
OLR Bill Analysis

HB 5445

AN ACT CONCERNING THE AMORTIZABLE BOND PREMIUM SUBTRACTION FOR PURPOSES OF THE PERSONAL INCOME TAX.

SUMMARY

Under current law, Connecticut allows personal income taxpayers to deduct amortizable bond premium paid on out-of-state government bonds (which are exempt from federal income tax but subject to state income tax) if they incurred the premium in the course of a trade or business. This bill expands this deduction to allow all taxpayers to deduct amortizable bond premium on out-of-state government bonds, rather than just those who incurred them as a business expense.

EFFECTIVE DATE: January 1, 2027, and applicable to tax years starting on or after that date.

BACKGROUND

Federal Tax Treatment of Amortizable Bond Premium

Bond premium is the amount a bond purchaser pays in excess of the bond's face value. For federal income tax purposes, the ability to amortize bond premium depends on whether the bond is taxable or tax-exempt. For taxable bonds, taxpayers can either:

1. treat the premium as part of the bond's cost basis, reducing the taxpayer's capital gain (or increasing the loss) when the bond is eventually sold or matures, or
2. amortize the bond premium over the life of the bond, reducing the bond's cost basis and the amount of taxable interest income reported each year.

For tax-exempt bonds (such as state and municipal bonds), taxpayers must amortize any bond premium. Unlike with premium on a taxable

bond, there is no tax benefit for amortizing premium on tax-exempt bonds because the bond's interest is already tax-exempt.

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 54 Nay 0 (03/30/2026)