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Ins and outs of coming tax amnesty

Haven't paid your state taxes? The state is offering you a chance to save significant interest fees and harsh penalties.

Between Sept. 16 and Nov. 15, individuals and businesses can apply for amnesty and can be granted a 75 percent reduction in interest fees and elimination of civil and criminal penalties — if the taxes owed are paid.



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Nonpayment can result from a variety of issues. Certainly, lack of available cash is one, particularly in this tough economy. Some may not pay because they don't even realize money is owed.

Many businesses face the daunting task of determining if their goods, services and income are subject to Connecticut tax — and at what rate. Some believe if they are taxed by another state they need not be concerned about Connecticut tax at all.

Wrong. Even if tax is paid in another state, Connecticut taxes could still be owed.

For those who don't pay particular attention to these and other details, the day of reckoning may very well be at the time of a Connecticut Department of Revenue Services examination when it is determined that the sales or income was indeed subject to Connecticut tax. If none were paid or reported, this unexpected tax, plus interest and penalties, can jeopardize the survival of a business.

That said, Connecticut and other states searched for the means to fill budget shortfalls without raising taxes, motivating businesses to come forward and pay what was previously neglected. Offering a short-term tax amnesty program may do just that, collecting needed dollars while at the same time bringing more taxpayers into compliance.

Connecticut again is providing a mechanism to businesses and individuals to correct old tax returns and submit unfiled returns, without fear of prosecution or penalties and with a 75 percent reduction of interest fees.

Instead of the usual 12 percent interest on unpaid taxes, the rate from Sept. 16 through Nov. 15 will be just 3 percent. And there will not be any further penalties.

Connecticut has offered amnesty programs in the past, yielding millions of dollars for the state's coffers.

Beware, however, this year if you don't take amnesty, you could be subject to a whopping 25 percent penalty.

The amnesty covers virtually all Connecticut taxes imposed prior to Nov. 30, 2012, including sales, corporate and individual taxes. It excludes motor carrier road taxes and those tax matters currently under investigation or with a previously negotiated settlement in place.

The savings resulting from the amnesty program can be considerable.

For example, a plastic surgeon two years ago began offering cosmetic surgery in addition to reconstructive procedures. With reconstructive surgery exempt, no sales tax was collected or paid in connection with taxable cosmetic procedures. Oops.

Cosmetic surgery is taxable at 6.35 percent. If the practice performed \$1,575,000 of cosmetic surgeries during the two year period, about \$100,000 in Connecticut sales tax plus about \$40,000 of penalties and interest would be owed. By enrolling in the amnesty program, the amount \$140,000 is reduced by about \$35,000.

The amnesty application and unfiled or corrected tax returns need to be submitted between Sept. 16 and Nov. 15 — with payment remitted to Connecticut no later than November 15, 2013.

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