Income/Franchise:
Connecticut: Letter Ruling Addresses Survival of Combined Group's NOLs Post-Restructuring

Ruling 2022-1, Conn. Dept. of Rev. Serv. (1/18/22). In a ruling involving four entities (Corporations A, B, C, and D) that filed Connecticut unitary corporation business tax returns for years prior to a series of federal tax-free mergers under Internal Revenue Code section 368 and which resulted in Corporations B and C becoming a single corporation with Corporation D, the Connecticut Department of Revenue Services (Department) held that certain net operating losses (NOLs) generated in the pre-merger years which were allocated to Corporations B, C, and D may survive the merger and be utilized by Corporation D or any other member that was included in the combined group in the year of the losses, pursuant to Conn. Gen. Stat. § 12-217(a)(4)(A). In doing so, the Department explained that where taxable members are allocated a portion of a combined unitary group's NOLs, and one or more of the taxable members merge with another taxable member of the combined unitary group, those NOLs may continue to be shared and utilized by the surviving taxable members as permitted by Conn. Gen. Stat. § 12-218e(d)(2) and (3). Under the facts, Corporations A and D would continue to file Connecticut combined unitary tax returns together post-restructuring; accordingly, "the business activities subject to combined unitary tax remain the same both before and after the mergers." The Department reasoned that by allowing Corporation D to utilize the NOLs allocated to Corporations B and C, or to share such NOLs with Corporation A, "the income against which the NOLs will be applied will be generated by substantially the same businesses which incurred the losses." Please contact us with any questions.
URL: https://portal.ct.gov/DRS/Publications/Rulings/2022/2022-1

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