



STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

AN 2009(7)

25 Sigourney Street
Hartford CT 06106-5032

ANNOUNCEMENT

**Connecticut Income Tax Treatment of
Theft Losses From Ponzi-Type Schemes**

Purpose: This Announcement explains the effect of Rev. Proc. 2009-20 and Rev. Rul. 2009-9 on the Connecticut income tax. Visit the IRS website at www.irs.gov for the details of Rev. Proc. 2009-20 and Rev. Rul. 2009-9.

Effective Date: Upon issuance.

Internal Revenue Service Pronouncements: On March 17, 2009, the Internal Revenue Service (IRS) issued Rev. Proc. 2009-20 providing an optional safe harbor method for qualified investors to deduct theft losses from investments in criminally fraudulent Ponzi-type schemes. On the same date, the IRS also issued Rev. Rul. 2009-9, which addresses the federal tax treatment of such losses.

Effect on 2008 Connecticut Income Tax Returns for Those Electing the Federal Safe Harbor of Rev. Proc. 2009-20: The starting point in computing your Connecticut income tax liability is your federal adjusted gross income. For taxable year 2008, federal adjusted gross income is reported on federal Form 1040, Line 37; Form 1040A, Line 21; or Form 1040EZ, Line 4. The theft loss deduction allowed under the safe harbor of Rev. Proc. 2009-20 is an itemized deduction, which would be a deduction from your federal adjusted gross income in computing your federal taxable income. Because your federal itemized deductions are not deductible for Connecticut income tax purposes, your theft losses from investments are not deductible for Connecticut income tax purposes. Thus, even though you elect the federal safe harbor of Rev. Proc. 2009-20 and claim a theft loss deduction from investments in criminally fraudulent Ponzi-type schemes on your 2008 federal income tax return, such an election will not affect your 2008 Connecticut income tax liability.

As such, you do not need to file an amended 2008 Connecticut income tax return.

- If the theft loss deduction amount allowed by Rev. Proc. 2009-20 creates a net operating loss (NOL), then you must file amended Connecticut income tax returns for the carryback years for which you use the NOL for federal income tax purposes and you must do so within 90 days after amending your federal income tax returns for the carryback years.
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Effect on Connecticut Income Tax Returns for Those Not Electing the Federal Safe Harbor of Rev. Proc. 2009-20, But Taking a Theft Loss Deduction Under Rev. Rul. 2009-9:

The theft loss deduction is also allowable as an itemized deduction under Rev. Rul. 2009-9. (Different requirements apply.) Again, however, because your federal itemized deductions are not deductible for Connecticut income tax purposes, your theft losses from investments are not deductible for Connecticut income tax purposes.

- If the theft loss deduction amount allowed by Rev. Rul. 2009-9 creates an NOL, then you must file amended Connecticut income tax returns for the carryback years for which you use the NOL for federal income tax purposes and you must do so within 90 days after amending your federal income tax returns for the carryback years.
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Effect on Connecticut Income Tax Returns for Those Not Electing to Take a Theft Loss Deduction on Their Federal Income Tax Return:

If you choose not to elect the safe harbor treatment of Rev. Proc. 2009-20 and choose not to rely on Rev. Rul. 2009-9, you may choose to file or amend your federal income tax returns for prior years for which the statute of limitations has not expired in

order to exclude amounts you reported as income from the fraudulent investment arrangement. Then you are allowed and required to amend your Connecticut income tax return within 90 days after amending your federal income tax return.

- If amending your federal income tax returns for prior years for which the statute of limitations has not expired creates an NOL, then you must file amended Connecticut income tax returns for the carryback years within 90 days after amending the federal income tax returns for the carryback years.

Effect on Other Documents: None affected.

Effect of This Document: Announcements alert taxpayers to new developments (other than newly enacted or amended Connecticut or federal laws or newly released judicial decisions), including new administrative positions, policies, or practices.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); **or**
- **860-297-5962** (from anywhere).

Select **Option 6** to speak to a representative.

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

AN 2009(7)
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Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Visit the DRS website at www.ct.gov/DRS to download and print Connecticut tax forms; **or**
- **Telephone:** Call **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only) and select **Option 2** or call **860-297-4753** (from anywhere).

Paperless Filing/Payment Methods (fast, easy, free, and confidential):

Business and individual taxpayers can use the **Taxpayer Service Center (TSC)** to file a variety of tax returns and extensions, as well as to pay taxes or bills over the Internet. Visit the DRS website at www.ct.gov/DRS and select an option from the list on the *TSC* image.

DRS E-Alerts Service: Get connected to the latest news from DRS. Receive notification by email of changes to legislation, policies, and procedures. **DRS E-Alerts** provide information for employer's withholding tax, *TSC-BUS* Online Filing Alerts, News – Press Releases, and Top 100 Delinquency List. Visit the DRS website at www.ct.gov/DRS and select e-Alerts from the left navigation bar.