



Instructions for Form CT-32

Banking Corporation Franchise Tax Return

Tax Law — Article 32

CT-32-I

Who Must File

Article 32 of the Tax Law imposes a franchise tax on banking corporations for the privilege of exercising their corporation franchise or doing business in New York State in a corporate or organized capacity for all or any part of their tax year. It also imposes the tax on bank holding companies when included in a combined return. Except for corporations described in section 1453(l), corporations liable for tax under Article 33 are not subject to tax under Article 32.

All banking corporations other than New York S corporations must file franchise tax returns on Form CT-32. A banking corporation that has elected to be treated as a New York S corporation (by filing Form CT-6) must file Form CT-32-S, *New York Bank S Corporation Franchise Tax Return*, instead of Form CT-32.

Banking corporations include the following:

A. New York State banking corporations —

Any corporation organized under the laws of New York State that is authorized to do or is doing a banking business is a banking corporation. Such corporations include, but are not limited to, commercial banks, trust companies, limited purpose trust companies, subsidiary trust companies, savings banks, savings and loan associations, agreement corporations, and the New York Business Development Corporation. Also included as a banking corporation is the New York State Mortgage Facilities Corporation.

B. Banking corporations organized under the laws of another state or country —

Any corporation organized under the laws of another state or country that is doing a banking business is a banking corporation. Such corporations include, but are not limited to, commercial banks, trust companies, savings banks, savings and loan associations, and agreement corporations.

C. Banking corporations organized under the laws of the United States —

Any national banking association, federal savings bank, federal savings and loan association, and any other corporation organized under the authority of the United States (including an Edge Act corporation) that is doing a banking business is a banking corporation. Also, every production credit association organized under the Federal Farm Credit Act of 1933 that is doing a banking business and all of whose stock held by the Federal Production Credit Corporation has been retired is a banking corporation.

D. Corporations owned by a bank or a bank holding company —

- Any corporation principally engaged in a business that:
- might lawfully be conducted by a corporation subject to Article 3 of the New York Banking Law or by a national banking association, or
 - is so closely related to banking or managing or controlling banks as to be a proper incident thereto as defined in section 4(c)(8) of the Federal Bank Holding Company Act of 1956, as amended,

is a banking corporation, if its voting stock is 65% or more owned or controlled directly or

indirectly by a banking corporation described above or by a bank holding company. However, a 65% or more owned corporation that is principally engaged in a business described in Sections 183, 184, or 186 of the Tax Law (such as a telegraph, telephone, trucking, railroad, gas, or electric business) is not subject to Article 32 of the Tax Law if any of its business receipts from that business are from outside the corporation that controls it.

A 65% or more owned corporation subject to tax under Article 9-A for its tax year ending in 1984 was allowed to make a one time election to continue to be taxable under Article 9-A. This election remains in effect until revoked by the taxpayer. In no event can the revocation of the election be for part of the tax year. The revocation is made by the filing of a tax return pursuant to Article 32 of the Tax Law.

Qualified Subchapter S Subsidiary (QSSS)

The filing requirements for a QSSS that is owned by a New York C corporation or a non-taxpayer corporation are outlined below. Where New York follows federal QSSS treatment, the parent and QSSS will file a single franchise tax return. The QSSS will be ignored as a separate taxable entity, and the assets, liabilities, income, and deductions of the QSSS will be included on the parent's franchise tax return. However, for other taxes, such as sales and excise taxes, and the license and maintenance fees imposed under Article 9, the QSSS will continue to be recognized as a separate corporation.

- Parent is a New York C Corporation —** New York will follow the federal QSSS treatment if (1) the QSSS is a New York taxpayer, or (2) the QSSS is not a New York taxpayer, but the parent makes a QSSS inclusion election. In both cases, the parent and QSSS will be taxed as a single New York C corporation and file Form CT-32. If the parent does not make a QSSS inclusion election, it will file Form CT-32 as a New York C corporation on a stand-alone basis.
- Nontaxpayer Parent —** New York will follow the federal QSSS treatment where the QSSS is a New York taxpayer but the parent is not, if the parent elects to be taxed as a New York S corporation by filing Form CT-6. The parent and QSSS will be taxed as a single New York S corporation and file Form CT-32-S on a joint basis. If the parent does not elect to be a New York S corporation, the QSSS must file as a New York C corporation on a stand-alone basis on Form CT-32.
- Exception: Excluded Corporation —** Notwithstanding the above rules, QSSS treatment will not be allowed unless both parent and QSSS are banking corporations. That is, the corporations will have to file on a stand-alone basis if one is an Article 32 taxpayer but the other is an Article 9, 9-A, or 33 taxpayer, or is a corporation which would be subject to such taxes if taxable in New York.

Where New York follows federal QSSS treatment, the QSSS will not be considered a subsidiary of the parent corporation.

To notify the department that a QSSS is included in your return, check the box on page 8 of Form CT-32 and attach Form CT-60-QSSS.

License and Maintenance Fees

Foreign bank holding companies and 65% or more owned foreign banking corporations (as defined under *Who Must File*, Item D) that are subject to tax under Article 32 must pay a license fee (Form CT-240) and maintenance fee imposed by section 181 of the Tax Law.

Independently Procured Insurance Tax

If you purchase or renew a taxable insurance contract from an insurer not authorized to transact business in New York State under a Certificate of Authority from the Superintendent of Insurance, you will be liable for a tax of 3.6% of the premium. See Form CT-33-D or TSB-M-90(9)C for more information.

Definition of Doing Business Within New York State

The phrase **doing business** includes all activities that occupy the time and labor of people for profit. In determining whether or not a corporation is doing business in New York State, consideration is given to such factors as: the nature, continuity, frequency, and regularity of the activities of a corporation in New York State; the location of the corporation's offices and other places of business; the employment in New York State of agents, officers, and employees of the corporation; and other relevant factors. Activities that constitute doing business in New York State include: operating a branch, loan production office, representative office, or a bona fide office in New York State. Activities that do not constitute doing business in New York State include: occasionally acquiring a security interest in real or personal property located in New York State or occasionally acquiring title to property located in New York State through foreclosure of a security interest.

Definition of Banking Business

The phrase **banking business** means the business a corporation may be created to do under Article 3 (Banks and Trust Companies), Article 3-B (Subsidiary Trust Companies), Article 5 (Foreign Banking Corporations and National Banks), Article 5-A (New York Business Development Corporation), Article 5-C (Interstate Branching), Article 6 (Savings Banks), or Article 10 (Savings and Loan Associations) of the New York State Banking Law, or the business a corporation is authorized to do by such articles. With respect to a national banking association, federal savings bank, federal savings and loan association or production credit association, the phrase **banking business** means the business a national banking association, federal savings bank, federal savings and loan association, or production credit association may be created to do or is authorized to do under the laws of the United States or the laws of New York State. The phrase **banking business** also means such business as any corporation organized under the authority of the United States has authority to do that is substantially similar to the business that a corporation may be created to do under Article 3, 3-B, 5, 5-A, 5-C, 6, or 10 of the New York State Banking Law, or any business that a corporation is authorized to do by such articles.

Definition of a Bank Holding Company

The following are bank holding companies:

- a corporation or association subject to Article 3-a of the New York State Banking Law;
- a corporation or association registered under the Federal Bank Holding Company Act of 1956, as amended;
- a corporation or association registered as a savings and loan holding company (excluding a diversified savings and loan holding company) under the Federal National Housing Act as amended; and
- a publicly traded partnership treated as a corporation under section 7704 of the Internal Revenue Code (IRC).

Change of Business Information

If there have been any changes in your business name, identification number, mailing address, business address, telephone number, or owner/officer information, and you have not previously notified us, complete Form DTF-95, *Change of Business Information*. For information about ordering forms, refer to the *Need Help?* section on the outside back cover.

Change of Address

If your address has changed, enter your new address on the label and check the box next to the name and address block at the top of your corporation tax return. Do not check this box for any change of business information other than address. You must still attach the preprinted label with the old address to enable us to update your account.

When and Where to File

File Form CT-32 within 2½ months after the end of the tax year. If you are reporting for the calendar year, file your return on or before March 15. If March 15 falls on a Saturday, Sunday, or legal holiday, the return is due on the next business day. If you cannot meet the filing deadline, ask for an extension of time by filing Form CT-5.

Mail returns to: **NYS Corporation Tax, Processing Unit, PO Box 1909, Albany NY 12201-1909**. If you use a delivery service other than the U.S. Postal Service, see *Private Delivery Service* on the back of the packet cover.

International Banking Facility (IBF) Election

See Schedule G instructions for information on the IBF modification and the IBF formula allocation method.

Allocation

A corporation that is doing business both within and outside New York State is entitled to allocate its entire net income, alternative entire net income, and taxable assets within and outside New York State. A corporation not doing business outside of New York State must allocate its entire net income, alternative entire net income, and taxable assets 100% to New York State. However, a corporation that has an IBF located in New York State may elect to reflect the results of its IBF operations in its entire net income allocation percentage and in its alternative entire net income allocation percentage.

Combined Return

If a combined return is permitted or required, corporations included in the combined return must file Form CT-32-A.

Copy of Federal Return

Attach a copy of federal Form 1120 or 1120F complete with attachments and any other returns or information requested in this return.

If changes are made to your federal return, you must file an amended New York State return (see *Federal Changes and Amended Returns* on page 10).

Metropolitan Transportation Business Tax (MTA Surcharge)

Any corporation taxable under Article 32 that does business in the Metropolitan Commuter Transportation District (MCTD) must file Form CT-32-M and pay a metropolitan transportation business tax surcharge on business done in the Metropolitan Transportation Authority region (MTA Surcharge). The MCTD includes the counties of New York, Bronx, Kings, Queens, Richmond, Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester.

Answer the MTA surcharge question on page 1. Corporations not doing business in the MCTD must disclaim liability for the MTA surcharge by answering *No*, and are not required to file Form CT-32-M.

Reporting Period

If you are a calendar year filer, check the box in the upper right corner on the front of the form.

If you are a fiscal year filer, complete the beginning and ending tax period boxes in the upper right corner on the front of the form.

Definition of Headquarters

Headquarters are defined as the location where the majority of executive officers reside for purposes of work.

Location of Headquarters

If your headquarters are located in the United States, enter the five digit ZIP code of the location of your headquarters in the appropriate box. If your headquarters are located outside the United States, enter the name of the country where your headquarters are located.

County Code

If your headquarters are located in New York State, enter the appropriate county code of the headquarters location from Table 1 below. If your headquarters are in another state, enter code **65**. If your headquarters are outside the United States, enter code **67**.

Table 1

New York State County Codes					
County	Code No.	County	Code No.	County	Code No.
Albany	01	Jefferson	22	Schoharie	43
Allegany	02	Lewis	23	Schuyler	44
Broome	03	Livingston	24	Seneca	45
Cattaraugus	04	Madison	25	Steuben	46
Cayuga	05	Monroe	26	Suffolk	47
Chautauqua	06	Montgomery	27	Sullivan	48
Chemung	07	Nassau	28	Tioga	49
Chenango	08	Niagara	29	Tompkins	50
Clinton	09	Oneida	30	Ulster	51
Columbia	10	Onondaga	31	Warren	52
Cortland	11	Ontario	32	Washington	53
Delaware	12	Orange	33	Wayne	54
Dutchess	13	Orleans	34	Westchester	55
Erie	14	Oswego	35	Wyoming	56
Essex	15	Otsego	36	Yates	57
Franklin	16	Putnam	37	Manhattan	60
Fulton	17	Rensselaer	38	Bronx	60
Genesee	18	Rockland	39	Richmond	60
Greene	19	St. Lawrence	40	Kings	60
Hamilton	20	Saratoga	41	Queens	60
Herkimer	21	Schenectady	42	N.Y.C.	60

Whole Dollar Amounts - You may elect to show amounts in whole dollars rather than dollars and cents. Round an amount from 50 cents through 99 cents to the next higher dollar. Round any amount less than 50 cents to the next lower dollar.

Percentages - When computing allocation percentages, convert decimals into percentages by moving the decimal point two spaces to the right. Percentages should be carried out to four decimal places. For example: 5,000/7,500 = .6666666 = 66.6667%.

Negative amounts, if any, should be shown in parentheses.

Line A — Make your payment in United States funds. A foreign check or foreign money order will only be accepted if payable through a United States bank or if marked **Payable in U.S. Funds**.

Schedule A

Line 1 — Enter allocated taxable entire net income computed on Schedule B, line 61, and multiply by the tax rate of 9%.

Line 2 — Enter allocated taxable alternative entire net income computed on Schedule C, line 69, and multiply by the tax rate of 3%.

Line 3 — Enter allocated taxable assets computed on Schedule D, line 73, and multiply by the appropriate tax rate from the bottom of Schedule D.

Line 5 — Enter the amount from line 1, 2, 3, or 4, whichever is largest.

Line 6 — Enter the amount claimed for the following tax credits:

- A Eligible Business Facility Tax Credit (section 1456(b)). Attach Form CT-45.
- B Economic Development Zone Capital Corporation Tax Credit (section 1456(d)). See Form DTF-602 for detailed instructions.
- C Tax Credit for Servicing Mortgages (section 1456(a)). If you claim this credit, you must submit a copy of the letter from the New York State Mortgage Agency approving the credit. This credit can reduce the tax to zero. Enter amount in the space provided on Form CT-32.
- D Economic Development Zone Wage Tax Credit (section 1456(e)). See Form DTF-601 for detailed instructions. Zone Equivalent Area Wage Tax Credit (section 1456(e)). See Form DTF-601.1 for detailed instructions.
- E Special Additional Mortgage Recording Tax Credit (section 1456(c)). See Form CT-43 for detailed instructions.

These credits, except for the credit for servicing mortgages, may not reduce your tax below the minimum tax of \$250. The tax credits must be claimed in the same order as they are described.

Line 8b — If the franchise tax on line 7 exceeds \$1,000 and Form CT-5 was not filed, a mandatory first installment is required for the period following that covered by this return. Enter 25% of the tax shown on line 7.

Line 12 — Penalty for Underpayment of Estimated Tax — Every corporation whose New York State franchise tax liability can reasonably be expected to exceed \$1,000

must file Form CT-400, *Installment of Estimated Corporation Tax*. A penalty will be imposed if a taxpayer fails to file Form CT-400 or fails to pay all or any part of an installment payment of estimated tax. See Form CT-222, *Underpayment of Estimated Tax by a Corporation*.

Line 13 — Interest on Late Payment — If you do not pay the franchise tax due on or before the original due date (determined without regard to any extension of time to file), you must pay interest on the amount of the underpayment from the original due date to the date paid. Exclude from the interest computation any amount shown on line 8a or 8b, first installment of estimated tax for next period. Interest will be compounded daily.

Line 14 — Late Filing and Late Payment — Additional charges for late filing and late payment are computed on the amount of tax less any payment made on or before the due date (determined with regard to any extension of time to file). Exclude from the penalty computation any amount shown on line 8a or 8b, first installment of estimated tax for next period.

- A If you do not file a return when due or if the request for extension is invalid, add to the tax 5% per month up to 25% (section 1085(a)(1)(A)).
- B If you do not file a return within 60 days of the due date, the addition to tax in item A above cannot be less than the smaller of \$100 or 100% of the amount required to be shown as tax (section 1085(a)(1)(B)).
- C If you do not pay the tax shown on a return, add to the tax ½% per month up to 25% (section 1085(a)(2)).
- D The total of the additional charges in items A and C may not exceed 5% for any one month except as provided for in item B (section 1085 (a)). If you think you are not liable for these additional charges, attach a statement to your return explaining the delay in filing, payment, or both (section 1085).

Note: You may have interest (line 13) and/or penalty (line 14) computed for you by calling the Business Tax Information Center at the number listed in the *Need Help?* section on the back page of this packet.

Line 20 — Collection of debts from your refund — We will keep all or part of your refund if you owe a past-due legally enforceable debt to the Internal Revenue Service or a New York State agency. This includes any state department, board, bureau, division, commission, committee, public authority, public benefit corporation, council, office, or other entity performing a governmental or proprietary function for the state or a social services district. Any amount over your debt will be refunded.

If you have any questions about whether you owe a past-due legally enforceable debt to the Internal Revenue Service or a state agency, contact the IRS or that particular state agency.

For New York State tax liabilities **only** call 1 800 835-3554 (outside the U.S. and Canada call (518) 485-6800) or write to NYS TAX DEPARTMENT, TAX COMPLIANCE DIVISION, W A HARRIMAN CAMPUS, ALBANY NY 12227.

Line 21 — Every corporation subject to tax under Article 32 of the Tax Law, including each corporation included in a combined return, must compute its issuer's allocation percentage on a separate basis (see instructions on page 10).

Compute the issuer's allocation percentage on Form CT-32, page 8, lines 175 through 177. Failure to provide the information necessary to compute the issuer's allocation percentage may result in a \$500 penalty (Tax Law, section 1085(o)).

Schedule B

Line 22 — Enter federal taxable income before net operating loss and special deductions.

If you are filing federal returns on a consolidated basis, enter federal taxable income before net operating loss and special deductions that would be reported as if a separate federal return had been filed.

When computing federal taxable income as if a separate federal return had been filed, a selling corporation(s) in an IRC section 338(h)(10) election excludes any gain or loss on the sale of stock of a target corporation if:

- the selling corporation and target corporation file a combined return for New York State on Form CT-32-A for a tax period up to and including the acquisition date of the target corporation; and
- the acquisition date of the target corporation occurred on or after November 20, 1991.

Attach a copy of the consolidated federal return with spread sheets or work papers supporting the federal consolidated return.

Line 23 — Corporations organized under the laws of a country other than the U.S. enter dividends (including the IRC section 78 gross-up on dividends to the extent not already included in federal taxable income) and interest on any kind of stock, securities, or indebtedness that are effectively connected with the conduct of a trade or business in the U.S. pursuant to section 864 of the IRC and are excluded from federal taxable income.

Line 24 — Corporations organized under the laws of a country other than the U.S. enter any income effectively connected with the conduct of a trade or business in the U.S. pursuant to section 864 of the IRC that is exempt from federal taxable income under any treaty obligation of the U.S., and any income that would be treated as effectively connected with the conduct of a trade or business in the U.S. pursuant to section 864 of the IRC were it not excluded from gross income pursuant to section 103(a) of the IRC.

Line 25 — Corporations organized under the laws of the U.S. or any of its states enter dividends (including the IRC section 78 gross-up on dividends to the extent not already included in federal taxable income) and interest on any kind of stock, securities, or indebtedness that were excluded from federal taxable income. Include all interest on state and municipal bonds and obligations of the U.S. and its instrumentalities.

Line 26 — Enter any taxes on or measured by income or profit paid or accrued to the United States, any of its possessions, or any foreign country, that were deducted in computing federal taxable income on line 22.

Line 27 — Enter all New York State franchise taxes imposed under sections 183, 184, and 186 of Article 9, and Articles 9-A and 32 that were deducted in computing federal taxable income.

Line 28 — Before making any entry on this line, complete Form CT-399, line 4, the amount of your federal deduction that must be added back to federal taxable income, or, if you disposed of property this year, use the amount from Form CT-399, line 12, column A, and Schedule E, lines 76 and 78, if applicable.

Line 30 — Enter any amount claimed as a deduction in computing federal taxable income solely as a result of an election made pursuant to the provision of IRC section 168(f)(8) (safe harbor lease as it was in effect for agreements entered into prior to January 1, 1984).

Line 31 — Enter any amount that the taxpayer would have been required to include in the computation of its federal taxable income had it not made the election permitted pursuant to the provisions of IRC section 168(f)(8) (safe harbor lease as it was in effect for agreements entered into prior to January 1, 1984).

Line 32 — If special additional mortgage recording tax credit is being claimed, you must adjust entire net income by adding back the special additional mortgage recording tax claimed as a credit and used as a deduction in the computation of federal taxable income. The gain on the sale of real property on which the special additional mortgage recording tax credit was claimed must be increased when all or any portion of the credit was also used in the basis for computing the federal gain.

Line 34 — A thrift institution must enter any amount allowed as a deduction for federal income tax purposes according to sections 166 or 585 of the IRC. See instructions for line 54 for the definition of a thrift institution.

If you are not a thrift institution but are subject to section 585(c) of the IRC, enter the bad debt deduction allowed pursuant to section 166 of the IRC.

Line 35 — If you compute a bad debt deduction pursuant to section 1453(i) of the Tax Law, enter 20% of the excess of the amount determined pursuant to section 1453(i) over the amount that would have been allowable as a deduction had you maintained a bad debt reserve for all tax years on the basis of actual experience.

Line 36 — If you computed entire net income using the IBF modification on line 51, you must add any income the IBF received from foreign branches that is included on line 88 of Schedule G and that is not included in federal taxable income.

Line 38 — Enter expenses not deducted on your federal return that are applicable to income from dividends or interest that is exempt from federal tax, shown on lines 23, 24, and 25.

Line 39 — In place of the disallowed ACRS and MACRS deduction, you may compute a depreciation deduction by any method permitted under IRC section 167 (as it would have applied to property placed in service on December 31, 1980). For more information see Form CT-399, *Depreciation Adjustment*

Schedule. Enter the amount from Form CT-399, line 5, column I, or, if you have disposed of property this year, use the amount from Form CT-399, line 12, column B, and Schedule E, line 79, if applicable.

Line 41 — Enter any income or gain from installment sales included in federal taxable income that was previously includable in computing tax under Articles 9-B or 9-C.

Line 43 — Enter any amount included in federal taxable income solely as a result of an election made pursuant to the provisions of IRC section 168(f)(8) (safe harbor lease as it was in effect for agreements entered into prior to January 1, 1984).

Line 44 — Enter any amount you could have excluded from federal taxable income had you not made the election pursuant to IRC section 168(f)(8) (safe harbor lease as it was in effect for agreements entered into prior to January 1, 1984). For additional information on safe harbor leases, see TSB-M-82(15)C.

Line 45 — A deduction may be made for the amount of wages that were disallowed in the computation of your federal taxable income for the purpose of the Jobs Credit. Attach a copy of federal Form 5884.

Line 46 — Enter any amount of money or other property (whether or not evidenced by a note or other instrument) received from the following: the Federal Deposit Insurance Corporation under section 13(c) of the Federal Deposit Insurance Act, as amended; the Federal Savings and Loan Insurance Corporation under section 406(f)(1), (2), (3), or (4) of the Federal National Housing Act, as amended; or the Resolution Trust Corporation (RTC) under section 1823(c)(1), (2), or (3) of Title 12 of the United States Code.

Line 47 — Attach a list showing the names of the subsidiaries and the amount of interest income received from each (see TSB-M-87(11)C).

A subsidiary is a corporation that is controlled by the taxpayer because the taxpayer owns more than 50% of the total number of the shares of the corporation's voting capital stock. The test of ownership is actual beneficial ownership, rather than mere record title as shown by the stock books of the issuing corporation. Actual beneficial ownership of stock does not mean indirect ownership or control of a corporation through a corporate structure consisting of several tiers and/or chains. For additional information see 20 NYCRR 16-2.22.

Subsidiary capital is the taxpayer's total investment in shares of stock in its subsidiaries, and the amount of indebtedness owed to the taxpayer by its subsidiaries (whether or not evidenced by written instruments) on which interest is not claimed and deducted by the subsidiary against any tax imposed by Articles 9-A, 32, or 33 of the Tax Law.

Subsidiary capital does not include accounts receivable acquired in the ordinary course of trade or business either for services rendered or for sales of property held primarily for sale to customers.

Line 48 — Attach a list showing the names of each subsidiary and the amount of dividend income received from each subsidiary to the extent included in federal taxable income on line 22 and/or line 24 (see TSB-M-87(11)C).

Deduct from subsidiary dividend income any section 78 dividends deducted on line 42 that are attributable to dividends from subsidiary capital.

Line 49 — Attach a list showing the names of each subsidiary and the amount of gains or losses received from each subsidiary to the extent included in federal taxable income on line 22 (see TSB-M-87(11)C). Include any gain or loss from the sale of a subsidiary corporation, as a result of an IRC section 338 election, to the extent the gain or loss is included in federal taxable income on line 22. Subsidiary gains must be offset by subsidiary losses. If subsidiary gains exceed subsidiary losses, the net gain is multiplied by 60%. If subsidiary losses exceed subsidiary gains, enter "0" on line 49.

Line 50 — Attach a list showing the name and amount of interest income received from each obligation of New York State, each obligation of political subdivisions of New York State, and each obligation of the United States. The term **obligation** refers to obligations incurred in the exercise of the borrowing power of New York State or any of its political subdivisions or of the United States. The term **obligation** does not include obligations held for resale in connection with regular trading activities or obligations that guarantee the debt of a third party. The following do not qualify under this provision: guaranteed student loans, industrial development bonds issued pursuant to Article 18-A of the New York State General Municipal Law, FNMA mortgage-backed securities, and GNMA mortgage-backed securities. This is not, however, a comprehensive list.

Additional information can be found in TSB-M-86(7.1)C.

Line 51 — Enter amount from line 107 of Schedule G if you elected to compute entire net income using the IBF modification. Note: See lines 36 and 56 for adjustments to federal taxable income that are attributable to transactions between the taxpayer's foreign branches and its IBF.

Line 52 — Enter any amount that is included in federal taxable income pursuant to section 585(c) of the IRC.

Line 53 — Enter any amount that is included in federal taxable income as a result of a recovery of a loan by a taxpayer subject to the provisions of section 585(c) of the IRC.

Line 54

(1) For purposes of this instruction, a **thrift institution** is a banking corporation that satisfies the requirements of (1)(A) and (1)(B) below.

(A) A banking corporation must be:

- (i) a banking corporation as defined in section 1452(a)(1) of the Tax Law created or authorized to do business under Article 6 or 10 of the Banking Law, or
- (ii) a banking corporation as defined in section 1452(a)(2) or 1452(a)(7) of the Tax Law that is doing a business substantially similar to the business that a corporation or association may be created to do under Article 6 or 10 of the Banking Law, or any business that a corporation or association is authorized by such article to do, or
- (iii) a banking corporation as defined in section 1452(a)(4) or 1452(a)(5) of the Tax Law.

- (B) At least 60% of the amount of the total assets (at the close of the taxable year) of a banking corporation must consist of:
 - (i) cash;
 - (ii) obligations of the United States or of a state or political subdivision thereof, and stock or obligations of a corporation that is an instrumentality of the United States or of a state or political subdivision thereof, but not including obligations the interest on which is excludable from gross income under section 103 of the IRC;
 - (iii) loans secured by a deposit or share of a member;
 - (iv) loans secured by an interest in real property that is (or from the proceeds of the loan, will become) residential real property or real property used primarily for church purposes, or loans made for the improvement of residential real property or real property used primarily for church purposes. For purposes of this clause, residential real property includes single or multifamily dwellings, facilities in residential developments dedicated to public use or property used on a nonprofit basis for residents, and mobile homes not used on a transient basis;
 - (v) property acquired through the liquidation of defaulted loans described in (1)(B)(iv);
 - (vi) any regular or residual interest in a real estate mortgage investment conduit (REMIC), as such term is defined in section 860D of the IRC, but only in the proportion which the assets of such REMIC consist of property described in (1)(B)(i) through (1)(B)(v), except that if 95% or more of the assets of such REMIC are assets described in (1)(B)(i) through (1)(B)(v) above, the entire interest in the REMIC shall qualify;
 - (vii) any mortgage-backed security that represents ownership of a fractional undivided interest in a trust, the assets of which consist primarily of mortgage loans, provided that the real property that serves as security for the loans is (or from the proceeds of the loan, will become) the type of property described in (1)(B)(i) through (1)(B)(v);
 - (viii) certificates of deposit in, or obligations of, a corporation organized under a state law that specifically authorizes such corporation to insure the deposits or share accounts of member associations;
 - (ix) loans secured by an interest in real property located within any urban renewal area, to be developed for predominantly residential use under an urban renewal plan approved by the Secretary of Housing and Urban Development under Part A or Part B of Title I of the Housing Act of 1949, as amended, or located within any area covered by a program eligible for assistance under section 103 of the Demonstration Cities and Metropolitan Development Act of 1966, as amended, and loans made for the improvement of any such real property;
 - (x) loans secured by an interest in educational, health, or welfare institutions or facilities, including structures designed or used primarily

- for residential purposes for students, residents, persons under care, employees, or members of the staff of such institutions or facilities;
- (xi) loans made for the payment of expenses of college or university education or vocational training; and
- (xii) property used by the taxpayer in the conduct of business that consists principally of acquiring the savings of the public and investing in loans.
- (C) At the election of the taxpayer, the percentage specified in (1)(B) shall be applied on the basis of the average assets outstanding during the taxable year, in lieu of the close of the taxable year. For purposes of (1)(B)(iv), if a multifamily structure securing a loan is used in part for nonresidential use purposes, the entire loan is deemed a residential real property loan if the planned residential use exceeds 80% of the property's planned use (determined as of the time the loan is made). Also, for purposes of (1)(B)(iv), loans made to finance the acquisition or development of land shall be deemed to be loans secured by an interest in residential real property if there is a reasonable assurance that the property will become residential real property within a period of three years from the date of acquisition of such land; but this sentence shall not apply for any taxable year unless, within such three year period, such land becomes residential real property. For purposes of determining whether any interest in a REMIC qualifies under (1)(B)(vi), any regular interest in another REMIC held by such REMIC shall be treated as a loan described in (1)(B)(i) through (1)(B)(v) under principles similar to the principle of (1)(B)(vi); except that if such REMICS are part of a tiered structure, they shall be treated as one REMIC for purposes of (1)(B)(vi).
- (2) A thrift institution must exclude from the computation of its entire net income on Schedule B, line 34, any amount allowed as a deduction for federal income tax purposes according to section 166 or 585 of the IRC.
- (3) A thrift institution shall be allowed as a deduction in computing entire net income the amount of a reasonable addition to its reserve for bad debts. This amount shall be equal to the sum of:
- (A) the amount determined to be a reasonable addition to the reserve for losses on nonqualifying loans, computed in the same manner as is provided with respect to additions to the reserves for losses on loans of banks under section 1453(i)(1), plus
- (B) the amount determined by the taxpayer to be a reasonable addition to the reserve for losses on qualifying real property loans, but such amount shall not exceed the amount determined under (4) or (5), whichever is the larger, but the amount determined under (3)(B) shall in no case be greater than the larger of:
- (i) the amount determined under (5), or
- (ii) the amount that, when added to the amount determined under (3)(A), equals the amount by which 12% of the total deposits or withdrawable accounts of depositors of the taxpayer at the close of such year exceeds the sum of its surplus, undivided profits, and reserves at the beginning of such year (taking into account any portion thereof attributable to the period before the first taxable year beginning after December 31, 1951).
- The taxpayer **must** include in its tax return for each year a computation of the amount of the addition to the bad debt reserve determined under (3)(B). The use of a particular method in the return for a taxable year is not a binding election by the taxpayer.
- (4) (A) Subject to (4)(B) and (4)(C), the amount determined under (4)(A) for the taxable year shall be an amount equal to 32% of the entire net income for such year.
- (B) The amount determined under (4)(A) shall be reduced (but not below zero) by the amount determined under (3)(A).
- (C) The amount determined under (4) shall not exceed the amount necessary to increase the balance at the close of the taxable year of the reserve for losses on qualifying real property loans to six percent of such loans outstanding at such time.
- (D) For purposes of (4), entire net income shall be computed:
- (i) by excluding from income any amount included therein by reason (8)(B),
- (ii) without regard to any deduction allowable for any addition to the reserve for bad debts, and
- (iii) by excluding from income an amount equal to the net gain for the taxable year arising from the sale or exchange of stock of a corporation, or of obligations the interest on which is excludable from gross income under section 103 of the IRC.
- (iv) Whenever a thrift institution is properly includable in a combined return, entire net income for purposes of (4) shall not exceed the lesser of the thrift institution's separately computed entire net income as adjusted pursuant to (4)(D)(i) through (4)(D)(iii), or the combined group's entire net income as adjusted pursuant to (4)(D)(iii).
- (5) The amount determined under (5) for the taxable year shall be computed in the same manner as is provided under section 1453(i)(1) with respect to additions to reserves for losses on loans of banks. Provided, however, that for any taxable year beginning after 1995, for purposes of such computation, the base year shall be the later of (A) the last taxable year beginning in 1995, or (B) the last taxable year before the current year in which the amount determined under the provisions of (3)(B) exceeded the amount allowable under (5).
- (6) (A) (i) Each taxpayer described in (1) shall establish and maintain a New York reserve for losses on qualifying real property loans, a New York reserve for losses on nonqualifying loans, and a supplemental reserve for losses on loans. Such reserves shall be maintained for all subsequent taxable years that section 1453(h) applies to the taxpayer.
- (ii) For purposes of section 1453(h), such reserves shall be treated as reserves for bad debts, but no deduction shall be allowed for any addition to the supplemental reserve for losses on loans.
- (iii) Except as noted below, the balances of each such reserve at the beginning of the first day of the first taxable year beginning after December 31, 1995, shall be the same as the balances maintained for federal income tax purposes in accordance with section 593(c)(1) of the IRC as in existence on December 31, 1995, for the last day of the last tax year beginning before January 1, 1996. A taxpayer that maintained a New York reserve for loan losses on qualifying real property loans in the last tax year beginning before January 1, 1996, shall have a continuation of such New York reserve balance in lieu of the amount determined under the preceding sentence.
- (iv) Notwithstanding (6)(A)(ii), any amount allocated to the reserve for losses on qualifying real property loans according to section 593(c)(5) of the IRC as in effect immediately prior to the enactment of the Tax Reform Act of 1976 shall not be treated as a reserve for bad debts for any purpose other than determining the amount referred to in (3)(B), and for such purpose such amount shall be treated as remaining in such reserve.
- (B) Any debt becoming worthless or partially worthless in respect of a qualifying real property loan shall be charged to the reserve for losses on such loans. Any debt becoming worthless or partially worthless in respect of a nonqualifying loan shall be charged to the reserve for losses on nonqualifying loans, except that any such debt may, at the election of the taxpayer, be charged in whole or in part to the supplemental reserve for losses on loans.
- (C) The New York reserve for losses on qualifying real property loans shall be increased by the amount determined under (3)(B). The New York reserve for losses on nonqualifying loans shall be increased by the amount determined under (3)(A).
- (7) (A) For purposes of section 1453(h), the term **qualifying real property loan** shall mean any loan secured by an interest in improved real property or secured by an interest in real property that is to be improved out of the proceeds of the loan. Such term shall include any mortgage-backed security that represents ownership of a fractional undivided interest in a trust, the assets of which consist primarily of mortgage loans, provided that the real property that serves as security for the loans is (or from the proceeds of the loan, will become) the type of property described in (1)(B)(i) through (1)(B)(v). However, such term shall not include:
- (i) any loan evidenced by a security (as defined in section 165(g)(2)(C) of the IRC);
- (ii) any loan, whether or not evidenced by a security as defined in section 165(g)(2)(C), the primary obligor of which is (I) a government or political subdivision or instrumentality thereof, (II) a banking corporation, or (III) any corporation 65% or more of whose voting stock is owned or controlled, directly or indirectly, by the taxpayer or by a banking corporation or bank holding company that owns or controls, directly or indirectly, 65% or more of the voting stock of the taxpayer;
- (iii) any loan, to the extent secured by a deposit in or share of the taxpayer; or

- (iv) any loan that, within a 60-day period beginning in one taxable year of the creditor and ending in its next taxable year, is made or acquired and then repaid or disposed of, unless the transactions by which the loan was made or acquired and then repaid or disposed of are established to be for bona fide business purposes.
 - (B) For purposes of section 1453(h), the term **nonqualifying loan** shall mean any loan that is not a qualifying real property loan.
 - (C) For purposes of section 1453(h), the term **loan** shall mean debt, as the term **debt** is used in section 166 of the IRC.
 - (D) A regular or residual interest in a REMIC, as such term is defined in section 860D of the IRC, shall be treated as a qualifying real property loan, except that, if less than 95% of the assets of such REMIC are qualifying real property loans (determined as if the taxpayer held the assets of the REMIC), such interest shall be so treated only in the proportion that the assets of such REMIC consist of such loans. For purposes of determining whether any interest in a REMIC qualifies under the preceding sentence, any interest in another REMIC held by such REMIC shall be treated as a qualifying real property loan under principles similar to the principles of the preceding sentence, except that if such REMIC are part of a tiered structure, they shall be treated as one REMIC for purposes of (7).
 - (8) (A) Any distribution of property (as defined in section 317(a) of the IRC) by a thrift institution to a shareholder with respect to its stock, if such distribution is not allowable as a deduction under section 591 of the IRC, shall be treated as made:
 - (i) first out of its New York earnings and profits accumulated in taxable years beginning after December 31, 1951, to the extent thereof,
 - (ii) then out of the New York reserve for losses on qualifying real property loans, to the extent additions to such reserve exceed the additions that would have been allowed under (5),
 - (iii) then out of the supplemental reserve for losses on loans to the extent thereof,
 - (iv) then out of such other accounts as may be proper.

(8)(A) shall apply in the case of any distribution in redemption of stock or in partial or complete liquidation of a thrift institution, except that any such distribution shall be treated as made first out of the amount referred to in (8)(A)(ii), second out of the amount referred to in (8)(A)(iii), third out of the amount referred to in (8)(A)(i) and then out of such other accounts as may be proper. (8)(A) shall not apply to any transaction to which section 381 of the IRC (relating to carryovers and certain corporate acquisitions) applies, or to any distribution to the Federal Savings and Loan Insurance Corporation (FSLIC) or the Federal Deposit Insurance Corporation (FDIC) in redemption of an interest in an association or institution, if such interest was originally received by the FSLIC or the FDIC in exchange for financial assistance according to section 406(f) of the Federal National Housing Act, or according to section 13(c) of the Federal Deposit Insurance Act.
 - (B) If any distribution is treated under (8)(A) as having been made out of the reserves described in (8)(A)(ii) and (8)(A)(iii), the amount charged against such reserve shall be the amount that, when reduced by the amount of tax imposed under the IRC and attributable to the inclusion of such amount in gross income, is equal to the amount of such distribution; and the amount so charged against such reserve shall be included in the entire net income of the taxpayer.
 - (C)(i) For purposes of (8)(A)(ii), additions to the New York reserve for losses on qualifying real property loans for the taxable year in which the distribution occurs shall be taken into account.
 - (ii) For purposes of computing under section 1453(h) the amount of a reasonable addition to the New York reserve for losses on qualifying real property loans for any taxable year, the amount charged during any year to such reserve pursuant to the provisions of (8)(B) shall not be taken into account.
 - (9) A taxpayer that maintains a New York reserve for losses on qualifying real property loans, and that ceases to meet the definition of a thrift institution as defined in section (1)(A) and (1)(B), must include in its entire net income, for the last taxable year such definition applied, the excess of its New York reserve for losses on qualifying real property loans over the greater of (A) its reserve for losses on qualifying real property loans as of the last day of the last taxable year (December 31, 1995) such reserve is maintained for federal income tax purposes or (B) the balance of the New York reserve for losses on qualifying real property loans that would be allowable to the taxpayer for the last taxable year such taxpayer met the definition of a thrift institution, if the taxpayer had computed its reserve balance according to the method described in section 1453(i)(1)(A).
- Line 55**
- (1) A taxpayer subject to the provisions of section 585(c) of the IRC and not subject to section 1453(h) may, in computing entire net income, deduct an amount equal to or less than the amount determined pursuant to (1)(A) or (1)(B), whichever is greater; provided, however, that in no event shall the deduction be less than the amount determined in (1)(A).
 - (A) The amount determined in (1)(A) shall be the amount necessary to increase the balance of its New York reserve for losses on loans (at the close of the taxable year) to the amount that bears the same ratio to loans outstanding at the close of the taxable year as (i) the total bad debts sustained during the taxable year and the five preceding taxable years (or, with the approval of the Commissioner of Taxation and Finance, a shorter period), adjusted for recoveries of bad debts during such period, bears to (ii) the sum of the loans outstanding at the close of such six or fewer taxable years.
 - (B)(i) The amount determined according to (1)(B) shall be the amount necessary to increase the balance of its New York reserve for losses on loans (at the close of the taxable year) to the lower of:
 - (I) the balance of the reserve at the close of the base year, or
 - (II) if the amount of loans outstanding at the close of the taxable year is less than the amount of loans outstanding at the close of the base year, the amount that bears the same ratio to loans outstanding at the close of the taxable year as the balance of the reserve at the close of the base year bears to the amount of loans outstanding at the close of the base year.
 - (ii) For purposes of (1), the base year shall be, for taxable years beginning after 1987, the last taxable year beginning before 1988.
 - (2) (A) Each taxpayer described in (1) shall establish and maintain a New York reserve for losses on loans. Such reserve shall be maintained for all subsequent taxable years. The balance of the New York reserve for losses on loans at the beginning of the first day of the first taxable year the taxpayer becomes subject to section 1453(i) shall be the same as the balance at the beginning of such day of the reserve for losses on loans maintained for federal income tax purposes. The New York reserve for losses on loans shall be reduced by an amount equal to the deduction allowed, but not more than the amount allowable, for worthless debts for federal income tax purposes pursuant to section 166 of the IRC, plus the amount, if any, charged against its reserve for losses on loans according to section 585(c)(4) of the IRC.
 - (B) For purposes of (2)(A), a taxpayer that had previously been subject to the provisions of section 1453(h) shall establish a New York reserve for losses on loans equal to the sum of:
 - (i) the greater of (I) the balance of its federal reserve for losses on qualifying real property loans, as of the first day of the first taxable year the taxpayer becomes subject to the provisions of section 1453(i), or (II) the greater of the amounts determined under 1453(h)(9)(A) and 1453(h)(9)(B) applied to the taxpayer;
 - (ii) the greater of (I) the balance in its federal reserve for losses on nonqualifying loans, as of the first day of the first taxable year the taxpayer becomes subject to section 1453(i), or (II) the balance in its New York reserve for losses on nonqualifying loans, as of the last date the taxpayer was subject to the provisions of section 1453(h); and
 - (iii) the balance in its supplemental reserve for losses on loans, as of the last date the taxpayer was subject to the provisions of section 1453(h).
 - (3) The determination and treatment of the New York reserve balance, including any additions thereto, subtractions therefrom, or recapture thereof, for
 - (A) any banking corporation that was subject to tax for federal income tax purposes but not subject to tax under Article 32 for prior tax years,
 - (B) any taxpayer that ceases to be subject to tax under Article 32, or
 - (C) any other unusual circumstances, shall be determined by the Commissioner of Taxation and Finance. However, any banking corporation that was subject to tax for federal income tax purposes, but

not subject to tax under Article 32 for prior tax years, shall have as its opening New York reserve for losses on loans the amount determined by applying the provisions of (1)(A) to loans outstanding at the close of its last tax year for federal income tax purposes ending prior to the first tax year for which the taxpayer is subject to tax under Article 32, and provided, further, that the provisions of (1)(B) shall not apply.

Line 56 — S-1 If you computed entire net income using the IBF modification on line 51, you must subtract any expenses of the IBF that were paid to foreign branches of the taxpayer that are included on line 91 of Schedule G that are not included in federal taxable income.

S-2 In the case of a taxpayer that is currently or has previously been subject to section 1453(h), subtract any amount that is included in federal taxable income according to section 593(e)(2) of the IRC, and any amount that is included in federal taxable income according to section 593(g) of the IRC (added to the IRC by PL 104-188).

Line 60 — If you claim a deduction for optional depreciation, enter the amounts from lines 77 and 82.

Schedule C

Line 62 — Entire net income must be same as that reported on line 58, Schedule B. Whatever election you make concerning the IBF modification to entire net income applies to the computation of alternative entire net income.

Schedule D

Computation of Taxable Assets

A taxpayer is not subject to the tax on taxable assets for that portion of the tax year in which it had outstanding net worth certificates issued to the FSLIC in accordance with section 406(f)(5) of the Federal National Housing Act, as amended, or outstanding net worth certificates issued to the FDIC in accordance with section 13(i) of the Federal Deposit Insurance Act, as amended.

Line 70 — Compute the average value of total assets that includes money or other property received from the FSLIC, FDIC, or RTC and interbank placements. Average value of total assets is generally computed on a quarterly basis. However, you may use a more frequent basis, such as monthly, weekly, or daily. Total assets are those assets that are properly reflected on a balance sheet, the income or expenses of which are properly reflected (or would have been properly reflected if not fully depreciated or expensed, or depreciated or expensed to a nominal amount) in the computation of the taxpayer's alternative entire net income for the tax year, or in the computation of the eligible net income of the taxpayer's IBF for the tax year. Tangible real and personal property, such as buildings, land, machinery, and equipment is valued at cost. Intangible property such as loans, investments, coin, and currency is valued at book value.

Line 71 — Include any amount of money or other property (whether or not evidenced by a note or other instrument) received from or attributable to amounts received from the following: the FDIC pursuant to section 13(c)

of the Federal Deposit Insurance Act, as amended; the FSLIC pursuant to section 406(f)(1), (2), (3), or (4) of the Federal National Housing Act, as amended; or the Resolution Trust Corporation under section 1823(c)(1), (2), or (3) of Title 12 of the United States code.

Line 74 — The term **net worth ratio** means the percentage of net worth to assets on the last day of the tax year. The term **net worth** means the sum of preferred stock, common stock, surplus, capital reserves, undivided profits, mutual capital certificates, reserve for contingencies, reserve for loan losses, and reserve for security losses minus assets classified loss. The term **assets** means the sum of mortgage loans, nonmortgage loans, repossessed assets, real estate held for development, investment, or resale, cash, deposits, investment securities, fixed assets and other assets (such as financial futures, goodwill, and other intangible assets) minus assets classified loss. In no event shall assets be reduced by reserves for losses.

Line 75 — The percentage of mortgages included in total assets is determined by dividing the average of the four quarterly balances of mortgages ending within the tax year by the average of the four quarterly balances of all assets ending within the tax year. Such quarterly balances shall be computed in the same manner as the Report of Condition required for FDIC or FSLIC purposes whether or not such report is required. The term **mortgages** means loans secured by real property within or outside New York State, participations in and securities collateralized by pools of residential mortgages (whether or not issued or guaranteed by a United States government agency), and loans secured by stock in a cooperative housing corporation.

Schedule E

Complete Schedule E when the computation of New York depreciation on property differs from federal depreciation (do not include depreciation adjustments required to be included on Form CT-399).

Part I

At the election of the taxpayer, up to double the amount of federal depreciation on qualified tangible property (except personal property leased to others) may be deducted in lieu of the amount of normal depreciation. The original use of such property must commence with the taxpayer and the property must be (1) depreciable tangible property as defined by section 167 of the IRC, (2) constructed or acquired after December 31, 1963, and on or before December 31, 1967, and (3) have a situs in New York. The total deduction of all years, including years covered by Articles 9-B or 9-C with respect to any unit of property, may not exceed the cost of such property. Any unused optional depreciation may be carried forward to succeeding years. The amount of carryover is determined by limiting allocated entire net income (Schedule B, line 59) to zero.

Part II

Include property on which the method of depreciation under Article 9-B or 9-C was different from that used for federal purposes.

Schedule F

Complete Schedule F when the computation of New York gain or loss on disposition of property differs from federal gain or loss (do not include disposition adjustments required to be included on Form CT-399).

In computing gain, enter the higher of cost or fair market price or value at the applicable date. In computing loss, enter the lower of cost or fair market price or value at the applicable date.

Upon sale or disposition, the net gain or loss thereon should be computed by adjusting the federal basis of such property to reflect the total deductions allowed for all years, including years covered by Articles 9-B or 9-C.

Schedule G

International Banking Facility (IBF)

A corporation with an IBF located in New York may do one of the following:

- deduct from entire net income on Schedule B, line 51, the adjusted eligible net income of the IBF computed on Schedule G, line 107 (that is, the IBF modification). A corporation that makes the IBF modification must complete Schedule G, lines 84 through 107; or
- make an election not to deduct from entire net income on Schedule B, line 51, the adjusted eligible net income of the IBF (that is, the IBF formula allocation method). The election to use the IBF formula allocation method must be made within 45 days of the beginning of its tax year. The election must be in writing and addressed to: NYS Tax Department, COAB Corporation Tax, W A Harriman Campus, Albany NY 12227. **The election is required to be made on an annual basis and is binding for that year and cannot be changed by filing an amended return.** A corporation that makes the IBF formula election must complete Schedule G, lines 84 through 88.

See page 9 instructions for the effect of IBF modification and IBF formula allocation method on entire net income allocation percentage and taxable assets allocation percentage.

Schedule H

Allocation percentage

A corporation that is doing business both within and outside New York State is entitled to allocate its entire net income, alternative entire net income, and taxable assets within and outside New York State. A corporation that is not doing business outside New York State must allocate its entire net income, alternative entire net income, and taxable assets 100% to New York State. However, a corporation that has an IBF located in New York State may elect, on an annual basis, to reflect the results of its IBF operations in its entire net income allocation percentage and in its alternative entire net income allocation percentage.

If a corporation has an IBF located in New York State, the activities of an IBF must be included in both the numerator and denominator when computing the taxable assets allocation percentage, regardless of whether a corporation elects to include the results of its IBF activities in its entire net income or alternative entire net income allocation percentages.

A corporation that is not doing business outside New York State and that has made the IBF election must allocate taxable assets 100% to New York State.

In determining whether a corporation is doing business outside New York State, consideration is given to the same factors

used to determine if business is being carried on within New York State. See *Definition of Doing Business Within New York State* on page 1 of these instructions. A corporation that claims to be doing business outside New York State must attach a statement describing the activities of the corporation within and outside New York State.

Each allocation percentage is determined by a formula consisting of a payroll factor, receipts factor, and deposits factor.

The receipts factor includes only receipts that are included in the computation of alternative entire net income for the tax year. The deposits and payroll factors shall include only deposits and payroll, the expenses of which are included in the computation of alternative entire net income for the tax year. Each factor is computed on a cash or accrual basis, according to the method of accounting used by the taxpayer for the tax year in computing its alternative entire net income.

Payroll Factor

The percentage of a corporation's payroll allocated to New York State is determined by dividing 80% (100% when computing the alternative entire net income allocation percentage) of the wages, salaries, and other personal service compensation of the corporation's employees (except general executive officers) within New York State during the period the corporation is entitled to allocate by the total amount of wages, salaries, and other personal service compensation of the corporation's employees (except general executive officers) both within and outside New York State during the period the corporation is entitled to allocate.

The term **employees** includes every individual, except general executive officers, where the relationship existing between the corporation and the individual is that of employer and employee. The phrase **employees within New York State** includes all employees regularly connected with or working out of an office of the corporation within New York State, irrespective of where the services of such employees were performed.

The phrase **general executive officer** includes every officer of the corporation charged with and performing general executive duties of the corporation who is elected by the shareholders, elected or appointed by the board of directors, or (if initially appointed by another officer) ratified by the board of directors. A general executive officer must have company-wide authority with respect to assigned functions or duties, or must be responsible for an entire division of the company.

Receipts Factor

The percentage of the taxpayer's receipts allocated to New York State is determined by dividing 100% of the taxpayer's receipts from loans (including the taxpayer's portion of a participation in a loan), financing leases, and all other business receipts earned within New York State during the period the taxpayer is entitled to allocate, by the total amount of the taxpayer's receipts from loans (including the taxpayer's portion of a participation in a loan), financing leases, and all other business receipts earned within and outside New York State during the period the taxpayer is entitled to allocate.

Interest Income From Loans and Financing Leases

Interest income from loans and financing leases is allocated to New York State if such

income is attributable to a loan or financing lease that is located in New York State. Interest income from a loan or financing lease does not include repayments of principal. A loan or financing lease is located where the greater portion of income producing activity relating to the loan or financing lease occurred.

Except for a taxpayer that is a production credit association or a corporation described on page 1 of these instructions under *Who Must File*, item D, a loan or financing lease attributed by the taxpayer to a branch outside New York State shall be presumed to be properly so attributed, provided that such presumption may be rebutted if the Commissioner of Taxation and Finance demonstrates that the greater portion of income producing activity related to the loan or financing lease did not occur at such branch. In the case of a loan or financing lease that is recorded on the books of a place outside New York State that is not a branch, it shall be presumed that the greater portion of income producing activity related to such loan or financing lease occurred within New York State if the taxpayer had a branch within New York State at the time the loan or financing lease was made. The taxpayer may rebut such presumption by demonstrating that the greater portion of income producing activity related to the loan or financing lease did not occur within New York State.

In the case of a taxpayer that is a production credit association or a corporation described on page 1 of these instructions under *Who Must File*, item D, a loan or financing lease attributed by the taxpayer to a bona fide office outside New York State shall be presumed to be properly so attributed, provided that such presumption may be rebutted if the Commissioner of Taxation and Finance demonstrates that the greater portion of income producing activity related to the loan or financing lease did not occur outside New York State.

Income producing activity includes such activities as: solicitation, investigation, negotiation, approval, and administration of the loan or financing lease. A loan or financing lease is made when such loan or financing lease is approved. The term **loan** means any loan, whether the transaction is represented by a promissory note, security, acknowledgement of advance, due bill, or any other form of credit transaction, if the related asset is properly recorded in the financial accounts of the taxpayer. Loans include the taxpayer's portion of a participation in a loan. The term **financing lease** means a lease where the taxpayer is not treated as the owner of the property for purposes of computing alternative entire net income.

Other Income From Loans and Financing Leases

Other income from loans and financing leases includes, but is not limited to, arrangement fees, commitment fees, and management fees, but does not include repayments of principal. Other income from loans and financing leases is allocated to New York State when the greater portion of income producing activity relating to such income is within New York State.

Lease Transactions and Rents

Receipts from real property and tangible personal property leased or rented from the corporation are allocated to New York State if such property is located in New York State.

Receipts from rentals include all amounts received by the corporation for the use of or occupation of property, whether or not such property is owned by the taxpayer. Gross receipts received from real property and tangible personal property that is subleased must be included in the receipts factor.

Interest From Bank, Credit, Travel, Entertainment, and Other Card Receivables

Interest, fees in the nature of interest, and penalties in the nature of interest, from bank, credit, travel, entertainment, and other card receivables are allocated to New York State if the card holder's domicile is in New York State. It is presumed that the domicile of a card holder is its billing address.

Service Charges and Fees From Bank, Credit, Travel, Entertainment, and Other Cards

Service charges and fees from bank, credit, travel, entertainment, and other cards are allocated to New York State if the card is serviced within New York State. A card is serviced at the place where the records pertaining to such account are kept and managed.

Receipts From Merchant Discounts

Receipts from merchant discounts are allocated to New York State if the merchant is located within New York State. If a merchant has locations both within and outside New York State, only receipts from merchant discounts attributable to sales made from locations within New York State are allocated to New York State. It shall be presumed that the location of the merchant is the address of the merchant shown on the invoice submitted by the merchant.

Income From Trading Activities and Investment Activities

The portion of total net gains and other income from trading activities (including but not limited to foreign exchange, options, and financial futures) and investment activities that is attributed within New York State shall be ascertained by multiplying such total net gains and other income by a fraction, the numerator of which is the average value of trading assets and investment assets attributable to New York State, and the denominator of which is the average value of all trading and investment assets. A trading asset or investment asset is attributable to New York State if the greater portion of income producing activity related to the trading asset or investment asset occurred within New York State. Trading activities include, but are not limited to, foreign exchange transactions, the purchase and sale of options and financial futures, and, in appropriate cases, interbank fund transfers.

Interbank fund transfers include, but are not limited to, trading in negotiable certificates of deposit, currency swaps, interest rate swaps, Eurodollar transfers (purchases or sales), federal funds (sales, transfers, and purchases), and repurchase agreements representing transfer of funds.

Fees or Charges From Letters of Credit, Traveler's Checks, and Money Orders

Fees or charges from the issuance of letters of credit, traveler's checks, and money orders are allocated to New York State if such letters of credit, traveler's checks, or money orders are issued within New York State.

Performance of Services

Receipts for services performed by the taxpayer's employees regularly connected with or working out of a New York State office of the taxpayer are allocated to New York State if such services are performed within New York State.

When allocating receipts for services performed, it is immaterial where such receipts are payable or where they are actually received.

Where services are performed both within and outside New York State, the portion of the receipts attributable to services performed within New York State is determined on the basis of the relative value of, or amount of time spent in performance of, such services within New York State, or by some other reasonable method. Full details must be submitted with the taxpayer's return.

Royalties

Receipts of royalties from the use of patents, copyrights, and trademarks are allocated to New York State if the taxpayer's actual seat of management or control is located in New York State. Royalties include all amounts received by the taxpayer for the use of patents, copyrights, or trademarks, whether or not such patents, copyrights, or trademarks were issued to the taxpayer.

All Other Business Receipts

Income from securities used to maintain reserves against deposits to meet federal and state reserve requirements shall be allocated to New York State based upon the ratio that total deposits in New York State bears to total deposits everywhere.

All other business receipts earned by the taxpayer in New York State are allocated to New York State.

A receipt from the sale of a capital asset is not a business receipt and is not included in the receipts factor. For example, the receipt from the sale of a capital asset as scrap or at a gain is not included in the receipts factor.

Deposits Factor

The percentage of the taxpayer's deposits allocated to New York State is determined by dividing the average value of deposits maintained at branches of the taxpayer within New York State, during the period the taxpayer is entitled to allocate by the average value of all deposits maintained at branches of the taxpayer both within and outside New York State during the period the taxpayer is entitled to allocate.

The term **deposit** means:

- the unpaid balance of money or its equivalent received or held by a bank in the usual course of business and for which it has given or is obligated to give credit, either conditionally or unconditionally, to a commercial, checking, savings, time, or thrift account, or that is evidenced by its certificate of deposit, thrift certificate, investment certificate, certificate of indebtedness, or other similar name, or a check or draft drawn against a deposit account and certified by the bank, or a letter of credit or a traveler's check on which the bank is primarily liable; provided, that, without limiting the generality of the term **money or its equivalent**, any such account or instrument must be regarded as evidencing the receipt of the equivalent of money when credited or issued in

exchange for checks or drafts or for a promissory note, upon which the person obtaining any such credit or instrument is primarily or secondarily liable, or for a charge against a deposit account, or in settlement of checks, drafts, or other instruments forwarded to such bank for collection;

- trust funds received or held by such bank, whether held in the trust department or held or deposited in any other department of such bank;
- money received or held by a bank, or the credit given for money or its equivalent received or held by a bank, in the usual course of business for a special or specific purpose, regardless of the legal relationship thereby established, including without being limited to escrow funds, funds held as security for an obligation due to the bank or others (including funds held as dealers' reserves) or for securities loaned by the bank, funds deposited by a debtor to meet maturing obligations, funds deposited as advanced payment on subscriptions to United States Government securities, funds held for distribution or purchase of securities, funds held to meet its acceptances or letters of credit, and withheld taxes; provided, that there shall not be included funds that are received by the bank for immediate application to the reduction of an indebtedness to the receiving bank, or under condition that the receipt thereof immediately reduces or extinguishes such an indebtedness; and
- outstanding drafts (including advice or authorization to charge a bank's balance in another bank), cashier's checks, money orders, or other officer's checks issued in the usual course of business for any purpose, but not including those issued in payment for services, dividends, purchases, or other costs or expenses of the bank itself.

A deposit is maintained at the branch of the taxpayer at which it is properly booked.

A deposit, the value of which at all times during the tax year was less than \$100,000, that is booked by a taxpayer at a branch outside New York State is presumed to be properly booked, provided that such presumption may be rebutted if the Commissioner of Taxation and Finance demonstrates that the greater portion of contact relating to the deposit did not occur at such branch.

A deposit, the value of which at any time during the tax year was \$100,000 or more, is considered to be properly booked at the branch with which it has a greater portion of contact.

In determining whether a deposit has a greater portion of contact with a particular branch, consideration is given to such activities as:

- whether the deposit account was opened at or transferred to that branch by or at the direction of the depositor or by a broker of deposits, regardless of where subsequent deposits or withdrawals may be made;
- whether employees regularly connected with that branch are primarily responsible for servicing the depositor's general banking and other financial needs;

- whether the deposit was solicited by an employee regularly connected with that branch, regardless of where such deposit was actually solicited;
- whether the terms governing the deposit were negotiated by employees regularly connected with that branch, regardless of where the negotiations were actually conducted; and
- whether essential records relating to the deposit are kept at that branch and whether the deposit is serviced at that branch.

The value of deposits maintained at branches of the taxpayer is the total of the amounts credited to depositors, including the amount of any interest so credited. The average value of deposits is to be computed on a daily basis. However, if the taxpayer's usual accounting practices do not permit the computation of average value on a daily basis, a computation on a weekly basis will be permitted. The Commissioner of Taxation and Finance will not permit the computation of average value of deposits on a basis less frequent than weekly, unless the taxpayer demonstrates that requiring it to use a weekly computation would produce an undue hardship.

Allocation Percentage for Taxpayers with an IBF Located in New York State

A corporation with an IBF located in New York State that uses the IBF modification must, when computing its entire net income allocation percentage and its alternative entire net income allocation percentage:

- Exclude from the numerator and denominator of the payroll factor, the wages, salaries, and other personal service compensation of employees, the expenses of which are attributable to the production of eligible gross income of the IBF.
- Exclude from the numerator and denominator of the receipts factor those receipts that are attributable to the production of eligible gross income of the IBF.
- Exclude from the numerator and denominator of the deposits factor those deposits the expenses of which are attributable to the production of eligible gross income of the IBF.

A corporation that has an IBF located in New York State and that has elected to use the IBF formula allocation method must, when computing its entire net income allocation percentage and its alternative entire net income allocation percentage:

- Exclude from the numerator of the payroll factor the wages, salaries, and other personal service compensation of employees, the expenses of which are attributable to the production of eligible gross income of the IBF. Include in the denominator of the payroll factor the wages, salaries, and other personal service compensation of employees (except general executive officers), the expenses of which are attributable to the production of eligible gross income of the IBF.
- Exclude from the numerator, but include in the denominator of the receipts factor, those receipts that are attributable to the production of eligible gross income of the IBF.
- Exclude from the numerator, but include in

the denominator of the deposits factor, deposits the expenses of which are attributable to the production of eligible gross income to the IBF.

Every corporation that has an IBF located in New York State (whether or not it has made the IBF election) must compute its taxable assets allocation percentage as follows:

- Include in the numerator and denominator of the payroll factor wages, salaries, and personal service compensation of employees (except general executive officers), the expenses of which are attributable to the production of eligible gross income of the IBF.
- Include in the numerator and denominator of the receipts factor those receipts that are attributable to the production of eligible gross income of the IBF.
- Include in the numerator and denominator of the deposits factor those deposits and expenses that are attributable to the production of eligible gross income of the IBF.

For the purpose of computing the allocation percentages, eligible gross income does not include transactions between the taxpayer's foreign branches and its IBF.

Computation of the Issuer's Allocation Percentage

The issuer's allocation percentage for a CT-32 filer is computed using one of three methods. Determine which one of the three methods applies and compute the issuer's allocation percentage on Form CT-32, page 8. Failure to provide the information necessary to compute the issuer's allocation percentage may result in a \$500 penalty. See additional information on line 21 instructions and TSB-M-86(10)C.

Method I. A banking corporation (excluding corporations described in *Who Must File*, item D) organized under the laws of the United States, New York State, or any other state enters as its issuer's allocation percentage the alternative entire net income allocation percentage on Form CT-32, Schedule H, Part II, line 137.

Method II. A banking corporation (excluding corporations described in *Who Must File*, item D) organized under the laws of a country other than the United States enters as its issuer's allocation percentage the percentage determined by dividing gross income within New York State by worldwide gross income.

- Enter as gross income within New York State total receipts as shown in Schedule H, Part I, column A, line 122.
- Enter as worldwide gross income total receipts as shown in Schedule H, Part I, column B, line 122, plus all receipts as defined on lines 111 through 121, from sources outside the United States that were **not** taken into account in computing federal taxable income.
- Every corporation with an IBF located in New York State (whether or not it has made the IBF election) must include in the numerator and denominator of the issuer's allocation percentage receipts as defined on lines 111 through 121 that are attributable to the production of eligible gross income of the IBF.
- When the receipts shown in the computation of the issuer's allocation percentage are different from the receipts shown in Schedule H, Part I, column A or B, line 122, attach an explanation.

Method III. Every corporation owned by a bank or a bank holding company as defined by *Who Must File*, item D, and every bank holding company that is included in a combined return, enters as its issuer's allocation percentage the percentage determined by dividing business and subsidiary capital allocated to New York State by total worldwide capital.

Computation of Subsidiary Capital Allocated to New York State

Column A

Enter the full name and federal employer identification number of each subsidiary. **Subsidiary corporation** is defined by Section 1450(d) of the Tax Law and instructions for Form CT-32, line 47.

Column C

Enter the average value of each subsidiary. The average value is computed on a quarterly, monthly, weekly, or daily basis. Use the same basis of averaging subsidiary capital used to average total assets in Schedule D, line 70. **Subsidiary capital** is defined by Section 1450(e) of the Tax Law and instructions for Form CT-32, line 47.

Column D

Enter the average value of current liabilities attributable to each subsidiary. The average value is computed on a quarterly, monthly, weekly, or daily basis. Use the same basis of averaging current liabilities used to average subsidiary capital in column C.

Column F

Enter the issuer's allocation percentage for each subsidiary. The issuer's allocation percentage is obtained from the New York State corporation franchise tax return filed by the subsidiary corporation for the preceding year.

Issuer's allocation percentages may be obtained in Tax Service Publications or by written request (in duplicate) to: **NYS Tax Department, Taxpayer Assistance Bureau, W A Harriman Campus, Albany NY 12227, telephone (518) 457-7034.**

Computation of Business Capital Allocated to New York State

Line 169 — Enter the average value of total assets as computed in Schedule D, line 70.

Line 170 — Deduct the total average value of current liabilities that are properly reflected on a balance sheet. The average value is computed on a quarterly, monthly, weekly, or daily basis.

Use the same basis of averaging current liabilities as used to average total assets on Schedule D, line 70. Current liabilities are any liabilities maturing in one year or less from the date originally incurred.

Line 171 — Deduct the total net average value of subsidiary capital as computed on line 168, column E.

Computation of the Issuer's Allocation Percentage

Line 176 — Enter as total worldwide capital the average value of total assets as computed in Schedule D, line 70, plus the average value of all assets from sources outside the United States that were **not** taken into account in computing federal taxable income.

When computing assets from sources outside the United States, compute the average value of such assets in the same manner as the average value of total assets in Schedule D, line 70.

Deduct from total assets the total average value of current liabilities maturing in one year or less from the date originally incurred. Compute the average value of such current liabilities in the same manner as the average value of total assets.

Where the assets shown in the computation of the issuer's allocation percentage are different from the assets shown in Schedule D, line 70, attach an explanation.

Section 1085(o) of the Tax Law provides for a penalty of \$500 for failure to provide information needed to compute your issuer's allocation percentage.

Federal Changes and Amended Returns

A banking corporation is required to file an amended return with New York State if its federal taxable income or federal alternative minimum taxable income is changed as a result of:

- a final federal determination, or
- the filing of an amended federal return with the IRS.

The amended return is filed on Form CT-32 or Form CT-32-A with the words **Amended Return** written across the top. A copy of the federal revenue agent's report or the amended federal return should be attached to the amended return.

A banking corporation that files Form CT-32 on a separate basis is required to file an amended return on Form CT-32 within 90 days after the final federal determination or the filing of an amended federal return.

A banking corporation that files Form CT-32-A on a combined basis is required to file an amended return on Form CT-32-A as follows:

- within 90 days, or
- within 120 days (if the final federal determination or the filing of an amended federal return was made after November 30, 1993).

If you are required to file a federal change or amended return with New York State, attach amended Form CT-32 or amended Form CT-32-A to New York State Form CT-3360, *Federal Changes to Corporate Taxable Income*.

The Corporate Tax Procedure and Administration provisions of Article 27 and Article 32 Regulation sections 21-1.3, 21-1.4, and 21-4.2, that existed prior to the above 120-day amendment, remain in effect to the extent these laws and regulations are not inconsistent with the 120-day amendment.

Privacy Notification

The right of the Commissioner of Taxation and Finance and the Department of Taxation and Finance to collect and maintain personal information, including mandatory disclosure of social security numbers in the manner required by tax regulations, instructions and forms, is found in Articles 8, 9, 9-A, 13, 19, 27, 32, 33 and 33-A of the Tax Law and 42 USC 405(c)(2)(C)(i).

The Tax Department will use this information primarily to determine and administer corporate tax liabilities under the Tax Law, for certain tax refund offsets, and for any other purpose authorized by law.

Failure to provide the required information may result in civil or criminal penalties, or both, under the Tax Law.

This information will be maintained by the Director of the Registration and Data Services Bureau, NYS Tax Department, Building 8 Room 905, W A Harriman Campus, Albany NY 12227; telephone 1 800 225-5829. From areas outside the U.S. and Canada, call (518) 485-6800.