

MEMO# 16392

July 31, 2003

AUGUST 1ST CONFERENCE CALL ON CONNECTICUT STATE TAX DEVELOPMENTS

[16392] July 31, 2003 TO: TAX COMMITTEE No. 48-03 RE: AUGUST 1ST CONFERENCE CALL ON CONNECTICUT STATE TAX DEVELOPMENTS The state budget for Connecticut for fiscal years 2004-2005 was introduced in, and passed by, the state House of Representatives yesterday. The bill is expected to be passed by the state Senate today, and signed by the Governor shortly. A conference call has been scheduled for August 1, 2003 at 2:00 pm (Eastern) to discuss the impact of this legislation on Institute members, as outlined below. Section 91 of the budget bill provides a list of factors, including: (1) 50 percent or more of the taxpayer's gross income is derived from business conducted with affiliated corporations, or 50% of an affiliated corporation's gross income is derived from business conducted with a taxpayer and other related entities; (2) three or more of a specified list of services (including advertising, accounting, distribution, sales, and legal services) are provided between the taxpayer and related entities; and (3) 20% of the debt owed by or to the taxpayer is debt owed by or to related entities. A taxpayer satisfying any one of these factors is required to file an "alternate combined report," treating the taxpayer and any affiliated corporation satisfying the factor as a single corporation for Connecticut state tax purposes. In addition, the state Commissioner of Revenue has the discretion to include (or exclude) any other affiliated corporation in the alternate combined report. The taxpayer is required to pay the higher of the tax that would be imposed under the alternate combined report, or the taxpayer's usual return (whether a separate return or a combined return). It appears under this legislation that if a fund's distributor files a Connecticut tax return, then any fund affiliate that satisfies one of the above factors could be subject to tax in Connecticut on its income. Connecticut uses a single sales factor for mutual fund service providers, so any affiliates would be taxed based on the residence of the underlying mutual fund shareholder, without regard to the affiliate's lack of payroll or property in Connecticut. 2 If you plan to participate in the conference call to discuss this legislation, please fill out the attached response form and return it to Ezella Wynn by fax (202/326-5841) or email (ewynn@ici.org). David Orlin Assistant Counsel Attachment no. 1 (in .pdf format)