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Connecticut: New partnership-level tax, in response to federal tax changes

The Connecticut legislature passed Senate Bill 11 that, once enacted, would make certain changes to Connecticut's tax laws in light of federal tax reform—including a new mandatory entity-level tax imposed on partnerships and S corporations doing business in the state.

This new tax would be effective for tax years beginning on or after January 1, 2018.

The impetus behind the new entity-level tax on partnerships and S corporations is that under the new federal tax law (Pub. L. No. 115-97, enacted December 22, 2017), the state and local tax deduction for individuals is capped at $10,000 per year. No such limit applies to state and local taxes deducted by business entities. Thus, if the business entity (as opposed to the partner/shareholder) is paying Connecticut income tax, the business entity will be allowed to deduct the taxes for federal purposes.

The Connecticut legislation would allow the owners of the business entity to take a corresponding tax credit against their Connecticut income taxes for the taxes paid at the business-entity level. This revised structure would likely benefit Connecticut resident partners/owners, but may have harsh consequences for out-of-state partners/owners and the entities themselves.

Read a **May 2018 report** [PDF 228 KB] prepared by KPMG LLP

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