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Connecticut Earned Income Tax Credit Recordkeeping Requirements for Self-employed Persons

If you claimed the Connecticut Earned Income Tax Credit (CT EITC) on **Form CT-1040**, *Connecticut Resident Income Tax Return*, or **Form CT-1040X**, *Amended Connecticut Income Tax Return for Individuals*, and you are self-employed, DRS may ask you to provide business records to prove the amount of income and expenses claimed on your Connecticut income tax return. DRS will use the information to confirm that you are entitled to the CT EITC.

It is important that you maintain good business records. If you do not keep records, or if your records do not support what you reported on your return, your CT EITC claim may be denied.

Are you Self-employed?

You are self-employed if you:

- Carry on a trade or business as a sole proprietor;
- Are an independent contractor;
- Are a member of a partnership;
- Are a member of a limited liability company; **or**
- Are in business for yourself in any other way.

Self-employment can include work in addition to your regular, full-time job. This could include part-time work you do in or outside your home.

How to Keep Good Records

As a general rule, you should maintain records of your business transactions – payments, purchases, etc.

Maintain a Daily Log

Keep daily records of all your business transactions.

- Provide detailed information about each transaction; **and**
- Update your records every time you make a purchase, pay an expense, make a sale, or receive a payment.

You may keep a log book or computer log. For examples of a daily log, see *Sample Logbook Entries* on Page 2.

Keep Receipts and Other Documents

Keep all documentation that supports each entry in your log, such as:

- Copies of checks or money orders that you received as payments, or used to pay expenses;
- Advertisements;
- Receipts and invoices for payments you made; **and**
- Credit card statements and receipts.

Use a Bank Account

Having a bank account can help establish your income, particularly if you receive payments by check. Keep copies of deposit slips, cashed checks, and bank statements.

Keep Records for at Least Three Years

DRS may request your business records for up to three years after you file your return.

Review Process

DRS will send you a notice if it needs copies of records to confirm the amounts reported on your return. Do not ignore the notices or letters. If you do not respond, your claim for the CT EITC will be denied.

Make sure the information you submit is accurate and supports what you claimed on your return. Inconsistent or incomplete information may result in the denial of your CT EITC claim.

Some examples of inconsistent information that may cause DRS to deny a CT EITC claim are:

- Taxpayer claimed that he or she was a book seller, but receipts for expenses were unrelated to book selling.

- Taxpayer stated that he or she received approximately \$200 per week in cash as a housekeeper but provided no supporting documentation.
- Taxpayer submitted a sworn statement that he or she provided child care services, but did not submit any other documentation.

An example of supporting information that would result in DRS approving a CT EITC claim is:

- A taxpayer submits a list of clients and a logbook of earnings with copies of receipts, canceled checks, and bank statements to support a claim of receiving income from providing child care services.

If Your Claim for a Credit is Denied: If, after reviewing the information you submitted, DRS denies your claim, you may file an appeal within 60 days of the notice of determination with the DRS Appellate Division by completing Form APL-002. For more information about Form APL-002, visit the DRS website.

Sample Logbook Entries

Income:

Date	Received From	Amount Received	Type of Payment	Explanation
1/1/15	Ms. Jones, 123 Main Street, 860-000-0000	\$75.00 (copy of check available)	Check	Cleaning
1/1/15	Jane Doe, 22 Avenue B, 860-000-0000	\$25.00	Cash	Babysitting (two hours 10pm-midnight at standard \$10.00 rate, plus \$5.00 tip)

Expenses:

Date	Purchased From	Amount Paid	Type of Payment	Explanation
1/1/15	Carlos Smith	\$5.00 (receipt attached)	Cash	Cleaning supplies (sponges and cleaners)
1/1/15	Taxi	\$6.25	Cash	Cab from 20 West St to home
1/3/15	Playateria	\$7.25 (receipt attached)	Cash	Coloring book/crayons

To Learn More:

- If your CT EITC is denied, refer to the instructions on the denial notice;
- Visit our website: www.ct.gov/drs/eitc; or
- Contact the Appellate Division at **860-297-4775**.

Effective Date: Upon issuance.

Statutory Authority: Conn. Gen. Stat. §12-740 and Conn. Agencies Regs. §12-740(c)-1.

Effect on Other Documents: Informational Publication 2013(19), *Connecticut Earned Income Tax Credit Recordkeeping Suggestions for Self-employed Persons*, is modified and superseded and may not be relied upon on or after the date of issuance of this Informational Publication.

Effect of This Document: An Informational Publication issued by the Department of Revenue Services (DRS) addresses frequently-asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

For Further Information: Call DRS during business hours, 8:30 a.m. to 4:30 p.m. Monday through Friday:

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

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

Forms and Publications: Visit the DRS website at www.ct.gov/DRS to download and print Connecticut tax forms and publications.

Paperless Filing/Payment Methods (fast, easy, free, and confidential): Business and individual taxpayers can use the **Taxpayer Service Center (TSC)** at www.ct.gov/TSC to file a variety of tax returns, update account information, and make payments online.

File Electronically: You can choose first-time filer information and filing assistance or log directly into the *TSC* to file returns and pay taxes.

Pay Electronically: You can pay taxes for tax returns that cannot be filed through the *TSC*. Log in

and select the *Make Payment Only* option. Designate a payment date up to the due date of the tax and mail a paper return to complete the filing process.

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, News – Press Releases, and Top 100 Delinquency List. Visit the DRS website at www.ct.gov/DRS and select *Sign up for e-alerts* under *How Do I?* on the gold navigation bar.

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