

Connecticut Department of Revenue Services



STATE OF CONNECTICUT DEPARTMENT OF REVENUE SERVICES

450 Columbus Blvd
Hartford CT 06103

SN 2000(3.1)

2000 Legislation Affecting Sales and Use Taxes and Admissions and Dues Tax

PURPOSE: This Special Notice summarizes 2000 legislation affecting sales and use taxes and the admissions and dues tax. It also covers laws enacted before 2000 that take effect in 2000.

EFFECTIVE DATE: The effective dates of legislative changes are noted below.

STATUTORY AUTHORITY: 2000 Conn. Pub. Acts 140; 2000 Conn. Pub. Acts 170; 2000 Conn. Pub. Acts 174; 2000 Conn. Pub. Acts 227; 2000 Conn. Pub. Acts 1 (June Spec. Sess.); and previously enacted legislation cited below.

SALES AND USE TAXES:

Applicable to all open tax periods

Clarification of Computer Services and Computer Software: The following legislation is specifically intended to clarify existing law:

The description of taxable computer and data processing services in Conn. Gen. Stat. §12-407(2)(i)(A) is clarified to include "programming, code writing, modification of existing programs, feasibility studies, and installation and implementation of software programs and systems even where such services are rendered in connection with the development, creation or production of canned or custom software or the license of custom software."

Canned or prewritten software is defined as "all software, other than custom software, that is held or existing for general or repeated sale, license or lease. Software initially developed as custom software for in-house use and subsequently sold, licensed, or leased to unrelated third parties shall be considered canned or prewritten software."

Custom software is defined as "a computer program prepared to the order of a single customer."

Canned or prewritten software is included in the definition of tangible personal property in Conn. Gen. Stat. §12-407(13).

(2000 Conn. Pub. Acts 174, §§71, 72, and 74; 2000 Conn. Pub. Acts 1, §27 (June Spec. Sess.))

Effective May 2, 2000

Adriaen's Landing and the Stadium Facility. Conn. Gen. Stat. §12-412(1)(C) is expanded to exempt sales of tangible personal property and services incorporated into or used or consumed in demolition, remediation, or preparation of the Adriaen's Landing and stadium facility (Rentschler Field) sites, and construction of the convention center and the stadium facility and related parking facilities.

(2000 Conn. Pub. Acts 140, §22)

Effective May 26, 2000

Motor Vehicle and Vessel Use Tax Exemptions. Amendments to Conn. Gen. Stat. §12-431(a) eliminate the requirement that no gain or loss to the seller be recognized for federal income tax purposes for exempt sales of motor vehicles or vessels in connection with the organization, reorganization, or liquidation of corporations, and exempt sales of motor vehicles in connection with the organization or termination of partnerships or LLCs.

(2000 Conn. Pub. Acts 174, §18)

Effective July 1, 2000

Revenue from Vessel Assessments. Conn. Gen. Stat. §12-416a is expanded to allow the Department of Revenue Services (DRS) to share with municipalities up to 50% of use tax collected from audit assessments on vessels made under Conn. Gen. Stat. §12-415, in addition to assessments made under §12-416. DRS can now disclose to municipalities information about such taxpayers and their assessments.

(2000 Conn. Pub. Acts 174, §14)

Clothing Exemption Increased. The exemption in Conn. Gen. Stat. §12-412(47) for most clothing and footwear is increased from items costing less than \$50 each to items costing less than \$75 each.

(2000 Conn. Pub. Acts 170, §3)

Clothing Under \$300 Nontaxable for One Week per Year. Each year, from the 3rd Sunday in August through the following Saturday, most items of clothing and footwear costing less than \$300 each will not be taxable. In 2000, the week is from August 20 through August 26.

(2000 Conn. Pub. Acts 170, §15)

Vending Machine Sales. Sales of any items for 50 cents or less from vending machines are exempt under Conn. Gen. Stat. §12-412(27).

(2000 Conn. Pub. Acts 170, §2)

Child Car Seats. Sales of child car seats are exempt.

(2000 Conn. Pub. Acts 170, §6)

College Textbooks. Sales of college textbooks to full-time and part-time students enrolled at institutions of higher education are exempt, with presentation of valid student identification cards. *College textbooks* means new or used books and workbooks required or recommended for courses. The exemption applies to textbooks on paper, computer disks or CD-ROMs, audiocassettes, or the Internet.

(2000 Conn. Pub. Acts 170, §6)

High MPG Passenger Cars. Sales of passenger cars with U.S. Environmental Protection Agency estimated highway gasoline mileage ratings of at least 50 miles per gallon are exempt until July 1, 2002.

(2000 Conn. Pub. Acts 170, §6)

Professional Employer Organizations. *Sales price* and *gross receipts* in Conn. Gen. Stat. §12-407(8) and (9) now exclude from personnel services taxable under Conn. Gen. Stat. §12-407(2)(i)(C) separately-stated compensation and employee-related expenses paid to or on behalf of worksite employees by professional employer organizations under professional employer agreements. A *professional employer agreement* is a contract in which a professional employer organization provides at least 75% of the worksite employees to a service recipient.

This legislation is in addition to the existing exclusion for employee expenses in contracts that provide at least 75% of *leased employees*, as defined in I.R.C. §414(n).

(2000 Conn. Pub. Acts 170, §§17 and 18)

Use Tax Credit for Direct Payment Permit Holder. The Commissioner of Higher Education can select a direct payment permit holder under Conn. Gen. Stat. §12-409a for a pilot program. The direct payment permit

holder is eligible for a use tax credit of up to two million dollars against its purchases of computer equipment to be used in Connecticut in electronic commerce.

The credit amount must equal the amount of the direct payment permit holder's contributions of cash, property, or services to a Connecticut public or private college or university for electronic commerce instruction projects, including investments in buildings and classrooms, computer equipment, and licenses. The credit may be taken only for completed projects.

(2000 Conn. Pub. Acts 170, §21)

Renovation and Repair Services to Residential Property. The phaseout of the tax on paving, painting or staining, wallpapering, roofing, siding, and exterior sheet metal work to other than industrial, commercial, or income-producing real property under Conn. Gen. Stat. §12-407(2)(i)(BB) continues. On and after July 1, 2000, the tax is 2%. On an after July 1, 2001, the services are exempt from tax.

(1999 Conn. Pub. Acts 173, §§13 and 15)

Computer and Data Processing. As part of the phaseout of the tax on computer and data processing services under Conn. Gen. Stat. §12-407(2)(i)(A), the rate is reduced from 3% to 2% on July 1, 2000.

(1995 Conn. Pub. Acts 160, §39)

Effective October 1, 2000

Prepaid Telephone Calling Service. The sale of prepaid telephone calling service (including but not limited to calling cards) and the recharge of such service is now a separate taxable service, and is no longer taxable as a telecommunications service. Tax is paid at the retailer's place of business. However, if prepaid telephone calling service is not sold at a retailer's place of business, the sale or recharge is taxable at the customer's shipping address, or if no item is shipped, it is taxable at the customer's billing address or location associated with the customer's mobile telephone number.

Prepaid telephone calling service means advance payment for the right to purchase telecommunications service, that enables origination of calls using an access number or code, with a continuous means of knowing the amount of remaining units of prepaid service.

(2000 Conn. Pub. Acts 174, §§1-3)

Meals at Schools and Health Care Facilities. The exemption in Conn. Gen. Stat. §12-412(9) for sales of food and meals in student cafeterias, dining halls, and certain other locations is expanded to include sales of candy, confectionery, and non-alcoholic beverages. All sales of these items at schools using prepaid meal plan cards or arrangements are exempt.

The exemption is also expanded to include sales of candy, confectionery, and beverages to persons in health care facilities. Health care facilities now include assisted living facilities, senior centers, and day care centers, in addition to hospitals, residential care homes, convalescent homes, nursing homes, and rest homes.

(2000 Conn. Pub. Acts 174, §9)

Motor Vehicle Fuel. Conn. Gen. Stat. §12-412(15) is amended to clarify that it exempts motor vehicle fuel sold for use in any motor vehicle licensed or required to be licensed to operate on state highways, whether or not the motor vehicle fuels tax under Chapter 221 has been imposed on the fuel. All other fuel on which motor vehicle fuels tax has been paid and not refunded is also exempt from sales and use tax.

(2000 Conn. Pub. Acts 174, §10)

Nonprescription Drugs and Medicines for Animals. References to *human* and *person* are removed from Conn. Gen. Stat. §12-412(48), to clarify that sales of nonprescription drugs and medicines for animal use are also exempt.

(2000 Conn. Pub. Acts 174, §11)

Farmer Tax Exemption Permit. Conn. Gen. Stat. §12-412(63) is expanded to allow start-up farmers to receive exemption permits, if they intend to carry on agricultural production for at least two years, and if their gross

income and expenses from farming will be at least \$2,500 in the second year, or an average of \$2,500 per year for both years. Use tax must be paid on all purchases if these conditions are not met.

(2000 Conn. Pub. Acts 174, §12)

Commercial Fishermen. Conn. Gen. Stat. §12-412(40) is expanded to allow start-up fishermen to make exempt purchases of vessels, machinery, and equipment for commercial fishing, if they intend to carry on fishing as a trade or business for at least two years after the purchases, and if at least 50% of their gross income will be from fishing during the first year after the purchase, or an average of 50% of gross income will be from fishing for the two-year period after the purchase. Use tax must be paid on all purchases if these conditions are not met. Fishermen may now use their *taxable year* rather than the calendar year to satisfy their income requirements.

(2000 Conn. Pub. Acts 174, §75)

Use Tax Exemption for Retailers. Use tax does not apply to items held for resale that retailers remove from inventory and donate to the United States or its agencies; Connecticut, its political subdivisions or their agencies; or any I.R.C. §501(c)(3) organization.

(2000 Conn. Pub. Acts 174, §13)

Successor Liability. Conn. Gen. Stat. §12-424 is amended to clarify that it applies to any *person* (rather than *retailer*) liable for sales or use taxes that sells out its business or stock of goods or quits the business.

(2000 Conn. Pub. Acts 174, §16)

Nonresident Contractors. Conn. Gen. Stat. §12-430(7) is amended to clarify that nonresident contractors must post a bond at the start of the contract, or that persons dealing with such contractors must deduct and pay to DRS a percentage of amounts payable to the contractors or post a bond with DRS within 30 days of the start of the contract. The bond or deduction amount is reduced from 5% to 2% for direct payment permit holders dealing with nonresident contractors.

(2000 Conn. Pub. Acts 174, §17)

Fulfillment Services. Retailers will not be engaged in business in Connecticut under Conn. Gen. Stat. §12-407(15) solely because they purchase fulfillment services carried on in this state by persons not affiliated with the retailer. *Fulfillment services* means receiving orders from a retailer or its agent to be filled and shipped to customers by the fulfillment service provider from the retailer's inventory. *Affiliated* means a direct or indirect ownership interest of more than 5%.

Such fulfillment service providers and retailers are not *principals and agents* for purposes of joint and several liability for taxes under Conn. Gen. Stat. §12-407c.

(2000 Conn. Pub. Acts 227, §§1 and 2)

Effective July 1, 2001

Medical Equipment. The exemption for medical equipment and devices in Conn. Gen. Stat. §12-412(19) will be expanded to include closed circuit television equipment for the visually impaired, canes, and support hose designed to aid in blood circulation purchased by those with medical needs for such hose.

(2000 Conn. Pub. Acts 170, §1)

Caskets Used for Burial. Caskets used for burial will be fully exempt under Conn. Gen. Stat. §12-412(55).

(2000 Conn. Pub. Acts 170, §4)

Smoking Cessation Products. Specially formulated gum, inhalants, or similar products designed to aid in smoking cessation will be exempt.

(2000 Conn. Pub. Acts 170, §5)

Telecommunications and CATV Equipment. Sales to telecommunications or community antenna television companies of equipment for telecommunications, high-speed data transmission, or broadband Internet

services, capable of transmitting at not less than 200 kilobits per second in at least one direction, will be exempt.

(2000 Conn. Pub. Acts 170, §5)

Internet Access Services. Sales of Internet access services, otherwise taxable as computer and data processing services under Conn. Gen. Stat. §12-407(2)(i)(A), are taxable at 2% from July 1, 2000, until July 1, 2001. On and after July 1, 2001, Internet access services will be exempt. (All other computer and data processing services will be taxable at 1% from July 1, 2001, until July 1, 2002.)

(2000 Conn. Pub. Acts 170, §7)

TRANSITIONAL RULES FOR TAXES BEING REDUCED: Charges for services on which tax is being reduced because of a phaseout are subject to tax at the higher rate only on the portion of the service provided before the date of the rate reduction. The portion of the charges for services provided on or after the date of the rate reduction is subject to tax at the reduced rate.

ADMISSIONS AND DUES TAX

Effective May 2, 2000

Charges to Stadium Facility Taxable. The admissions tax exemptions in Conn. Gen. Stat. §12-541 for events conducted by federally exempt organizations, events conducted primarily to raise funds for federally exempt organizations, and events paid for by centers for service to the elderly will not apply to admission charges to the stadium facility (Rentschler Field).

(2000 Conn. Pub. Acts 140, §25)

Effective July 1, 2000

Connecticut Exposition Center. Admission charges to the Connecticut Exposition Center are exempt.

(2000 Conn. Pub. Acts 170, §16)

Cabarets. Admission charges that would have been subject to the cabaret tax under Conn. Gen. Stat. §12-542, repealed in 1999, are exempt from admissions tax. This applies to admission charges to rooms in places where music, dancing privileges, or any other entertainment (with some exceptions) are afforded to patrons in connection with the serving or selling of alcoholic beverages.

(2000 Conn. Pub. Acts 170, §16)

Reduced Tax Rate on Motion Picture Shows. The admissions tax rate on motion picture shows is reduced from 10% to 8% on July 1, 2000. On July 1, 2001, the rate will be reduced to 6%. (Motion picture show admission charges of not more than \$5 are fully exempt.)

(2000 Conn. Pub. Acts 170, § 16)

Effective October 1, 2000

Locker Rental Fees. Locker rental fees are not subject to dues tax. (Locker rental fees remain subject to the 6% sales tax.)

(2000 Conn. Pub. Acts 174, §19)

EFFECT ON OTHER DOCUMENTS: This Special Notice modifies and supersedes Special Notice 2000(3), *2000 Legislation Affecting Sales and Use Taxes and Admissions and Dues Tax*.

EFFECT OF THIS DOCUMENT: A Special Notice is a document that announces a new policy or practice in response to changes in State or federal laws or regulations or to judicial decisions. A Special Notice indicates the Department's informal interpretation of Connecticut tax law and may be referred to for general guidance by taxpayers or tax practitioners.

FOR FURTHER INFORMATION: Please call the Department of Revenue Services during business hours, Monday through Friday:

- 1-800-382-9463 (toll-free within Connecticut), or
- 860-297-5962 (from anywhere).

TTY, TDD, and Text Telephone users only may transmit inquiries 24 hours a day by calling 860-297-4911.

FORMS AND PUBLICATIONS: Forms and publications are available all day, seven days a week:

- **Internet:** Preview and download forms and publications from the DRS Web site:
<https://www.ct.gov/drs>; or
 - **Telephone:** Call 860-297-4753 (from anywhere), or 1-800-382-9463 (toll-free within Connecticut), and select **Option 2** from a touch-tone phone.
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Sales and Use Taxes; Admissions and Dues Tax
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