

Proposed Changes to Connecticut Governor's Bill

The attached red-line legislative draft includes the following changes to the Connecticut bill proposing a tax on federal pass-through entities (“pass-through entities”) to ensure the legislative draft works in the manner intended, is more acceptable to the business community, and is less susceptible to challenge by the federal government:

1. Change the refundable credit for the Connecticut tax paid by a pass-through entity to a credit that can be carried forward indefinitely.
2. Add a provision to allow pass-through entities to elect whether they will be subject to the entity-level tax.
3. Add language to clarify that both the exclusion of income for affected business entities and the credit that carries up to individual and corporate members carries up through multiple tiers.
4. Explicitly limit the credit for unincorporated business taxes paid to other states to residents and part-year residents, as is the current credit for personal income taxes paid to other states.
5. Clarify the manner in which the tax on S corporations should be computed by referencing the S corporation provisions, instead of the partnership provisions.