

Sec. 12-717-2. Part-year residents: net operating loss deduction

(a) **Change of status from resident to nonresident.** Where the federal income tax return of an individual for a taxable year in which such taxpayer changes resident status from resident to nonresident includes a net operating loss deduction, the amount of such deduction used for federal income tax purposes for the period of residence shall be taken into account on the Connecticut income tax return for the period of residence. Any excess of the amount of the net operating loss deduction not used for the period of residence may be used for the period of nonresidence, but only to the extent that such excess is based solely on items of income, gain, loss and deduction derived from or connected with Connecticut sources.

(b) **Change of status from nonresident to resident.** In computing the Connecticut adjusted gross income derived from or connected with Connecticut sources of an individual for the period of nonresidence, any net operating loss deduction shall be based solely on items of income, gain, loss and deduction derived from or connected with Connecticut sources. For purposes of this subsection, the source of the net operating loss shall be determined by reference to the source of the items of income, gain, loss and deduction for the taxable year or years in which the net operating loss was sustained. A net operating loss deduction may be applied to the period of residence in the amount which would be allowed as a net operating loss deduction for federal income tax purposes, if a federal income tax return had been filed for the period of residence.

(c) **Carryback and carryforward of net operating loss.** A net operating loss sustained in the taxable year in which the change of resident status occurs may be a carryback or carryforward to another taxable year under the following conditions:

(1) If the taxable year to which the carryback or carryforward is to be applied is a taxable year in which an individual is a resident, such carryback or carryforward may be applied for the period of residence to the extent such carryback or carryforward is includible as a carryback or carryforward in the computation of federal adjusted gross income of an individual for the carryback or carryforward year.

(2) If the taxable year to which the carryback or carryforward is to be applied is a taxable year in which an individual is a nonresident, such carryback or carryforward may be applied for the period of nonresidence to the extent that such carryback or carryforward is based solely on items of income, gain, loss or deduction derived from or connected with Connecticut sources.

(3) Anything to the contrary in this section notwithstanding, no loss sustained in a taxable year that was not a Connecticut taxable year may be carried forward to a succeeding taxable year. In addition, no loss sustained in a Connecticut taxable year may be carried back to a preceding taxable year that was not a Connecticut taxable year.

(4) For purposes of this section, "Connecticut taxable year" means a taxable year beginning on or after January 1, 1991 (the effective date of the Connecticut Income Tax Act).

(d) The provisions of this section also apply to part-year resident trusts, and wherever reference is made in this section to a part-year resident individual, such reference shall be construed to include a part-year resident trust, and any reference to a part-year resident individual's Connecticut adjusted gross income, Connecticut adjusted gross income for the period of residence or Connecticut adjusted gross income derived from or connected with

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Connecticut sources for the period of nonresidence shall be construed to mean a resident trust's Connecticut taxable income, Connecticut taxable income for the period of residence or Connecticut taxable income derived from or connected with Connecticut sources for the period of nonresidence, respectively.

(e) While this section pertains to Section 12-717 of the general statutes, for purposes of supplementary interpretation, as the phrase is used in Section 12-2 of the general statutes, the adoption of this section is authorized by Section 12-711(b)(3) of the general statutes.

(Effective November 18, 1994)