



Instructions for Form CT-34-SH

New York S Corporation Shareholders' Information Schedule

CT-34-SH-I

Filing Requirements

You must attach Form CT-34-SH to one of the following forms: Form CT-3-S, CT-4-S, CT-3-S-A/C, or CT-32-S.

Attach a Schedule K-1, filed with federal Form 1120-S, for each shareholder. To determine the amount reported for personal income tax purposes, each **nonresident** shareholder should determine the amount of business and investment income, losses, and deductions reported on federal Schedule K-1 and derived from New York State sources, by using the business allocation percentage or investment allocation percentage (if applicable) from your franchise tax return.

Schedule A - Shareholders' New York State Modifications and Credits

Enter the modifications of the S corporation's federal income in Part I, and the corporation's New York State credits and recaptures in Part II.

Part I — Shareholders' shares of changes from federal items

Each shareholder's pro rata share of the following modifications must be added to or subtracted from each shareholder's federal adjusted gross income or federal itemized deductions on his or her individual New York State income tax return, in arriving at total New York State income and New York State itemized deductions, respectively.

If a New York S corporation is on a fiscal year basis, the amount of any listed modification for the shareholders will be their pro rata shares, for the S corporation year ending within the tax year of each shareholder.

Use lines 1 through 5 to list only those changes that apply to federal adjusted gross income on the individual returns of shareholders. Use lines 6 and 7 to list those changes that apply to federal itemized deductions.

Line 1 – New York franchise taxes

Enter the Articles 9-A and 32 corporate franchise tax, including the fixed dollar minimum tax of \$100, \$325, \$425, or \$1,500 (Article 9-A), or the \$250 fixed dollar minimum (Article 32), that was deducted by the S corporation on its federal return (section 612(b)(3)). See subtraction S-14.

Line 2 – Accelerated Cost Recovery System (ACRS) and Modified Accelerated Cost Recovery System (MACRS) deductions

Enter the ACRS and MACRS deductions from Form CT-399, line 12, Column A (section 612(b)(25)).

Line 3 – Other additions

Identify by item number on a separate schedule any of the following additions that apply to the items of New York S corporation income, loss, and deduction, and enter the total of these additions on line 3.

A-1 State and local bond interest — Interest income on state and local bonds (except those of New York State and its political subdivisions) to the extent excluded from federal income (section 612(b)(1)).

A-2 Exempt federal interest — Interest or dividend income on bonds or securities of any United States authority, commission, or instrumentality that federal laws exempt from federal income tax but not from state income taxes (section 612(b)(2)).

A-3 Expenses relating to exempt income — Amounts deducted for interest on loans used to buy bonds and securities whose interest is exempt from New York State tax, expenses relating to income exempt from New York State tax, and amortization of bond premium whose bond interest is exempt from New York State tax (section 612(b)(4) and (5)).

A-4 New York optional depreciation — Any amount that has to be added to federal income if you made an election under the Tax Law for tax years beginning before 1987 for additional New York depreciation or research and development expenditures, waste treatment facility expenditures, air pollution control equipment expenditures, or acid deposition control equipment (section 612(b)(6)). See subtraction S-9.

A-5 Percentage depletion — Any amount deducted for percentage depletion on mines, oil and gas wells, and other natural deposits (section 612(b)(10)).

A-6 Safe harbor leases — Any amount deducted in figuring federal income (except for mass transit vehicles) solely because of an election made under section 168(f)(8) of the Internal Revenue Code (IRC), as it was in effect for agreements entered into prior to January 1, 1984 (section 612(b)(23)).

A-7 Safe harbor leases — Any amount that would have been included in federal income (except for mass transit vehicles) had the election under section 168(f)(8) of the IRC, as it was in effect for agreements entered into prior to January 1, 1984, not been made (section 612(b)(24)).

A-8 Tax on petroleum business — The amount of any deduction for petroleum business gross receipts tax imposed before June 1, 1990, under Article 13-A (section 612(b)(28)).

A-9 Reduction for S corporation taxes — The S corporation's reductions for the federal tax on certain built-in gains and certain passive investment income (section 612(b)(18)).

A-10 New York special additional mortgage recording tax — The amount of special additional mortgage recording tax paid by the corporation in a tax year beginning before 1994, when the property for which the tax was paid is sold or disposed of at a gain or loss, and the basis of such property was not adjusted by the special additional mortgage recording tax credit (section 612(b)(16)).

A-11 New business investment – deferral recognition — The amount of capital gain deferred on the sale of a capital asset if new business investment property is sold (section 612(b)(22)).

A-12 Interest on corporate acquisitions — Five percent of the deduction for interest related to corporate acquisitions (section 612(b)(30)).

A-13 Qualified emerging technology investments (QETI) — If the corporation was a New York S corporation when it elected to defer the gain on the sale of a QETI, the amount deferred that is added to federal income when the corporation sells the replacement QETI.

Line 4 – New York depreciation

Enter the total New York depreciation from Form CT-399, line 12, Column B (section 612(c)(26)).

Line 5 – Other subtractions

Identify by item number on a separate schedule any of the following subtractions that apply to the items of New York S corporation income, loss, and deductions, and enter the total of these subtractions on line 5.

S-1 Federal bond interest — Interest income on bonds or other obligations of the United States government included in S corporation income. Include qualified dividends from regulated investment companies (mutual funds) that invest in obligations of the United States government and meet the 50% asset requirement (section 612(c)(1)).

S-2 Federal instrumentality income — Interest or dividend income on bonds or securities of any United States authority, commission, or instrumentality included in S corporation income, but exempt from state income taxes under federal laws (section 612(c)(2)).

S-3 New York exempt interest — Interest or dividends included in S corporation income on bonds or securities exempt from New York State income taxes under the laws of this state (section 612(c)(6)).

S-4 Interest expense on federal exempt income — Interest expense on money borrowed to buy or carry bonds or securities, the income from which is subject to New York State income tax but exempt from federal income tax, provided this interest was a business expense for the tax year and the S corporation did not deduct the expense from income on its federal return (section 612(c)(9)).

S-5 Other expenses on federal exempt income — Ordinary and necessary business expenses paid or incurred during the tax year in connection with income, or property held to produce income, that is subject to New York State income tax but exempt from federal income tax, provided the S corporation did not deduct the expenses from income on its federal return (section 612(c)(10)).

S-6 Bond premium amortization — Amortization of bond premium attributable to the tax year on any bond whose interest income is subject to New York State income tax but exempt from federal income tax, provided this amortization was a business expense for the tax year and the S corporation did not deduct the expense from income on its federal return (section 612(c)(10)).

S-7 Federal employment credit wages — The amount of wages and salaries paid or incurred during the tax year for which a salaries deduction is not allowed with regard to claiming a federal employment credit (section 612(c)(15)).

S-8 Cost depletion — Cost depletion figured according to federal tax law on property where percentage depletion (addition A-5) was added on line 3 (section 612(c)(13)).

S-9 New York optional depreciation — Special depreciation expenditures or carryover of research and development expenditures incurred in tax years beginning before 1987, in connection with depreciable tangible business property located in New York State (section 612(c)(11)). For more information see Form IT-211, *Special Depreciation Schedule*, and its instructions. Also see addition A-4.

S-10 Safe harbor leases — Any amount that was included in federal income (except for mass transit vehicles) solely because of an election made under section 168(f)(8) of the IRC, as it was in effect for agreements entered into prior to January 1, 1984 (section 612(c)(24)).

S-11 Safe harbor leases — Any amount that could have been excluded from federal income (except for mass transit vehicles) had the election under section 168(f)(8) of the IRC, as it was in effect for agreements entered into prior to January 1, 1984, not been made (section 612(c)(25)).

S-12 Federal-State basis differentials — The part of any gain (but limited to the difference in basis) included in federal income from the sale or other disposition of (1) property that had a higher basis for New York State income tax than for federal income tax purposes on December 31, 1959 (or on the last day of a fiscal year ending during 1960), and (2) property held in connection with mines, oil or gas wells, and other natural deposits that had a higher adjusted basis for New York State income tax than for federal income tax purposes (sections 612(c)(4) and 612(c)(13) of the Tax Law).

S-13 New business investment exclusion — The amount of gain from the sale of a New York State new business investment that was included in federal income (section 612(c)(20) of the Tax Law).

S-14 Franchise tax refunds — The amount of any refund or credit of the tax imposed under Article 9-A of the Tax Law for a New York S corporation tax year ending after 1990, or under Article 32 of the Tax Law for a New York S corporation tax year ending after 1996, to the extent the tax was added to the shareholders' federal income in a prior tax year under section 612(b)(3) of the Tax Law.

S-15 Qualified emerging technologies investments (QETI) — The amount of gain included in federal income from the sale of a QETI that the New York S corporation elects to defer for New York purposes.

Lines 6 and 7 should be used only for changes that apply to federal itemized deductions on the individual returns of shareholders and should exclude any amounts properly reportable on lines 3 and 5. Attach a statement identifying by item number any of the following changes that relate to New York S corporation items of the shareholders' federal itemized deductions.

Line 6 – Additions to federal itemized deductions

- A. Interest expense on money borrowed to buy or carry bonds or securities subject to New York State income tax, but exempt from federal income tax if this interest was not deducted on the federal return or subtracted on line 5.
- B. Ordinary and necessary expenses paid or incurred during the tax year in connection with income, or property held to produce income, that is subject to New York State income tax but exempt from federal income tax if these expenses were not deducted on the federal return or subtracted on line 5.
- C. Amortization of bond premium attributable to the tax year on any bond whose interest is subject to New York State income tax, but exempt from federal income tax if this amortization was not deducted on the federal return or subtracted on line 5.

Line 7 – Subtractions from federal itemized deductions

- A. State, local, and foreign income taxes properly deductible as an itemized deduction rather than a deduction for federal adjusted gross income.

- B. Interest expense on money borrowed to buy or carry bonds or securities whose income is exempt from New York State income tax, if not added on line 3.
- C. Ordinary and necessary expenses paid or incurred in connection with income or property held to produce income that is exempt from New York State income tax, if not added on line 3.
- D. Amortization of bond premium attributable to the tax year on any bond whose interest is exempt from New York State income tax, if not added on line 3.

Line 8 – New York adjustments to federal tax preference items

See the instructions for Form IT-220 for an explanation of the required adjustments.

Part II — Shareholders' shares of New York S corporation's New York State tax credits and taxes on early dispositions

Lines 9 through 24

Enter on the appropriate line the amount of any tax credits originating this year, and the amount of recapture of any tax credit that originated in a tax year in which the corporation was a New York S corporation.

Do not include any recapture of a tax credit that originated in a tax year in which the corporation was a New York C corporation.

Tax credits that originate in a New York S year:

- flow through in pro rata shares to the individual shareholders of the New York S corporation under Article 22, and
- cannot be applied against the New York State corporation franchise tax in a New York S year, and
- cannot be applied against the New York State corporation franchise tax in a New York C year.

Tax credits that originate in a New York C year:

- do not flow through to the individual shareholders of the New York C corporation under Article 22, and
- cannot be applied against the New York State corporation franchise tax in a New York S year, and
- can be applied against the New York State corporation franchise tax in a New York C year.

Both a New York C year and a New York S year are counted as a tax year for the carryforward of tax credits.

Exception: The credit for the special additional mortgage recording tax is allowed to the corporation and does not flow through to the shareholders.

Lines 9 and 10 – Investment tax credits

The investment tax credit and retail enterprise investment tax credit are computed on Form CT-46 and are allowed at a reduced rate to shareholders of a New York S corporation. The rate is:

- 4% on property other than research and development property, or
- 7% on research and development property.

The credit for rehabilitation of historic barns is the amount of qualified rehabilitation expenditures multiplied by 25%. Include on line 9 the amount of historic barns credit computed on Form CT-46-ATT.

When an investment tax credit is computed on property placed in service on or after January 1, 1997, the shareholders of a New York S corporation may claim an employment incentive credit for each of the two years following the investment credit year. Include on line 9 the amount of employment incentive credit computed on Form CT-46.

Line 11

A recapture of these credits may be required by the shareholders who claimed the credits when property on which the credit was claimed is disposed of, or ceases to be in qualified use, or when a claiming shareholder's proportionate stock interest is reduced. The amount of the tax credit to be recaptured by the shareholders is their pro rata shares of the recapture computed by the New York S corporation on Form CT-46. If the credit was computed at a reduced rate, as above, the amount of recapture should be computed at the same reduced rate.

Line 12

An investment tax credit is allowed to shareholders of a New York S corporation that is engaged in the securities industry. The credit is available for qualified property placed in service on or after October 1, 1998, and before October 1, 2003. Enter on line 12 the amount of credit computed on Form CT-44.

Lines 13, 14, 15, and 16

The Economic Development Zone (EDZ) and Zone Equivalent Area (ZEA) tax credits are allowed to shareholders of New York S corporations. The wage and capital tax credits are computed on Forms DTF-601, DTF-601.1, and DTF-602. The EDZ investment tax credit on Form DTF-603 is computed at a reduced rate of 8%.

When an EDZ investment tax credit is computed on property placed in service on or after January 1, 1997, the shareholders of a New York S corporation may claim an EDZ employment incentive credit for each of the three years following the investment credit year. Include on line 16 the amount of EDZ employment incentive credit computed on Form DTF-603.

Line 17

The recapture of the EDZ investment tax credit may be required by the shareholders who claimed the credit, when property on which the tax credit was claimed is disposed of or ceases to be in qualified use, or when a claiming shareholder's proportionate stock interest is reduced. The amount of the tax credit to be recaptured by the shareholders is their pro rata shares of the recapture computed by the New York S corporation on Form DTF-603. If the credit was computed at a reduced rate as above, the amount of tax credit to be recaptured should be computed at the same reduced rate.

Line 18

An EDZ investment tax credit is allowed to shareholders of a New York S corporation that is engaged in the securities industry. Enter on line 18 the amount of credit computed on Form DTF-605.

Lines 19, 20, and 21 – Farmers' school tax credit

If the New York S corporation owned qualified agricultural property and paid eligible taxes during the tax year, enter on line 19 the number of acres of qualified agricultural property, and on line 20 the amount of eligible school taxes paid.

The shareholders use their pro rata shares of these amounts to claim the credit on Form IT-217, *Claim for Farmers' School Tax Credit*.

Line 19

Qualified agricultural property includes land and land improvements located in New York State that are used in agricultural production. It also includes structures and buildings (except for buildings used by the corporation for residential purposes) that are located on the land and used or occupied to carry out agricultural production.

A structure or building qualifies if it is used (1) in the raising and production for sale of agricultural commodities, or (2) for the storage of agricultural commodities for sale at a future time, or (3) for the storage of supplies or for the storage or servicing of equipment necessary for agricultural production.

A structure or building is not qualified agricultural property if it is used for (1) the processing of agricultural commodities, or (2) the retail merchandising of agricultural commodities, or (3) the storage of commodities for the personal use of the corporation or its shareholders, or (4) the personal residence of any of the officers of the corporation.

Note: In the case of the production of maple syrup, cider, and the sale of wine from a farm winery: buildings and structures used to process the sap into syrup, the apples into cider, or the grapes into wine are considered qualified agricultural property even though the property is used in processing.

Processing means doing something to a farm commodity beyond what is needed to make it initially marketable. The mere sorting, washing, and packaging of commodities is not considered processing. A residence includes a house, mobile home, and so forth, and any other buildings associated with it, such as garages or sheds, that are used for residential purposes.

Note: Land and structures owned by the S corporation and used in agricultural production are *qualified agricultural property* even if the agricultural production is carried on by someone else. For example, land and buildings owned by the S corporation are rented to another person who actually uses the property for agricultural production. The land and buildings are *qualified agricultural property* for the S corporation.

For more information concerning qualified agricultural property, see Publication 51, *Questions and Answers on New York State Farmers' School Tax Credit*.

Line 20

Eligible taxes are real property taxes levied by a school district on qualified agricultural property **owned** by the S corporation. Real property taxes levied by towns, villages, cities, or their municipal governments, are not eligible taxes. Eligible taxes include school district taxes paid on qualified property which the S corporation owns but rents to someone else. However, eligible taxes do not include school district taxes paid on qualified agricultural property you rent from someone else, even if the rental agreement provides that you must actually pay the taxes.

Real property taxes levied by a school district include all property taxes, special ad valorem levies, and special assessments levied by a school district. Also included are taxes levied by a school district for the support of local libraries. Penalties and interest are not included.

If the S corporation owns both qualified agricultural property and nonqualified agricultural property, and it receives only one school tax bill for all the property, it must apportion the total school taxes paid between the qualified and nonqualified property based upon the value of the property. The local assessor may be able to tell you the value of your qualified and nonqualified property. If the assessor is unable to provide this information, the corporation may use any other reasonable method, such as basing the value on the recent sale price of similar property in the area, to determine the value. In either case, the S corporation should keep records to substantiate the allocation.

Do not include school taxes paid on property converted to nonqualified use during the year. (See *conversion to nonqualified use* under **Line 21** below.)

If the S corporation continues to own the property after the conversion, and the converted property is included as part of the total school tax bill, the S corporation may allocate the taxes to the converted property on the basis of the amount of acreage converted to the total acreage covered by the tax bill.

If the converted property is sold, the closing documents will show the amount of school taxes reimbursed to the S corporation by the buyer. The S corporation must reduce its current year's eligible taxes paid by the amount of these reimbursed taxes. For more information on eligible taxes, see Publication 51, *Questions and Answers on New York State Farmers' School Tax Credit*.

Line 21

Enter any acres of property that were converted to nonqualified use during the tax year. *Conversion to nonqualified use* means an outward or affirmative act changing the use of the agricultural property. The idling, nonuse, or sale of the property is not by itself a conversion.

Example 1: You sell 100 acres of land to a developer in tax year 1998. The developer actually builds a housing development on the land during the tax year, and as a result the land is no longer used in agricultural production. This would be considered a conversion to nonqualified use.

Example 2: You discontinue farming during 1998, but continue to hold the farm property for investment purposes. This would not constitute a conversion to nonqualified use.

Example 3: You sell qualified agricultural property to another person who continues to use the property in agricultural production. This would not constitute a conversion to nonqualified use.

Line 22

An alternative fuels credit is allowed to shareholders of a New York S corporation. Enter on line 22 the amount of credit computed on Form CT-40.

Line 23

A recapture of the alternative fuels credit may be required by the shareholders who claimed the credit, if the vehicles or property are disposed of or otherwise cease to qualify. The amount of the credit to be recaptured by the shareholders is their pro rata shares of the recapture computed by the New York S corporation on Form CT-40.

Line 24

A credit for the employment of persons with disabilities is allowed to shareholders of a New York S corporation. Enter on line 24 the amount of credit computed on Form CT-41.

Schedule B - Shareholders' Identifying Information

You must complete Schedule B and provide the identifying information for each shareholder. Provide each shareholder's name and address (as it appears on Federal Schedule K-1), either the social security number or the employer identification number, the shareholder's ownership percentage in the corporation, and the shareholder's residency status. This information must be completed for each shareholder who held an interest in the corporation at any time during the taxable year.