

Now!



In this issue;

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DWORKEN, HILLMAN, LAMORTE & STERCZALA, P.C.

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 (Addresses of colleagues & friends are also welcome.)



## Connecticut Enacts Budget Bill

We've known for a long time now that there would be major tax legislation in Connecticut in 2011 as the state grapples with closing a huge budget deficit and otherwise tries to get its fiscal house in order.

We now have what may, or may not be the final version of the legislation depending on whether Governor Dannel Malloy can reach agreement with state employee unions on his \$2 billion proposal in wage concessions and other savings (at this writing, an agreement seems imminent, but time will tell). The Legislature enacted the tax proposals based on that assumption. Without an agreement, the Governor will have to present an alternative budget to the Legislature for their approval.

The budget bill that the Governor signed on May 4, 2011 raises rates on taxes imposed on personal income, sales and use, cigarette, tobacco products, real estate conveyance, diesel fuel and alcohol beverages. It imposes a corporate surcharge of 20%, a sales tax on new services, and repeals certain sales and use tax exemptions. The bill also imposes the so called "Amazon" provision under which sellers with no physical presence in Connecticut are required to collect sales tax; and imposes or amends taxes related to "luxury" items; electrical generation; cabarets; estates and gifts; and hospital net revenue and adds an earned income tax credit among other changes.

In this newsletter, we will discuss some of the more important provisions contained in the bill.

### Personal income tax rates, credits, withholding tables and estimated taxes.

**TAX RATES AND BRACKETS** – Under the bill, the maximum marginal individual income tax rate is increased from 6.5% to 6.7% and the number of tax brackets is increased from three to six (3%, 5%, 5.5%, 6%, 6.5% and 6.7%). As under current law, tax rates vary depending on filing status (Single, Married filing Joint or Head of Household). The following table illustrates the new rates and brackets:

	3%	5%	5.5%	6%	6.5%	6.7%
Single	\$0	\$10,000	\$50,000	\$100,000	\$200,000	\$250,000
Joint	\$0	\$20,000	\$100,000	\$200,000	\$400,000	\$500,000
HOH	\$0	\$16,000	\$80,000	\$160,000	\$320,000	\$400,000

Under the bill, the current flat income tax on estates and trusts is increased from 6.5% to 6.7%

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## Reducing Fraud Risk 101

If you are like most small business owners in a challenging economy, you may have to turn your attention away from daily back office functions to one that concentrates your resources on growing or sustaining your business. Whether you have dedicated your time and energy building new relationships or expanding and servicing existing customers, there is undoubtedly less time to focus on internal functions, such as billing and collection, payroll and invoice payments. Perhaps over time you have delegated these responsibilities, along with other important tasks such as the reconciliation of cash, to a trusted employee, or if you have been forced to downsize your staff and combine duties, it is possible that some of these tasks are not being completed at all.

You do not have to look further than the daily newspaper to see that the level of fraud in the workplace has significantly increased over the past few years. Here are some simple controls that you can implement with little cost or effort that would substantially reduce the risk of fraud occurring or at least going undetected over an extended period of time. We have found that these work especially well in companies that have limited staffing resources.

1. Do not allow a single employee, no matter how well trusted, to have sole control over the collection and disbursement of funds.
2. Review original bank statements (or through on line access), paying particular attention to cleared check images, noting unusual vendors, amounts or checks written to cash. Ensure that cash is reconciled within 3-5 days of receiving the bank statements and review

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For more information on how we at DHL&S can help with these and other tax planning opportunities, please contact us at 203-929-3535, or visit our website at [www.dhls.com](http://www.dhls.com).



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**REDUCTION IN PROPERTY TAX CREDIT** – The current maximum income tax credit of \$500 for property taxes paid on a primary residence and motor vehicles is reduced to \$300. Under both prior law and under the bill, this credit is phased out at higher income levels. However, under the bill, the rate of phase-out is accelerated.

**WITHHOLDING AND ESTIMATED TAXES** – The income tax provisions take effect upon passage, and are applicable to tax years starting on or after January 1, 2011. The Commissioner of Revenue Services has just issued new withholding tables applicable to the taxable year commencing during 2011. They can be viewed at: <http://www.ct.gov/drs/lib/drs/forms/2011withholding/2011withholdingcombinedcatchupwithholdingtaxtables.pdf>

For our clients required to pay estimated taxes, the bill requires the September 15, 2011 payment to include a “catch up” amount to account for retroactive effects of the personal income tax changes. We need clarification from DRS on this provision and hopefully, we’ll have it soon. We will directly contact our clients affected by this requirement.

### Sales and Use Tax

**RATE INCREASES AND APPLICATION** – The general sales and use tax rate is increased from 6% to 6.35%.

Various sales and use tax exemptions are eliminated. The bill repeals the exemptions that applied to certain goods and services, including: clothing and footwear under \$50; non-prescription drugs; smoking cessation products; airport valet parking; cloth or fabric for non-commercial sewing; yarn; yoga instruction; hazardous waste containment and removal; and property or services used in operating solid waste-to-energy facilities.

The following new services are subject to tax under the bill: motor vehicle storage (including motor homes, campers and camp trailers); motor vehicle towing and road services; packing and crating services; intrastate limousine and livery services (not

including transportation by taxicab, ambulance or services provided in connection with funerals); pet grooming, boarding and obedience classes; and cosmetic surgery (excluding reconstructive surgery); manicures; pedicures; and spa services including facials and body waxing. These sales tax provisions take effect July 1, 2011.

New sales taxes are imposed on “Luxury Items”. Effective July 1, 2011, the sale of the following “luxury items” are subject to a 7% sales tax on the full purchase price: (1) a motor vehicle with a sales price exceeding \$50,000 (except for commercial vehicles and those weighing over 12,500 lbs and certain other excluded vehicles); (2) a vessel with a sales price exceeding \$100,000; (3) jewelry costing more than \$5,000; and (5) an article of clothing, footwear, handbags, luggage, wallets, umbrellas and watches costing more than \$1,000.

### Corporation tax surcharge and credits.

The current 10% corporation surcharge, which was set to expire at the end of 2011, has been increased to 20% and extended through 2012. The surcharge applies to “C” corporations with gross receipts of more than \$100 million or corporations filing combined or unitary returns.

Currently, corporate taxpayers are allowed to offset as much as 70% of their tax liabilities with tax credits. Under the bill, additional credit offset is allowed up to 100% of tax. The additional offset is available to corporate taxpayers who increase their average number of “full-time” employees in Connecticut during 2011 and 2012.

### Estate and gift tax threshold.

With respect to decedents dying and taxable gifts made on or after January 1, 2011, the taxable threshold has been reduced from \$3.5 million to \$2 million. Thus, the tax applies to estate and gifts valued over \$2 million.

### Miscellaneous Taxes.

Finally, we should note that the bill also provides for increases and adjustments to taxes related to short term car rentals, hotel

## DHL&S Family News and Events

- The firm was a proud sponsor of the Lupus Foundation of America's 2nd Annual Walk for Lupus Now – Fairfield County on May 1st and in which many DHL&S associates participated, raising over \$18,000.
- Congratulations to Dan Bresnick and his wife, Jen, on the birth of their daughter, Avery Claire.

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them in a timely fashion, investigating old or unusual reconciling items.

3. Never sign blank checks. Maintain control of any signature stamps and/or check stock and always review all issued checks prior to mailing payment.
4. Limit the amount of cash on hand or accepted from customers. If this is not practical for your business, consider the use of a lockbox, an offsite collection point that customers can send payments to.
5. Check references of employees and consider appropriate background checks prior to hiring.

These are only a few of a vast number of controls that most small businesses can implement with minimal cost and a high probability of success. Our experienced professionals can suggest procedures that will identify weaknesses in your organization's internal controls and will offer suggestions that WILL strengthen the areas you feel are at highest risk. Avoid being the next headline in your local newspaper! ■

occupancy tax, cigarette and tobacco products tax, taxes on alcohol beverages, diesel fuel, the real estate conveyance and electric generation tax, as well as the tax on hospital net revenue, insurance premium tax and cabaret tax.

The personal and business tax changes in Connecticut's new budget bill are substantial – and some are yet to be clarified. Contact your DHL&S advisor with any questions or for help in revising your tax, estate and gift plans. Call us at 203-929-3535 or visit our website at [www.dhls.com](http://www.dhls.com). ■