (g) of this section.

(l) (1) The tax due from an affected business entity making the election under subsection (k) of this section shall be equal to six and ninety-nine-hundredths per cent multiplied by the alternative tax base. The alternative tax base shall be equal to the resident portion of unsourced income plus modified Connecticut source income.

(2) For the purposes of this subsection:

(A) "Resident portion of unsourced income" means unsourced income multiplied by a percentage equal to the sum of the ownership interests in the affected business entity owned by members who are residents of this state, as defined in section 12-701;

(B) "Unsourced income" means the separately and nonseparately computed items, as described in Section 702(a) of the Internal Revenue Code with respect to a partnership or Section 1366 of the Internal Revenue Code with respect to an S corporation, of the affected business entity, excluding any item treated as an itemized deduction for federal income tax purposes, plus any item described in Section 707(c) of the Internal Revenue Code with respect to a partnership, regardless of the location from which such item is derived or connected, as increased or decreased by any modification described in section 12-701, that relates to an item of the affected business entity's income, gain, loss or deduction, regardless of the location from which such item is derived or connected, less (i) the amount determined under subdivision (1) of subsection (c) of this section, determined without regard to subsection (d) of this section, and (ii) (I) the separately and nonseparately computed items, as described in Section 702(a) of the Internal Revenue Code, of the affected business entity, excluding any item treated as an itemized deduction for federal

income tax purposes, plus any item described in Section 707(c) of the Internal Revenue Code with respect to a partnership, to the extent any such items under this subclause are derived from or connected with sources within another state that has jurisdiction to subject the affected business entity to tax, as determined under the provisions of chapter 229, (II) as increased or decreased by any modification described in section 12-701, that relates to an item of the affected business entity's income, gain or deduction, to the extent derived from or connected with sources within another state that has jurisdiction to subject the affected business entity to tax, as determined under the provisions of chapter 229; and

(C) "Modified Connecticut source income" means the amount calculated under subdivision (1) of subsection (c) of this section multiplied by a percentage equal to the sum of the ownership interests in the affected business entity owned by members that are (i) subject to tax under chapter 229, or (ii) affected business entities to the extent such entities are directly or indirectly owned by persons subject to tax under chapter 229. A member that is an affected business entity shall be presumed to be directly or indirectly owned by persons subject to tax under chapter 229 unless the affected business entity subject to tax under this section can establish otherwise by clear and convincing evidence to the satisfaction of the commissioner.

(m) The provisions of sections 12-723, 12-725 and 12-728 to 12-737, inclusive, shall apply to the provisions of this section in the same manner and with the same force and effect as if the language of said sections had been incorporated in full into this section and had expressly referred to the tax under this section, except to the extent that any such provision is inconsistent with a provision of this section.

(P.A. 18-49, S. 1; P.A. 19-117, S. 333; 19-186, S. 1.)

**Sec. 12-699a.** Installment payment of estimated tax. Interest on underpayments. (a) As used in this section, "required annual payment" means the lesser of (1) ninety per cent of the tax under section 12-699 that is reported on the return filed for the taxable year or, if no return is filed, ninety per cent of the tax due under section 12-699, or (2) if the preceding taxable year was a taxable year of twelve months and the affected business entity filed a return for such taxable year, one hundred per cent of the tax under section 12-699 that is reported on such return.

(b) (1) Each affected business entity required to pay the tax imposed under section 12-699 and whose required annual payment for the taxable year is greater than or equal to one thousand dollars shall make the required annual payment each taxable year, in four required estimated tax installments on the following due dates: (A) For the first required installment, the fifteenth day of the fourth month of the taxable year; (B) for the second required installment, the fifteenth day of the sixth month of the taxable year; (C) for the third required installment, the fifteenth day of the ninth month of the taxable year, and (D) for the fourth required installment, the fifteenth day of the first month of the next succeeding taxable year. An affected business entity may elect to pay any required installment prior to the specified due date. Except as provided in subdivision (2) of this subsection, the amount of each required installment shall be twenty-five per cent of the required annual payment.

(2) (A) For any required installment, if the affected business entity establishes that its annualized income installment calculated pursuant to subparagraph (B) of this subdivision is less than the amount determined under subsection (a) of this section, the amount of such required installment shall be the annualized income installment. Any reduction in a required installment resulting

pursuant to this subdivision shall be recaptured by increasing the amount of the next required installment by the amount of such reduction and by increasing subsequent required installments to the extent such reduction has not previously been recaptured under this subdivision.

(B) The annualized income installment is the amount by which (i) the amount equal to the applicable percentage, as set forth in subparagraph (C) of this subdivision, multiplied by the tax imposed under section 12-699 for the taxable year that would be due if income subject to tax under said section for the months in the taxable year ending before the due date of the installment was annualized, (ii) exceeds the aggregate amount of any prior required installments for the taxable year.

(C) For the purposes of subparagraph (B) of this subdivision, the applicable percentages shall be as follows: (i) For the first required installment, twenty-two and one-half per cent; (ii) for the second required installment, forty-five per cent; (iii) for the third required installment, sixty-seven and one-half per cent; and (iv) for the fourth required installment, ninety per cent.

(c) (1) Except as otherwise provided in this section, in the case of any underpayment of estimated tax by an affected business entity, there shall be added to the tax imposed under section 12-699 an amount determined by applying interest (A) at the rate of one per cent per month or fraction thereof, (B) to the amount of the underpayment, (C) for the period of the underpayment.

(2) For the purposes of subdivision (1) of this subsection, (A) the amount of the underpayment is the amount by which the required installment exceeds the amount, if any, of the installment paid on or before the due date of the installment, and (B) the period of the underpayment runs from the due date of the installment to whichever date is earlier: (i) The fifteenth day of the third month of the next succeeding taxable year, or (ii) with respect to any portion of the underpayment, the date on which such portion is paid. Any payment of estimated tax under this section shall be credited against unpaid or underpaid required installments in the order in which such installments are required to be paid.

(d) Payment of the estimated tax under this section or any required installment thereof shall be considered payment on account of the tax imposed under section 12-699 for the taxable year.

(e) For taxable years of less than twelve months, the provisions of this section shall apply in a manner consistent with the regulations adopted under chapter 229 pertaining to such taxable years.