

Getting Started In Business



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1

Getting Started



Choose a Business Entity

An important step in forming a new business is to determine the type of business structure you will use. There are several business entities to choose from including sole proprietorship, partnership, corporation, limited liability company, and limited partnership. Each has advantages and disadvantages as well as tax consequences of which you should be aware.

The Department of Revenue Services (DRS) cannot advise you on choosing a business entity. You have to decide which of these entities best suits your business objectives and needs. For help in making this decision, you may wish to consult a tax practitioner (such as an accountant, enrolled agent, or attorney) or one of the resource organizations listed in Chapter 10. A tax practitioner can also provide information about how to establish the business structure you choose.



Depending upon the business structure you choose, you will need to file certain tax forms to report your business income.

agent, or attorney) or one of the resource organizations listed in Chapter 10. A tax practitioner can also provide information about how to establish the business structure you choose.

Business Income Tax Filing Requirements

Depending upon the business structure you choose, you will need to file certain tax forms to report your business income. An explanation of Connecticut income tax requirements that apply to each business structure follows. For federal tax information and filing requirements, contact the Internal Revenue Service (IRS). Telephone numbers are in Chapter 10.

A. Sole Proprietorship

A sole proprietorship is owned and operated by one individual (the sole proprietor). Income earned by a sole proprietorship is reported on the sole proprietor's individual income tax return. Because sole proprietors are not employees of their businesses and income taxes are not withheld from their income, estimated income tax payments may be required. Use the forms listed below to report income from a sole proprietorship.

Form CT-1040ES, *Estimated Connecticut Income Tax Payment Coupon for Individuals*: If you expect to owe \$1,000 or more in Connecticut income tax for the year in addition to any Connecticut income tax withheld from earnings at another job or from a pension, you should make

estimated payments. In general, four equal installments are due April 15, June 15, September 15, and January 15. This requirement applies to residents and also applies to part-year residents and nonresidents who have income derived from or connected with Connecticut sources. ***Income derived from or connected with Connecticut sources*** includes income from a business, trade, profession, or occupation carried on in Connecticut and income from any interest in real estate or personal property located in Connecticut or from intangible personal property to the extent it is used in a business, trade, profession, or occupation carried on in Connecticut.

If your income fluctuates throughout the year, you may benefit from using the annualized income installment method. If you use this method, the size of the installments may vary depending upon the amount of income earned during each quarter. See **Informational Publication 2006(24)**, *Estimated Connecticut Income Taxes*. If you need information about the annualized income installment method, see **Informational Publication 2006(25)**, *A Guide to Calculating Your Annualized Estimated Income Tax Installments and Worksheet CT-1040AES*. Both publications are available on the DRS website at www.ct.gov/DRS or from the DRS Forms Unit.

Forms CT-1040, CT-1040NR/PY, or CT-1040EZ, *Connecticut Income Tax Returns*: After your taxable year ends, you must file a Connecticut income tax return on or before the fifteenth day of the fourth month following the close of your taxable year. Connecticut residents report their income on Form CT-1040 or Form CT-1040EZ. Nonresidents and part-year residents use Form CT-1040NR/PY. For most taxpayers, the income tax return is due on or before April 15.

Most Connecticut residents may use the new **Taxpayer Service Center (TSC)** to WebFile their Connecticut income tax return. You may WebFile your Connecticut income tax return through the **TSC** if all of the following are true:



- You filed a Connecticut income tax return in the prior year;
- Your filing status is the same as the prior year;
- You are not filing **Form CT-8379**, *Nonobligated Spouse Claim*, with your return;
- You are not filing **Form CT-1040CRC**, *Claim of Right Credit*;
- You have no more than ten W-2 or 1099 forms showing Connecticut income tax withheld; **and**
- You are not claiming a credit for income taxes paid to more than two qualifying jurisdictions.

B. Partnership

A partnership is the formal relationship between two or more persons who join together to carry on a trade or business.



The terms of the partnership are generally spelled out in a formal partnership agreement. Partnerships are not subject to an entity-level tax and their items of income and deductions pass through to their partners. Partnerships may, in certain circumstances, be required to make composite income tax payments on behalf of their partners who or which are either nonresident noncorporate members or pass-through entities. See **Informational Publication 2006(22)**, *Connecticut Income Tax Changes Affecting Pass-Through Entities*, for more information. A partnership must apply for a Federal Employer Identification Number (FEIN) from the IRS and register as a partnership with DRS for Connecticut tax purposes.

An association of two or more people not required to apply for a FEIN and, with no partnership agreement, should not register as a partnership for Connecticut tax purposes. For example: persons who are mere co-owners of property that is maintained, kept in repair, and rented have not created a partnership for federal tax purposes and should not register as a partnership for Connecticut tax purposes.

Where spouses are in an unincorporated business together, the business may, depending on the circumstances, be treated either as a partnership or a sole proprietorship for federal income tax purposes.

Treatment as a partnership: If spouses carry on the unincorporated business together, with each spouse having an equal say in the affairs of the business, providing substantially equal services to the business, and sharing in the profits and losses, the spouses will most likely be treated as partners in a partnership for federal income tax purposes whether or not they have a formal partnership agreement. “If spouses carry on a business together and share in the profits and losses, they may be partners whether or not they have a formal partnership agreement. If so, they should report income or loss from the business on Form 1065. They should not report the income on a Schedule C (Form 1040) in the name of one spouse as a sole proprietor.” IRS Publication 541, *Partnerships*. There are similar instructions in IRS Publication 334, *Tax Guide for Small Business*.

Treatment as a sole proprietorship: If one spouse is an employee of (and not the partner of) the other spouse, the unincorporated business will most likely be treated as a sole proprietorship for federal income tax purposes. “The wages for the services of an individual who works for his or her spouse in a trade or business are subject to income tax withholding and social security and Medicare taxes ...” IRS Publication 15 (Circular E), *Employer’s Tax Guide*.

The proper federal tax classification of an unincorporated business (as either a partnership or a sole proprietorship) dictates how the business should register for Connecticut tax purposes.

A partnership with income from Connecticut sources must file **Form CT-1065/CT-1120SI**, *Connecticut Composite Income Tax Return*. **Income derived from or connected with Connecticut sources** includes income from a business, trade, profession, or occupation carried on in Connecticut and income from any interest in real estate or personal property located in Connecticut or from intangible personal property to the extent it is used in a business, trade, profession, or occupation carried on in Connecticut.

C. Corporation

A corporation is an entity created under state law with a legal existence separate and apart from its shareholders. If you intend to form a corporation or if your out-of-state corporation intends to transact business in Connecticut, you should also contact the Connecticut Office of the Secretary of the State. See Chapter 9 for information on this and other state agencies.

C corporations pay the corporation business tax for the privilege of carrying on business in a corporate capacity in Connecticut. (A C corporation is a corporation that has not made an election for federal income tax purposes to be an S corporation. S corporations are discussed on Page 6.) If your corporation is a C corporation, use **Form REG-1**, *Business Taxes Registration Application*, to register for the corporation business tax. See *Register With DRS* on Page 7 for more information.

Corporations calculate their tax under two alternative methods, tax measured by net income and the minimum tax, and remit the higher tax. If the tax measured by net income is less than \$250, the corporation pays the minimum tax, which is never less than \$250.

The tax measured by net income: Federal net income is modified by certain additions and subtractions to compute Connecticut net income. Multistate corporations multiply their Connecticut net income by the appropriate apportionment fraction. The Connecticut net income, or apportioned Connecticut net income for multistate corporations, is taxed at 7.5%.

The minimum tax: The Connecticut minimum tax base is:

- The average value of issued and outstanding capital stock, surplus, and undivided profits and surplus reserves reduced by;
- The average value of any deficit carried on the balance sheet and holdings of stock of private (nongovernmental) corporations including treasury stock.

Multistate corporations multiply their Connecticut minimum tax base by an apportionment fraction that is the average of the intangible personal property and tangible personal property ratios. The Connecticut minimum tax base, or apportioned Connecticut minimum tax base for multistate corporations, is taxed at a rate of 3.1 mils (\$0.0031) per dollar. The minimum tax cannot be more than \$1,000,000 nor be less than \$250.

Every C corporation and every other entity taxed as a C corporation for federal income tax purposes must file **Form CT-1120**, *Connecticut Corporation Business Tax Return* on or before the first day of the fourth month following the end of the corporation's taxable year (**April 1** for calendar year corporations).

A corporation whose estimated current year's tax exceeds \$1,000 must make estimated tax payments. See *Paperless Filing/Payment Methods* on Page 39.

The required estimated payments are the lesser of:

1st installment	30% of prior year's tax (without regard to tax credits) or 27% of current year's tax;
2nd installment	70% of prior year's tax (without regard to tax credits) or 63% of current year's tax;
3rd installment	80% of prior year's tax (without regard to tax credits) or 72% of current year's tax;
4th installment	100% of prior year's tax (without regard to tax credits) or 90% of current year's tax.

Corporation business tax credits are available to new and existing businesses. See **Informational Publication 2006(15)**, *Guide to Connecticut Business Tax Credits*, for more information on corporation business tax credits. You may download this publication from the DRS website at www.ct.gov/DRS, or to order the publication, send a self-addressed 9" x 12" envelope with \$1.99 postage affixed to:

Department of Revenue Services
 Mail Unit, Corporation Credit Guide
 25 Sigourney Street
 Hartford CT 06106-5032

No tax credit may be used to reduce a corporation's tax liability below \$250. Additionally, the amount of tax credits otherwise allowable against the corporation business tax for any income year may not exceed 70% of the amount of tax due from the taxpayer prior to the application of the tax credits.

S Corporations: S corporations are not subject to the corporation business tax. For federal and Connecticut tax purposes, S corporations are treated as pass-through entities. Consequently, in Connecticut, S corporation shareholders who

are individuals, estates, or trusts report their pro rata share of S corporation income on **Form CT-1040**, *Connecticut Resident Income Tax Return*, **Form CT-1040NR/PY**, *Connecticut Nonresident or Part-Year Resident Income Tax Return*, or **Form CT-1041**, *Connecticut Income Tax Return for Trusts and Estates*. Additionally, the S corporation must file **Form CT-1065/CT-1120SI**, *Connecticut Composite Income Tax Return*, on or before the fifteenth day of the fourth month after the close of its taxable year. S corporations may, in certain circumstances, be required to make a composite income tax payment on behalf of their nonresident noncorporate member. See **Informational Publication 2006(22)**, *Connecticut Income Tax Changes Affecting Pass-Through Entities*, for more information. S corporations generally are subject to the business entity tax. See Chapter 9 for a discussion of the business entity tax.

D. Limited Liability Company

A limited liability company (LLC), including a single member limited liability company (SMLLC), is another entity created under state law with a legal existence separate and apart from its members. If you intend to form an LLC or if your out-of-state LLC intends to transact business in Connecticut, you should contact the Connecticut Office of the Secretary of the State. See Chapter 9 for information on this and other state agencies.

The Connecticut tax treatment of an SMLLC and of an LLC with two or more members is the same as its federal tax treatment. Thus, an SMLLC is disregarded as an entity separate from its owner for Connecticut income tax purposes, in which case it is treated as a sole proprietorship, branch, or division of the owner if it is so disregarded for federal income tax purposes. Otherwise, an SMLLC is treated as a C corporation for Connecticut corporation business tax purposes if it is classified as such for federal income tax purposes. Similarly, an LLC with two members or more will be treated as a partnership for Connecticut income tax purposes if it is classified as such for federal income tax purposes. Otherwise, an LLC with two members or more is treated as a C corporation for Connecticut corporation business tax purposes if it is classified as such for federal income tax purposes.

LLCs treated as partnerships for federal income tax purposes and with income, gain, loss, or deductions derived from or connected with Connecticut sources during the year, must file Form CT-1065/CT-1120SI. LLCs may, in some circumstances, be required to make composite income tax payments on behalf of their members who or which are either nonresident noncorporate members or pass-through entities. See **Informational Publication 2006(22)**, *Connecticut Income Tax Changes Affecting Pass-Through Entities*, for more information. SMLLCs that elect to be treated as a sole proprietorship, branch, or division are not required to file Form CT-1065/CT-1120SI. LLCs may also be subject to the

business entity tax. See Chapter 8 for a discussion of the business entity tax.

E. Limited Liability Partnership

State law allows a partnership to register as a limited liability partnership (LLP). A partner of an LLP is generally not liable for any debts or obligations of the partnership or another partner or partners. An LLP is treated like a general partnership for federal purposes and does not limit an individual partner's share of partnership debts and obligations relating to the everyday operations of the organization. LLPs may also be subject to the business entity tax. See Chapter 8 for a discussion of the business entity tax.

Register With DRS

Online Registration

Save time and register for a Connecticut Tax Registration Number at your convenience when you file **Form REG-1, Business Taxes Registration Application**, online using *Fast-File* through the **Taxpayer Service Center (TSC)**. Visit the DRS website at www.ct.gov/DRS and click on **TSC**. You will receive your tax registration number in the mail in about **six days**. If you owe a registration fee, you must pay the fee electronically by entering the account number and routing number for your checking or savings account. See Form Reg-1 and applicable addenda for fee information.



Mail in Registration

Complete Form REG-1 and mail it to DRS at:

Department of Revenue Services
PO Box 2937
Hartford CT 06104-2937

If you owe a registration fee, you must include payment by check or money order with the application. You will receive your Connecticut tax registration number in the mail in **five to six weeks**.

Walk-in Registration

You may file Form REG-1 in person at any DRS office. If you register at a regional office, you must pay by check or money order. You must bring photo identification, such as a driver's license, with you. The application must be signed by the individual owner, partner, officer of the corporation, member of the limited liability company, or another who has written power of attorney to sign.

If you apply in person, DRS issues a temporary seller's permit and assigns a Connecticut Tax Registration Number **immediately**. Once you have a temporary seller's permit, you may begin making sales. DRS will mail you your permanent *Sales and Use Tax Permit* that is valid for five years. See the inside back cover of this booklet for the location nearest to you.

Use Form REG-1 to obtain a Connecticut Tax Registration Number or to register for additional tax types under your current Connecticut tax registration number.

Use Form REG-1 to register for any of these taxes:

- Business entity tax
- Business use tax
- Corporation business tax (*including PIC*)
- Income tax withholding
- Room occupancy tax
- Sales and use taxes
- Unrelated business income tax

In addition to Form REG-1, you must complete and attach the appropriate addendum as noted to Form REG-1 to register for these taxes. Visit the DRS website at www.ct.gov/DRS to preview and download the appropriate forms.

REG-1 Addendum A

- Cigarette taxes
- Tobacco products tax

REG-1 Addendum B

- Admissions and dues taxes
- Dry cleaning surcharge
- Rental surcharge
- Tourism surcharge

REG-1 Addendum C

- Motor fuels tax
- Petroleum products gross earnings tax

REG-1 Addendum D

- Alcoholic beverages tax

REG-1 Addendum E

- Community antenna television system companies tax
- Railroad companies tax
- Satellite companies tax
- Solid waste assessment
- Suppliers of natural gas
- Utility companies tax

You must furnish a general description of your business activities on Form REG-1. If your business is a sole proprietorship, you must give your Social Security Number (SSN). If it is a partnership, corporation, limited liability company, or limited liability partnership, you must furnish the company's Federal Employer Identification Number (FEIN) and the SSNs, names, and addresses of the partners, officers, or members. If there are more than four partners, officers, or members, attach a list of the remaining names and SSNs to Form REG-1.

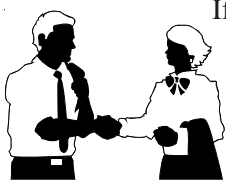
Changes to Your Registration

You must notify the DRS Registration Unit in writing if any of the following changes to your business occur:

- Change to the business name or address;
- Change in business owners (including adding or deleting partners or changing corporate officers);
- Change to business structure (incorporating your business, forming a partnership, etc.);
- Addition of new tax liabilities or deletion of tax liabilities for which you are no longer liable; **or**
- Addition of new business locations or the sale or closure of one or more existing locations.

You can make a change to your business name, trade name, mailing address, physical location, or contact information using *Fast-File* on the Internet for any tax type for which you are registered. Log on to the DRS website and click on *File/Register OnLine*.

Purchasing an Existing Business



If you purchase an existing business, you should consult a practitioner or business advisor to be certain you take all the steps necessary to protect your interests. In certain cases, the tax liabilities of the former owner can

become your liabilities if you do not take precautions. You are also required to get your own Connecticut *Sales and Use Tax Permit*. You may **not** use the *Sales and Use Tax Permit* issued to the previous owner. See *Who Must Obtain A Sales and Use Tax Permit* on Page 9.

Successor Liability

If you purchase an existing business, you may be held personally liable for the former owner's sales and use tax or admissions and dues tax liabilities. To avoid this problem, notify DRS by letter of the impending purchase at least 90 days before the closing and request a *Tax Clearance Certificate for Sales and Use Taxes* or *Tax Clearance Certificate for Admissions and Dues Tax*. Clearances are issued **only** to the purchaser, not to the seller.

The purchaser of a business must provide the following information to request a tax clearance certificate:

- The name and address of the purchaser;
- The name and address of the practitioner representing the purchaser, if applicable;
- The Connecticut Tax Registration Number assigned to the purchaser by DRS;
- The name and address of the business being sold as registered with DRS;

- The Connecticut Tax Registration Number of the business being sold;
- A letter signed in the original by the purchaser or its practitioner that clearly indicates the intent to purchase the business or stock of goods;
- A copy of the purchase agreement including all schedules, addenda, and attachments;
- The purchase price of the business;
- The expected closing date of the sale;
- The physical location where the purchaser will operate the business; **and**
- A properly executed **Form LGL-001**, *Power of Attorney*, if the purchaser wants DRS to contact its practitioner.

Send your letter by certified or registered mail to:

Department of Revenue Services
Audit Division – RCA Unit
Request for a Clearance Certificate
25 Sigourney St.
Hartford CT 06106

Hand-delivered requests are not accepted. Tax clearance requests by email or fax are not allowed.

Within 60 days of receiving the request and all required information, DRS either issues the tax clearance certificate to you or notifies you of the amount of tax that must be paid before a certificate will be issued. You should withhold the anticipated tax liability from the purchase price at the closing and place that amount in an escrow fund from which the outstanding taxes can be paid. DRS will also advise you if an audit of the business will be conducted. If an audit is conducted, DRS provides the purchaser with an escrow letter that contains the amount to be withheld from the entire purchase price to cover the tax liability. If you fail to withhold a sufficient amount, you may be personally liable for the outstanding taxes up to the full amount of the purchase price.

Once all outstanding taxes are paid and outstanding returns are filed, DRS issues **Form AU-712**, *Tax Clearance Certificate for Sales and Use Taxes*, or **Form AU-712AD**, *Tax Clearance Certificate for Admissions and Dues Tax*. Any money remaining in the escrow fund can then be released to the seller.

For more information about the tax clearance certificates, see **Informational Publication 2002(16)**, *Successor Liability for Sales and Use Taxes and Admissions and Dues Tax*, or call the DRS Refunds, Clearance, and Adjustments Unit at 860-541-7570.

2

Register to Make Sales in Connecticut




Who Must Obtain a Sales and Use Tax Permit

You must obtain a *Sales and Use Tax Permit* from the Department of Revenue Services (DRS) if you intend to engage in any of the following activities in Connecticut:

- Sale, rental, or lease of goods;
- Sale of a taxable service; **or**
- Operation of a hotel, motel, or lodging house.

You must obtain a *Sales and Use Tax Permit* **before** making any sales. If you purchase an existing business, you may **not** use the *Sales and Use Tax Permit* issued to the previous owner; you must obtain a new *Sales and Use Tax Permit*. If you will have more than a single place of business, you **must** obtain and display a *Sales and Use Tax Permit* for **each** location.



You must obtain a Sales and Use Tax Permit before making any sales

The requirement to obtain a permit applies to individuals, corporations, partnerships, and all other business entities that will make sales in this state, regardless of the number of sales made or the amount of tax collected. These rules do not apply to casual sales or isolated sales, which are infrequent sales of a nonrecurring nature made by a person not engaged in the business of selling tangible personal property or taxable services. Manufacturers and wholesalers, as well as retailers, must obtain a permit.

As a seller, you are responsible for collecting sales and use taxes and you are liable for their payment whether or not you collect them as required from your customers. You must file returns and pay the full amount of tax due to DRS.

Failure to obtain a tax permit will result in a fine of not more than \$500 or imprisonment of not more than three months, or both, for each offense.

If a business is located outside the state, but has any physical presence in Connecticut (owning or leasing real or tangible personal property, maintaining an office, or having employees or agents present in this state), it must register to collect Connecticut use tax on sales to Connecticut customers and must obtain a *Connecticut Sales and Use Tax Permit*.

If the business does not have any physical presence in Connecticut, but wishes to register to collect Connecticut use tax, it may also register for a permit. Use **REG-7, Application for Authority to Collect Connecticut Use Tax**, to register with DRS. There is no fee to register.

How to Obtain a Sales and Use Tax Permit

To register for sales and use taxes, use **Form REG-1, Business Taxes Registration Application**. Form REG-1 is also used to register for most other state taxes administered by DRS.

There is a \$50 fee payable at the time of registration (an additional \$25 fee for a retail cigarette dealer’s license if you will be selling cigarettes) to register for a *Sales and Use Tax Permit*. No fee is required for room occupancy tax if you are registered or are registering for sales and use taxes.

Your permit **cannot** be assigned or transferred. If you close or discontinue business, you **must** file a final sales and use tax return and return the permit for that location to the DRS Registration Unit. See *Successor Liability* on Page 8.

Renewal

Your *Sales and Use Tax Permit* expires every five years and must be renewed. The permit is automatically renewed and mailed to you. If your permit is lost or destroyed, you may obtain a replacement by writing to:

Department of Revenue Services
 Registration Unit
 PO Box 2937
 Hartford CT 06104-2937

Be sure to include your Connecticut Tax Registration Number in all correspondence with DRS. There is no charge for renewal or replacement of your *Sales and Use Tax Permit*.

Cooperative Interstate Sales and Use Tax Agreement

An agreement between the states of New York and Connecticut allows participating businesses that make sales across state lines to voluntarily collect the neighboring state’s tax. The agreement also allows the two states to actively exchange sales and use tax information.

Who Can Participate in This Agreement

As a seller, you are eligible to participate if you:

- Are registered for sales tax collection in the state in which you have a physical location (New York or Connecticut);
- Do not have outstanding sales tax liabilities in New York or Connecticut;

- Buy or sell taxable goods and services across the New York and Connecticut border; **and**
- Do not have a physical place of business in both states.

Benefits of Participation

If you are eligible and choose to participate, you benefit from:

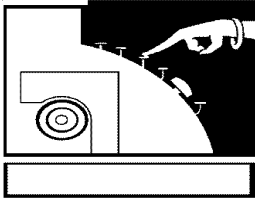
- Filing one registration form with your home state;
- Filing tax returns with your home state; **and**
- Paying one remittance to your home state.

How to Sign Up

You can register for this program by requesting an **OR-233, *Application for Connecticut/New York Simplified Sales and Use Tax Reporting***, from the state in which you are registered to collect sales and use taxes. Submit the completed application to that state. If, after review by both states, your application is accepted, you will receive a certificate of authorization from the neighboring state authorizing you to collect and remit the neighboring state's tax directly to the state in which you are registered and authorizing you to issue the neighboring state's resale and exemption certificates. For more information, contact the Connecticut DRS Taxpayer Services Division.

3

Sales Subject to Tax



Sales Tax, Use Tax, Room Occupancy Tax


The **sales tax** is a tax imposed on the retailer for the privilege of doing business in the state. The rate of 6% applies to the retail sale, lease, or rental of most goods and taxable services. There are no additional sales taxes imposed by local jurisdictions in Connecticut.

If you sell goods or taxable services in Connecticut, you are required by law to charge and collect Connecticut sales tax. You must also file timely returns and pay the sales tax to the Department of Revenue Services (DRS) whether or not you collected the tax as required from your customers.

Use tax is due when taxable purchases are made but Connecticut sales tax is not paid. Any individual or business purchasing taxable goods or services for use in Connecticut without paying Connecticut sales tax **must** pay use tax. If no tax was paid because the purchase was made from an out-of-state mail order company, the use tax due is equivalent to the Connecticut sales tax due on the sale if it occurred in Connecticut. If another state's tax was properly paid on purchases made in that state, the use tax due is limited to the amount, if any, by which the Connecticut tax exceeds the tax already paid. Goods or services not subject to Connecticut sales tax are not subject to use tax.

Example: You purchased a \$1,000 computer in another state, took title to the computer in that state, and paid a \$50 tax to that state. If you bought the computer for use in Connecticut, you owe Connecticut use tax. The Connecticut tax of \$60 is reduced to \$10 after allowing a \$50 credit for sales tax paid to the other state. If no tax was paid to the other state, the Connecticut use tax is \$60.

Use tax applies to any purchases of taxable goods and services made by a business except those purchases made for resale. The tax applies to the purchase or lease of assets such as furniture, equipment, machines, instruments, and computers and to the purchase of consumable goods such as office supplies, paper, stationery items, certain publications, prewritten software, and books. Use tax also applies to purchases of promotional items, items given away to customers free of charge, as well as to services used by the business such as vehicle repair, landscaping, janitorial, or snow removal services. Use tax does not apply to items held

 **If you sell goods or taxable services in Connecticut, you are required by law to charge and collect the Connecticut sales tax.**

for resale that retailers remove from inventory and donate to the United States or its agencies; Connecticut, its political subdivisions or their agencies; or any I.R.C. §501(c)(3) organization.

If purchases were made in connection with carrying on a trade, occupation, business, or profession that is not otherwise required to register to collect sales tax, the purchaser must register for business use tax by completing **Form REG-1, Business Taxes Registration Application**. The business must report taxable purchases on **Form OS-114, Sales and Use Tax Return**, for the reporting period in which the taxable purchase was made. See **Informational Publication 2003(26), Q & A on Sales and Use Taxes for a New Business**.

If purchases were made by an individual and not in connection with a business, the individual must report taxable purchases made in the preceding year on his or her Connecticut income tax return or on **Form OP-186, Connecticut Individual Use Tax Return**. See **Informational Publication 2005(17), Q & A on the Connecticut Individual Use Tax**.

The **room occupancy tax** of 12% is imposed on the occupancy charges for 30 consecutive days or less of a room in a hotel, motel, or rooming house. Beginning on the 31st consecutive day of occupancy by the same person, the tax no longer applies. The rental of a room that does not have sleeping facilities for a business meeting, conference, or seminar is not taxable provided meals are not served in the meeting room. If meals are served in the meeting room, the total charges for the meeting room and the meals are subject to 6% sales and use taxes. See **Policy Statement 2003(1), Application of Sales and Use Taxes and the Room Occupancy Tax to the Hotel and Motel Industry**.



Special Rates Apply to Certain Sales

- The rate for the sale of computer and data processing services is 1%.
- The Manufacturing Recovery Act of 1992 (the MRA), codified as Conn. Gen. Stat. §12-412i, provides a partial exemption from the sales and use taxes to qualifying manufacturers, fabricators, processors and qualifying independent contractors. The partial exemption is provided as a 50% percent reduction of the gross receipts or sales price to calculate sales and use taxes on purchases of machinery, equipment, materials, tools, fuels, repair, replacement, component, and enhancement parts. See **Informational Publication 99(18), Sales and Use Taxes Guide for Manufacturers, Fabricators, and Processors**.

- The sales tax rate is 4½% on the sale of a motor vehicle to a nonresident member, or a member and his or her spouse jointly, of the armed forces of the United States stationed on full-time active duty in Connecticut. The nonresident member of the armed forces must complete **CERT-135**, *Reduced Sales and Use Tax Rate for Motor Vehicles Purchased by Nonresident Military Personnel and Their Spouses*, and provide it to the Connecticut retailer. See **Policy Statement 2001(4)**, *Sales of Motor Vehicles to Nonresident Military Personnel and Joint Sales of Motor Vehicles to Nonresident Military Personnel and Their Spouses*.

Sale, Lease, or Rental of Goods

In general, all sales, leases, and rentals of goods in Connecticut are subject to sales and use taxes when the title of goods transfers from the seller to the buyer in Connecticut. Exceptions are sales specifically exempt from tax and sales made for resale. See *Exemptions From Sales and Use Taxes*, Chapter 4, and *Sales for Resale*, Chapter 5.

Taxability of Sales of Goods

Connecticut sales or use tax applies to any transaction where title to the goods being sold transfers from the seller to the buyer in Connecticut. Connecticut use tax also applies to any transaction where title to the goods transfers outside Connecticut, but the goods are intended to be used in and are brought into Connecticut. Use the following guidelines to determine taxability.

A sale made by a Connecticut seller **is not** subject to Connecticut sales tax if the purchaser:

- Does not come to a Connecticut location but instead contacts the Connecticut seller by telephone or mail to place the order and the item is delivered to an out-of-state address using a vehicle owned or rented by the Connecticut seller or by common carrier (such as Federal Express, the U.S. Postal Service, or another shipping service); **or**
- Comes to a Connecticut location, purchases the item and does not take title to the item in Connecticut, but arranges with the Connecticut seller to ship the item using a vehicle owned or rented by the Connecticut seller or by common carrier to its out-of-state address.

A sale made by a Connecticut seller **is** subject to Connecticut sales tax if the purchaser comes to a Connecticut location and **takes actual possession** of the item in Connecticut, even if the purchaser then takes the item in his own vehicle to an out-of-state location or arranges to have the item picked up from the Connecticut seller and delivered to an out-of-state location by common carrier.

If the Connecticut seller delivers the item in a vehicle owned or rented by the seller to a location in another state, it is likely the physical presence of the Connecticut seller in the other state constitutes doing business in that state and makes the transaction subject to that state's tax. The Connecticut seller may be required to also obtain a seller's permit from that state and collect the tax. Contact that state for more information.

Sales of Taxable Services

In general, services are not subject to sales and use taxes unless specifically enumerated as taxable by statute. Charges for the following commonly used services are taxable (except when rendered by an employee for his or her employer). For a complete list of taxable services, refer to Conn. Gen. Stat. §12-407(a)(2) and (37) or contact the DRS Taxpayer Services Division.

When ordering any publication referred to below, request the most current version. See the inside back cover for how to order publications.

Taxable services include, but are not limited to:

- Advertising or public relations services not related to the development of media advertising or cooperative direct mail advertising;
- Business analysis, management, management consulting, and public relations services, excluding any environmental consulting services;
- Cable and satellite television services;
- Computer and data processing services including but not limited to charges for online access to computer services (but excluding Internet access services and services rendered in connection with the creation, development, hosting or maintenance of all or part of a website on the World Wide Web). See **Policy Statement 2004(2)**, *Sales and Use Taxes on Internet Access Services and On-Line Sales of Goods and Services*, and **Policy Statement 2006(8)**, *Sales and Use Taxes on Computer-Related Services and Sales of Tangible Personal Property*. See *Special Rates* on the previous page;
- Certain contractor services. See **Informational Publication 2006(35)**, *Building Contractors' Guide to Sales and Use Taxes*;
- Credit information and reporting;
- Employment agencies and agencies providing personnel services. See **Policy Statement 2006(7)**, *Taxation of Services by Employment Agencies and Agencies Providing Personnel Services*;
- Exterminating services;



- Flight instruction and chartering by a certificated air carrier. See **Policy Statement 94(8.1)**, *Aircraft Chartering and Flight Instruction Services*;
- Furnishing of space for storage. See **Special Notice 2002(9.1)**, *Sales and Use Taxes on the Furnishing of Space for Storage*;
- Furniture reupholstering and repair services;
- Health and athletic club services. Effective July 1, 2006, yoga instruction provided at a yoga studio is excluded from taxable health and athletic club services. See **Special Notice 2007(1)**, *Sales and Use Taxes on Health and Athletic Club Services*;
- Janitorial services (including the cleaning of homes, offices, and commercial property);
- Landscaping and horticulture services;
- Lobbying or consulting services for the purpose of representing a client's interests in relation to any Connecticut state or local governmental bodies;
- Locksmith services;
- Maintenance services;
- Miscellaneous personal services (U.S. industries 532220, 812191, 812199, or 812990 in the NAICS manual), exclusive of services rendered by licensed massage therapists and licensed hypertrichologists. See **Special Notice 2001(2)**, *Miscellaneous Personal Services*;
- Motor vehicle repairs including any type of repair, painting, or replacement to the body or operating parts of a motor vehicle;
- Painting and lettering services;
- Parking services in a lot with 30 or more spaces, other than metered space, and excluding valet parking at airports and space in certain municipal railroad parking lots;
- Personnel training services when the training service provider is engaged by an employer to provide job-related training to personnel whose primary workplace is located in Connecticut. See **Policy Statement 2000(4)**, *Sales and Use Taxes on Charges for Personnel Training Services*;
- Photographic studio services;
- Piped-in music provided to business or professional establishments;
- Prepaid telephone calling services including prepaid calling cards, and the recharge of the service. See **Special Notice 2000(3.1)**, *2000 Legislation Affecting Sales and Use Taxes and Admissions and Dues Tax*;
- Private investigation, protection, patrol work, watchman, and armored car services, exclusive of these services provided by off-duty police officers and firefighters. Sales of coin and currency services provided to a financial service company by or through another financial service company are excluded from taxable private investigation, protection, patrol work, watchman, and armored car services;
- Radio or television repair services;
- Repair services to electrical or electronic devices including but not limited to air conditioning and refrigeration equipment;
- Repair or maintenance services to tangible personal property (other than services to vessels and shoe repair);
- Sales agent services for selling tangible personal property, except for the services of a consignee selling works of art or clothing, the services of an auctioneer, or marine vessel brokerage services provided by marine vessel brokers selling vessels for their owners;
- Services to industrial, commercial, and income-producing real property including but not limited to management, repair, and renovation services, but excluding voluntary evaluation, prevention, treatment, containment, or removal of hazardous waste or other contaminants of air, water, or soil;
- Stenographic services;
- Storage or mooring of any noncommercial vessel on land or in the water, **except** the nonseasonal (November 1 through April 30) dry or wet storage or mooring of noncommercial vessels;
- Swimming pool cleaning and maintenance services;
- Telecommunications services;
- Telephone answering services;
- Warranty and service contracts for any item of tangible personal property; **and**
- Window cleaning services.

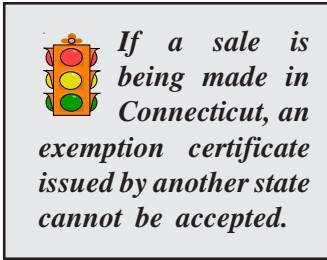
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EXEMPTIONS FROM SALES AND USE TAXES

Some sales you make are exempt from sales and use taxes because certain goods and services are exempt from the tax by statute. Other sales may be exempt because the purchaser is an organization that is exempt from paying tax by statute. This section explains both types of exempt transactions. Purchases and sales for resale are explained in Chapter 5.

Keeping Records of Exempt Sales

If you make sales of goods or services that are exempt from tax, keep careful records to support the exemption or you may be liable for payment of the tax. Many, but not all, exemptions require the use of a specific Connecticut tax exemption certificate the purchaser must complete and provide to the seller. If you are making a sale in Connecticut, do not accept an exemption certificate issued by another state. Keep copies of exemption certificates for a minimum of six years.



Single Purchase or Blanket Certificate

An exemption certificate may be issued for a single exempt purchase or may be used for a continuing line of purchases of the same type provided the certificate is marked *Blanket Certificate*. Most blanket certificates are valid for three years from the issue date if the exemption remains in effect.

Responsibility of Those Accepting or Issuing Certificates

You should accept an exemption certificate **only** if you can accept in good faith that the statements made by the purchaser are true and accurate. If you have reason to believe the information on the certificate is incorrect and you do not charge the tax, you may be liable for payment of the tax plus penalty and interest. Likewise, a purchaser who gives a false or fraudulent exemption certificate may also be subject to civil and criminal penalties.

Statutory Exemptions for Certain Sales

The following list includes many of the goods exempt from sales and use taxes. These exemptions are commonly used by businesses and their customers. For a complete list of exemptions or for more information on the exemptions listed, consult Conn. Gen. Stat. §12-412 or contact the DRS Taxpayer Services Division. If an exemption certificate is required, it is noted.

- **Agricultural exemption for items sold exclusively for use in agricultural production.** The purchaser must have a current *Farmer Tax Exemption Permit* issued for a two-year period by the Department of Revenue Services (DRS) and should provide you with a copy of the permit for your records. See *Farmers* on Page 19.
Conn. Gen. Stat. §12-412(63)
- **Aircraft.** See *Motor vehicles, aircraft, and vessels* on Page 16.
- **Biotechnology industry.** Machinery, equipment, tools, materials, supplies, and fuel used in the biotechnology industry. The purchaser must complete **CERT-129**, *Exemption for Items Used Directly in the Biotechnology Industry*. See **Policy Statement 98(8)**, *Exemption from Sales and Use Taxes for Items Used Directly in the Biotechnology Industry*.
Conn. Gen. Stat. §12-412(89)
- **Audio or video production or broadcasting.** Filmed and taped television and radio programs and any materials becoming part of films or tapes broadcast to the general public or used for medical or surgical training; motion picture or video production equipment or sound recording equipment purchased or leased for production activities relating to master tapes, records, or films produced for commercial entertainment, advertising, or educational purposes; and certain equipment used by television and radio stations. See **Policy Statement 2006(9)**, *Sales Tax Exemptions for Purchases for Use in Audio or Video Production*.
Conn. Gen. Stat. §12-412(44)
- **Child car seats.**
Conn. Gen. Stat. §12-412(108).
- **Clothing, fabric and apparel**
 - ✓ Articles of clothing or footwear costing under \$50 each. See **Special Notice 2003(3)**, *Sales and Use Taxes on Retail Sales of Clothing*.
Conn. Gen. Stat. §12-412(47)
 - ✓ Bicycle helmets.
Conn. Gen. Stat. §12-412(102)
 - ✓ Cloth or fabric purchased for noncommercial sewing used in making clothing (including other items that become a component part of the clothing such as zippers, buttons, thread, etc.).
Conn. Gen. Stat. §12-412(52)
 - ✓ Safety apparel. Defined as any item of clothing or protective equipment worn by an employee for protection during the course of the employee's employment. See **Policy Statement 2004(4)**, *Sales and Use Tax Exemption for Safety Apparel*.
Conn. Gen. Stat. §12-412(91)

- ✓ One Week Exclusion for Clothing and Footwear. There is an exclusion from tax for the week from the third Sunday in August until the following Saturday for sales of clothing and footwear costing under \$300. See **Special Notice 2006(10)**, *One Week Sales and Use Tax Exclusion in August for Clothing and Footwear Under \$300*. Conn. Gen. Stat. §12-407e
- ✓ Yarn for noncommercial use. Conn. Gen. Stat. §12-412(97)
- **Commercial fishing**
 - ✓ Materials, rope, fishing nets, tools, and fuel or any substitute, used directly in the commercial fishing industry. Conn. Gen. Stat. §12-412(18)
 - ✓ Commercial fishing vessels and machinery or equipment for use on the vessels. The purchaser must have a current *Commercial Fisherman Exemption Permit*, issued for a two-year period by DRS. See *Fishermen* on Page 19. Conn. Gen. Stat. §12-412(40)
- **College textbooks.** The exemption for college textbooks is expanded to include sales to students at private occupational schools authorized under Conn. Gen. Stat. §§10a-22a through 10a-22k. See **Special Notice 2000(9)**, *Sales and Use Tax Exemption on College Textbooks*, for more information on the exemption for college textbooks. Conn. Gen. Stat. §12-412(109)
- **Current United States and Connecticut flags.** Conn. Gen. Stat. §12-412(23)
- **Firearm safety devices.** Conn. Gen. Stat. §12-412(101)
- **Food products for human consumption**
 - ✓ The exemption does not include meals, carbonated beverages, candy, and alcoholic beverages. The exemption **does include** sales of candy, confectionery, and nonalcoholic beverages in schools and sales of candy, confectionery, beverages, and other items to persons in health care facilities. Food products sold through coin-operated vending machines, meals delivered to the elderly, disabled, or homebound, and purchases made with federal food stamp coupons also are exempt from tax. See **Policy Statement 2002(2)**, *Sales and Use Taxes on Meals*, for information on the taxability of meals. Conn. Gen. Stat. §12-412(13) and Conn. Gen. Stat. §12-412(27), (46), and (57)
 - ✓ Vegetable seeds suitable for planting to produce food for human consumption. Conn. Gen. Stat. §12-412(96)
- **Fuel**
 - ✓ Aviation fuel. Conn. Gen. Stat. §12-412(59) and (75)
 - ✓ Diesel fuel used in portable power system generators larger than 150 kilowatts. Conn. Gen. Stat. §12-412(107)
 - ✓ Marine fuel. Conn. Gen. Stat. §12-412(79)
 - ✓ Motor vehicle fuel. Conn. Gen. Stat. §12-412(15)
 - ✓ Certain fuel for heating purposes is exempt when used in:
 1. Residential dwellings; **or**
 2. Any metered building, location, or premises used directly in agricultural production or the fabrication of a finished product to be sold; **or**
 3. An industrial manufacturing plant provided that not less than 75% of the fuel used in the metered building, location, or premises is used for production, fabrication, or manufacturing. The purchaser must complete **CERT-115**, *Exempt Purchases of Gas, Electricity, and Heating Fuel*. Conn. Gen. Stat. §12-412(16)
- **Manufacturing, fabricating, and processing**
 - ✓ Machinery used in manufacturing, and repair, replacement, component, and enhancement parts for the machinery. The purchaser must complete **CERT-101**, *Machinery, Component Parts, and Replacement and Repair Parts of Machinery Used Directly in a Manufacturing Process*. Conn. Gen. Stat. §12-412(34)
 - ✓ Component parts for the assembly of manufacturing machinery. The purchaser must complete CERT-101. Conn. Gen. Stat. §12-412(73)
 - ✓ Materials, tools, and fuel. The purchaser must complete **CERT-100**, *Materials, Tools, and Fuel*. Conn. Gen. Stat. §12-412(18)
 - ✓ Partial exemption for materials, tools, fuels, machinery, and equipment used in manufacturing. (Manufacturing Recovery Act of 1992) The purchaser must complete **CERT-108**, *Partial Exemption of Materials, Tools, and Fuel*, or **CERT-109**, *Partial Exemption for Machinery, Equipment, or Repair and Replacement Parts*. Conn. Gen. Stat. §12-412i
 - ✓ Certain calibration services for manufacturing machinery, equipment, or instrumentation. Conn. Gen. Stat. §12-412(104)
- **Medical goods and equipment**
 - ✓ Prescription medicines, syringes, and needles. Conn. Gen. Stat. §12-412(4)
 - ✓ Oxygen, blood, or blood plasma for medical use in humans or animals. Conn. Gen. Stat. §12-412(19)

- ✓ Artificial devices that become a brace, support, supplement, correction, or substitute for a bodily structure or functioning portion of the body including but not limited to artificial limbs and artificial eyes, and repair services to these devices.
Conn. Gen. Stat. §12-412(19)
- ✓ Hearing aids, canes, crutches, walkers, and wheel chairs and repair services to these items.
Conn. Gen. Stat. §12-412(19)
- ✓ Vital life support equipment including oxygen supply equipment used for humans or animals, kidney dialysis machines, apnea monitors, and repair services rendered to these items.
Conn. Gen. Stat. §12-412(19)
- ✓ Custom-made wigs or hairpieces for persons with medically diagnosed total and permanent hair loss from disease or the treatment of disease.
Conn. Gen. Stat. §12-412(19)
- ✓ Support hose specially designed to aid in the circulation of blood, purchased by persons with medical need for the hose.
Conn. Gen. Stat. §12-412(19)
- ✓ Closed circuit television equipment used as reading aids by visually impaired persons.
Conn. Gen. Stat. §12-412(19)
- ✓ Nonprescription drugs and medicines used in or on the body including vitamin or mineral concentrates; dietary supplements; natural or herbal medicines; cough, cold, or allergy medicines; antihistamines; laxatives; antidiarrheal medicines; analgesics; antibiotic, antiviral, and antifungal medicines; antiseptics; astringents; anesthetics; steroidal medicines; anthelmintics; emetics and antiemetics; antacids; eye, ear, or nose medications. Excluded from the exemption are cosmetics, dentifrices, mouthwash, shaving and hair care products, soaps, and deodorants. See **Policy Statement 2006(5)**, *Sales and Use Tax Exemption for Nonprescription Drugs and Medicines and Other Health-Related Products*.
Conn. Gen. Stat. §12-412(48)
- ✓ Diabetic supplies (test strips and tablets, lancets, and glucose monitoring equipment).
Conn. Gen. Stat. §12-412(54)
- ✓ Telephone equipment designed exclusively for deaf or blind persons.
Conn. Gen. Stat. §12-412(38)
- ✓ Disposable pads used for incontinency (infant diapers, adult diapers, and underpads).
Conn. Gen. Stat. §12-412(53)
- ✓ Products to aid in the cessation of smoking.
Conn. Gen. Stat. §12-412(111)
- **Repair, Replacement, and Enhancement Parts.** Repair, replacement, and enhancement parts for the following exempt items are also exempt whether purchased separately or with the item:
 - ✓ Medical equipment (such as corrective supports, wheelchairs, and equipment used to support vital life functions).
Conn. Gen. Stat. §12-412(19)
 - ✓ Glucose monitoring equipment.
Conn. Gen. Stat. §12-412(54)
 - ✓ Special equipment installed in motor vehicles for persons with physical disabilities.
Conn. Gen. Stat. §12-412(80)
- **Inclined stairway chairlifts.** Inclined stairway chairlifts for persons with disabilities; repair, replacement, and enhancement parts, and repair services for the chairlifts.
Conn. Gen. Stat. §12-412(19)
- **Magazines**, including publications which only contain puzzles, by subscription. See **Policy Statement 2006(6)**, *Sales and Use Taxes on Magazines and Newspapers*.
Conn. Gen. Stat. §12-412(114)
- **Motor vehicles, aircraft, and vessels**
 - ✓ Flyable aircraft sold by a manufacturer of aircraft located in this state to certificated or licensed carriers engaged in interstate or foreign commerce or to nonresidents for use exclusively outside Connecticut. Purchasers must complete **Affidavit SUT-16a-3**.
Conn. Gen. Stat. §12-412(20)
 - ✓ Aircraft having a maximum certificated takeoff weight of 6,000 pounds or more.
Conn. Gen. Stat. §12-412(99)
 - ✓ Repair or replacement parts exclusively for use in aircraft **and** aircraft repair services. The purchaser must complete **CERT-110**, *Aircraft Repair Services — Aircraft Repair and Replacement Parts*.
Conn. Gen. Stat. §12-412(76) and (77)
 - ✓ Motor vehicles purchased but not registered in this state by persons who are nonresidents and do not maintain a permanent place of abode in Connecticut. The purchaser must complete **CERT-125**, *Sales and Use Tax Exemption for Motor Vehicle Purchased by a Nonresident of Connecticut*.
Conn. Gen. Stat. §12-412(60)
 - ✓ Motor vehicles sold to limited liability companies or their members in connection with the organization or termination of the limited liability company, provided the last taxable sale was subject to tax.
Conn. Gen. Stat. §12-431(a)

- ✓ Hybrid passenger cars. Sales of hybrid passenger cars with an estimated highway gasoline mileage of at least 40 miles per gallon are exempt through September 30, 2008.
Conn. Gen. Stat. §12-412(115);
- ✓ New motor vehicle powered by clean alternative fuel.
Conn. Gen. Stat. §12-412(67);
- ✓ Equipment for converting vehicles to the use of clean alternative fuel.
Conn. Gen. Stat. §12-412(68);
- ✓ Equipment for compressed natural gas or hydrogen filling stations or electric recharging stations for these vehicles.
Conn. Gen. Stat. §12-412(69);
Clean alternative fuel means natural gas, electricity, or propane when used in vehicles that meet certain emissions standards. These three exemptions end July 1, 2008.
Conn. Gen. Stat. §12-412(67), (68), and (69)
- ✓ Commercial trucks, truck tractors, tractors, semitrailers, and vehicles used in combination with commercial trucks, truck tractors, tractors, semitrailers that have a gross vehicle weight rating in excess of 26,000 pounds; or are operated actively and exclusively during the one-year period beginning on the date of purchase for the carriage of interstate freight under a certificate or permit issued by the Interstate Commerce Commission or its successor agency.
Conn. Gen. Stat. §12-412(70)
- ✓ Equipment installed in motor vehicles for persons with physical disabilities.
Conn. Gen. Stat. §12-412(80)
- ✓ Commercial fishing vessels and machinery or equipment for use on the vessels. See *Fishermen* on Page 19.
Conn. Gen. Stat. §12-412(40)
- ✓ Vessels when purchased by nonresidents who maintain no permanent place of abode in Connecticut and who will not register them in Connecticut. **Vessel** means every description of watercraft, other than a seaplane on water, used or capable of being used as a means of transportation on water. The purchaser must complete **CERT-139, Sales and Use Tax Exemption for a Vessel Purchased by a Nonresident of Connecticut.**
Conn. Gen. Stat. §12-412(60)
- ✓ Repair and maintenance services to vessels.
Conn. Gen. Stat. §12-408(1) and Conn. Gen. Stat. §12-411(1)
- ✓ Fabrication labor to existing vessels.
Conn. Gen. Stat. §12-408(1)
- ✓ Property tax payments under motor vehicle leases (if separately stated on the bill to the lessee from the lessor).
Conn. Gen. Stat. §12-412(49)
- **Newspapers.**
Conn. Gen. Stat. §12-412(114)
- **Personal property used in burial or cremation** with value up to \$2,500 for any single funeral; and caskets.
Conn. Gen. Stat. §12-412(55)
- **Pollution control equipment** used in the operation of air pollution control facilities or in the operation of facilities for the treatment of industrial waste that are approved by the Department of Environmental Protection. Purchasers must complete **CERT-117, Purchases of Tangible Personal Property Incorporated Into or Consumed in Air Pollution Control Facilities**, or **CERT-124, Purchases of Tangible Personal Property Incorporated Into or Consumed in Water Pollution Control Facilities.** See **Policy Statement 99(2), Tax Exemptions for Certain Air Pollution Control Equipment**, and **Policy Statement 99(3), Tax Exemptions for Certain Water Pollution Control Equipment.**
Conn. Gen. Stat. §12-412(21) and (22)
- **Printing equipment**
 - ✓ Machinery, equipment, tools, materials, and supplies used in commercial printing.
Conn. Gen. Stat. §12-412(71)
 - ✓ Machinery, equipment, tools, materials, and supplies for typesetting, color separation, finished copy, or similar products. Purchasers using either exemption must complete **CERT-120, Machinery, Equipment, Tools, Materials, and Supplies Used in the Production of Printed Material or in Prepress Production.** See **Policy Statement 2001(7), Purchases of Machinery, Equipment, Tools, Material, and Supplies by Commercial Printers and Publishers.**
Conn. Gen. Stat. §12-412(72)
- **Printed material** manufactured for a purchaser in Connecticut to be delivered for use outside the state within 30 days following delivery. The purchaser must provide a **Printed Material Certificate.**
Conn. Gen. Stat. §12-412(31)
- **Rare or antique coins.**
Conn. Gen. Stat. §12-412(45)
- **Sales to a telecommunications company or community antenna television company** of equipment used to provide telecommunications, high-speed data transmission, or broad-band Internet services.
Conn. Gen. Stat. §12-412(112)
- **Shoe repair services.**
Conn. Gen. Stat. §12-412(105)

- **Certain services rendered at the residence of a disabled person.** Landscaping and horticulture services, window cleaning, and maintenance services rendered at the residence of a person eligible for and currently receiving total disability benefits under the Social Security Act. The purchaser must complete **CERT-121**, *Exemption for Landscaping and Horticulture Services, Window Cleaning Services, and Maintenance Services Rendered to Recipients of Total Disability Benefits*. Conn. Gen. Stat. §12-412(85)
- **Use Tax Exemption for Retailers.** Items held for resale that retailers remove from inventory and donate to the United States or its agencies; Connecticut, its political subdivisions, or their agencies; or any I.R.C. §501(c)(3) organization. Conn. Gen. Stat. §12-413(4)
- **Utility exemptions.** Gas or electricity for residential use and certain manufacturing or agricultural production. Sales for use directly in agricultural production, fabrication of a finished product to be sold, or in manufacturing production in a metered premises at which not less than 75% of the gas or electricity is used for agricultural, fabrication, or manufacturing purposes. In addition, the first \$150 in electric charges to a business are exempt for any month of service. Water, steam, and telegraph services when delivered to consumers through mains, lines, pipes, or bottles. The purchaser must complete **CERT-115**, *Exempt Purchases of Gas, Electricity, and Heating Fuel*. See **Policy Statement 94(3.2)**, *Gas and Electricity Purchased for Residential Use or for Use in Agricultural Production, in the Fabrication of Finished Products to Be Sold, or in an Industrial Manufacturing Plant*. Conn. Gen. Stat. §12-412(3) and (16)
- **Vending machine sales.** Sales of any items costing 50 cents or less and sales of food products in vending machines. Conn. Gen. Stat. §12-412(27)
- **Weatherization Products.** Sales of residential weatherization products are exempt from sales and use taxes for the period of June 1, 2006, through June 30, 2007. See **Special Notice 2006(1.1)**, *Sales Tax Holiday for Home Weatherization Products*, which describes the exclusion and provides rules regarding whether a sale takes place during the exclusion period. Conn. Gen. Stat. §12-412k

Exempt Organizations

Some qualifying organizations and entities are entitled by statute to make purchases without payment of sales and use taxes. In general, to qualify for exemption, the purchases of these organizations must meet the following tests:

- The purchase must be made for the exclusive use of the organization (not for the convenience or use of individual members or officers); **and**
- The payment must be from the organization's own funds. Purchases made with cash (except for purchases for \$10 or less), personal checks, or personal credit cards are not eligible for exemption. However, credit cards issued in the name of the exempt organization may be used. Payment of the credit card charges **must** be paid by a check drawn on the exempt organization's checking account; **and**
- The purchase must be accompanied by a properly completed exemption certificate or other documentation of exemption.

Purchasing cards (P-cards) issued by a State of Connecticut agency may be used to make tax-exempt purchases of goods or services although issued in the name of an agency employee. See **Policy Statement 2006(4)**, *Tax Exempt Purchases by Connecticut State Agencies*.

Qualifying Exempt Organizations

Examples of major exempt organizations include, but are not limited to:

- The State of Connecticut, its political subdivisions (cities and towns), and Connecticut state and municipal agencies (including Connecticut public schools) may purchase goods and services other than meals or lodging exempt from tax by using **CERT-134**, *Exempt Purchases by Qualifying Governmental Agencies*, or providing the Governmental Agency Exemption Number. The exemption does **not** apply to other states, their political subdivisions, or their agencies.
- The United States government, its agencies, and instrumentalities may make exempt purchases of goods and services other than meals or lodging using CERT-134.
- Qualifying exempt organizations may make purchases of goods and services without paying sales tax by using **CERT-119**, *Purchases of Tangible Personal Property and Services by Qualifying Exempt Organizations*. A qualifying exempt organization is one issued a determination letter or group exemption letter by the IRS that establishes the organization as exempt under I.R.C. §501(c)(3) or (13). A qualifying exempt organization may have been issued a *Sales and Use Tax Exemption Permit* (an E-Number) by DRS which it can present to the seller

to purchase goods and services tax exempt. DRS no longer issues exemption permits to exempt organizations. A qualifying organization that does not have an E-number from DRS attaches the first page of its I.R.C. §501(c) determination letter to the CERT-119 presented to the seller to purchase goods and services exempt from sales tax. The exemption does **not** apply to organizations with exemption permits issued by other states unless the organization provides a copy of its federal determination letter or group exemption letter. In most instances, CERT-119 **cannot** be used to purchase meals or lodging exempt from tax. See **Policy Statement 2006(3)**, *Purchases of Meals or Lodging by Exempt Entities*; **CERT-112**, *Exempt Purchases of Meals or Lodging By Exempt Entities*; and **CERT-122**, *Refund of Tax Paid on Purchases of Meals or Lodging by Exempt Entities*.

- Nonprofit charitable hospitals, nonprofit nursing homes, nonprofit rest homes, and nonprofit residential care homes may make purchases of goods and services without paying sales tax by using CERT-119 (for nonprofit charitable hospitals only), or **CERT-113**, *Purchases of Tangible Personal Property and Services by a Nonprofit Charitable Hospital, Nonprofit Nursing Home, Nonprofit Rest Home or Nonprofit Residential Care Home*. See **Informational Publication 2002(11)**, *Nonprofit Hospitals, Nonprofit Nursing Homes, Nonprofit Rest Homes, and Nonprofit Residential Care Homes*.

Federally Recognized Indian Tribes

Federally recognized Indian tribes located in Connecticut (the Mashantucket Pequot Tribe and the Mohegan Indian Tribe) may make exempt purchases of goods and services provided the goods and services are used by the tribes within Indian country. The Mashantucket Pequot and the Mohegan Tribes must use **CERT-127**, *Exempt Purchases by an Enrolled Member or by the Tribal Government of the Mashantucket Pequot Tribe or Mohegan Tribe*. Contractors making purchases of tangible personal property used exclusively for construction projects on either reservation must use **CERT-128**, *Exempt Purchases by Contractors in Connection with Construction Projects on the Mashantucket Pequot or Mohegan Reservations*.

Farmers

Farmers issued a *Farmer Tax Exemption Permit* for a two-year period by DRS can make purchases of goods (not services) to be used exclusively in agricultural production by presenting a valid permit to the retailer. Permits are issued for a two-year period and are valid from October 1 until September 30. The permit can be treated like a *Blanket Certificate* and may be used to make qualifying purchases for the entire period from the same retailer.

Start-up farmers can obtain an exemption permit without meeting the previous year income requirements. See **Informational Publication 2006(20)**, *Farmer's Guide to Sales and Use Taxes, Motor Vehicle Fuels Tax, Estimated Income Tax, and Withholding Tax*.

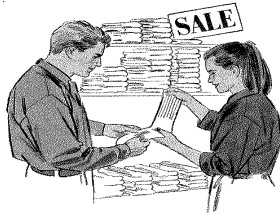
Fishermen

Fishermen issued a *Commercial Fisherman Exemption Permit* by DRS can make qualifying purchases of materials, rope, fishing nets, tools, and fuel used directly in the fishing industry, any vessel used exclusively in commercial fishing, and any machinery or equipment for use on a commercial fishing vessel, by presenting a copy of the current permit to the retailer. The exemption does not apply to repair and replacement parts for vessels and equipment or to raw materials (lumber, steel, etc.) to be used in the construction of vessels or equipment. Permits are issued for a two-year period and are effective from July 1 through June 30. The permit can be treated like a *Blanket Certificate* and may be used to make qualifying purchases for the entire period from the same retailer.

Conn. Gen. Stat. §12-412(40) relieves the start-up fisherman of the 50% previous year income requirements if the fisherman intends to carry on commercial fishing as a trade or business for at least two years after a permit is issued. See **Informational Publication 2005(8)**, *Fisherman's Guide to Sales and Use Taxes and Estimated Income Tax*.

5

Sales for Resale




If you purchase goods or services and intend to resell them or physically incorporate them into another product or service you will sell, you must issue a resale certificate or you must pay sales tax to the seller. As a seller of goods or services, you may also accept a resale certificate from other retailers. If the purchaser does not give you a resale certificate or other exemption certificate, you must charge sales tax. See **Informational Publication 2000(14)**, *Notice to Retailers on Sales and Use Taxes Resale Certificates*.

Who May Issue a Resale Certificate

The issuer of the resale certificate (customer or purchaser) must be a person who:

- Is engaged in the business of selling tangible personal property or selling a taxable service;
- Has been issued a *Sales and Use Tax Permit* by DRS or by the revenue agency of another jurisdiction; **and**
- At the time of purchase, intends to resell the goods or services in the regular course of business; or resell goods that become an integral or component part of a final product to be sold; or resell services enumerated in Conn. Gen. Stat. §12-407(a)(37) that become an integral and inseparable part of services enumerated under Conn. Gen. Stat. §12-407(a)(37).

 **If the purchaser does not give you a resale certificate, you must charge sales tax.**

Contractors who purchase materials for use in construction projects (such as lumber, nails, etc.) may **not** use a resale certificate to purchase these goods. Contractors are the consumers of the goods and must pay tax to the seller. See **Informational Publication 2006(35)**, *Building Contractors' Guide to Sales and Use Taxes*.

What Information Must Be Included on a Resale Certificate

The purchaser should complete a *Connecticut Sales and Use Tax Resale Certificate* (Conn. Agencies Regs. §12-426-1), available from the Department of Revenue Services (DRS) Forms Unit, or a certificate that substantially resembles the official DRS form.

The certificate must include the following information:

- Seller's name and address;
- Signature of the purchaser;
- Purchaser's name and address;
- A description of the type of property or service sold by the purchaser in the regular course of business;
- Tax registration number assigned to the purchaser, which appears on the purchaser's *Connecticut Sales and Use Tax Permit*; **and**
- A description of the property or service being purchased from the seller.

Retailers making sales in Connecticut should not accept a resale certificate (or exemption certificate) issued by another state. DRS accepts the Multistate Tax Commission's *Uniform Sales and Use Tax Certificate –Multijurisdiction* as a valid resale certificate. This certificate is not valid as an exemption certificate for any purpose other than a resale certificate.

Certain Out-of-State Businesses

If the purchaser is an out-of-state business not required to be registered in Connecticut because it makes no sales in Connecticut, the purchaser may use the tax identification number issued by the state in which it does business when completing the Connecticut resale certificate. If the purchaser has no tax identification number because the home state does not have a sales tax, the federal identification number should be provided. In addition, the purchaser must attach to the resale certificate a signed statement that the business does not make sales in Connecticut and some documentation (including a location and telephone number) that the issuer is engaged in business (for example, a business card, brochure, or business stationery).

Blanket Certificate or Single Purchase for Resale

The resale certificate may be used to make a single purchase for resale or it may be used to make a continuing line of purchases of the same type of goods or services for resale if the form is marked *Blanket Certificate*. A blanket certificate is valid for up to three years from the date it is issued if during that time the purchaser continues to resell the products or services described on the certificate.

Your Responsibilities When You Use or Accept a Resale Certificate

The misuse of a resale certificate can result in civil and criminal penalties. Whether you use a resale certificate to make a purchase or accept a resale certificate from someone making a purchase, you should be aware of your responsibilities.

Responsibilities when using a resale certificate as a **purchaser**:

- Use a resale certificate only if, at the time of purchase, you intend to resell the goods or services in the regular course of business, resell goods that become an integral or component part of a final product to be sold, or resell services enumerated in Conn. Gen. Stat. §12-407(a)(37) that become an integral and inseparable part of services enumerated under Conn. Gen. Stat. §12-407(a)(37).
- If you are purchasing items from a seller, some that are for resale and some that will be used by the business (such as office supplies, office furniture etc.) or for personal use, clearly identify the items not being purchased for resale and pay the sales tax to the seller.
- If you purchase an item with the intention of reselling it, but you later remove it from inventory for personal or business use, you must report the purchase price on your sales and use tax return for the period in which you made the use and pay the use tax.

Responsibilities when accepting a resale certificate as a **seller**:

- Be sure you identify the type of business the purchaser is engaged in. If the goods or services you are selling are not normally sold by that type of business, you should question the use of the certificate.

- Sellers must act in good faith when accepting a resale certificate. The certificate is deemed to be taken in good faith if the tangible personal property purchased is similar to or of the same general character as property the seller could reasonably assume would be sold by the purchaser in the regular course of business.

Example: If the owner of a retail computer store purchases computers from you, you can feel confident the purchase is for resale. However, if the computers are purchased by the owner of a grocery store, you should question whether the purchase is truly for resale. If you cannot accept the resale certificate in good faith because you have reason to believe the goods will not be resold, you should reject the resale certificate and charge the purchaser sales tax.

- Keep the resale certificate with your records of sales for at least six years. If the purchaser uses a blanket certificate, be sure to keep records that adequately connect the purchases throughout the period to the blanket certificate.

Penalties for Improper Use of a Resale Certificate

Resale certificates are subject to review by DRS. Audit assessments will be made against those who do not accept a resale certificate in good faith. The good faith of the seller will be questioned if the seller knows of facts that suggest the purchaser does not intend to resell the property. Those who issue improper certificates are also subject to penalties. The penalty for willfully delivering a false return or document to DRS is a fine of not more than \$5,000, or imprisonment for not more than five years, or both.

6

Reporting and Record Keeping



Calculating Sales and Use Taxes

Sales and use taxes are computed on the selling price of the goods or services. The selling price includes expenses related to the sale, such as the charges for shipping the goods to the purchaser (for example, charges for U.S. postage), handling charges, charges for labor, and charges for any other services that are part of the sale, whether or not separately stated on the invoice. See *Shipping and Delivery Charges*.

The tax must be computed in one of the following ways:

- Tax included, in which case the sales receipt must be marked *tax included*; **or**
- Tax added to the sales price and separately stated on the sales receipt.

The gross receipts (actual sales price, not including tax) of all sales must be reported on **Form OS-114, Sales and Use Tax Return**, for the reporting period. Therefore, if you bill your customers *tax included*, multiply the total bill by 94.3% (.943) to calculate the cost of the goods or services without the tax. The result is the gross receipts of the sale.

Example

Billed amount (tax included)	\$100.00
Multiplication factor (94.3%)	<u>x 0.943</u>
Gross receipts of sale	\$ 94.30

If you bill your customers tax included, you must keep accurate records of the gross receipts of the sale. If the customer requests a bill on which the tax is itemized, you are required to provide a bill.

When the Sale Is Made

In general, sales and use taxes apply when a sale is made. A sale is made when the customer purchases and takes delivery of the products or when a service is rendered.

A customer purchases an item when the customer pays in full for the item. **Pays in full** means the customer pays the full purchase price or is fully charged for the purchase price. Delivery is made when the retailer delivers the product to the customer at the retailer's establishment or at the customer's location or places the product in shipment to the customer. The following rules apply to determine when the sale of a product is made.

If a customer orders an item from a retailer and pays in full for the item at the time of the order, the sale is made when the order is placed whether or not the item is currently in stock. If a customer orders an item from a retailer that is not currently in stock and the customer does not pay a deposit and pays in full when the item is delivered to the customer, the sale is made when the retailer delivers the item to the customer. If a customer orders an item from a retailer that is not currently in stock, pays a deposit to the retailer, and pays in full when the item is delivered to the customer, the sale is made when the retailer delivers the item to the customer.

Mail Order, Telephone, and Internet Sales: Sales and use taxes apply to the sale of items sold by mail order, telephone, or Internet.

Layaway Sales: A layaway sale is made when the customer puts a deposit on the item and the retailer removes it from inventory.

Custom Orders: If a customer places an order for an item and pays in full for the item at the time the order is placed, the sale is made when the custom order is placed.

If the customer places a custom order for an item, pays a deposit at the time the custom order is placed, and pays in full for the custom order when the item is delivered to the customer, the sale is made when the retailer delivers the item to the customer at the retailer's establishment or at the customer's location or places the item in shipment to the customer regardless of when the order is placed.

If a customer places a custom order for an item without making a deposit and does not pay in full for the custom order until the item is delivered to the customer, the sale is made when the retailer delivers the item to the customer at the retailer's establishment or at the customer's location or places the item in shipment to the customer regardless of when the order is placed.

Shipping and Delivery Charges

Shipping and delivery charges (including U.S. postage) made by a retailer to a customer are subject to sales and use taxes when connected with the sale of **taxable** tangible personal property or services. The tax applies even if the charges are separately stated and regardless of whether the shipping or delivery is provided by the seller or by a third party.

No tax is due on shipping and delivery charges connected with any sale **not** subject to sales or use tax.

Example: Shipping or delivery charges related to sales for resale or sales of exempt items are not taxable.

Likewise, charges for mailing or delivery services are not subject to tax if they are connected with the sale of nontaxable services.

Special rules apply when calculating sales tax where the order contains both taxable and nontaxable goods.

Taxable and Nontaxable Items: Where freight charges apply to both taxable and nontaxable items and are separately accounted for on an invoice, the tax on freight should be prorated using the same measure used to determine the shipping charges. For example, if weight is used to determine the shipping charges, then weight is used to determine the proration of tax; likewise, if sales price is used to determine the freight charges, then sales price is used to determine the proration of the tax.

Example 1: A delivery fee of \$75 is charged for shipment of 100 lbs. of taxable and nontaxable goods (\$0.75 per lb.). The taxable goods weigh 60 lbs. The portion of the freight charge attributed to the delivery of the taxable goods is \$45 (60 lbs. X \$0.75 per lb.). Therefore, only \$45 of the \$75 delivery fee should be included in the calculation of sales and use taxes.

Example 2: A delivery fee of \$30 is charged for shipment of \$200 of taxable and nontaxable merchandise (\$0.15 per dollar value of merchandise). The cost of the taxable merchandise is \$120. The portion of the freight charge attributed to the delivery of the taxable merchandise is \$18 (\$120 x \$0.15). Therefore, only \$18 of the \$30 delivery fee should be included in the calculation of sales and use taxes.

Coupons

Sales and use taxes **do not** apply to the full face value or higher value assigned by the retailer of any coupon used by the purchaser to reduce the price paid to the retailer. This includes manufacturer's coupons (whether or not reimbursable), store coupons, scan cards, or other discounts that result in a reduced price to the consumer.

Example: A supermarket advertises a weekly special on laundry detergent, reducing the price from \$5.99 to \$4.99 if the customer uses the store's scan card. A customer purchases the laundry detergent using the store's scan card and a manufacturer's coupon with a face value of \$0.50. In addition, the store triples the value of the manufacturer's coupon, increasing the value by another \$1.00. The final price of the detergent to the customer is \$3.49. The sales tax due on the purchase of the detergent is \$0.21, which is 6% of \$3.49 (\$5.99 minus the scan card price reduction of \$1.00, minus the \$0.50 face value of the coupon and minus the \$1.00 from the tripling of the face value of the coupon).

See **Policy Statement 2006(2)**, *Sales Tax Treatment of Coupons, Scan Cards, Cash Equivalents, Promotional Items, and Rebates*.

Rebates

The initial purchase of an item of tangible personal property or taxable service and the honoring of a rebate claim by the manufacturer are two separate and distinct transactions. Even though the purchaser may later obtain a cash rebate from the manufacturer or other third party, the rebate does not reduce the sales price paid for the item.

Manufacturers of motor vehicles frequently offer cash rebates on particular models to purchasers who then typically assign the rebates to the dealership to reduce the amount the purchasers pay for the vehicles. In addition, the motor vehicle dealers may offer their own discounts on vehicles. Although discounts offered by dealers may be excluded from the gross receipts subject to sales tax, rebates paid by manufacturers must be included in the measure of tax even if the purchasers assign them to the dealers to reduce the amount the purchasers pay for the vehicles.

Example: An automobile manufacturer offers a \$1,000 rebate on one of its models. In addition, the dealership offers a \$500 discount on the same model, which it terms a dealer rebate. A customer buying a \$15,000 car assigns his right to the manufacturer's rebate to the dealership reducing the amount he must pay for the car by a total of \$1,500. The sales tax due on the transaction is 6% of \$14,500 (\$15,000 - \$500), or \$870. Even though the manufacturer's rebate of \$1,000 reduces the amount paid by the customer, it may not be used to reduce the measure of tax.

See **Policy Statement 2006(2)**, *Sales Tax Treatment of Coupons, Scan Cards, Cash Equivalents, Promotional Items, and Rebates*.

Trade-Ins

The value of trade-ins of all like-kind items is excluded from sales and use taxes. The exclusion extends to any property a retailer accepts and intends to resell. Specific rules apply for trade-in allowances for motor vehicles, snowmobiles, vessels, and farm tractors as described in Conn. Gen. Stat. §12-430(4), and for certain construction equipment as described in Conn. Gen. Stat. §12-430(a).

See **Informational Publication 2006(13)**, *Sales and Use Taxes on Returned Goods, Warranties, and Trade-Ins*.

Even Exchanges of Goods

If a customer purchases a taxable item of tangible personal property from a retailer and exchanges it for an identical or similar item of tangible personal property priced the same, there is no tax due on the exchange even if the original item is exchanged after 90 days from the date of purchase.

For purposes of an even exchange, an identical or similar item is the same type of commodity priced the same even if the item given in exchange is manufactured by a different company than the item originally purchased.

See **Informational Publication 2006(13)**, *Sales and Use Taxes on Returned Goods, Warranties, and Trade-Ins*.

Sale and Leaseback Arrangements

Sales and use taxes do not apply to the original sale of tangible personal property in a sale and leaseback arrangement if within 120 days from the original sale the original purchaser sells or contracts to sell the property to a retailer that will lease it back to the original purchaser in a taxable lease. DRS has issued **CERT-137**, *Sales and Use Tax Certificate for Sale and Leaseback Arrangements*, for use by purchasers and retailers in sale and leaseback transactions. See **Special Notice 2002(15)**, *Sales and Use Taxes on Sale and Leaseback Arrangements*.

Returned Merchandise

Sales price and gross receipts do not include any portion of the amount charged for property returned by the purchaser provided the item is returned within 90 days from the date of purchase. If you do accept returned merchandise within 90 days of the sale, you must refund the sales tax if the purchaser presents the slip showing the date of sale and the tax charged. If the tax was already reported on a previously-filed **Form OS-114**, *Sales and Use Tax Return*, you may report the refund of the tax directly on the sales and use tax return as a deduction from sales on Line 52 of the return.

A retailer must maintain detailed records to support a deduction for cancelled sales within 90 days. Any returns made after the 90-day period are not eligible for this deduction.

See **Informational Publication 2006(13)**, *Sales and Use Taxes on Returned Goods, Warranties, and Trade-Ins*.

Restocking Fees

If a customer returns a taxable item for a refund within 90 days of the sale and the seller charges the customer a restocking fee, the sales tax refund is on the net amount of the refund after any charge for the restocking fee. For example, if the sales price of the returned item was \$20 and the restocking fee was \$5, the seller would refund \$15.90 (6% of \$15 = \$.90). However, tax may be refunded only if the item is returned within 90 days of the date of the original sale. If the item is returned after 90 days, the seller cannot refund any part of the tax.

Taxability of the Sales of Services

Sales and use taxes apply to any transaction where the taxable service is used or consumed in Connecticut. This generally means that if the service recipient is located in Connecticut or, if the service recipient has more than one location, the location that uses or consumes the service is in Connecticut, the service is taxable.

Shops With Common Registers

Shops with common registers include shops that rent space to other vendors to display their goods and that collect and remit tax to DRS for these vendors. The shops do not own the goods of the vendors. Customers making purchases from the various vendors pay for the merchandise at registers owned and operated by the shop. In this situation, the shop is not purchasing goods for resale and the vendor is not selling the items to the shop for resale.

Both the shop and the vendor must obtain a Connecticut *Sales and Use Tax Permit*. The shop and the vendor are held jointly and severally liable for the payment of sales tax. The shop must include all sales as gross receipts on Line 1 of Form OS-114 and pay the sales tax on behalf of the vendors. Each vendor must file Form OS-114 and report the gross receipts of the sales made on its behalf through the shop on Line 1 and deduct the sales on the back of the return using Line A, *Other Adjustments*. Include on Line A the statement "Sales made and tax collected by (name of shop and the shop's Connecticut Tax Registration Number)."

Consignment Sales

A consignment sale is one in which the retailer, also known as consignee, agrees to sell goods for the owner of the goods or consignor. In return for selling the goods, the consignee is paid a commission or fee.

The consignee must collect the 6% sales and use tax from the purchaser if the item being sold is subject to tax. In addition, the consignee charges the original owner 6% sales tax on the commission or fee received for making the sale unless the commission is for the sale of a work of art or for articles of clothing.

The shop and the vendor are held jointly and severally liable for the payment of sales tax. The consignee reports the gross receipts from the sale of the tangible goods on Line 1 of Form OS-114. The gross receipts from the commission or fee are reported on Line 3 of the return as a taxable service.

If the consignor or owner is also a retailer, the consignor must also report the sale of the goods on Form OS-114, but may deduct it on the back of the return on Line A, *Other Adjustments*. Include on Line A the statement "Sales made and tax collected by (name of consignee and the consignee's Connecticut Tax Registration Number)."

Reimbursable Expenses

When a business provides a taxable service in Connecticut and bills the customer for both the service and any reimbursable expenses such as food, travel, and lodging, the entire bill is subject to sales tax. Gross receipts include any reimbursable expenses.

Example: An advertising agency renders its taxable services to a company located in Connecticut and presents the following bill.

Advertising services	\$10,000
Travel	1,000
Meals	300
Lodging	900
Total	<u>\$12,200</u>

The entire bill of \$12,200 is subject to the 6% sales tax.

There is an exception to this general rule. When the seller of services pays any expense that is the sole legal or contractual obligation of the service recipient, such as when a building contractor pays for a building permit for the building owner, the reimbursement of the expense is not subject to tax.

Reporting Sales: Accrual and Cash Basis

In general, sellers of goods and taxable services must report sales on the **accrual basis**. All sales must be reported for the reporting period in which the sale is made, not for the period when the customer pays for the purchase.

Example: If a sale is made on March 30 and payment is received on April 12, the sale must be reported and tax paid for the reporting period ending March 31.

Sellers whose only sales are of certain taxable services, and who file with the IRS on a cash basis, may also be able to report their sales of those services to DRS on the **cash basis**. This means they can report the sale for the reporting period in which payment for the service is received rather than when the sale is made. Contact the DRS Taxpayer Services Division for more information about who may file on the cash basis.

Quarterly, Monthly, or Annual Reporting Periods

The reporting period for most sellers is the calendar quarter. However, if your sales and use taxes total more than \$4,000 a year, you may be required to report on a monthly basis. If, on the other hand, you expect your annual tax liability to be \$1,000 or less, you may request permission to file an annual return. For each reporting period, file a sales and use tax return to report sales made during the period and make

payment of taxes due. To request a change in your filing status, mail a written request to:

Department of Revenue Services
Registration Unit
PO Box 2937
Hartford CT 06106-5032

Filing Timely Returns

DRS mails Form OS-114 to each registered seller at the end of its reporting period (monthly, quarterly, or annually). You must file a timely return even if you do not receive one in the mail. If your copy of Form OS-114 does not arrive within 15 days following the end of the reporting period, call the DRS Registration Unit. The unit will check to see if the correct mailing information is on file and will mail you a return.

The due date for returns is the last day of the month following the end of the reporting period.

The return is timely filed if the date shown by the U.S. Postal Service cancellation mark is on or before the due date of the return. If the due date falls on a Saturday, Sunday, or legal holiday, the next business day is the due date. If the return is filed late, you will be subject to penalties and interest.

Any business registered with DRS for admissions and dues tax, attorney occupational tax, business entity tax, business use tax, estimated corporation business tax, nursing home user fee, room occupancy tax, sales and use taxes, or withholding tax can **Fast-File** its business tax returns through the **Taxpayer Service Center (TSC)**. The **TSC** offers 24-hour filing, seven days a week, on the Internet, and filers get an immediate confirmation that their return is filed. It is more accurate than paper filing methods because the computer catches most errors immediately and provides the filer the opportunity to correct them. Visit the DRS website at www.ct.gov/DRS and click on **TSC** for more information.



Taxpayers can use certain private delivery services, in addition to the U.S. Postal Service, for delivering returns, claims, statements, other documents, or payments, and meet the timely mailing as timely filing and payment rules. DRS accepts the list of designated private delivery services published by the Internal Revenue Service. The current list of designated private delivery services includes: DHL Express (DHL), Federal Express (FedEx), and United Parcel Service (UPS). Not all services provided by these designated private delivery services qualify. This list is subject to change. For more information, see **Policy Statement 2005(4), Designated Private Delivery Services and Designated Types of Services**.

For **quarterly filers**, the reporting periods and due dates are:

Reporting Periods	Due Dates
January 1 - March 31	April 30
April 1 - June 30	July 31
July 1 - September 30	October 31
October 1 - December 31	January 31

Monthly filers must file returns for each monthly period on or before the last day of the following month.

Example: For sales made between January 1 and January 31, a return is due on the last day of February.

Annual filers who report their sales from January 1 through December 31 must file a return on or before January 31 of the next year.

Seasonal Business: If you operate a seasonal business (such as a beach concession) and only make sales at certain times of the year, you may request permission to file a return for only those periods when you are in operation. You must request seasonal filing status in writing and include the request with **Form REG-1, Business Taxes Registration Application**, or send it separately to the DRS Registration Unit.

Combined Returns: In general, you must file a return for each business location. However, if a single business operates multiple locations, it may request permission to file a combined sales and use tax return for all locations. Send the written request to the DRS Registration Unit.

You **must** file a return **even if you made no sales** during the reporting period and no taxes are due. If you made no sales and you made no purchases subject to use tax, enter zero sales, zero purchases, and zero taxes due. Sign the return and file it on time.

Penalty and Interest

If you file your return late and a payment of tax is due, you are subject to additional charges for penalty and interest. The penalty is 15% of the tax due or \$50, whichever is greater. Interest is computed at the rate of 1% per month or fraction of a month.

Filing an Amended Return

If you make a mistake or leave something off your return, you must correct the mistake by filing an amended return. Using a new Form OS-114, check the box indicating that this is an amended return and complete it using the correct figures and information for the reporting period.

You must file an amended return claiming a refund of taxes already paid within three years of the original due date of the return and an explanation of the claim for refund must accompany the amended return. If tax was incorrectly collected from a customer, you must prove the sale was not subject to sales and use taxes or sales tax was otherwise paid in error and prove the tax was returned to the customer (a cancelled check or receipted bill).

Alternatively, the retailer may provide DRS with copies of letters or memoranda issued to its purchasers in which it promises either to refund the tax to them or, for current, active customers of the retailer, to credit the refund amounts against amounts due from the purchasers.

If the retailer has not refunded the tax to its purchasers before DRS issues the refund to the retailer, then within 120 days after DRS issues the refund, the retailer must prove it has refunded or credited the refund amounts to its purchasers. A retailer must immediately return to DRS any amounts not refunded or credited to the retailer's purchasers within 120 days after DRS issues a refund.

Send the amended return to:

Department of Revenue Services
RCA Unit - Audit
25 Sigourney Street
Hartford CT 06106-5032

For information about DRS policies on issuing refunds of sales and use taxes, see **Policy Statement 98(5), Sales and Use Tax Refund Policy**.

Businesses may apply to DRS for a refund of sales and use taxes paid on tangible personal property purchased from a Connecticut retailer when those goods will be:

- Shipped outside of Connecticut within three years of the date of purchase for exclusive use outside of Connecticut by common or contract carrier; **or**
- Incorporated into other property to be shipped outside of Connecticut for exclusive use outside of Connecticut within three years of the date of purchase.

This is the Buy Connecticut provision. The refund must be claimed using **Form AU-526, Sales and Use Tax Refund Application for Purchases Made Under the "Buy Connecticut" Provision**, by April 1 of the calendar year after the year when the purchase was made. This provision also allows the Commissioner of Revenue Services to issue permits that enable qualified purchasers to purchase the property without payment of the taxes otherwise imposed by the Sales and Use Taxes Act. See **Special Notice 2001(5), The "Buy Connecticut" Provision**.

Filing a Final Return

You must file a final sales and use tax return if you close your business. Check the box indicating that you are out of business and complete the return to report sales made and taxes due, if any. Enter the last date of business in the designated space, sign the return, and file it on time. Return your *Sales and Use Tax Permit* in the same envelope with your final return.

Keeping Good Records

Every seller must keep accurate and complete records of all transactions subject to tax and all purchases made by the business for resale. These records will assist you when you file your federal and state tax returns and must be available if your business is audited. You must keep these records for at least six years. Records showing purchases made by the business for resale should show the disposition of that property. If the property is taken out of inventory and is no longer held for resale, records must show the payment of use tax by the business.

Other records you should keep include:

- Records of sales (sales receipts, cash register tapes, guest checks, invoices, etc.);
- Purchase records (invoices, cash disbursement journal);
- State and federal tax returns (including schedules and worksheets);
- Documents that show price changes;
- General ledger;
- Sales, purchases, accounts receivable, and accounts payable journals; **and**
- Resale and exemption certificates and records of purchases made with certificates.

See Conn. Agencies Regs. §12-2-12 for more recordkeeping and record retention requirements.

7

Employer Information



If you employ one or more workers in your business, you may be required to register with the Department of Revenue Services (DRS) to withhold Connecticut income tax. Use **Form REG-1, Business Taxes Registration Application**, to register for income tax withholding. If you are already registered for other state taxes (for example, sales and use taxes or corporation business tax), use Form REG-1 to add withholding tax to your registration.

If you acquire an existing business, you must complete Form REG-1 to obtain your own Connecticut tax registration number. You cannot use the previous owner's registration number or withholding coupons.

Income Subject to Withholding

All wages of a Connecticut **resident** are subject to Connecticut income tax even though the resident works outside of Connecticut. However, if the employee works in another state, Connecticut income tax must be withheld only to the extent the Connecticut tax **exceeds** the amount required to be withheld for the other state(s) for services performed there. Wages of a **nonresident** are subject to Connecticut income tax withholding if the wages are paid for services performed in Connecticut.

Knowing How Much to Withhold

Employers determine how much tax to withhold by using the current Connecticut income tax withholding tables along with the information on **Form CT-W4, Employee's Withholding Certificate**. You must have a completed Form CT-W4 on file for each of your employees.

Reporting Requirements

All employers who are registered with DRS for Connecticut income tax withholding will receive coupon booklets containing the following reporting forms:

- **Withholding coupon: Form CT-WH, Connecticut Withholding Tax Payment Form**, must be mailed to DRS with each Connecticut income tax withholding payment. Due dates for payment of Connecticut income tax withholding are the same as the due dates for the employer's deposits of federal income tax withholding.
- **Quarterly reconciliation:** All employers who are registered for Connecticut income tax withholding must file **Form CT-941, Connecticut Quarterly Reconciliation of Withholding**, each calendar quarter even if no tax is due or has been withheld for that quarter.

- **Annual reconciliation: Form CT-W3, Connecticut Annual Reconciliation of Withholding**, is due from all employers on or before the last day of February. No payment is to be made with this form. Employers must file each state copy of federal Form W-2 (Copy 1 of the optional six-part federal Form W-2 or equivalent) reporting Connecticut wages paid during the previous calendar year with the annual reconciliation even if no Connecticut income tax was withheld.



You may file Form CT-941 using the DRS **Taxpayer Service Center (TSC)**. The TSC offers 24-hour filing, seven days a week, on the Internet, and filers get an

immediate confirmation that their return is filed. It is more accurate than paper filing methods because the computer catches most errors immediately and provides the filer the opportunity to correct them. Visit the DRS website at www.ct.gov/DRS and click on **TSC**.

Payers of Connecticut nonpayroll amounts who are registered for Connecticut income tax withholding file forms **CT-8109, Connecticut Withholding Tax Payment Form for Nonpayroll Amounts, CT-945, Connecticut Annual Reconciliation of Withholding for Nonpayroll Amounts** (even if no tax is due or has been withheld for that year), and **CT-1096, Connecticut Annual Summary and Transmittal of Information Returns**. Visit the DRS website at www.ct.gov/DRS for more information.

Other Employer Requirements

Employers must also register with the IRS to withhold federal income tax and Social Security tax and with the Connecticut Department of Labor for unemployment compensation tax. For more information on business requirements, see Chapters 8 and 9.

Withholding Rules for Seasonal Employers and Annual Filers

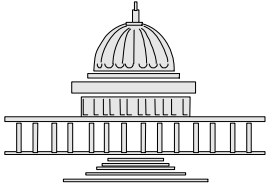
Employers who operate their businesses on a seasonal basis may submit a written request to DRS for seasonal filer status. The request must include the quarter or quarters during which the business will be active each year.

New registrants may submit written requests for seasonal filer status with Form REG-1. Those who are already registered for Connecticut income tax withholding may mail the request for a change in filer status to:

Department of Revenue Services
Registration Unit
PO Box 2937
Hartford CT 06104-2937

8

Other State Tax Requirements



Business Entity Tax

There is an annual business entity tax (BET) of \$250. The BET applies to each of the following domestic and foreign* entities:

- S corporation;
- Limited liability partnership;
- Limited partnership; **or**
- Limited liability company that, for federal income tax purposes, is either treated as a partnership (if it has more than one member) or disregarded as an entity separate from its owner (if it has one member).

* Each foreign entity required to register or file a certificate of authority with the Secretary of the State is liable for the business entity tax whether or not the entity has registered or filed a certificate of authority, as the case may be, with the Secretary of the State.

See also **Special Notice 2006(12)**, *2006 Legislative Changes Affecting the Business Entity Tax*, and **Informational Publication 2006(21)**, *Q & A on the Business Entity Tax*.

Controlling Interest Transfer Tax

Connecticut imposes a tax on the transfer of a controlling interest in an entity where the entity owns, directly or indirectly, Connecticut real property. This tax is reported on **Form AU-330**, *Controlling Interest Transfer Taxes*. See **Special Notice 2003(11)**, *2003 Legislation Affecting the Controlling Interest Transfer Taxes*.

Admissions and Dues Tax

An **admissions tax** of 10% is imposed on the admission charge to any place of amusement, entertainment, or recreation including, but not limited to, theaters, amusement parks, fairgrounds, racetracks, dance halls, ballparks, golf courses, etc. The admissions tax rate on motion picture shows is 6%. Motion picture show admission charges of not more than \$5 are exempt. See **Special Notice 2001(4)**, *Exemptions From Admissions Tax*.

A **dues tax** of 10% is imposed on any amount paid as dues or initiation fees to any social, athletic, or sporting club either owned or operated by its members. A club is exempt from the dues tax if the annual dues of every member and any initiation fee are each \$100 or less. See **Informational Publication 2003(11)**, *Q & A: The Dues Tax*.

Motor Vehicle Fuels Tax

A tax is imposed on motor vehicle fuels used to propel motor vehicles on public highways or roads. The rate on gasoline and gasohol is 25¢ per gallon and the rate on diesel is 26¢ per gallon. Fuel includes gasoline, gasohol, diesel, aviation fuel, and any other combustible gas or liquid that generates the power needed to propel a motor vehicle.

If you purchase, sell, or use petroleum products, you may need to register for either the motor vehicle fuels or petroleum products gross earnings tax, or both. Distributors of motor vehicle fuels are required to obtain a distributor's license prior to making sales of motor vehicle fuel. Distributors of motor vehicle fuels are also required to obtain and maintain a surety bond. See *Register With DRS* on Page 7 for more information on getting a distributor's license.

Motor vehicle fuel distributors report monthly the gallonage sold or used, and remit the tax owed. The tax return and remittance are due no later than the twenty-fifth day of the month for the previous calendar month.

There are several exemptions from the motor vehicle fuels tax. These include, but are not limited to, fuel sold to the U.S. government, the State of Connecticut, and any Connecticut municipality or transit district when the fuel is used in vehicles owned and operated or leased and operated by any of the entities mentioned above.

Motor Carrier Road Tax

A tax is imposed on the use of motor fuel by motor carriers operating qualified motor vehicles in Connecticut. The rate is equivalent to the Connecticut motor vehicle fuels tax rate. A **qualified motor vehicle** is a motor vehicle used, designed, or maintained for transportation of persons or property and:

- Has two axles and a gross vehicle weight or registered gross vehicle weight exceeding 26,000 pounds;
- Has three or more axles regardless of weight; **or**
- Is used in combination and the combined gross vehicle weight or registered gross vehicle weight exceeds 26,000 pounds.

Connecticut is a member of the International Fuel Tax Agreement (IFTA). IFTA is an agreement among jurisdictions (states of the United States and Canadian provinces) to simplify the reporting of the fuel use taxes by interstate carriers. All 48 contiguous states are members of the IFTA program as well as ten Canadian provinces.

Each motor carrier based in Connecticut that operates in at least one other IFTA jurisdiction must obtain a Connecticut IFTA license and decals. For carriers based in another jurisdiction that is also an IFTA member, the IFTA license and decals from that jurisdiction satisfy Connecticut license and decal requirements. Qualified motor vehicles based outside Connecticut in a non-IFTA jurisdiction or that operate only in Connecticut must obtain Connecticut fuel tax decals. Applications for registration may be obtained by contacting the DRS Registration Unit at 860-297-4872. See **Informational Publication 2007(12)**, *Connecticut IFTA Manual*.

Petroleum Products Gross Earnings Tax

Companies that sell petroleum products are subject to the petroleum products gross earnings tax and must register with DRS for the tax. (See *Register With DRS* on Page 7 for more information.) The 6.3% tax is imposed on gross earnings derived from the first sale of petroleum products in Connecticut. Gross earnings include but are not limited to gross earnings tax billed, freight or transportation costs, demurrage, and other delivery charges. Gross earnings do not include the amount of state or federal excise taxes on motor vehicle fuel or diesel fuel.

Companies that import, or cause to be imported, petroleum products into Connecticut for sale, use, or consumption in Connecticut are also subject to the petroleum products gross earnings tax.

Petroleum products means those products that contain or are made from petroleum or petroleum derivatives, except paraffin or microcrystalline waxes. Petroleum products include acid oil, alkylates, aromatic chemicals, asphalt and asphaltic materials, benzene, butadiene, petroleum coke, gasoline, greases, hydrocarbon fluids, jet fuels, kerosene, liquefied petroleum gases, mineral jelly, mineral oil, mineral waxes, naphtha, naphthenic acids, fuel, lubricating and illuminating oils, nonmedicinal petrolatums, bituminous road materials, road oils, solvents and tar, or residuum.

There are several exemptions from the petroleum products gross earnings tax. These include, but are not limited to, the product commonly known as number 2 heating oil used exclusively for heating purposes or used in a commercial fishing vessel that qualifies for exemption under Conn. Gen. Stat. §12-412.

Companies subject to the tax file a quarterly **Form OP-161**, *Petroleum Products Gross Earnings Tax Return*, on or before the last day of the month following the taxable period.

Real Estate Conveyance Tax

There is a municipal conveyance tax imposed on deeds conveying real estate. There is also a state conveyance tax imposed on deeds conveying real estate. The state tax rate on the consideration received for the real estate is as follows:

Unimproved land	0.5%
Nonresidential property other than unimproved land	1.0%
Residential dwelling: Sold for \$800,000 or less	0.5%
Residential dwelling: Sold for more than \$800,000	0.5% on first \$800,000; 1.0% on the amount that exceeds \$800,000
Residential property other than residential dwelling	0.5%
Deed in lieu of foreclosures to financial institution or its subsidiary which holds a delinquent mortgage on the property where mortgage payments have been delinquent for not less than 6 months	0.5%

The seller pays the taxes due at the time of recording the deed. **Form OP-236**, *Real Estate Conveyance Tax Return*, must be completed and submitted to the town clerk with the deed and payment of taxes.

Cigarette Taxes

All cigarettes sold in Connecticut are subject to an excise tax, which is paid by the distributor. Cigarettes are also subject to the 6% sales and use taxes. Licensed distributors purchase stamps or heat-applied decals that are affixed to each pack of cigarettes to indicate the cigarette tax has been paid. A cigarette distributor's license is required by those stamping cigarettes. Licensed distributors are responsible for filing monthly reports with DRS no later than the twenty-fifth day of each month indicating their cigarette activity for the previous calendar month. A cigarette dealer's license is required by those making retail sales of cigarettes. The license is valid from October 1 through September 30 each year.

Restrictions have been placed on **gray market** cigarettes, most notably the prohibition on the sale or possession of those cigarettes by licensed cigarette distributors or licensed cigarette dealers in Connecticut.

Gray market cigarettes are those manufactured in the United States and intended to be sold outside the United States, but which illegally reenter the United States.

Licensed cigarette distributors and licensed cigarette dealers are prohibited from attaching Connecticut cigarette tax stamps to gray market cigarettes. See **Special Notice 99(8)**, *Sale and Possession of "Gray Market" Cigarettes*.

Tobacco Products Tax

The tobacco products tax is an excise tax imposed on all non-cigarette tobacco products. The tax is imposed on the distributor or the unclassified importer at the time the tobacco product or snuff tobacco product is manufactured, purchased, imported, received, or acquired in Connecticut.

The tax is 20% of the wholesale sales price of the products, except for snuff tobacco products, held in this state by any person. Snuff tobacco products are taxed at 40¢ per ounce of snuff and a proportionate tax on the fractional parts of an ounce.

See *Register With DRS* on Page 7 for information on how to register for the tobacco products tax. The license is issued annually and expires on June 30. You must file a monthly **Form OP-300**, *Tobacco Products Tax Return*, no later than the twenty-fifth day of each month for the previous calendar month.

Alcoholic Beverages Tax

The alcoholic beverages tax is an excise tax paid by each alcoholic beverage distributor on all sales of alcoholic beverages within Connecticut. All alcoholic beverages removed from inventory are taxable except for authorized adjustments or tax exempt sales. Alcoholic beverage distributors are also regulated by the Department of Consumer Protection. Applicable tax rates are:

Beverage	Size	Tax Rate
Beer	Barrel	\$6.00
Beer	Wine Gallon	.20
Cider (7% or less alcohol)	Wine Gallon	.20
Cider (over 7% alcohol)	Wine Gallon	.60
Distilled Liquor	Wine Gallon	4.50
Still Wine	Wine Gallon	.60
Sparkling Wine	Wine Gallon	1.50
Alcohol (Over 100 Proof)	Proof Gallon	4.50
Liquor Cooler	Wine Gallon	2.05
Still Wine (Small Wineries)	Wine Gallon	.15

Tourism Surcharge

A surcharge of \$1 per day, or portion of a day, is imposed on every lessor for the rental or lease of a passenger motor vehicle delivered to a lessee in Connecticut (regardless of where the vehicle is subsequently used) for a term of 30 consecutive calendar days or less. The lessor collects reimbursement for the surcharge from the lessee. The surcharge is due and payable with **Form OP-337**, *Tourism Surcharge Return*, required to be filed quarterly (or monthly if total yearly surcharge liability is \$4,000 or more). The return must show the number and rental period of all passenger motor vehicles leased by the lessor during the reporting period. See **Policy Statement 2002(5)**, *The Motor Vehicle Rental Surcharge and the Tourism Account Surcharge*.

Rental Surcharge

A 3% rental surcharge is imposed on the rental of each private passenger motor vehicle or rental truck in Connecticut by a rental company for a term of 30 consecutive calendar days or less. Additionally, a 1.5% rental surcharge is imposed on the rental of machinery without an operator for a term of 30 consecutive calendar days or less.

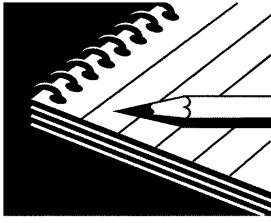
On or before February 15, each rental company must file **Form OP-383**, *Rental Surcharge Annual Report*, with DRS and report the total rental surcharge actually collected on the rental of private passenger vehicles, rental trucks, or pieces of machinery without an operator by the rental company during the calendar year. Each rental company must also remit with Form OP-383 the portion of the rental surcharge collected that *exceeds* the sum of:

1. The personal property tax it actually paid during the year to a Connecticut municipality or municipalities on private passenger vehicles, rental trucks, or pieces of machinery rented by it to lessees during the year; **and**
2. The registration, licensing, and titling fees it actually paid to the Connecticut Department of Motor Vehicles on the private passenger motor vehicles, rental trucks, or pieces of machinery.

See **Special Notice 2005(11)**, *Rental Surcharge — Daily Rental of Machinery*, and **Policy Statement 2002(5)**, *The Motor Vehicle Rental Surcharge and the Tourism Account Surcharge*.

9

Permits, Licenses, and Other Requirements



In addition to understanding the requirements of the Department of Revenue Services (DRS), a new business owner should become familiar with the requirements of other state agencies, municipalities, and the federal government. This chapter provides an overview of some of these requirements and refers you to other agencies you should contact for more information.

Permits and Licenses

Certain businesses are subject to regulation by the state or the federal government, or both, and may be required to obtain a permit or license to operate. *Smart Start* is a program initiated by the Office of Policy and Management (OPM) and the Department of Economic and Community Development, and overseen by the Connecticut Economic Resource Center, Inc. *Smart Start* can provide you with information about state permits, licenses, initial and annual fees, and other information about the application process. You can contact *Smart Start* at 1-800-392-2122. The Connecticut Licensing Info Center website is an online, searchable database of over 900 licenses, permits, and registrations administered by 25 Connecticut state agencies. Visit the *Smart Start* website at www.ct-clic.com.

Federal Tax Requirements

Contact the Internal Revenue Service (IRS) for information about federal tax liabilities and requirements. Federal taxes that may apply to your business include income tax, self-employment tax, employment taxes, and excise taxes. You can contact the IRS for assistance by calling 1-800-829-1040. Telecommunications Device for the Deaf users can call 1-800-829-4059. You can also visit an IRS walk-in center. Check the blue pages of your Connecticut telephone directory under United States Government for the office nearest to you.

The IRS has free publications for small businesses. You may wish to order Publication 334, *Tax Guide for Small Business*, and Publication 583, *Starting a Business and Keeping Records*. Visit the IRS website at www.irs.gov/formspubs or call the IRS at 1-800-829-3676 to order federal tax forms and publications.

Requirements of Other State Agencies and Municipalities

The following Connecticut taxes are administered by other state agencies: corporation franchise tax, unemployment compensation tax, and motor vehicle fees. Each municipality administers a property tax on real and tangible personal property.

Office of the Secretary of the State (OSS)

Corporation franchise tax: The OSS collects a franchise tax from Connecticut corporations. Conn. Gen. Stat. §33-618 establishes the corporate franchise tax. Visit the OSS website at www.sots.state.ct.us or contact the OSS at 860-509-6000 for more information.

- **Domestic corporations:** A domestic corporation must pay a franchise tax to the Secretary of the State at the time of incorporation and at the time of any increase in the number of shares of authorized capital stock:

The minimum franchise tax is \$150.

Number of Shares	Tax Rate
First 10,000 shares	1¢ per share
10,001-100,000 shares	1/2¢ per share
100,001-1,000,000 shares	1/4¢ per share
More than 1,000,000 shares	1/5¢ per share

Additional fees of note for the incorporating domestic corporation are as follows:

- \$50 for filing the certificate of incorporation;
- \$75 for filing the organization report;
- \$75 for filing the annual report which is due every year on or before the last business day of the month in which occurs the anniversary date of incorporation; **and**
- \$25 for a certified copy of a corporate document.
- **Foreign corporations:** A corporation organized outside the state may obtain a certificate of authority to transact business in Connecticut by filing an application with the Secretary of the State and appointing a registered agent to accept service of process. Applications may be obtained from the Secretary of the State and must be accompanied by a filing fee of \$275 and a certificate of legal existence from the state of its incorporation. Foreign corporations must file annual reports due on or before the last business day of the month that is the anniversary date of the filing of the application for certificate of authority. The annual report and license fee of \$300 is payable upon filing of the annual report.

Department of Labor (DOL)

Unemployment Compensation Tax: The DOL administers the Unemployment Compensation Tax. For more information and registration forms, visit the DOL website at www.ctdol.state.ct.us, call the DOL at 860-263-6550 or write to:

Connecticut Department of Labor
Attn: Employer Status Unit
200 Folly Brook Boulevard
Wethersfield CT 06109

- Employers engaged in covered activities are subject to the Unemployment Compensation Act if:
 1. During a calendar quarter of the current or preceding calendar year, they paid wages totaling \$1,500 or more, **or**
 2. During the current or preceding calendar year, they had one or more employees at any time in each of 20 calendar weeks.
- Agricultural employers are subject to the Act if:
 1. During any calendar quarter of the current or preceding calendar year, they paid cash wages totaling \$20,000 or more, **or**
 2. During the current or preceding calendar year, they had ten or more employees at any time in each of 20 calendar weeks.
- Domestic employers are subject to the Act if they paid cash wages totaling \$1,000 or more during any calendar quarter of the current or preceding calendar year.
- The Unemployment Compensation Fund is financed through a benefit ratio system. For employers who qualify to be experience-rated (those who have been chargeable with benefits for at least one year ending June 30), taxes are based on:
 1. The benefit ratio of each employer, which determine the charged tax rate, **and**
 2. Unemployment compensation fund reserves, which determine a fund solvency tax rate.

These rates are recalculated annually for qualified employers. An employer's charged tax rate is the ratio of charges during the applicable experience period to the taxable payroll for the same period. The fund solvency tax rate may increase an employer's total contribution rate depending on the solvency of the unemployment compensation fund. Calculated annually, it applies uniformly to all employers who qualify for experience rating.

An employer who has not been subject to the Act for a sufficient period of time to be experience-rated pays contributions at a rate that is the higher of 1% of taxable wages or the Connecticut five-year benefit cost rate. An employer's taxable wages consist of the sum of employees' wages not in excess of \$15,000.

Department of Motor Vehicles (DMV)

Motor Vehicle Fees: Motor vehicle registration is administered by the DMV. For more information on motor vehicle fees, visit the DMV website at www.ct.gov/dmv, call the DMV at 1-800-842-8222 or write to:

Connecticut Department of Motor Vehicles
60 State Street
Wethersfield CT 06161

There is a two-year registration fee for private passenger cars used for business purposes. Upon renewal, there is an additional Clean Air Act fee for all classes of motor vehicles. Driver licenses are renewed every six years and commercial driver licenses are renewed every four years.

Annual registration fees for commercial motor vehicles are based on the vehicle gross weight. Both motorized units (tractors) and trailers must be registered. There are fixed annual fees for saw rigs, spray rigs, and well drillers. Permanently mounted cranes require a fee by gross weight. There is a registration fee per year (not prorated) for **heavy duty vehicles** (55,000 lbs. gross weight and over). Overweight vehicles require a special permit from the Connecticut Department of Transportation.

Specific registration classes exist for taxis, liveries, and buses, each with special requirements and fees.

Office of Policy and Management (OPM)

Property Tax: The property tax is administered by each Connecticut municipality. For more information on property tax, visit the OPM website at www.opm.state.ct.us or write to:

Intergovernmental Policy Division
Office of Policy and Management
450 Capitol Avenue
Mail Stop 54 MFS
Hartford CT 06106-1308

You can obtain specific information from the city or town assessor where the business will be located.

Each company pays an ad valorem property tax to the community in which it has real or personal property. Manufacturing inventories of finished goods and goods in process are exempt, as are mercantile inventories.

Assessment Date: October 1 is the annual assessment date. Not later than November 1, each company must file a declaration of its personal property with the local assessor. Personal property and motor vehicles are revalued annually. Real property is revalued every four years. Increases in assessed values of real property resulting from revaluation may be phased-in for up to four years at the community's option.

Any municipality with a population in excess of 35,000 may establish a special service district to construct, own, operate, and maintain public improvements, and to provide within that district the services a municipality is authorized to provide (except elementary and secondary education). The district may levy a property tax to be administered by the municipality.

Exemptions: Newly acquired manufacturing machinery and equipment (including property used in the production of motion pictures, videos, and sound recordings) may be exempt from the property tax for a five-year period. New commercial motor vehicles used exclusively for the interstate or intrastate transport of freight for hire may also be exempt for a five-year period. Both exemptions must be claimed annually between October 1 and November 1. Applications for exemption and personal property declaration forms are available from the local assessor.

Connecticut has a free port law that permits goods shipped in from out-of-state to remain free of local property taxes while stored in a public warehouse not owned by the seller or buyer provided the goods remain in their original packages.

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For More Help



The following agencies can help you in planning and starting your new business.

Connecticut Department of Revenue Services (DRS)

Telephone numbers and addresses of DRS walk-in locations are listed on the back cover. Contact DRS for tax information, forms, publications, and other services during business hours, Monday through Friday. Services for businesses include:

CONN-TAX

The DRS tax information telephone system. Using a touch-tone phone, you can access our automated services anytime. You may also use CONN-TAX to speak with DRS staff during regular business hours. See telephone numbers on the back cover.

DRS Website: www.ct.gov/DRS

Internal Revenue Service (IRS)

Call the IRS to order federal tax forms and publications or for federal tax information.

IRS Toll-Free Numbers

Federal Tax Information	1-800-829-1040
Tele-Tax (recorded tax information)	1-800-829-4477
Federal Tax Forms and Publications	1-800-829-3676
Telecommunications Device for the Deaf	1-800-829-4059

IRS Website: www.irs.gov

Small Business Workshops

Basic federal tax information is provided in these IRS sponsored seminars. Call 1-800-829-1040 to request an application. DRS representatives provide a brief overview of Connecticut State taxes at each session.

Resource Organizations to Assist Businesses

Community Accounting Aid & Services, Inc.

1800 Asylum Avenue, 4th Floor
West Hartford CT 06117
860-570-9113

Connecticut Small Business Development Center State Headquarters Storrs

University of Connecticut
2100 Hillside Road, U1094
Storrs CT 06269-1094
860-486-4135
email: StateDirector@ct.sbdc.uconn.edu
Questions: csbdcinformation@business.uconn.edu
www.business.uconn.edu/csfdc

Hartford Economic Development Corporation

15 Lewis Street, Suite 204
Hartford CT 06103
860-527-1301

Connecticut's Business Response Center and Smart Start

805 Brook Street - Bldg. 4
Rocky Hill CT 06067
1-800-392-2122
www.ctsmartstart.com and
www.YouBelongInCT.com

Connecticut Business Development Corporation

999 West Street
Rocky Hill CT 06067
860-258-7800

U.S. Small Business Administration

330 Main Street
Hartford CT 06106
860-240-4700

Appendix

Connecticut Tax Forms, Publications, and Certificates

The following forms, publications, and certificates are of interest to most business people. The publication numbers referenced are updated at the time of printing, but because the information may change, request the most current version when you order.

Sales and Use Taxes

OS-114	Sales and Use Tax Return
OP-186	Connecticut Individual Use Tax Return
IP 2007(5)	Topical Index to Rulings and Administrative Pronouncements Affecting Sales and Use Taxes
IP 2006(20)	Farmer's Guide to Sales & Use Taxes, Motor Vehicle Fuels Tax, Estimated Income Taxes, and Withholding Tax
IP 2006(35)	Building Contractors' Guide to Sales and Use Taxes
IP 2005(8)	Fisherman's Guide to Sales and Use Taxes and Estimated Income Tax
IP 2005(17)	Q & A on the Connecticut Individual Use Tax
IP 2003(11)	Q & A: The Dues Tax
IP 2003(26)	Q & A on Sales and Use Taxes for a New Business
IP 2003(31)	Q & A on the Connecticut Use Tax for Businesses and Professions
IP 2002(11)	Nonprofit Hospitals, Nonprofit Nursing Homes, Nonprofit Rest Homes, and Nonprofit Residential Care Homes
IP 2002(16)	Successor Liability for Sales and Use Taxes and Admissions and Dues Tax
IP 2000(14)	Notice to Retailers on Sales and Use Taxes Resale Certificates
IP 99(18)	Sales and Use Taxes Guide for Manufacturers, Fabricators, and Processors
PS 2006(7)	Taxation of Services by Employment Agencies and Agencies Providing Personnel Services
PS 2006(8)	Sales and Use Taxes on Computer-Related Services and Sales of Tangible Personal Property
PS 2003(1)	Application of Sales and Use Taxes and the Room Occupancy Tax to the Hotel and Motel Industry
PS 2002(2)	Sales and Use Taxes on Meals
PS 2002(3)	Sales and Use Tax Exemption for Sales by Eleemosynary Organizations and Elementary and Secondary Schools
PS 2002(6)	Sales and Use Tax Exemptions for Low and Moderate Income Housing Facilities
PS 2001(2)	Room Occupancy Tax and Sales and Use Tax on Campground and Cottage Rental
PS 2001(4)	Sales of Motor Vehicles to Nonresident Military Personnel and Joint Sales of Motor Vehicles to Nonresident Military Personnel and Their Spouses
PS 2001(5)	Sales and Use Tax Exemptions for Food Sold Through Coin-Operated Vending Machines
PS 2001(9)	Sales and Use Taxes on Sales and Purchases Made by Veterinarians
PS 2001(11)	Admissions Tax Exclusion for Health Clubs
PS 2000(4)	Sales and Use Tax on Charges for Personnel Training Services
PS 2004(4)	Sales and Use Tax Exemption for Safety Apparel
PS 98(5)	Sales and Use Tax Refund Policy
PS 98(8)	Exemption From Sales and Use Taxes for Items Used Directly in the Biotechnology Industry
SN 2003(1)	Exempt Sales of Food and Beverages at Schools and Care Facilities
SN 2003(3)	Sales and Use Taxes on Retail Sales of Clothing
SN 2007(1)	Sales and Use Taxes on Health and Athletic Club Services
SN 2002(9.1)	Sales and Use Taxes on the Furnishing of Space for Storage
SN 2002(15)	Sales and Use Taxes on Sale and Leaseback Arrangements
SN 2001(2)	Miscellaneous Personal Services
SN 2001(3)	Sales and Use Tax Exemptions for Nonprescription Drugs and Medicines and Smoking Cessation Products
SN 2001(4)	Exemptions From Admissions Tax
SN 2001(5)	The "Buy Connecticut" Provision
SN 2000(9)	Sales and Use Tax Exemption for College Textbooks

Miscellaneous

REG-1	Business Taxes Registration Application
LGL-001	Power of Attorney
LGL-002	Request for Disclosure of Tax Return or Tax Return Information
LGL-003	Limited Power of Attorney
CT-8822	Change of Address
IP 2007(4)	Numerical Index to Rulings and Administrative Pronouncements as Affected, if at all, by Later-Issued Rulings and Pronouncements
IP 2007(6)	Topical Index to Rulings and Administrative Pronouncements Covering Miscellaneous Taxes and Administrative Topics
IP 2006(9)	Connecticut IFTA Manual
IP 2006(15)	Guide to Connecticut Business Tax Credits
IP 2006(32)	Business Taxes
IP 2003(15)	Q & A on Business Entity Tax
IP 2001(20)	Q & A Concerning Freedom of Information Act Requests
IP 2000(27)	Procedures to Request Disclosure of Tax Returns and Tax Return Information
PS 2005(4)	Designated Private Delivery Services and Designated Types of Services
PS 2002(5)	The Motor Vehicle Rental Surcharge and the Tourism Account Surcharge
PS 2000(7)	Procedures in Handling Requests for Issuance of Rulings
PS 2001(3)	Your Rights as a Connecticut Taxpayer
PS 92(12.1)	Limited Liability Companies
SN 99(3)	Effect of Federal Law Changes on the Taxation of Limited Liability Companies and S Corporations and Their Shareholders
SN 99(8)	Sale and Possession of “Gray Market” Cigarettes

Sales and Use Taxes Exemption Certificates

•	Sales & Use Tax Resale Certificate (Regulations 1 & 23)
CERT-100	Materials, Tools, and Fuel
CERT-101	Machinery, Component Parts, and Replacement and Repair Parts of Machinery Used Directly in a Manufacturing Process
CERT-102	Certified Rehabilitation Certificate for Certified Historic Structures
CERT-103	Residential Condominium Association
CERT-104	Services Certificate for New Construction
CERT-105	Commercial Motor Vehicle Purchased Within Connecticut for Use Exclusively in the Carriage of Freight in Interstate Commerce
CERT-106	Claim for Refund of Use Tax Paid on a Motor Vehicle Purchased From Other Than a Motor Vehicle Dealer
CERT-108	Partial Exemption for Materials, Tools, and Fuels
CERT-109	Partial Exemption for Machinery, Equipment, or Repair and Replacement Parts
CERT-110	Aircraft Repair Services — Aircraft Repair and Replacement Parts
CERT-111	Machinery, Equipment, Materials, Tools, and Fuel Used by an Aircraft Manufacturer Operating an Aircraft Manufacturing Facility
CERT-112	Exempt Purchases of Meals or Lodging by Exempt Entities
CERT-113	Purchases of Tangible Personal Property and Services by a Nonprofit Charitable Hospital, Nonprofit Nursing Home, Nonprofit Rest Home, or Nonprofit Residential Care Home
CERT-114	Commercial Motor Vehicle or Motor Bus Purchased Within Connecticut for Use in Interstate Commerce as an Interstate Motor Bus
CERT-115	Exempt Purchases of Gas, Electricity, and Heating Fuel
CERT-116	Exempt Petroleum Products Certificate
CERT-117	Purchases of Tangible Personal Property Incorporated Into or Consumed in Air Pollution Control Facilities
CERT-119	Purchases of Tangible Personal Property and Services by Qualifying Exempt Organizations
CERT-120	Machinery, Equipment, Tools, Materials, and Supplies Used in the Production of Printed Materials or in Prepress Production

CERT-121	Exemption for Landscaping and Horticulture Services, Window Cleaning Services, and Maintenance Services Provided to Recipients of Total Disability Benefits
CERT-122	Refund of Tax Paid on Purchases of Meals or Lodging by Exempt Entities
CERT-123	Blanket Certificate for Exempt Qualifying Purchases of Meals or Lodging by an Exempt Organization or Qualifying Governmental Agency
CERT-124	Purchases of Tangible Personal Property Incorporated Into or Consumed in Water Pollution Control Facilities
CERT-125	Sales and Use Tax Exemption for a Motor Vehicle Purchased by a Nonresident of Connecticut
CERT-126	Exempt Purchases of Tangible Personal Property or Services for Low and Moderate Income Housing Facilities
CERT-127	Exempt Purchases by an Enrolled Member or by the Tribal Government of the Mashantucket Pequot Tribe or Mohegan Tribe
CERT-128	Exempt Purchases by Contractors in Connection With Construction Projects in Indian Country of the Mashantucket Pequot or Mohegan Tribes
CERT-129	Exemption for Items Used Directly in the Biotechnology Industry
CERT-130	Sales and Use Tax Exemption for Purchases by Water Companies
CERT-131	Exemption for Projects of the Connecticut Resources Recovery Authority and Solid Waste-to-Energy Facilities
CERT-132	Sales and Use Tax Exemption for Purchases Made Under the Buy Connecticut Provision
CERT-133	Contractor's Exempt Purchase Certificate for a Renovation Contract With a Direct Payment Permit Holder
CERT-134	Exempt Purchases by Qualifying Governmental Agencies
CERT-135	Reduced Sales and Use Tax Rate for Motor Vehicles Purchased by Nonresident Military Personnel and Their Spouses
CERT-136	Purchases of Items by Eleemosynary Organizations and Schools That Will Be Resold Tax-Exempt for \$20 or Less
CERT-137	Sales and Use Tax Certificate for Sale and Leaseback Arrangements
CERT-138	Purchases for Use in Audio and Video Production or Broadcasting
CERT-139	Sales and Use Tax Exemption for a Vessel Purchased by a Nonresident of Connecticut
	<ul style="list-style-type: none"> • Contractor's Exempt Purchase Certificate (Regulation 18) • Printed Material Certificate

Withholding Tax

CT-WH	Connecticut Withholding Tax Payment Form
CT-941	Connecticut Quarterly Reconciliation of Withholding
CT-941X	Amended Connecticut Reconciliation of Withholding
CT-8109	Connecticut Withholding Tax Payment Form for Nonpayroll Amounts
CT-945	Connecticut Annual Reconciliation of Withholding for Nonpayroll Amounts
CT-W3	Connecticut Annual Reconciliation of Withholding
CT-W4	Employee's Withholding Certificate
CT-1096	Connecticut Annual Summary and Transmittal of Information Returns
CT-W4P	Withholding Certificate for Pension or Annuity Payments
CT-W4NA	Employee's Withholding Certificate – Nonresident Apportionment

- Denotes a form without a specific form number

Effect on Other Documents: This publication supersedes **Informational Publication 2003(28)**, *Getting Started in Business*.

Effect of This Document: An Informational Publication issued by the Department of Revenue Services (DRS) addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (Connecticut calls from 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: Forms and publications are available anytime by:

- **Internet:** Visit the DRS website at **www.ct.gov/DRS** to download and print Connecticut tax forms; **or**
- **Telephone:** Call **1-800-382-9463** (Connecticut calls from outside the Greater Hartford calling area only) and select **Option 2** from a touch-tone phone or **860-297-4753** (from anywhere).

Paperless Filing/Payment Methods (fast, easy, free, and confidential):

- **For business returns:** Use *Fast-File* to file sales and use taxes, business use tax, room occupancy tax, estimated corporation business tax, business entity tax, attorney occupational tax, nursing home provider fee, admissions and dues tax, or withholding tax returns over the Internet. Visit the DRS website at **www.ct.gov/DRS** and click on *File/Register OnLine*.
 - **For payment of business taxes other than those listed above:** Use *Fast-File* to pay your business taxes over the Internet or by phone. Visit the DRS website at **www.ct.gov/DRS** and click on *Electronic Services* for a list of eligible taxes. The ACH debit method is used to make the transfer. No preregistration is required.
 - **For resident income tax returns:** Use *WebFile* to file personal income tax returns over the Internet. Visit the DRS website at **www.ct.gov/DRS** and click on *File/Register OnLine*.
 - **For electronic filing of income tax extensions, estimated payments, and for electronic bill payments:** Use *WebFile* to electronically file personal income tax returns over the Internet. You can also use *WebFile* to make an electronic income tax payment for a prior year. Visit the DRS website at **www.ct.gov/DRS** and click on *File/Register OnLine*.
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General Email: drs@po.state.ct.us

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Call **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only) or **860-297-5962** (from anywhere).



For **prerecorded tax information**, select a topic from the menu options provided.

For **forms or publications**, press 2.

To speak to a Taxpayer Services representative, call during business hours, Monday through Friday, and press 0.

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Write to:

DRS Taxpayer Services Division
25 Sigourney Street
Hartford CT 06106-5032



DRS Offices: Visit our main office in Hartford or visit our field offices in Bridgeport, Hamden, Norwich, or Waterbury weekdays, 8 a.m. to 5 p.m. Call Conn-Tax or the locations listed below for directions.

HARTFORD
25 Sigourney Street
Hartford CT 06106-5032
860-297-5962

HAMDEN
3074 Whitney Ave.
Hamden CT 06517
203-287-8243

WATERBURY
55 West Main Street, Suite 100
Waterbury CT 06702
203-805-6789

BRIDGEPORT
10 Middle Street
Bridgeport CT 06610
203-336-7890

NORWICH
2 Cliff Street
Norwich CT 06360
860-425-4123



MISSION STATEMENT

The Mission of the
Connecticut Department of Revenue Services
is to administer the tax laws of the State of Connecticut
and collect the tax revenues
in the most cost effective manner;
achieve the highest level of voluntary compliance
through accurate, efficient and courteous customer services;
and perform in a manner
which instills public confidence in the integrity
and fairness of the state's tax programs.

IP 2006(11), *Getting Started in Business*

State of Connecticut
Department of Revenue Services
25 Sigourney Street
Hartford CT 06106