

**NEWS ALERT****TAX GROUP****Connecticut Budget Bill Has Significant Surprises and Changes to Tax Laws**

By Marc T. Finer | June 13, 2019

The recent \$43.4 billion budget bill passed by the Connecticut General Assembly includes a number of changes to the Connecticut tax laws. The budget will be sent to Governor Ned Lamont who is expected to sign it.

Highlights of some of the significant tax changes included in the budget bill are:

**Corporation and Pass-Through Entity Taxes**

- Effective January 1, 2019, the pass-through entity tax credit available to owners of pass-through entities (e.g., partnerships, limited liability companies (LLCs) and S corporations) as a credit against the owners' Connecticut personal income tax liability is reduced from 93.01% to 87.5. This change effectively increases the Connecticut income tax on Connecticut source income of the owners of pass-through entities by 0.385%.
- Effective January 1, 2020, the \$250 business entity tax currently payable every other year by S corporations, partnerships and LLCs will be eliminated.
- Effective January 1, 2021, the capital base component of the corporation business tax which is currently 3.1 mills per dollar (0.31%) of a corporation's average capital stock, surplus and undivided profits will be phased out over four years as follows: decrease to 2.6 mills in 2021, 2.1 mills in 2022; 1.1 mills in 2023; and zero mills in 2024.
- The 10% surcharge payable under the corporation business tax is extended through 2020.

**Sales Tax**

- Effective July 1, 2019, online retailers without a physical presence in Connecticut who make sales of tangible personal property or services to a destination within Connecticut are required to collect and remit Connecticut sales tax if they have at least \$100,000 of gross receipts from sales to Connecticut residents and at least 200 separate retail sales from outside Connecticut to destinations within the state during the preceding 12-month period. This change reduces the gross receipts threshold amount from \$250,000 and expands the scope of the sales tax to include sales of services. The reduced gross receipts threshold also applies to the sales of tangible personal property and services by a retailer through a referral agreement entered into with a person located in Connecticut (i.e., click-through nexus).

- Effective October 1, 2019, prepared (i.e., ready-to-eat) meals sold by restaurants, caterers and grocery stores, and beverages dispensed at bars and soda fountains, will be subject to a 1% sales tax surcharge thereby increasing the sales tax on these purchases to 7.35% (rather than the general 6.35% tax rate).
- Effective October 1, 2019, the Connecticut sales tax on digital downloads, such as movies, ring tones and online books, and canned/pre-written software that is electronically accessed, other than when purchased by a business for its own use, is increased from the current tax rate of 1% to 6.35%.
- Effective January 1, 2020, the Connecticut sales tax is extended to certain motor vehicle parking services, dry cleaning services, laundry services (excluding coin-operated services), interior design services (other than when purchased by a business for its own use) and safety apparel.

### Real Estate Conveyance Tax

- Effective July 1, 2020, sellers of Connecticut homes will be required to pay a real estate conveyance tax of 2.25% (increased from 1.25%) with respect to the portion of the sales price in excess of \$2.5 million ("mansion tax"). Related to this increase and effective January 1, 2021, taxpayers who remain in Connecticut following the sale will be permitted to take a property tax credit against their Connecticut income tax in an amount equal to 1/3 of the conveyance tax paid at the "mansion" tax rate. However, this credit does not become available until the third year after the conveyance tax is paid.

### Miscellaneous Taxes

- Effective August 1, 2019, Connecticut retailers will be required to charge a 10-cent fee for each single use plastic bag sold with a complete ban on single use plastic bags starting July 1, 2021.
- Effective October 1, 2019, the excise tax on the purchase of liquor and alcohol in excess of 100 proof (excluding beer) will increase by 10% from \$5.40 to \$5.94 per wine gallon.
- Effective October 1, 2019, the fee car dealers will be required to pay when accepting a used car as a trade in for the purchase of a new or another used car will increase from \$35 to \$100.
- Effective October 1, 2019, a 40-cents per milliliter tax will be imposed on electronic cigarette liquid and a 10% tax will be imposed on the wholesale price of all other electronic cigarette products.

If you have any questions on this client alert, please contact Marc T. Finer, Tax Partner, at 860-240-6096 or [mfiner@murthalaw.com](mailto:mfiner@murthalaw.com)

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