



# Instructions for Form CT-32-S

## New York Bank S Corporation Franchise Tax Return

### Tax Law — Articles 32 and 22

## General information

Article 32 of the New York Tax Law has been amended to conform with the amendments to the federal Small Business Job Protection Act of 1996 (JPA) allowing federal S corporations that are banks to elect New York S corporation treatment.

To be eligible to elect federal subchapter S corporation status, the bank must not use the reserve method of accounting for bad debts, either because it is a large bank and is required under Internal Revenue Code (IRC) section 585 to use the direct charge-off method, or because the bank is a small bank and has elected to use the direct charge-off method. The bank must also meet all federal subchapter S corporation eligibility requirements (for example, it must be a domestic corporation and have 75 or fewer shareholders, all of whom are individuals, estates, or certain trusts).

The Tax Law was also amended to conform to the federal treatment of qualified subchapter S subsidiaries (QSSS). For more information see *Filing requirements* below.

For up-to-the-minute information on New York State tax matters, including matters that may affect your New York State corporation tax return, visit our website at <http://www.tax.state.ny.us>.

## Definitions

*New York S corporation* means a corporation taxable under Article 32 of the Tax Law, for which a New York S election has been made by the filing of Form CT-6.

*New York C corporation* means a corporation taxable under Article 32 of the Tax Law that is not a New York S corporation.

QSSS is a corporation that is a qualified subchapter S subsidiary under IRC section 1361(b)(3)(B).

## Overview of tax computation

Article 32 provides that a New York bank S corporation must pay the higher of (1) the tax on entire net income reduced by the Article 22 tax equivalent, or (2) the fixed dollar minimum tax of \$250.

A New York S corporation is not subject to the MTA surcharge.

To compute entire net income on Form CT-32-S, you must begin by completing the following schedules on Form CT-32, *Banking Corporation Franchise Tax Return*:

Schedule B, lines 22 through 58 (To complete Schedule B, you may also have to complete Schedules E, F, and G on Form CT-32.)

Schedule H, lines 108 through 123 and lines 125 through 128

In addition, refer to Form CT-32-I, *Instructions for Form CT-32*, for information regarding the completion of header information, computation of interest and penalties, refund, and computation of the issuer's allocation percentage. Attach all applicable schedules to Form CT-32-S.

## Filing requirements

Form CT-32-S must be filed by any federal S corporation taxable in New York State under Article 32 of the Tax Law, whose shareholders filed Form CT-6 electing to be a New York S corporation.

Each New York S corporation must attach to Form CT-32-S its copy of Form CT-34-SH to report information for all individuals, estates, and trusts who were shareholders of the New York S corporation during any part of the tax year.

## Qualified subchapter S subsidiary (QSSS)

The filing requirements for a QSSS that is owned by a New York S corporation or a nontaxpayer corporation are outlined below. Where New York follows federal QSSS treatment, the parent and QSSS must file a single franchise tax return. The QSSS is ignored as a separate taxable entity, and the assets, liabilities, income, and deductions of the QSSS are 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.

- a **Parent is a New York S corporation** – New York State follows the federal QSSS treatment. The parent and QSSS are taxed as a single New York S corporation and file Form CT-32-S.
- b **Nontaxpayer parent** – New York State follows the federal QSSS treatment where the QSSS is a New York State 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 are 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.
- c **Exception: Excluded corporation** – QSSS treatment is not allowed unless both the parent and the QSSS are banking corporations. The corporations must 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 State.

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

**To notify the department that a QSSS is included** in your return, check the box on the back of Form CT-32-S and attach Form CT-60-QSSS, *Qualified Subchapter S Subsidiary Information Schedule*.

## When and where to file

File this return within 2½ months after the end of your reporting period. If you are reporting for the 1999 calendar year, file your return on or before March 15, 2000. Mail returns to: New York State Corporation Tax, Processing Unit, PO Box 22038, Albany NY 12201-2038.

If you cannot meet the filing deadline, you may request a six-month extension by filing Form CT-5.4 and paying any tax due on or before the original due date of the return. No additional extension of time beyond six months will be granted to file Form CT-32-S.

## Private delivery services

If you choose, you may use a private delivery service, instead of the U.S. Postal Service, to file your return. However, if, at a later date, you need to establish the date you filed your return, you cannot use the date recorded by a private delivery service **unless** you used a delivery service that has been designated by the U.S. Secretary of the Treasury or the Commissioner of Taxation and Finance. (Currently designated delivery services are listed in Publication 55, *Designated Private Delivery Services*. See *Need help?* on back page of these instructions for information on ordering forms and publications.) If you use **any** private delivery service, whether it is a designated service or not, address your return to: **State Processing Center, 431C Broadway, Albany NY 12204-4836**.

## Federal changes and amended returns

A New York S corporation whose income, loss, or deductions are changed as a result of a final federal determination, or that files an amended return with the Internal Revenue Service, must file an amended return by using Form CT-32-S and writing the words **Amended return** across the top. Additionally, every shareholder of the electing New York S corporation must file an amended return on a designated New York State individual, estate, or trust tax return.

## Specific instructions

### NAICS business activity code number

Enter the six-digit NAICS business activity code number from your federal return.

### Schedule A, line 1

Use Form CT-32, Schedule B, lines 22 through 58, to compute the entire net income of the New York S corporation.

Enter on Form CT-32, Schedule B, line 22, the amount of federal taxable income that you would have reported on federal Form 1120,

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line 28, had you not made the election under Subchapter S of Chapter One of the IRC. Attach a statement (or a pro forma federal Form 1120,) showing the computation of federal taxable income required to be shown on federal Form 1120, line 28. The statement (or pro forma federal Form 1120) must include the following items not reported on federal 1120S:

- dividend income from federal Form 1120, line 4
- interest income from federal Form 1120, line 5
- gross rental income from federal Form 1120, line 6
- gross royalty income from federal Form 1120, line 7
- capital gain net income from federal Form 1120, line 8
- charitable contribution deductions from federal Form 1120, line 19

Where a parent corporation and QSSS file a joint return on Form CT-32-S, compute the entire net income of the New York S corporation on Form CT-32, Schedule B, lines 22 through 58, as if:

- the assets, liabilities, income, and deductions, property, payroll, receipts, capital, credits, and all other tax attributes and elements of economic activity of the QSSS are deemed to be those of the parent corporation;
- the stocks, bonds, and other securities issued by the QSSS, and any indebtedness from the QSSS, are not subsidiary capital of the parent corporation;
- transactions between the parent corporation and the QSSS, including the payment of interest and dividends, are not taken into account; and
- general executive officers of the QSSS are deemed to be general executive officers of the parent corporation.

### Schedule A, line 2

Use Form CT-32, Schedule H, lines 108 through 123 and lines 125 through 128, and enter the appropriate results below to compute the entire net income allocation percentage.

A Payroll factor – enter the percentage from Form CT-32, Schedule H, Part I, line 110 .....	_____ %
B Receipts factor – enter the percentage from Form CT-32, Schedule H, Part I, line 123 .....	_____ %
C Deposits factor – enter the percentage from Form CT-32, Schedule H, Part I, line 128 .....	_____ %
D Total of New York percentages (add lines A, B, and C) .....	_____ %
E Entire net income allocation percentage (divide line D by three or by the number of percentages; enter on Schedule A, line 2) .....	_____ %

### Schedule A, line 12

The special additional mortgage recording tax may not reduce the franchise tax on line 10 to less than \$250. If the amount determined by subtracting the amount on line 11 from the amount on line 10 is less than \$250, enter "\$250" on the line and complete the *Carry forward section* of Form CT-43.

**Attach Form CT-34-SH, Shareholder Information Schedule.**

**Penalty for failure to provide shareholder information** — If you don't file Form CT-32-S on time, providing the shareholder information

requested (all items of income, loss, deduction and other pertinent information), you will have to pay a penalty (section 685(h)(2)). The penalty is \$50 per shareholder per month or fraction of a month up to a total of \$250 per shareholder. You will also have to pay a penalty of \$50 for each shareholder whose social security number you do not show (section 685(k)). You must count all shareholders of the S corporation during any part of the tax year. We may waive the penalty if it is shown that the failure is due to reasonable cause and not due to willful neglect.

**Termination year** — The New York S election can terminate on a day other than the first day of the taxable year, whether or not the federal S election terminates at the same time. In either case, the tax year is divided into two tax periods (an S short year and a C short year). The corporation must file Form CT-32-S for the S short year and Form CT-32 for the C short year. The due date of the S short year return is the same as that of the New York C short year return.

If the federal and New York S elections terminate at the same time, determine entire net income assigned to Form CT-32-S for the S short year and to Form CT-32 for the C short year using the same method of accounting as used for federal income tax purposes (daily pro rata allocation under section 1362(e)(2) of the IRC, or normal tax accounting rules under section 1362(e)(3) of the IRC).

If the federal S election continues but the New York S election terminates, use the normal tax accounting rules under section 1362(e)(3) of the IRC if:

- all persons who are shareholders in the corporation at any time during the New York S short year and all persons who are shareholders in the corporation on the first day of the New York C short year consent to such election, or
- there is a sale or exchange of 50% or more of the stock in the corporation during the year.

Otherwise, use the daily pro rata allocation method under section 1362(e)(2) of the IRC.

Check the box on the back of Form CT-32-S to indicate which method of accounting the New York S corporation elected for the New York S short year and subsequent New York C short year.

In no event will the total tax for the New York S short year and New York C short year be less than the fixed dollar minimum tax determined as if the corporation were a C corporation for the entire year.

### 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 uses 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 subject you to civil or criminal penalties, or both, under the Tax Law.

This information is maintained by the Director of the Registration and Data Services Bureau, NYS Tax Department, Building 8 Room 924, W A Harriman Campus, Albany NY 12227; telephone 1 800 225-5829. From areas outside the U.S. and outside Canada, call (518) 485-6800.

## Need help?



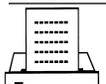
**Telephone assistance** is available from 8:30 a.m. to 4:25 p.m. (eastern time), Monday through Friday.

For business tax information, call the New York State Business Tax Information Center: 1 800 972-1233

For general information: 1 800 225-5829

To order forms and publications: 1 800 462-8100

From areas outside the U.S. and outside Canada: (518) 485-6800



**Fax-on-demand forms:** Forms are available 24 hours a day, 7 days a week. 1 800 748-3676



**Internet access:** <http://www.tax.state.ny.us>



### Hotline for the hearing and speech impaired:

1 800 634-2110 from 8:30 a.m. to 4:25 p.m. (eastern time), Monday through Friday. If you do not own a telecommunications device for the deaf (TDD), check with independent living centers or community action programs to find out where machines are available for public use.



**Persons with disabilities:** In compliance with the Americans with Disabilities Act, we will ensure that our lobbies, offices, meeting rooms, and other facilities are accessible to persons with disabilities. If you have questions about special accommodations for persons with disabilities, please call 1 800 225-5829.



**If you need to write,** address your letter to:

NYS TAX DEPARTMENT  
TAXPAYER ASSISTANCE BUREAU  
TAXPAYER CORRESPONDENCE  
W A HARRIMAN CAMPUS  
ALBANY NY 12227