

OLR Backgrounder: Connecticut's Sales and Use Tax

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Issue

Provide an overview of Connecticut's sales and use tax, including a brief legislative history of sales and use tax rates since 1975.

Summary

Connecticut generally imposes a 6.35% sales and use tax on retail sales of goods and certain services. Eight other rates apply to specified sales, however, including a 7.75% rate on certain "luxury" items and a 15% rate on hotel room occupancy.

Since 1975, the general sales and use tax rate has ranged from a low of 6% to a high of 8%. The 6.35% rate has been in effect since 2011. A 6% rate applied for nearly 20 years before that. The legislature imposed the other rates at various points over the years, most recently in 2019 when it enacted a 7.35% rate on meals and beverages.

Sales and use taxes are calculated based on the selling price of the taxable goods or services. Generally, the consumer pays sales tax to the retailer when the sale occurs. If the retailer does not collect the tax on taxable purchases when they happen, the consumer must pay the equivalent use tax directly to the Department of Revenue Services (DRS). In FY 24, DRS collected approximately \$6.4 billion in sales and use tax revenue from nearly 200,000 taxpayers.

Certain goods and services are exempt from sales and use taxes, most notably sales to government organizations and sales of prescription drugs, motor vehicle fuel, and food.

Tax Rates

Current Rates

Connecticut generally imposes a 6.35% tax on retail sales of tangible personal property and the rendering of specified services. However, as Table 1 (right) shows, eight other tax rates apply to specified goods and services. This includes a 7.35% rate on sales of meals and certain drinks, 7.75% on certain “luxury” items, and 1% on computer and data processing services. It also includes two room occupancy tax rates, one for hotels and lodging houses (15%) and one for bed and breakfast establishments (11%). We briefly explain these rates and their history below.

Table 1: Connecticut's Sales and Use Tax Rates

Rate	Applicable Goods or Services
6.35%	Tangible personal property, with certain exceptions, and specified services
7.35%	Meals and beverages
7.75%	Motor vehicles with sales price greater than \$50,000, with certain exceptions Jewelry (real or imitation) with sales price greater than \$5,000 Clothing and footwear with sales price greater than \$1,000
1%	Computer and data processing services
2.99%	Boats, boat motors, and trailers for transporting boats
4.5%	Motor vehicles sold to nonresident U.S. armed forces members stationed in Connecticut
9.35%	Short-term car rentals
15%	Short-term stays in hotels and lodging houses
11%	Short-term stays in bed and breakfast establishments

Source: [CGS §§ 12-408 & 12-411](#)

Table 2: General Sales and Use Tax Rates from 1975-2025

Time Period	Rate
May 1974 – March 1975	6%
April 1975 – June 1980	7%
July 1980 – June 1989	7.5%
July 1989 – September 1991	8%
October 1991 – June 2011	6%
July 2011 – present	6.35%

General Sales and Use Tax

The current 6.35% general sales and use tax rate has been in effect since 2011. A 6% rate applied for nearly 20 years before that. Table 2 (left) provides a brief overview of the rate changes from 1975 to the present. As it shows, in the past 50 years, the general sales and use tax rate has ranged from a low of 6% to a high of 8%.

Meals and Beverages Tax Rate

In 2019, the legislature increased the sales and use tax rate on sales of meals and beverages from 6.35% to 7.35% ([PA 19-117](#), §§ 323 & 324). The increased rate applies to (1) meals sold by eating establishments, caterers, or grocery stores and (2) liquors, soft drinks, sodas, and beverages ordinarily dispensed at, or in connection with, bars and soda fountains. (Under DRS policy, special rules apply to meals sold by grocery stores (DRS Policy Statement, [Sales and Use Taxes on Meals](#), PS 2002(2)).)

Luxury Goods Tax Rate

The legislature first imposed a higher sales and use tax rate on specific “luxury goods” in 2011 ([PA 11-6, §§ 93 & 94](#)). The tax, originally 7%, applied to the full sales price of motor vehicles, boats, jewelry, clothing, and footwear costing more than (1) \$50,000 for motor vehicles (with certain exceptions); (2) \$100,000 for boats; (3) \$5,000 for jewelry; and (4) \$1,000 for clothing, footwear, handbags, luggage, umbrellas, wallets, and watches.

In 2013, the legislature reduced the tax rate on boats costing more than \$100,000 to 6.35% ([PA 13-184](#), §§ 77 & 78). (It subsequently reduced the rate on all boats, boat motors, and trailers used for transporting boats from 6.35% to 2.99% in 2018 ([PA 18-81](#), §§ 62 & 63).)

In 2015, the legislature increased the luxury tax rate to the current 7.75% ([PA 15-244](#), §§ 72 & 73).

Computer and Data Processing Services Rate

Connecticut has, since 2001, imposed a 1% tax rate on computer and data processing services (e.g., computer programming, code writing, creating or producing custom software) following a phase-out period that gradually reduced the tax from the general sales tax rate. Although the legislature had previously scheduled to phase out the tax on these services over five years, from July 1, 1997, to July 1, 2001 ([PA 94-4, May Special Session](#), § 17), it delayed the phase-out twice and ultimately froze the tax rate at 1% in 2003 ([PA 95-160](#), § 39; [PA 02-1, May Special Session](#), §§ 69 & 70; [PA 03-1, June Special Session](#), §§ 95 & 96).

In 2019, the legislature narrowed the types of computer and data processing services that qualify for the reduced rate by subjecting digital goods and certain electronically delivered software to the 6.35% rate ([PA 19-117](#), §§ 319-322; DRS Special Notice, [Sales and Use Taxes on Digital Goods and Canned or Prewritten Software](#), SN 2019(8)).

Motor Vehicles Sold to Nonresident U.S. Armed Forces Members Stationed in Connecticut

The legislature first imposed a reduced sales tax rate on motor vehicles sold to nonresident U.S. armed forces members stationed in Connecticut in 1984 (PA 84-545). At that time, it set the rate at 4% instead of the 7.5% general rate. PA 89-251 increased the rate to 4.5%.

Short-Term Car Rental Rate

Until 2011, the tax rate on short-term car rentals (30 days or less) was the same as the general sales tax rate. [PA 11-6](#), §§ 93 & 97, increased the rate to 9.35%.

Room Occupancy Tax Rates

Connecticut's room occupancy tax is a state sales tax on the charges hotels, lodging houses, and bed and breakfast (B&B) establishments impose for short-term room occupancy (30 days or less). Until 1991, the room occupancy tax rate equaled the general sales tax rate. In 1991, however, the legislature set the overall sales tax rate at 6% and the room occupancy tax rate at 12% ([PA 91-3, June Special Session](#), § 111). It subsequently increased the rate to 15% in 2011 ([PA 11-6](#), §§ 93 & 97).

In 2017, the legislature imposed two different tax rates on room occupancy: 15% for hotels and lodging houses and 11% for B&Bs. Under prior law and DRS practice, the state imposed a 15% room occupancy tax on all these establishments, but a portion of the charges paid by B&B guests was deemed the purchase of meals and subject to the 6.35% sales tax with the balance subject to the 15% room occupancy tax. [PA 17-147](#), §§ 12-14, applied a uniform 11% rate to rent received from B&Bs, including meal charges, thus establishing the dual room occupancy tax rate structure.

Tax Base and Structure

Sales vs. Use Tax

Connecticut imposes sales and use taxes on retailers' gross receipts from retail sales of goods (i.e. tangible personal property) and certain services. With some exceptions, the taxes apply to retail sales of tangible personal property purchased in Connecticut or outside Connecticut for use here. The taxes apply to any item of tangible personal property, unless the law expressly exempts it.

The state similarly imposes sales and use taxes, with some exceptions, on services provided by companies doing business in the state, regardless of whether they are located here. Unlike the statutes imposing the tax on tangible personal property, those imposing the tax on services specify the types of services subject to the tax and, within each type, the ones exempted from it. DRS provides a list of certain services subject to tax on its [website](#).

The use tax applies to the taxable goods and services consumers purchased for use in Connecticut but for which they did not pay Connecticut sales tax to a retailer. If a retailer does not collect sales tax on these purchases when they occur, the consumer must pay the equivalent use tax directly to DRS. If the consumer purchased the goods or services in another state for use in Connecticut and the sales tax paid to the other state is less than Connecticut's use tax, he or she must report and pay the difference between the Connecticut tax and the tax paid to the other state. If the sales tax paid correctly to the other state is equal to or more than the Connecticut tax, the consumer owes no use tax to Connecticut. Consumers do not receive a credit for tax paid to another state when that state's tax rate exceeds Connecticut's tax rate or if the tax was incorrectly paid to another state (DRS, [Q&A on the Connecticut Individual Use Tax](#), IP 2016(19)).

Individual taxpayers generally pay use tax along with their personal income tax payments or, for a vehicle purchased in another state, when they register the car here. (They may also report their use tax liability on [Form OP-186](#)). Business taxpayers, on the other hand, must report their use tax liability on [Form OS-114BUT](#).

Major Exemptions

Table 3 below lists the tax exemptions for goods and services with an estimated FY 25 revenue loss of greater than \$100 million. The revenue loss estimates are from the Office of Fiscal Analysis' (OFA) [2024 Tax Expenditure Report](#). (The list includes computer and data processing services, which are not exempt, but are subject to a reduced tax rate.)

Local Sales and Use Taxes

Connecticut law does not allow municipalities to impose a broad-based local sales and use tax. However, it imposes a 3% municipal sales tax on the gross receipts from cannabis sales, with certain exceptions, that is administered according to the state sales and use tax law.

The municipal cannabis sales tax is in addition to a state cannabis tax and 6.35% state sales tax on these products. The revenue from this tax becomes a part of the municipality's general revenue and must be used for specified purposes ([CGS § 12-330mm](#)).

As the table shows, the exemption for sales of goods and services to government organizations has the greatest estimated revenue loss at \$1.32 billion. The next highest loss is the exemption for prescription drugs at \$614.9 million, closely followed by motor vehicle fuel (i.e. gasoline, gasohol, and diesel) at \$612.8 million. (Motor vehicle fuel is generally subject to the state's motor fuels tax and petroleum products gross earning tax.)

Table 3: Major Sales Tax Exemptions, FY 25

Exemption	Description	Estimated Revenue Loss (millions)
Sales to government organizations	Sales of goods and services to the federal government, state government, or political subdivisions and specified state development projects (CGS § 12-412(1))	\$1,320.0
Prescription drugs	Prescription drugs and medicines, syringes, and needles, including packaging and materials that become an ingredient or component part of prescription medicine (CGS § 12-412(4))	614.9
Motor vehicle fuel	Motor vehicle fuel sold for (1) use in motor vehicles (whether or not motor fuels taxes were paid) or (2) any other use as long as motor fuels tax was paid (CGS § 12-412(15))	612.8
Food products	Food products for human consumption, excluding meals sold by an eating establishment or caterer and products like candy, gum, and soda (CGS § 12-412(13))	599.5
Computer and data processing services (difference between 6.35% and 1% rates)	Certain computer and data processing services, including programming, code writing, software installation, and custom software development (CGS §§ 12-407(a)(37)(A), 12-408(1)(D) & 12-411(1)(E))	492.4
Patient care services	Therapeutic and diagnostic medical services a hospital provides to patients, including tangible personal property transferred in connection with the services (CGS §§ 12-407(a)(29), CGS §§ 12-408(1)(F) & 12-411(1)(F))	471.9

Table 3 (continued)

Exemption	Description	Estimated Revenue Loss (millions)
Certain utilities sales	<p>Gas (including bottled propane gas) and electricity for residential use or in a building where at least 75% of the gas or electricity is for direct use in (1) agricultural production, (2) making a finished product for sale, or (3) a manufacturing plant; Water, steam, and telegraph delivered through mains, lines, pipes, or bottles; Electricity (up to \$150 per month); Gas, water, steam, or electricity used in furnishing the same commodities to customers (CGS § 12-412(3))</p> <p>Heating fuel for use in a (1) residential building or (2) building where at least 75% of the fuel is for direct use in agricultural production, making a finished product for sale, or a manufacturing plant (CGS § 12-412(16))</p>	235.9
Sales to nonprofit organizations (various exemptions)	<p>Sales of goods and services to federally tax-exempt 501(c)(3) and 501(c)(13) organizations (CGS § 12-412(8))</p> <p>Personal property and services used or consumed in the development, construction, rehabilitation, renovation, repair, or operation of qualifying low- and moderate-income housing facilities (CGS § 12-412(29))</p> <p>Sales of goods and services to and by nonprofit charitable hospitals and state-licensed nursing homes, rest homes, and state-licensed residential care homes (CGS § 12-412(5)(A))</p> <p>Sales of goods by a federally tax-exempt 501(c)(3) organization on hospital premises (CGS § 12-412(5)(B))</p> <p>Sales of services used or consumed in the development, construction, rehabilitation, renovation, or repair of housing facilities for qualifying low- and moderate-income housing facilities located in qualified census tracts or federally designated difficult development areas (CGS § 12-412(100))</p>	159.0
Machinery used in manufacturing	Machinery, including component parts and production materials, used directly in a manufacturing production process (CGS § 12-412(34))	141.4

Table 3 (continued)

Exemption	Description	Estimated Revenue Loss (millions)
Motor vehicles and boats purchased by nonresidents to use out-of-state	Motor vehicles and boats purchased by out-of-state residents for registration outside the state (CGS § 12-412(60))	127.9
Aircraft repair and materials, tools, fuel, machinery, and equipment used in an aircraft manufacturing facility	Aircraft repair or replacement parts (CGS § 12-412(76)) and aircraft repair services (CGS § 12-412(77)) Materials, tools, fuel, machinery, and equipment bought by an aircraft manufacturer that operates an aircraft manufacturing facility in the state (CGS § 12-412(78))	111.6

Source: OFA, [2024 Connecticut Tax Expenditure Report](#)

Tax Credits

Since 2022, the law has allowed taxpayers to claim film and digital media production tax credits against the sales and use tax under certain conditions ([CGS § 12-217jj\(b\)\(2\) & \(e\)\(5\)](#)). Specifically, eligible production companies or other taxpayers claiming the credit (i.e. transferees) may only claim a portion of the credit's value (92% for the 2024 and 2025 income years and 78% for other years) when using it against the sales and use tax, and transferees may claim the credit against the tax only if there is at least 50% common ownership between the transferee and the eligible production company that transferred the credit. For FY 24, there were 12 tax credit claims against the tax for a total of \$7.1 million (DRS [FY 24 Annual Report](#), p. 84).

Tax Collections

In FY 24, DRS reported 198,644 sales and use taxpayers and 724 room occupancy taxpayers (DRS [FY 24 Annual Report](#), p. 82).

Table 4 below shows total sales and use tax collections for FYs 20-24, broken down by sales and use tax, individual use tax, and room occupancy tax. As it shows, total collections increased by 4.7% from FY 23 to FY 24 and by 35.6% over the five-year period.

Table 5 below shows FY 24 tax collections broken down by industry. The revenue reported is from regular payments only and represents approximately 95% of the total sales and use

taxes collected for that year. As it shows, nearly half of the sales and use taxes collected (approximately \$2.8 billion) were generated by the retail trade sector. The next highest sector was accommodation and food services (\$612.4 million; approximately 10% of collections). Table 6 below shows sales and use tax collections for the retail trade sector in FY 24, broken down by subsector. The motor vehicle and parts dealers subsector had the greatest collections (\$601.6 million), representing nearly 22% of collections for the entire retail sector.

**Table 4: Sales and Use Tax Revenue,
FY 20 to FY 24 (in millions)**

FY	Total	Sales and Use	Individual Use	Room Occupancy
20	\$4,740.5	\$4,620.9	\$19.6	\$99.9
21	5,355.1	5,265.8	8.6	80.6
22	5,964.1	5,819.7	7.5	136.8
23	6,139.3	5,975.5	6.8	157.0
24	6,427.0	6,250.2	15.1	161.7

Sources: DRS, [FY 24 Annual Report](#) and [FY 22 Annual Report](#)

Table 5: Sales Tax Due by Industry, FY 24 (in millions)

Sector	Tax Due	Sector	Tax Due
Utilities	\$167.9	Real Estate and Rental and Leasing	\$186.2
Construction	218.1	Professional, Scientific, and Technical Services	296.5
Manufacturing	312.3	Administrative and Support	279.3
Wholesale Trade	318.1	Arts, Entertainment, and Recreation	53.6
Retail Trade	2,780.4	Accommodation and Food Services	612.4
Information	345.1	Other Services (except Public Admin)	266.2
Finance and Insurance	96.6	All Other Businesses	152.8
		TOTAL	\$6,086.2

Source: DRS, [FY 24 Annual Report](#), p. 85

Table 6: Sales Tax by Retail Subsector, FY 24 (in millions)

Retail Trade Subsector	Tax Due	% of Total Retail Sector Collections
Motor vehicle and parts dealers	\$601.6	21.6%
Furniture and home furnishings	118.7	4.3%
Electronics and appliance stores	87.7	3.2%
Building material and garden equipment	255.1	9.2%
Food and beverage stores	268.5	9.7%
Health and personal care stores	53.7	1.9%
Gasoline stations	38.7	1.4%
Clothing and clothing accessories stores	236.2	8.5%
Sporting goods, hobby, and book stores	56.8	2.0%
General merchandise stores	268.2	9.6%
Miscellaneous store retailers	281.2	10.1%
Non-store retailers	514.0	18.5%
TOTAL	2,780.4	100.0%

Source: DRS, [FY 24 Annual Report](#), p. 85

Additional Resources

- DRS, [Sales and Use Tax Returns and Instructions](#)
- DRS, [Topical Index Guide to Rulings and Administrative Pronouncements Covering Sales and Use Taxes](#)
- Federation of Tax Administrators, [2025 State Sales Tax Holidays](#)
- Tax Foundation, [State and Local Sales Tax Rates, Midyear 2025](#)

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