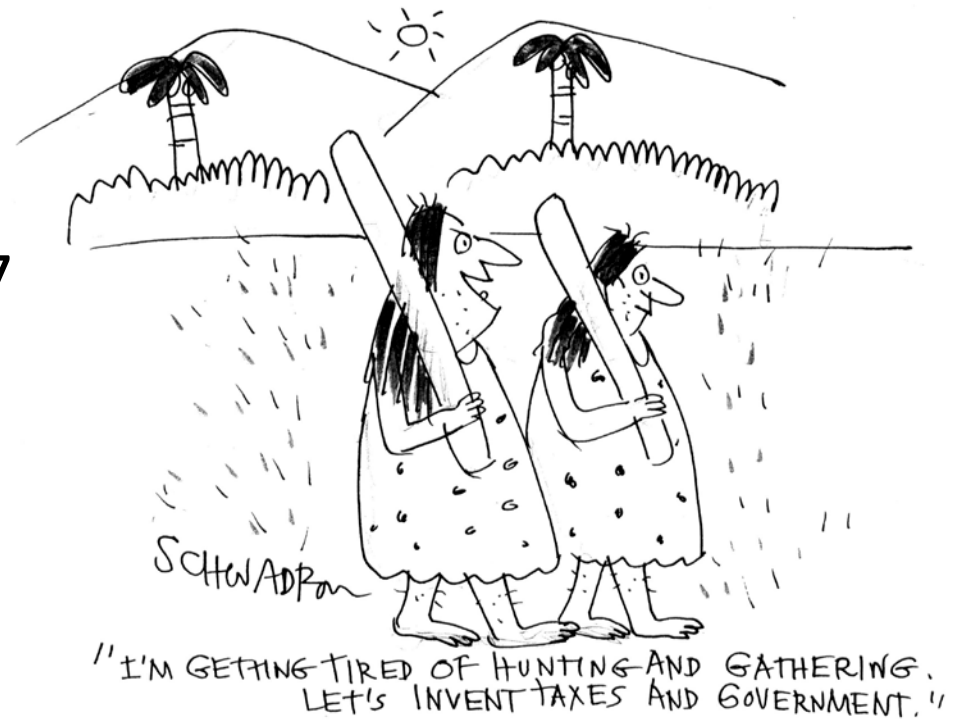


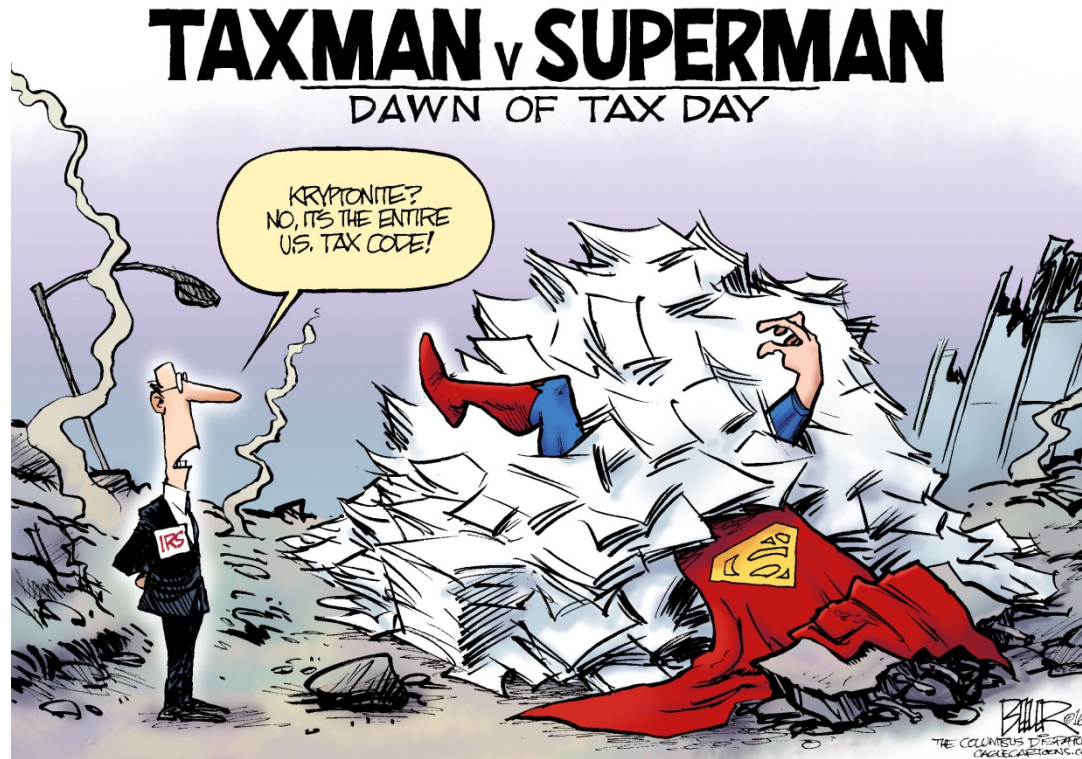


**Connecticut's
Response to Federal
Tax Reform and
*Wayfair***

Agenda

- Connecticut's response to the federal Tax Cuts and Jobs Act (TCJA) of 2017
- What does the *Wayfair v. South Dakota* decision mean for Connecticut?





















I. CONNECTICUT'S RESPONSE TO THE TCJA

What's in the Tax Cuts and Jobs Act?

- Lower rates for individuals and corporations
- Broader tax base
- New international tax system

What's New for Individuals?

	Prior Law		Tax Cuts and Jobs Act
 Individual rates	10, 15, 25, 28, 33, 35, 39.6%	↓	10, 12, 22, 24, 32, 35, 37%
 Standard deduction	Single: \$6,350 Head of Household: \$9,350 Married/Jointly: \$12,700	↑	Single: \$12,000 Head of Household: \$18,000 Married/Jointly: \$24,000
 Personal exemptions	\$4,050	X	Repealed
 State and local taxes	Deductible	↓	Maximum \$10,000 deduction (\$5,000 for MFS)
 Pass-through income	Same as individual rates	↓	20% deduction
 Mortgage interest	\$1 million limit	↓	\$750,000 limit
 Medical expenses	10% of AGI	↓	7.5% of AGI
 Estate and gift tax exemption	\$5 million exclusion	↑	\$10 million exclusion

		Prior Law		Tax Cuts and Jobs Act
No Impact to CT Taxes	 Individual rates	10, 15, 25, 28, 33, 35, 39.6%	↓	10, 12, 22, 24, 32, 35, 37%
	 Standard deduction	Single: \$6,350 Head of Household: \$9,350 Married/Jointly: \$12,700	↑	Single: \$12,000 Head of Household: \$18,000 Married/Jointly: \$24,000
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Impact in 2020	 Estate and gift tax exemption	\$5 million exclusion	↑	\$10 million exclusion

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		\$1 million limit		↓ \$750,000 limit
		10% of AGI		↓ 7.5% of AGI
Impact in 2020		\$5 million exclusion		↑ \$10 million exclusion

Estimated to increase Connecticut taxpayers' federal income tax liability by approximately \$2.8 billion in 2018

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SALT Deduction Cap

- Legislature responded to the SALT deduction cap with two new policies:
 - Pass-Through Entity Tax
 - Property Tax Credit for Voluntary Contributions to Community Supporting Organizations
- Connecticut joined a lawsuit against the federal government for intruding on state sovereignty

Pass-Through Entity Tax

- Entity-level income tax imposed on most pass-through businesses
- Imposed at the top income tax rate of 6.99%
- Offset by a state personal income or corporation business tax credit for the entity's members
- Because entity-level taxes remain deductible at the federal level, pass-through businesses will be able to lower their federal taxable income that is allocated to the individual owners of the business






Property Tax Credit for Donations to Community Supporting Organizations

- **IRS has moved to block this approach**
- Targeted at residential property taxpayers
- Allows municipalities to provide a property tax credit to eligible taxpayers who make donations to certain municipally approved nonprofits (up to 85% of the donation)
- Designed to allow taxpayers to claim a federal charitable contribution for these donations

Estate and Gift Tax Exclusion

- TCJA doubled the basic exclusion amount for the federal estate tax (approximately \$11 million in 2018, after adjusting for inflation)
- CT was scheduled to increase its state gift and estate tax threshold to the federal threshold from 2018 to 2020
- In 2018, legislature extended this phase-in by three years to 2023

What's New for Corporations?

	TCJA	Impact to CT	CT's Response
 Corporate rate	Cut rate to a flat 21%, rather than graduated rates from 15% to 25%	No	None
 Bonus depreciation	100% first-year deduction allowed after 9/27/17 and before 2023	Yes – CT conformed for personal income tax, but not corporation tax	Required pass-throughs to spread out the deduction over four years
 Section 179 expensing	Increased maximum deduction and expanded the types of property eligible	Yes – CT conformed for both personal income and corporation tax	Required pass-throughs and corporations to spread out the deduction over five years
 Interest deductions	Limited to 30% of adjusted taxable income	Yes – CT generally conformed to this deduction	Decoupled for corporation tax purposes
 Repatriation transition tax	Post-1986 foreign earnings and profits of subsidiaries taxed at a reduced rate, spread over 8 years	Generally no – CT provides a 100% dividends received deduction, but requires add-back for related expenses	Specified that the related expenses equal 5% of the dividends



**“You gave away 60 billion toys and
didn’t get one receipt?!”**

II. INTERNET SALES TAX AFTER *WAYFAIR*

Wayfair v. South Dakota

Can states require out-of-state retailers that sell goods and services in the state, but have no physical presence there, to collect and remit sales tax?

South Dakota's Economic Nexus Law

Requires sellers to collect and remit sales tax if their South Dakota sales of goods and services **exceed \$100,000 in gross revenue or 200 transactions** in the previous or current calendar year

Connecticut's Economic Nexus Law

As of December 1, 2018, out-of-state retailers that **regularly or systematically solicit sales of goods** in Connecticut must collect and remit sales tax if they had at least **\$250,000 in gross receipts and 200 retail sales** in the state during the preceding year.

Other Internet Sales Tax Provisions

- **“Marketplace facilitators”** must collect and remit sales tax as of December 1
- **“Referrers”** must comply with three new reporting requirements:
 - Notice to customers about CT use tax obligations, beginning December 1, 2018
 - Notice to sellers about CT sales tax obligations, beginning July 1, 2019
 - Report to CT DRS about sellers collecting and remitting sales tax, beginning January 31, 2020

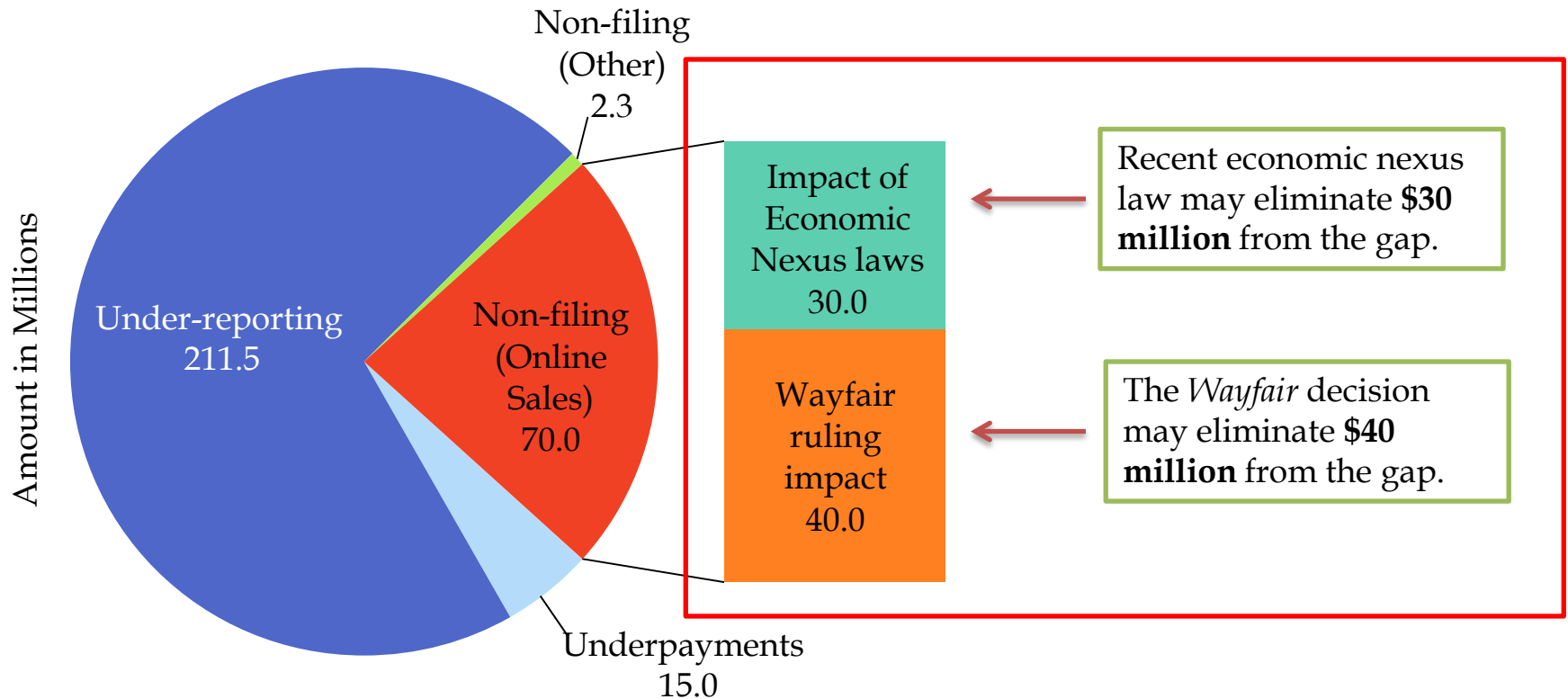


“The hunting figures add up, but it looks like someone’s been doing a little gathering off the books.”

III. THE REVENUE IMPACT

Sales Tax Gap and Revenue Impact

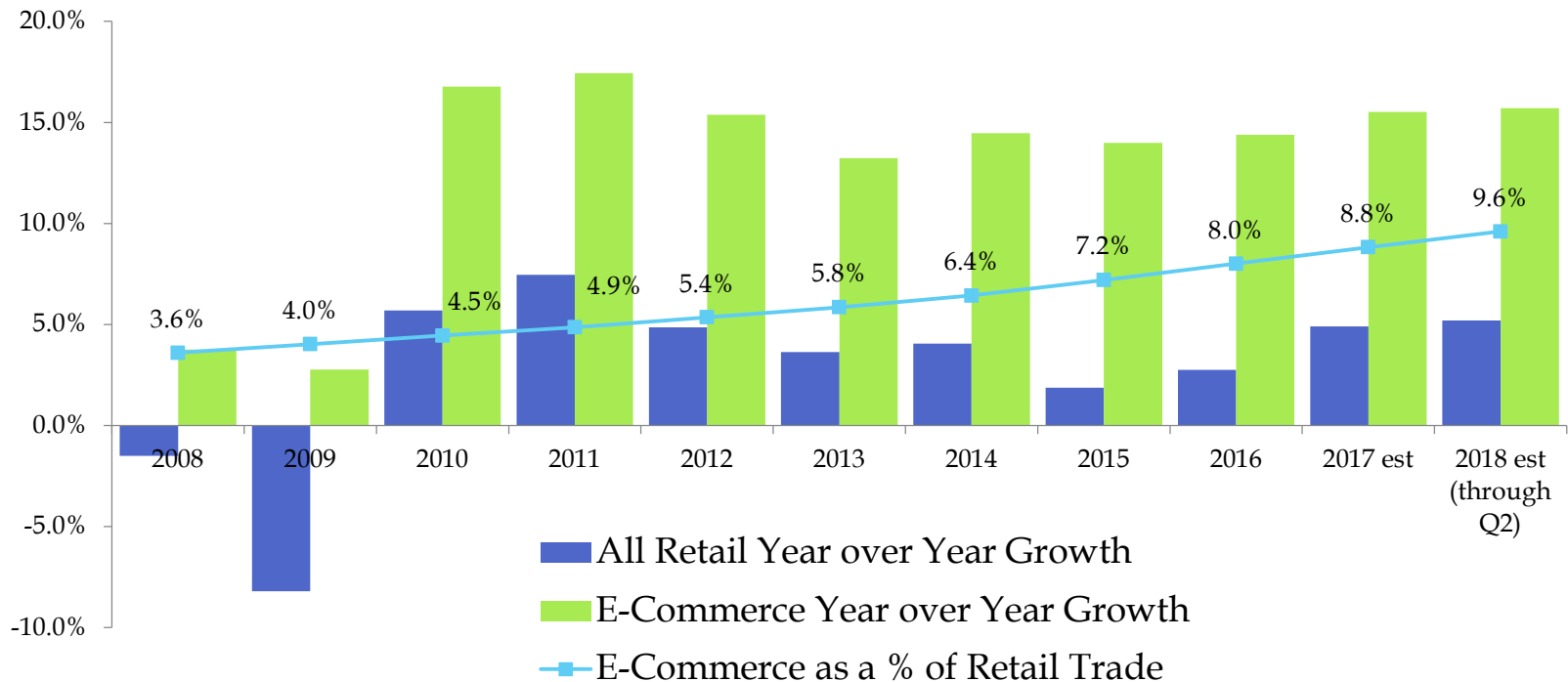
Tax Gap = Difference between what is *required* to be paid and what is *actually* paid.



Components of the Sales Tax Gap:

- **Underpayments** - Report the proper amount of tax but pay less.
- **Under-reporting** - Fail to report proper amount of tax or claim exemptions.
- **Non-filers** - Not registered or registered but not filing. Uncollected online sales included here.

Revenue Impact of Online Sales



Revenue Impact on Online Sales:

\$70 million in additional revenue is anticipated to be collected annually.

- Based on new economic nexus laws and *Wayfair* ruling
- Timing of the impact will depend upon DRS bringing companies into compliance
- Online sales continues to outpace growth in total overall sales (see chart above)

The Takeaway: Positive upside risk to Sales Tax Collections from Online Sales



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