



# Instructions for Forms CT-3-S, CT-4-S, and CT-3-S-ATT

## New York S Corporation Franchise Tax Return and Attachment

Tax Law — Articles 9-A and 22

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## General information

### Changes affecting the year 2000 return

Chapter 407 of the Laws of 1999 and Chapter 63 of the Laws of 2000 brought many changes to Article 9-A of the New York State Tax Law. In addition, the Commissioner of Taxation and Finance adopted amendments to the receipts factor of the business allocation percentage.

**Rates** — The S corporation tax rates on entire net income and the fixed dollar minimum tax continue to decline as prescribed by Chapter 56 of the Laws of 1998. See the tax rate schedule on page 4.

**Receipts factor** — On July 12, 2000, the Commissioner of Taxation and Finance adopted amendments to section 4-4.2 of the Business Corporation Franchise Tax regulations under Article 9-A of the Tax Law, which apply to the receipts factor of the business allocation percentage (see the instructions for lines 8 and 9 of Form CT-3-S-ATT). The amendments apply to taxable years beginning on or after January 1, 2000.

**Gross receipts tax reform** — The section 186 gross receipts tax on utility corporations has been repealed (with an exception for certain co-generation facilities having total output contracts). Effective January 1, 2000, utility corporations are subject to tax under Article 9-A. Sections 208.9(c-2) and (c-3) provide modifications to entire net income for qualified public utilities and transferees, qualified power producers, and qualified pipeline corporations (see the instructions for Schedule E on Form CT-3-S-ATT).

**Provisions relating to the federal Gramm-Leach-Bliley Act** — A banking corporation that was in existence before January 1, 2000, and was subject to tax under Article 32 during 1999, remains taxable under Article 32 for all tax years beginning on or after January 1, 2000, and before January 1, 2001.

Corporations that were in existence before January 1, 2000, and were subject to tax under Article 9-A during 1999, remain taxable under

Article 9-A for all tax years beginning on or after January 1, 2000, and before January 1, 2001.

A corporation formed on or after January 1, 2000, but before January 1, 2001, may elect to be subject to either Article 9-A or Article 32 of the Tax Law. The election must be made on or before the due date for filing its franchise tax return (**with** regard to any extension of time for filing). The election is irrevocable, and may be made by filing a franchise tax return under Article 9-A or Article 32 for the tax year. This election may be made if the corporation:

- is a financial subsidiary, **or**
- meets the following requirements:
  - 65% or more of the corporation's voting stock is owned or controlled, directly or indirectly, by a financial holding company; and
  - the corporation is principally engaged in activities that are described in section 4(k)4 or 4(k)5 of the federal Bank Holding Company Act of 1956, as amended, or described in any regulations or orders promulgated under the authority of that section.

A *financial subsidiary* is a corporation whose voting stock is 65% or more owned or controlled, directly or indirectly, by a national bank described in section 5136A(g) of the Revised Statutes of the United States (12 USCS section 24a), or a state bank described in section 46 of the Federal Deposit Insurance Act (12 USCS section 1831w), that is a member of the federal reserve system or is insured by the Federal Deposit Insurance Corporation.

A *financial holding company* is a corporation that under subsection (l) of section 4 of the federal Bank Holding Company Act of 1956, as amended (12 USCS section 1843(l)), has filed with the Federal Reserve Board a written declaration stating that the corporation elects to be a financial holding company and whose election has not been found to be ineffective by the Federal Reserve Board.

For additional information see sections 1452(h) and 1462(f)(2)(iv) of the Tax Law.

**Industrial or manufacturing business credit** — A new credit will be available for taxable years ending after January 1, 2000. The industrial or manufacturing business (IMB) credit will be allowed to an S corporation's shareholders against the tax imposed under Article 22. This credit is equal to the sum of taxes imposed under sections 186-a, 186-c, 189, or 189-a for gas, electric, steam, water, or refrigeration services used or consumed in New York State and which were paid by or passed through to the S corporation IMB on or after January 1, 2000.

**Economic Development Zone** — The New York State Empire Zones Program Act made changes to the Economic Development Zones Program. All references to the term *Economic Development Zone* are changed to *Empire Zone* and all references to the term *EDZ* are changed to *EZ*.

**Which form to file** — The reduction in tax rates and fixed dollar minimum taxes enacted in 1998 has caused the filing criteria for Form CT-4-S to change. The entire net income filing threshold, which was \$80,000 or less, has been restored to \$200,000 or less. For additional information see *Which form to file* below.

### Visit our Web site

For up-to-the-minute information on New York State tax matters that may affect your New York State tax return, visit our Web site at [www.tax.state.ny.us](http://www.tax.state.ny.us).

### Who must file

An S corporation is a small business corporation whose shareholders have made an election to be taxed under personal income tax law, rather than corporation tax law, as permitted under Subchapter S of Chapter One of the Internal Revenue Code (IRC). Federal S corporations subject to Article 9-A of the Tax Law may make the same election for New York State, called a *New York S election*, by filing Form CT-6, *Election by a Federal S Corporation to be Treated as a New York S Corporation*. This includes both corporations organized under New York State law and foreign corporations (those organized under the laws of any other state) that do business, employ capital, own or lease property, or maintain an office in New York State.

A corporation that has elected to be treated as a New York S corporation (by filing Form CT-6) must file either Form CT-3-S or Form CT-4-S, *New York S Corporation Franchise Tax Return*, instead of Form CT-3 or Form CT-4.

### Combined returns

Certain groups of S corporations may be permitted or required to file on a combined basis. For more information, see Form CT-3-S-A, *New York S Corporation Combined Franchise Tax Return*.

A bank S corporation must use Form CT-32-S, *New York Bank S Corporation Franchise Tax Return*.

### Foreign corporations authorized to do business but disclaiming tax liability

A foreign corporation that is authorized to do business in New York State but is disclaiming tax liability must file Form CT-245, *Maintenance Fee and Activities Return of Foreign Corporations Disclaiming Tax Liability*. The annual maintenance fee is \$300.

If you are disclaiming tax liability, you do not have to file a franchise tax return (that is, Form CT-3-S or Form CT-4-S). In the event it is determined that a franchise tax return is required, the maintenance fee may be claimed as a credit against any tax due under Article 9-A. For more details see Form CT-245.

### 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 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 continues to be recognized as a separate corporation.

- A. **Parent is a New York S corporation** – New York State will follow the federal QSSS treatment. The parent and QSSS are taxed as a single New York S corporation and file Form CT-3-S or CT-4-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-3-S or CT-4-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-3 or CT-4.
- C. **Exception: excluded corporation** – Notwithstanding the above rules, QSSS treatment will not be allowed unless both parent and QSSS are general business corporations. That is, the corporations will have to file on a stand-alone basis if one is an Article 9-A taxpayer but the other is an Article 9, 32, 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 Tax Department that a QSSS is included in your return, check the box on the back page of Form CT-3-S or CT-4-S and attach Form CT-60-QSSS.

### Which form to file

An S corporation whose shareholders have filed Form CT-6 and received approval as a New York S corporation must file Form CT-3-S or CT-4-S in place of Form CT-3 or CT-4. Form CT-4-S is a simplified form that can be used by most New York S corporations. You may use Form CT-4-S if the corporation meets **all** the following conditions:

- For tax years beginning after June 30, 1999, your entire net income is \$200,000 or less.
- Your gross payroll is \$250,000 or less.
- Your tax year is a 12-month year.
- You are not terminating your election to be a New York S corporation.
- You have no investment capital.
- You do not allocate business income within and outside New York State.
- You do not claim any tax credits or tax credit recaptures.
- You do not claim a net operating loss deduction.
- You do not have subsidiary capital.
- You do not have an addition to federal taxable income shown on Form CT-3-S, line 7 (see instructions on pages 8 and 9).
- You do not have subtraction S-1, S-3, S-4, S-5, S-6, or S-7 shown on Form CT-3-S, line 14 (see instructions on pages 9 and 10).
- You qualify as a small business taxpayer (see below).

If you file Form CT-4-S, attach:

- 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.

If you file Form CT-3-S, attach:

- 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; and
- Form CT-3-S-ATT to report the business allocation percentage, computation and allocation of capital, computation of subsidiary and investment income, and the issuer's allocation percentage.

**Small business taxpayers** — A corporation qualifies as a small business taxpayer (Tax Law, section 210.1(f)) if:

- Its entire net income (before allocation) is not more than \$290,000.
- The aggregate amount of money and property it received for stock, as a contribution to capital and as paid-in surplus, is not more than \$1,000,000 on the last day of its taxable year.
- The corporation is not part of an affiliated group, as defined in IRC section 1504, unless the group itself would have met the above criteria if it had filed a combined return.

**New York S corporation 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-3-S for the S short year. For the C short year, the corporation must file Form CT-3 or Form CT-4. The due date of the S short year return is the same as the New York C short year return. See TSB-M-90(11)C for further information.

If the federal and New York S elections terminate at the same time, entire net income assigned to Form CT-3-S for the S short year and to the Form CT-3 or CT-4 for the C short year is determined using the same method of accounting as used for federal income tax purposes; that is, 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 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 Form CT-3-S, page 4, 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.

The total tax for the New York S short year and New York C short year may not be less than the fixed dollar minimum tax determined as if the corporation were a C corporation for the entire year.

To determine the tax rate for a small business taxpayer, both the S short year and the C short year are short periods requiring annualization.

### Other forms you may require

**Form CT-400, *Estimated Tax for Corporations***, must be filed if your New York State franchise tax liability can reasonably be expected to exceed \$1,000.

If this expectation arises before the first day of the sixth month of your tax year, file this declaration on or before the 15th day of the sixth month of the tax year. Include with it a payment of one-third of the estimated tax liability. If you made an initial payment with the preceding year's tax return or applied an overpayment of the tax from that return, deduct this amount from the estimated tax before computing the one-third payment. Additional one-third payments are due on the 15th day of the ninth and 12th months. If you report for the calendar year, file a declaration of estimated tax on June 15, September 15, and December 15. If this expectation arises after the first day of the sixth month of your tax year, see 20 NYCRR 7-2.3 to determine your estimated tax payments.

**Form CT-399, *Depreciation Adjustment Schedule***, must be used by each corporation to compute the allowable New York State depreciation deduction if it claims the federal Accelerated Cost Recovery System

(ACRS) depreciation or Modified Accelerated Cost Recovery System (MACRS) deduction for certain property placed in service after December 31, 1980.

This form also contains schedules for determining a New York State gain or loss on the disposition of ACRS or MACRS property.

**Form CT-222, *Underpayment of Estimated Tax by a Corporation***, will help you determine if you have underpaid an estimated tax installment and, if so, compute the penalty due.

**Form DTF-95, *Business Tax Account Update*** — If there have been any changes in the corporation's 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, *Business Tax Account Update*.

If you don't have a form, refer to *Need help?* on page 19 for information on ordering forms.

### When to file

File your return within 2½ months after the end of your reporting period. If your filing date falls on a Saturday, Sunday, or legal holiday, file your return on or before the next business day.

**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 page 19 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**.

### Extension

If you cannot meet the filing deadline, request a six-month extension of time by filing Form CT-5.4, *Request for Six-Month Extension to File New York S Corporation Franchise Tax Return*, on or before the due date of the return. No additional extension of time to file Form CT-3-S or CT-4-S will be granted beyond six months.

### Where to file

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 services* above.

### Additional forms and taxes that may apply to you

**Form CT-6, *Election by a Federal S Corporation to be Treated as a New York S Corporation***, must be filed and approved by the Tax Department in order to receive New York S corporation status.

**Form CT-6.1, *Termination of Election to be Treated as a New York S Corporation***, must be filed to report the termination of New York S corporation status.

**Form CT-8, *Claim for Credit or Refund of Corporation Franchise Tax Paid***, is used to request a refund other than from an overpayment. To speed up processing of the claim, mail it separately from your annual return. A claim for refund based on a net operating loss carryback must be filed within three years of the extended due date of the return for the loss year or within 27 months from the date of the federal credit or refund. A refund based on a federal change must be filed within two years from the date the federal change was required to be reported. All other claims for refunds must be received within three years from the date the return was filed, or two years from the date the tax was paid, whichever is later.

**Form CT-3360, *Federal Changes to Corporate Taxable Income***, must be used to report any correction made by the Internal Revenue

Service (IRS) in taxable income previously reported for any year, including changes based on the renegotiation of a government contract.

**Form CT-240, Foreign Corporation License Fee Return**, must be filed by any corporation organized outside New York State (foreign corporations) in order to pay the license fee based on capital stock. This return must be filed when the corporation files its first franchise tax return, or if capital stock employed in New York State has increased since the last license fee report was filed. For more details see Form CT-240.

**Form CT-33-D, Tax on Premiums Paid or Payable to an Unauthorized Insurer**, must be filed if you purchased or renewed a taxable insurance contract that covers risks located in New York State from an insurer not authorized to transact business in New York State. This return must be filed within 60 days following the end of the calendar quarter in which the contract was purchased or renewed. (See TSB-M-90(9)C for more information.)

**Form CT-186-A, Utility Services Tax Return Gross Operating Income** (Article 9, section 186-a) — A corporation not supervised by the New York State Department of Public Service that engages in the sale or furnishing of gas, electricity, steam, water, or refrigeration must pay a tax of 3.5% on its gross operating income.

**Form CT-186-E or the short Form CT-186-EZ, Telecommunications Tax Return and Utility Services Tax Return** — A corporation that also provides telecommunication services must file a return under section 186-e, excise tax on telecommunication services, and pay a tax on its gross receipts from the sale of telecommunication services. For further information see Form CT-186-E-I, *Instructions for Form CT-186-E*, printed in Form CT-186-E-P (return packet).

**Form CT-189, Tax on Importation of Gas Services** — Article 9, section 189, imposes a tax on gas importers who import, or cause to be imported, gas for their own use. The tax is computed at the rate of 2.1% of the consideration given for the gas. (See TSB-M-91(5)C and TSB-M-97(3)C for more information.)

Consult **Publication 20, Tax Guide for New Businesses**, for additional information regarding other taxes that may apply to you.

**Amended returns** — If you are filing an amended return for any purpose, including an amended return filed with Forms CT-8 or CT-3360, please write **Amended return** across the top.

**Overview of corporation franchise tax**

**Tax bases** — A New York S corporation must compute a tax on entire net income (reduced by its Article 22 equivalent) and a fixed dollar minimum tax. The corporation must pay the tax that results in the highest amount owed.

**Tax rates** — Tax rate schedule for New York S corporations that **do not qualify** as small business taxpayers:

	Tax rate for tax years beginning after June 30, 1999, and before July 1, 2000	Tax rate for tax years beginning after June 30, 2000, and before July 1, 2001
Entire net income base	8.5%	8%
Article 22 tax equivalent reduction	7.525%	7.175%

Tax rate schedule for New York S corporation that **qualify** as small business taxpayers:

	Tax rate for tax years beginning after June 30, 1999, and before July 1, 2003
Entire net income base	7.5%
Article 22 tax equivalent reduction	1. 7.45% of 1st \$200,000; plus 2. 6.85% of amount over \$200,000, but not over \$250,000; plus 3. 3.85% of amount over \$250,000, but not over \$290,000

Fixed dollar minimum tax for New York S corporations applies to both:

- New York S corporations that do not qualify as small business taxpayers; and
- New York S corporations that qualify as small business taxpayers.

For a New York S corporation with a gross payroll of:	Tax amounts for tax years beginning after June 30, 1999
\$250,000 or less	100 *
\$500,000 or less but more than \$250,000	225 *
\$1,000,000 or less but more than \$500,000	325
Less than \$6,250,000 but more than \$1,000,000	425
\$6,250,000 or more	\$1,500

\* Foreign authorized corporations: If the total of your tax is less than \$300, you must increase your payment accordingly to satisfy the \$300 maintenance fee requirement.

**Short periods — proration of fixed dollar minimum tax**

The fixed dollar minimum tax may be reduced for short periods as follows:

Period	Percent reduction
Not more than six months .....	50%
More than six months but not more than nine months .....	25%
Over nine months .....	none

**Penalties and interest**

**Failure to provide shareholder information** — If you don't file Form CT-3-S or CT-4-S on time, providing the shareholder information required (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)). All shareholders of the S corporation during any part of the tax year must be counted. The penalty may be waived if it is shown that the failure is due to reasonable cause and not due to willful neglect.

**Late payment – interest** — If you do not pay the tax due on or before the original due date, you must pay interest on the amount of underpayment from the original due date (without regard to any extension of time for filing) of the return to the date the tax is paid. Exclude from the interest computation any amount representing the first installment of estimated tax for next period. Interest is always due, without any exceptions, on any underpayment of tax. An extension of time for filing does not extend the due date for payment of tax.

**Late filing and late payment – additional charges** — Compute additional charges for late filing and late payment on the amount of tax minus any payment made on or before the due date (**with** regard to any extension of time for filing). Exclude from the penalty computation any amount representing the first installment of estimated tax for the next period.

- 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 a total of 25% (section 1085(a)(1)(A)).
- If you do not file a return within 60 days of the due date, the additional charge in item A cannot be less than the smaller of \$100 or 100% of the amount required to be shown as tax (section 1085 (a)(1)(B)).
- If you do not pay the tax shown on a return, add to the tax ½% per month, up to a total of 25% (section 1085 (a)(2)).
- 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 the return explaining the delay in filing, payment, or both (section 1085).

Note: If you wish, we will compute the interest and penalty for you. Call the Business Tax Information Center at 1-800-972-1233.

**Penalty for understating tax** — If the tax you report is understated by 10% or \$5,000, whichever is greater, you will have to pay a penalty of 10% of the amount of understated tax. You can reduce the amount on which you pay penalty by subtracting any item for which (1) there is or was substantial authority for the way you treated it, or (2) there is adequate disclosure on the return or in an attached statement (see Article 27, section 1085(k)).

**Penalty for underpaying estimated tax** — If you can reasonably expect your New York State franchise tax liability to exceed \$1,000, you must file Form CT-400, *Estimated Tax for Corporations*. A penalty will be imposed if you fail to file a declaration of estimated tax or fail to pay the entire installment payment of estimated tax due. For complete details see Form CT-222, *Underpayment of Estimated Tax by a Corporation*.

**Penalty for failure to provide information relating to your issuer's allocation percentage (applicable for Form CT-3-S only)** — Section 1085(o) of the Tax Law provides for a penalty of \$500 for failure to provide information needed to compute issuer's allocation percentages. Compute the issuer's allocation percentage on Form CT-3-S-ATT, Schedule B.

**Civil and criminal penalties** — Strong civil and criminal penalties may be imposed for negligence or fraud. For more information contact the Taxpayer Assistance Bureau (see *Need help?* on page 19 for address and telephone numbers).

### Termination of business

**Final return** — Check the *Final return* box on page 1 of the return, under the form number, only if filing a final return for one of the following reasons:

- Voluntary dissolution of a New York corporation (New York Business Corporation Law sections 1001 through 1003).
- Surrender of authority by a foreign corporation (New York Business Corporation Law section 1310).
- Merger or consolidation (New York Business Corporation Law sections 904, 905, and 907).
- Disposition of assets of a New York corporation (New York Business Corporation Law section 909(d)).
- Termination of existence of a foreign corporation (New York Business Corporation Law section 1311).
- Liquidation under Internal Revenue Code (IRC sections 332, 333, 334, and 337).

See *Voluntary dissolution and surrender of authority and liability for taxes and fees* below and also Publication 110, *Information and Instructions for Termination of Business Corporations*, for the proper procedures to follow in terminating your business.

In the case of a merger or consolidation, the final return check box would be used only by the non-surviving corporation.

The return will be treated as a final return if your business is terminated with the Department of State and the return covers the tax period from the last return filed to the date of the termination.

Foreign authorized corporations: see page 2 of these instructions, or refer to Form CT-245 if you are disclaiming tax liability but want to continue to be authorized to do business in New York State.

Do not check the *Final return* box if you are only changing the type of return that you file (such as from CT-3 to CT-3-S, or from CT-4-S to CT-3-S).

**Voluntary dissolution and surrender of authority and liability for taxes and fees** — A domestic corporation (incorporated in New York State) is generally liable for corporate franchise taxes for each fiscal or calendar year, or part thereof, during which it is incorporated, regardless of whether it carries on any activity. For example, a person who intends to go into business organizes a new corporation under the New York Business Corporation Law for the purpose of operating the new business as a corporation. However, the business is never started

and the corporation never conducts any business. Under the circumstances, the corporation would usually be liable for franchise taxes for each taxable year until it is formally dissolved with the Department of State.

A foreign corporation (incorporated outside of New York State) is liable for franchise taxes during the period in which it does business, employs capital, owns or leases property, or maintains an office in New York State. In addition, a foreign corporation that is authorized to do business in New York State is also liable for payments of its annual maintenance fee until such time as it surrenders with the Department of State its authority to do business, regardless of whether it does business, employs capital, owns or leases property, or maintains an office in the state. The maintenance fee may be taken as a credit against the franchise tax.

The procedure for obtaining a consent to voluntary dissolution and surrender of authority, and the forms that are required to be filed with the department are set forth in Publication 110. You can request this information by calling the Business Tax Information Center (see *Need help?* on page 19 for telephone number.)

### Reminders

**Mailing label, employer identification number, file number, and other identifying information** — Use the mailing label provided by the Tax Department. The preprinted mailing label contains the taxpayer account identification information necessary for correct and effective processing of your tax return.

Check your label to see that the information is complete and correct. If it is incorrect, make any corrections directly on the label. (You must also file Form DTF-95, *Business Tax Account Update*, with the Tax Department as soon as possible.) If your mailing address is incorrect, check the box under the name and address block at the top of your corporation tax return.

Remove the peel-off label from the front cover of your packet or postcard and place it in the name and address box at the top of your corporation tax return.

For us to process your corporation tax forms, it is important that we have the necessary identifying information from your preprinted label.

**Keep a record of the label information for future use.** Please include your employer identification number and file number on each corporation tax form mailed.

These numbers can be copied directly from the label.

Employer ID number	File number
Name	
Number and street	
City and town	State ZIP code

If you use a paid preparer or accounting firm, make sure they use the mailing label or label information when completing all forms prepared for you.

**Change of address** — If your address has changed, enter your new address on the label and check the box under 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 for address. You must still attach the preprinted label with the old address to enable us to update your account.

**Processible forms** — Returns must be prepared in a manner that will permit their routine handling and processing. Interest will not be paid on an overpayment of taxes until the return is in a processible form.

**Use of reproduced and computerized forms** — Photocopies of returns are acceptable if they are of good quality and have an original signature in the proper place.

Computer-produced corporation tax returns will be accepted if they meet our printing specifications. For more information see

Publication 76, *Specifications for Reproduction of New York State Corporation Tax Forms*.

**Do you need a tax packet?** — If you use a paid preparer, or if you use computer software to prepare your return, or if for any other reason you do not need a tax packet mailed to you for next year's taxes, please check the box above the certification and signature. When you check the box, the following year we will send you a mailing label that you or whoever prepares your return should use on your next return. By checking this box, you will help us reduce printing and mailing costs.

**Signature** — The return must be certified by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or other authorized officer.

The return of a business conducted by a trustee or trustees must be signed by a person authorized to act for the business.

If an outside individual or firm prepared the return, the signature of the person and the name, address and identification number of the firm must be included. Failure to sign the return will delay the processing of any refunds and may result in penalties.

## Line instructions for Form CT-4-S

**Whole dollar amounts** — You may elect to show amounts in whole dollars rather than dollars and cents. Round any amount from 50 cents through 99 cents to the next higher dollar, and 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:  $5,000/7,500 = 0.6666666 = 66.6667\%$ .

**Negative amounts** — Show any negative amounts in parentheses.

**Reporting period** — Your tax year for New York State must be the same as your federal income tax year. 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.

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

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

**Special instructions for computing entire net income by a parent of a QSSS** — Where New York State follows federal QSSS treatment, a New York S corporation that is the parent of a QSSS should compute its entire net income using the following rules:

- 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 and any indebtedness from the QSSS are not subsidiary capital or investment capital of the parent corporation.
- Transactions between the parent corporation and the QSSS, including payment of interest and dividends, are not taken into account.
- General executive officers of the QSSS are deemed to be general executive officers of the parent.

**Line 1** — Enter the amount of federal taxable income that you would have reported on federal Form 1120, line 28, had the election under Subchapter S of Chapter One of the IRC not been made. 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 Form 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.

**Line 2** — Enter all interest received or accrued from federal, state, municipal, and other obligations that was exempt from taxation on your federal income tax return and is, therefore, not included on line 1. You may deduct from this amount any expenses attributable to that interest but denied deductibility under IRC section 265. Attach a list of items included on this line.

**Line 3** — Enter the amount deducted on your federal return for New York taxes imposed under Article 9-A, Article 32, or sections 183, 183-a, 184, and 184-a of Article 9. Include the amount deducted for taxes paid or accrued to the United States, its possessions, other U.S. states, their political subdivisions, any foreign country, and the District of Columbia, if the taxes are on or are measured by profits or income, or include profits or income as a measure of tax, including taxes expressly in lieu of the foregoing. However, do not include New York City taxes.

**Line 4** — Use this line if:

- Your federal depreciation this year includes a deduction for property placed in service after 1980 in a taxable year beginning before 1985, or
- Your federal depreciation deduction this year includes a deduction for property placed in service outside New York in taxable years beginning after 1984 and before 1994, and you choose to continue New York depreciation uncoupling by using IRC section 167 depreciation as your New York depreciation deduction (see TSB-M-99(1)C), or
- You disposed of property this year that was placed in service after 1980, and the New York depreciation deduction on the property was at any time uncoupled from the federal depreciation deduction.

If this line applies, complete Form CT-399. Enter the amount of your federal Accelerated Cost Recovery System (ACRS) or Modified Accelerated Cost Recovery System (MACRS) deduction that must be added back to federal taxable income from Form CT-399, line 8, or, if you disposed of property this year, use the amount from line 16, column A of Form CT-399. Enter your recomputed New York deduction on line 6.

**Line 6** — Use this line if:

- Your federal depreciation this year includes a deduction for property placed in service after 1980 in a taxable year beginning before 1985, or
- Your federal depreciation deduction this year includes a deduction for property placed in service outside New York State in taxable years beginning after 1984 and before 1994, and you choose to continue New York depreciation uncoupling by using IRC section 167 depreciation as your New York depreciation deduction (see TSB-M-99(1)C), or
- You disposed of property this year which was placed in service after 1980, and the New York depreciation deduction on the property was at any time uncoupled from the federal depreciation deduction.

If this line applies, in place of the disallowed ACRS or MACRS deduction entered on line 4, enter the amount from Form CT-399, line 9, column I, or, if you disposed of property this year, enter the amount from line 16, column B. Attach Form CT-399.

**Line 7** — Include any refund or credit of a tax imposed under Article 9, sections 183, 183-a, 184, and 184-a, Article 9-A, or Article 32 of the Tax Law, for which no deduction was allowed in computing your entire net income in any prior year. Do not include on this line any refund or credit of tax that was used to offset an addition of tax on line 3. Do not include any refund or credit of New York City franchise taxes.

**Line 9** — Subtract line 8 from line 5. This is your entire net income. If your entire net income is over \$200,000, do not continue; you must file Form CT-3-S.

**Tax computation**

**Lines 10** — If your gross payroll is \$250,000 or less, enter \$100 on line 10. If your gross payroll is over \$250,000, do not continue; you must file Form CT-3-S.

Foreign authorized corporations: Since your tax is less than \$300, you must increase your payment to satisfy the \$300 maintenance fee requirement.

**Lines 13 and 14** — If you are not filing this return on time you must pay interest and additional charges. See *Penalties and interest* on page 4.

**Lines 16a and 16b** — If you want to contribute to Return a Gift to Wildlife or the Gift for Breast Cancer Research and Education, enter the amount on the appropriate line. The amount you give must be in whole dollars. Your gift will increase your payment or reduce your overpayment. You may not change the amount of your gift after you file the return.

**Line 18 Unrequested refunds to be credited forward** — If the corporation overpays its tax, it will not automatically receive a refund. Instead, we will credit your overpayment to the following tax year unless you indicate a refund on line 20. We will notify you that the overpayment has been credited and explain how to request a refund of the credited amount. If you choose to request a refund of the credited amount, you must claim the refund prior to the original due date of the following year's return.

**Lines 19 and 20** — You may apply an overpayment as a credit to your next state franchise tax period or you may have it refunded. Indicate on lines 19 and 20 the amounts you wish transferred as credits or refunded.

**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 IRS or to 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 for a social services district. We will refund any amount over your debt.

If you have any questions about whether you owe a past-due legally enforceable debt to the IRS or to 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 outside Canada call (518) 485-6800) or write to NYS Tax Department, Tax Compliance Division, W A Harriman Campus, Albany NY 12227.

**Line 21** — Fill in this line if you qualify as a small business taxpayer. See *Small business taxpayers* on page 2. Use the worksheet below to determine the amount to be entered on line 21. Use your balance sheet amounts for stock and other paid-in capital.

	Number of shares	Amount
Par value stock		
No-par stock		
Contribution to capital and paid-in surplus		
Total capital contribution (enter on line 21)		

**Line instructions for Form CT-3-S**

**Whole dollar amounts** — You may elect to show amounts in whole dollars rather than in dollars and cents. Round any amount from 50 cents through 99 cents to the next higher dollar, and 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:  $5,000/7,500 = 0.6666666 = 66.6667\%$ .

**Negative amounts** — Show any negative amounts in parentheses.

**Reporting period** — Your tax year for New York State must be the same as your federal income tax year. 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.

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

**Additional schedules** — You may need to use additional schedules to complete your return. Schedules A through D appear on Form CT-3-S-ATT. If you use any schedules you must attach them to your return.

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

**Special instructions for computing entire net income by a parent of a QSSS** — Where New York State follows federal QSSS treatment, a New York S corporation that is the parent of a QSSS should compute its entire net income using the following rules:

- 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 and any indebtedness from the QSSS are not subsidiary capital or investment capital of the parent corporation.
- Transactions between the parent corporation and the QSSS, including payment of interest and dividends, are not taken into account.
- General executive officers of the QSSS are deemed to be general executive officers of the parent.

**Line 1** — Enter the amount of federal taxable income that you would have reported on federal Form 1120, line 28, had the election under Subchapter S of Chapter One of the IRC not been made. 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 Form 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.

**Lines 2 through 7 Additions** — Use lines 2 through 7 to add items that are not included in federal income but must be included in New York State entire net income.

**Line 2** — Enter all interest received or accrued from federal, state, municipal, and other obligations that was exempt from taxation on your federal income tax return and is, therefore, not included on line 1. You may deduct from this amount any expenses attributable to such interest but denied deductibility under IRC section 265. Attach a list of items included on this line.

**Line 3a through 4b Subsidiaries** — If you have a subsidiary, you must complete Form CT-3-S-ATT, Schedule C. If you have subsidiary capital included on Form CT-3-S-ATT, line 45, column C, complete lines 3a, 3b, 4a, and 4b to report any expenses directly or indirectly

attributable to subsidiary capital. Taxpayers should refer to TSB-M-88(5)C for complete details regarding the attribution of interest expenses and TSB-M-95(2)C regarding the attribution of noninterest expenses. If you do not have a subsidiary, enter zero on lines 3a, 3b, 4a, and 4b. See the following definitions of a subsidiary corporation and subsidiary capital.

A *subsidiary corporation* is a corporation, not including a domestic international sales corporation (DISC), of which you own more than half of the voting stock issued and outstanding. 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 or chains. See 20 NYCRR 3-6.2 for additional information.

*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 under Articles 9-A, 32, or 33 of the Tax Law.

**Line 3a** — Enter the amount of **interest** deductions allowed in the computation of entire net income (that is, includable in the amount on *Line 4a Worksheet*, line E, on page 20) that are **directly** attributable to subsidiary capital (or to income, losses, or gains from subsidiary capital).

**Line 3b** — Enter the amount of **noninterest** deductions allowed in the computation of entire net income (that is, includable in the amount on *Line 4b Worksheet*, line E, on page 20) that are **directly** attributable to subsidiary capital (or to income, losses, or gains from subsidiary capital).

The direct attribution of deductions is based on an analysis of facts and circumstances. Deductions directly attributable to subsidiary capital or income include but are not limited to the following:

- Interest on debt incurred to buy subsidiary capital.
- Salaries of employees engaged in the management, supervision, or conservation of subsidiary capital.
- Expenses for legal advice relating to the acquisition of subsidiary capital.
- Stewardship deductions relating to subsidiary capital.

Do not include on lines 3a and 3b interest deductions or noninterest deductions that are directly attributable to:

- Investment capital (or to income, losses, or gains from investment capital); see Form CT-3-S-ATT, lines 63 and 64.
- Business capital (or to income, losses, or gains from business capital).

**Note:** For tax years beginning in 1995 or after, certain expenses may, at the taxpayer's election, be **deemed** to be directly attributable to business capital (or income, losses, or gains from business capital). These expenses include, among others: depletion, advertising, research and development expenses, compensation packages of chief executive officer, chief financial officer, and chief operating officer, charitable contributions, and internal auditing expenses. For a complete listing of deductions so **deemed** attributable to business capital, see section III (A)(1) of TSB-M-95(2)C.

If at least 95% of the noninterest deductions of an operating division or corporation are directly attributable to a particular class of capital or income, 100% of the noninterest deductions of that division or corporation may be directly attributed to that class of capital or income. See section IV of TSB-M-95(2)C for details.

**Line 4a** — Compute the amount of **interest** deductions that are **indirectly** attributable to subsidiary capital (or to income, gains, or losses from subsidiary capital) using *Line 4a Worksheet*, on page 20.

**Line 4b** — Compute the amount of **noninterest** deductions that are **indirectly** attributable to subsidiary capital (or to income, gains, or losses from subsidiary capital) using *Line 4b Worksheet*, on page 20.

**Line 5** — Enter the amount deducted on your federal return for taxes imposed under Article 9, sections 183, 183-a, 184, 184-a, Article 9-A, and Article 32. Include the amount deducted for taxes paid or accrued to the United States, its possessions, other U.S. states, their political subdivisions, any foreign country, and the District of Columbia, if the taxes are on or are measured by profits or income, or include profits or income as a measure of tax, including taxes expressly in lieu of the foregoing. However, do not include New York City franchise taxes.

**Line 6** — Use this line if:

- Your federal depreciation this year includes a deduction for property placed in service after 1980 in a taxable year beginning before 1985, or
- Your federal depreciation deduction this year includes a deduction for property placed in service outside New York State in taxable years beginning after 1984 and before 1994, and you choose to continue New York depreciation uncoupling by using IRC section 167 depreciation as your New York depreciation deduction (see TSB-M-99(1)C), or
- You disposed of property this year which was placed in service after 1980, and the New York depreciation deduction on the property was at any time uncoupled from the federal depreciation deduction.

If this line applies, complete Form CT-399. Enter from Form CT-399, line 8, the amount of your federal accelerated cost recovery system (ACRS) and modified accelerated cost recovery system (MACRS) deduction that must be added back to federal taxable income. If you disposed of property this year, use the amount from Form CT-399, line 16, column A. Enter your recomputed New York deduction on line 13.

**Line 7** — If you have any of the following other additions to federal taxable income, enter the total amount of those additions and attach a list.

**A-1** If your corporation has a safe harbor lease you must include:

- Any amount you claimed as a deduction in computing federal taxable income solely as a result of an election made under section 168(f)(8) of the IRC as it was in effect on December 31, 1983.
- Any amount you would have been required to include in the computation of your federal taxable income if you had not made the election permitted under section 168(f)(8) of the IRC as it was in effect on December 31, 1983.

**A-2** The amount of special additional mortgage recording tax paid in tax years beginning after 1993 under section 253(1-a) of the Tax Law allowed as a deduction in determining federal taxable income, where a credit or a refund is allowed on Form CT-43 for the tax year.

**A-3** The amount of special additional mortgage recording tax paid in tax years beginning after 1993, under section 253(1-a) of the Tax Law, when property for which the tax was paid is sold or disposed of at a gain or loss, and the basis of the property was not adjusted by the special additional mortgage recording tax credit if a credit or refund was allowed on Form CT-43.

**A-4 Qualified emerging technology investments (QETI)** — If you elected to defer the gain from the sale of QETI, then you must add to federal taxable income the amount previously deferred when the reinvestment in the New York qualified emerging technology company which qualified you for that deferral is sold. See subtraction S-5 on page 10.

**A-5** Qualified public utility corporations must make the required additions under section 208.9(c-2) of the Tax Law. Qualified power producers and qualified pipeline corporations must make the required additions under section 208.9(c-3) of the Tax Law. For additional information see instructions for Schedule E, Form CT-3-S-ATT.

**Lines 9 through 14 Subtractions** — Use lines 9 through 14 to subtract items that are included in federal taxable income but should not be included in New York State entire net income.

**Line 9** — If you have a subsidiary, complete Schedule C on Form CT-3-S-ATT and enter the amount from Part II, line 51. This amount must include capital gains and any other income and gain from subsidiary capital that was included as part of federal taxable income. Do not include foreign dividends gross-up under IRC section 78. A DISC does not qualify as a subsidiary.

Include as subsidiary dividends any subpart F income received from a controlled foreign corporation in which you own more than 50% of the voting stock (see federal Form 1120, Schedule C, line 14).

**Line 10** — Enter 50% of dividends received from nonsubsidiary stock that meets the holding requirements of IRC section 246(c). Include 50% of subpart F income received from a controlled foreign corporation in which you own 50% or less of the voting stock (see federal Form 1120, Schedule C, line 14). Include 50% of the dividends received from a money market mutual fund included as cash on Form CT-3-S-ATT, Schedule D, Part I, Section II, line 54. Do not include *grossed-up* dividends, pursuant to section 78 of the IRC. For more information see TSB-M-89(14)C.

**Line 11** — Enter foreign dividend gross-up pursuant to section 78 of the IRC (see federal Form 1120, Schedule C, line 15). Entire net income **does not include** a New York amount treated as dividends pursuant to section 78 of the IRC (section 208.9(a)(6)).

**Line 12** — A New York S corporation is allowed a net operating loss deduction that is based upon the deduction allowed under section 172 of the IRC, had the corporation not made the election under Subchapter S of Chapter One of the IRC (the amount that would have been entered as net operating loss deduction on federal Form 1120, line 29a).

These rules apply:

- a) A deduction is not allowed for a net operating loss sustained during any taxable year:
  - Beginning before January 1, 1990, or
  - In which the corporation was not subject to tax under Article 9-A, or
  - In which the corporation was a New York C corporation.
- b) IRC section 172 federal losses must be adjusted in accordance with Article 9-A, section 208.9(a), (b), and (g).
- c) The New York State net operating loss deduction is limited to the amount required under section 172 of the IRC to reduce federal taxable income to zero.
- d) You may carry a net operating loss back or forward. Both a New York C year and a New York S year are counted as a tax year for determining the number of tax years for which a net operating loss may be carried back or carried forward.
- e) For net operating losses sustained in taxable years beginning on or before August 5, 1997, the net operating loss may be carried back three years and carried forward 15 years. For net operating losses sustained in taxable years beginning after August 5, 1997, the net operating loss may be carried back two years instead of three years (with an exception for certain disaster losses), but may be carried forward for 20 years.
- f) The New York State net operating loss carryback is computed as if the corporation elected under section 172 of the IRC to relinquish

the carryback provisions, except for the first \$10,000 for each loss year that may be carried back to preceding years.

- g) Any portion of the New York State \$10,000 net operating loss carryback that was not carried back to preceding years may be carried forward.
- h) The New York net operating loss deduction for any particular year is limited to the federal net operating loss deduction for that year. (For the purposes of this limitation, a corporation that has elected to carryback up to \$10,000 of its net operating loss for New York State purposes should compute its federal net operating loss deduction as if it only carried back the same \$10,000).
- i) You may elect to relinquish the carryback period. The election must be filed on or before the due date (or extended due date) of the return for the loss year. Any corporation that does not make an election on time must carry the first \$10,000 of the net operating loss back before the loss can be carried forward.

**Line 13** — Use this line if:

- Your federal depreciation this year includes a deduction for property placed in service after 1980 in a taxable year beginning before 1985, or
- Your federal depreciation deduction this year includes a deduction for property placed in service outside New York in taxable years beginning after 1984 and before 1994, and you choose to continue New York depreciation uncoupling by using IRC section 167 depreciation as your New York depreciation deduction (see TSB-M-99(1)C), or
- You disposed of property this year that was placed in service after 1980, and the New York depreciation deduction on the property was at any time uncoupled from the federal depreciation deduction.

If this line applies, in place of the disallowed ACRS or MACRS deduction entered on line 6, 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 9, column I; if you have disposed of property this year, enter the amount from line 16, column B, and attach Form CT-399.

**Line 14** — If you have any of the following other subtractions from federal taxable income, enter the total amount of those subtractions and attach a list.

**S-1** If you have receipts from the operation of school buses, include all receipts from the transportation of pupils, teachers, and others acting in a supervisory capacity to and from school or school activities, minus deductions allowed in computing federal income that are directly or indirectly attributable to those receipts.

**S-2** Include any refund or credit of a tax imposed under Article 9-A or Article 32 of the Tax Law, for which no exclusion or deduction was allowed in determining the taxpayer's entire net income for any prior year, or any refund or credit of a tax imposed under section 183, 183-a, 184, or 184-a of the Tax Law. Do not include on this line any refund or credit of tax that was used to offset an addition of tax on line 5. Do not include any refund or credit of New York City taxes.

**S-3** Include the amount of wages disallowed under IRC section 280(C) in the computation of your federal taxable income because you claimed a federal credit. Attach a copy of the appropriate federal credit form.

**S-4** If your corporation has a safe harbor lease, include the following items:

- Any amount included in your federal taxable income solely as a result of an election made under IRC section 168(f)(8) as it was in effect on December 31, 1983.
- Any amount you could have excluded from federal taxable income if you had not made the election provided for in IRC section 168(f)(8)

as it was in effect on December 31, 1983. Leases for qualified mass-commuting vehicles as determined in IRC section 103(b)(9) are exempt from these adjustments.

**S-5** You may defer the gain on the sale of qualified emerging technology investments (QETI) that are held for more than 36 months and rolled over into the purchase of a QETI within 365 days. Replacement QETI must be purchased within the 365-day period beginning on the date of sale. Gain is not deferred and must be recognized to the extent that the amount realized on the sale of the original QETI exceeds the cost of replacement QETI. The gain deferral applies to any QETI sold on or after March 12, 1998, that meets the holding-period criteria. The gain deferred must be added back in the year the replacement QETI is sold.

If you elect the gain deferral, deduct from federal taxable income the amount of the gain deferral (to the extent the gain is included in federal taxable income). If purchase of the replacement QETI within the 365-day period occurs in the same taxable year as the sale of the original QETI, or in the following taxable year and before the date the corporation's franchise tax return is filed, take the deduction on that return. If purchase of the replacement QETI within the 365-day period occurs in the following taxable year and on or after the date the corporation's franchise tax return is filed, you must file an amended return to claim the deduction.

A *QETI* is an investment in the stock of a corporation or an ownership interest in a partnership or limited liability company (LLC) that is a qualified emerging technology company. A *QETI* is also an investment in a partnership or an LLC, to the extent that such partnership or LLC invests in qualified emerging technology companies. The investment must be acquired by the taxpayer as provided in IRC section 1202(c)(1)(B), or from a person who acquired it pursuant to this section. IRC section 1202(c)(1)(B) requires the acquisition to be original issue from the company, either directly or through an underwriter, and in exchange for cash, services, or property (but not stock).

A *qualified emerging technology company* is a company located in New York State that has total annual product sales of \$10 million or less and that meets either of the following criteria: (1) its primary products or services are classified as emerging technologies; or (2) it has research and development activities in New York State and its ratio of research and development funds to net sales equals or exceeds the average ratio for all surveyed companies classified (as determined by the National Science Foundation in the most recently published results from its survey *Research and Development in Industry: 1997*, or a comparable successor survey as determined by the department).

**S-6** Victims or targets of Nazi persecution: Include the amount received (including accumulated interest) from an eligible settlement fund, or from an eligible grantor trust established for the benefit of these victims or targets, if included in your federal taxable income. Do not include amounts received from assets acquired with such assets or with the proceeds from the sale of such assets (section 13 of the Tax Law).

**S-7** Qualified public utility corporations and transferees must make the required subtractions under section 208.9(c-2) of the Tax Law. Qualified power producers and qualified pipeline corporations must make the required subtractions under section 208.9(c-3) of the Tax Law. For additional information see instructions for Schedule E, Form CT-3-S-ATT.

**Line 16** — Subtract line 15 from line 8 to determine your entire net income. To show a loss, use parentheses. If line 16 is a loss, without regard to the deduction on line 12, complete the net operating loss carryback election on Form CT-3-S, page 2.

**Lines 17 through 21 Entire net income base** — The *entire net income base* is the portion of your entire net income allocated to New York State with certain adjustments. It may consist of both business and investment income.

**Line 17** — Complete Form CT-3-S-ATT, Schedule D, Part II, and enter the amount of your investment income from line 70. Do not enter more than the amount from line 16. If you had no investment income, enter "0" and do not use Schedule D.

**Line 20** — Multiply line 18 by your business allocation percentage from Form CT-3-S-ATT, Schedule A, line 19, 27, or 29. If your property, payroll, and sales were entirely within New York State, enter the full amount from line 18 and do not use Schedule A.

**Line 22** — If the entire net income base shown on line 21 is a loss, enter "0" on line 22. If the entire net income base on line 21 is a gain, determine your tax rate for line 22. To determine your tax rates, you must determine whether you are a regular taxpayer or if you qualify as a small business taxpayer under section 210.1(f) of the Tax Law.

- Regular taxpayers multiply line 21 by the regular tax rate of:
  - 8.5% for tax years beginning after June 30, 1999, and before July 1, 2000.
  - 8% for tax years beginning after June 30, 2000, and before July 1, 2001.
- Small business taxpayers multiply line 21 by the small business tax rate of 7.5% for tax years beginning after June 30, 1999, and before July 1, 2003.

See tax rate tables on page 4.

**Small business taxpayer** — A corporation qualifies as a small business taxpayer if:

- its entire net income on line 16 (before allocation) is not more than \$290,000; **and**
- the aggregate amount of money and property it received for stock, as a contribution to capital and as paid-in surplus is not more than \$1,000,000 on the last day of its taxable year; **and**
- the corporation is not part of an affiliated group, as defined in IRC section 1504, unless the group itself would have met the above criteria if it had filed a combined return.

**Small business taxpayer – short periods** — A New York S corporation that files Form CT-3-S for a tax year of less than 12 months must annualize entire net income on line 16 to determine if its annualized net income is not more than \$290,000, to qualify as a small business taxpayer. For a period of less than 12 months, annualize the entire net income on line 16 by dividing it by the number of months in the short period and multiplying the result by 12.

**Line 23** — If the entire net income base shown on line 21 is a loss, enter "0" on line 23. If the entire net income base on line 21 is a gain, determine your Article 22 tax equivalent reduction rate.

- Regular taxpayers multiply line 21 by the Article 22 tax equivalent reduction rate of:
  - 7.525% for tax years beginning after June 30, 1999, and before July 1, 2000.
  - 7.175% for tax years beginning after June 30, 2000, and before July 1, 2001.
- Small business taxpayers multiply line 21 by the small business Article 22 tax equivalent reduction rate of:
  - A. 7.45% of the first \$200,000, plus
  - B. 6.85% of the amount over \$200,000, but not over \$250,000, plus
  - C. 3.85% of the amount over \$250,000, but not over \$290,000.

See the tax rate tables on page 4.

**Line 25 Fixed dollar minimum tax before Article 22 tax equivalent reduction** — The fixed dollar minimum tax is determined by the gross payroll. The fixed dollar minimum taxes are listed on page 4.

*Gross payroll* is the total wages, salaries, and other personal services compensation of all employees including general executive officers, wherever located. For a period of less than 12 months, annualize gross payroll by dividing it by the number of months in the short period and multiplying the result by 12.

Use the total amounts shown on federal Form 1120S, lines 7 and 8, plus any wages included in the cost of goods sold, Form 1120S, Schedule A, line 8.

**Line 27 Fixed dollar minimum tax after Article 22 tax equivalent reduction** — Subtract line 26 from line 25.

The Article 22 tax equivalent reduction amount cannot reduce the fixed dollar minimum tax to less than \$100, reduced for tax periods of nine months or less.

**Line 28** — See example below for computation of tax on entire net income base. Note that the fixed dollar minimum tax cannot go below \$100, and that the fixed dollar minimum tax would apply in a loss year.

*Example: Corporation X qualifies as a small business corporation under section 210.1(f) of the New York State Tax Law. The corporation is filing Form CT-3-S for the tax year January 1, 2000, through December 31, 2000. The corporation has entire net income on line 21 of \$210,000, and has a gross payroll on line 25 of \$300,000. The tax computation would be:*

Line 22	—	\$210,000 × 7.5%	.....	\$ 15,750
Line 23	—	\$200,000 × 7.45%	=	\$14,900
		\$10,000 × 6.85%	=	\$685
		Total line 23 Article 22 tax equivalent reduction ..		\$ 15,585
Line 24	—	Tax on entire net income base .....		\$ 165
Line 25	—	Fixed dollar minimum tax before Article 22 tax equivalent reduction .....		\$ 225
Line 26	—	Article 22 tax equivalent reduction .....		\$ 15,585
Line 27	—	Fixed dollar minimum tax .....		\$ 100
Line 28	—	Tax (amount from line 24 or line 27, whichever is larger) .....		\$ 165

Note: The amount of fixed dollar minimum tax on line 27 (after the Article 22 tax equivalent reduction) cannot be less than \$100 (the lowest category of fixed dollar minimum tax applicable for the tax year). If the tax period was less than 12 months, the fixed dollar minimum tax of \$100 may be reduced by 50% or 25%, as shown on page 4 of these instructions.

**Line 29** — Enter the amount of special additional mortgage recording tax credit from Form CT-43, line 9.

**Line 31** — The special additional mortgage recording tax credit cannot reduce the franchise tax below the fixed dollar minimum tax on line 27. If line 30 is less than the fixed dollar minimum tax shown on line 27, enter on line 31 the fixed dollar minimum tax from line 27.

**Line 32** — If you claimed any New York State tax credits during any year before you became a New York S corporation and the property on which you claimed the credit is disposed of or ceases to be in qualified use, you must recapture the credit.

Use the appropriate credit form to compute the recaptured tax credits.

**Line 35b** — If you did not file Form CT-5.4 and the amount on line 34 is more than \$1,000, you must pay a mandatory first installment for the period following that covered by this return. Enter 25% of the tax shown on line 34.

**Line 45** — If you underpaid your estimated tax, use Form CT-222, *Underpayment of Estimated Tax by a Corporation*, to compute the penalty. Attach Form CT-222, check the box and enter the penalty on line 45. If no penalty is due, enter "0" on line 45.

**Lines 46 and 47** — If you are not filing this return on time, you must pay interest and additional charges. See *Penalties and interest* on page 4.

**Line 49** — If you want to make a contribution to the Return a Gift to Wildlife or the Gift for Breast Cancer Research and Education, enter the amount in the appropriate box. Enter the total of both gifts on line 49. The amount you give must be in whole dollars. Your gift will increase your payment or reduce your overpayment. You may not change the amount of your gift after you file the return.

**Line 51 Unrequested refunds to be credited forward** — If you have overpaid your tax, you will not automatically receive a refund. Instead, we will credit your overpayment to the following tax year unless you indicate a refund on line 53. We will notify you that the overpayment has been credited and explain how to request a refund of the credited amount. If you choose to request a refund of such credited amount, you must claim a refund of such overpayment prior to the original due date of the following year's return.

**Lines 52 and 53** — You may apply an overpayment as a credit to your next state franchise tax period or you may have it refunded. Indicate on lines 52 and 53 the amounts you wish transferred as credits or refunded.

**Line 54** — Enter the amount of refundable special additional mortgage recording tax credit from Form CT-43, line 18. Do not include on this line any amount of special additional mortgage recording tax credit shown on Form CT-43, line 9.

**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 IRS or to 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 for a social services district. We will refund any amount over your debt.

If you have any questions about whether you owe a past-due legally enforceable debt to the IRS or to 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.

**Lines 55 and 56 Small business taxpayer** — If you used the small business tax rate on line 22, you must complete line 56 to show that your corporation qualifies for the lower tax rate. See the instructions for line 22 for the definition of a small business taxpayer. Use the worksheet below to determine the amount to be entered on line 56. Use your balance sheet amounts for stock and other paid-in capital.

	Number of shares	Amount
Par value stock		
No-par stock		
Contribution to capital and paid-in surplus		
Total capital contribution (enter on line 56)		

**Signature** — This return must be signed by an officer of the corporation. Failure to sign the return will delay the processing of any refunds and may result in penalties. (See *Signature* on page 6.)

**Line instructions for Form CT-3-S-ATT, Schedules A, B, C, D, and E**

**Schedule A, Part I — Computation of business allocation percentage**

The *property factor* is the percentage of the average value of your real and tangible personal property, whether owned or rented, that is located within New York State. The *business receipts factor* is the percentage of your business receipts attributable to New York State. The *payroll factor* is the percentage of your payroll that is attributable to New York State.

**Lines 1 through 5** — Enter the New York State amounts in column A and the total amounts in column B.

You must value real and tangible personal property owned by the corporation at the adjusted basis for federal income tax purposes. However, you may make a one-time, revocable election to value real and tangible personal property at fair market value. You must make this election on or before the due date (or extended due date) for filing the franchise tax return for your first tax year.

**Line 1** — Enter the average value of real property you owned. Do not include real property and related equipment (except inventoriable goods) that are under construction and are not occupied or used during construction. Include property or equipment under construction that is partially used in the regular course of business only to the extent used.

**Line 2** — Enter the average value of real property rented to you as lessee. The value of rented real property is generally eight times the gross rent payable during the year covered by this return. Gross rent includes any amount payable as rent or in lieu of rent (such as taxes or repairs) and amortization of leasehold improvements that revert to the lessor at the end of the lease.

**Line 3** — Enter the average value of inventories.

**Line 4** — Enter the average value of tangible personal property you owned such as machinery, tools, and implements. Do not include cash, shares of stock, bonds, notes, credits, evidences of an interest in property, or evidences of credit.

**Line 5** — Enter the average value of tangible personal property rented to you as lessee. The value of rented tangible personal property is generally eight times the gross rent payable during the year covered by this return.

**Lines 8 and 9** — Receipts from the sale of tangible personal property are allocable to New York State if:

- Shipments are made to points in New York State.
- The receipts are earned within New York State.

Receipts from the sale of tangible personal property are allocated to New York State if:

- The property is shipped via common carrier, contract carrier, or via the taxpayer's vehicle or other means of transportation, to a point in New York State. If the property is shipped to a point in New York State, it is presumed that the destination of the property is a point in New York State, unless the taxpayer has evidence that shows the property was shipped to a point outside New York State. It doesn't matter who arranges for the shipment of the property.
- The possession of the property is transferred to a purchaser or purchaser's designee at a point in New York State. If possession of the property is transferred in New York State, it is presumed that the destination of the property is a point in New York State, unless the taxpayer has evidence that shows that the destination of the property is a point outside New York State.

- The possession of the property is transferred to a purchaser or purchaser's designee at a point outside New York State, if the destination of the property is a point in New York State. If possession of the property is transferred outside New York State, it is presumed that the destination of the property is a point outside New York State, unless the taxpayer has evidence that shows the destination of the property is a point in New York State.

Examples of types of evidence sufficient to demonstrate the destination of property include:

- A bill of lading or other shipping document designating the destination location, regardless of the F.O.B. point.
- A purchase invoice designating the destination location.

The Arts and Cultural Affairs Law has been amended to provide that receipts from the sale of works of art, by an art merchant, are receipts from the sale of tangible personal property (rather than receipts for services performed).

The amendment applies to works of art that are:

- created by an artist or craftsman; **and**
- consigned by such artist or craftsman to an art merchant; **and**
- sold by the art merchant on and after August 9, 1995.

The amendment does not apply to consigned works of art sold at a public auction.

**Line 10** — Enter receipts for services performed, based on where they are performed.

**Receipts from broadcasting or publishing** — Corporations engaged in broadcasting or the publication of newspapers and periodicals must allocate to New York State receipts from the sale of advertising to the extent that the broadcasts or publications are delivered to the ultimate purchasers, subscribers, listeners, or viewers in New York State.

**Receipts for services to regulated investment companies** — Chapter 345 of the Laws of 1988 provided a new method for the allocation of receipts received from an investment company for the sale of management, administration, or distribution services. One hundred percent of the receipts from these services must be allocated based on the domicile of the shareholders of the investment company (section 210.3(a)(6)(A)(ii)). For a full description of the amendment to the law see TSB-M-88(9)C.

**Receipts for services by air freight forwarders** — Receipts for services performed by air freight forwarders acting as principal, and like indirect air carriers, are allocated to New York State as follows:

Receipts from:	Allocate receipts
• Pickup and deliveries both made in New York State .....	100% to New York State
• Pickup only made in New York State .....	50% to New York State
• Delivery only made in New York State ...	50% to New York State

**Receipts for transporting or transmitting gas through pipes** — Receipts from the service of transporting or transmitting gas through pipes are allocated to New York State using the following fraction:

$$\frac{\text{miles of transportation units within New York State}}{\text{miles of transportation units within and outside New York State}} \times \frac{\text{Receipts from the service of transporting or transmitting gas through pipes}}{\text{Receipts from the service of transporting or transmitting gas through pipes allocated to New York State}} =$$

A transportation unit is the transportation of one cubic foot of gas over a distance of one mile.

**Line 11** — Enter receipts from all property you rented to others. Rental receipts are attributable to the location of the property.

**Line 12** — Enter receipts from royalties, allocated where earned.

**Line 13** — Enter all other business receipts, allocated where earned.

**Line 16** — Enter the total amount of all wages and compensation of employees other than general executive officers.

*General executive officers* include the chairman, president, vice president, secretary, assistant secretary, treasurer, assistant treasurer, comptroller, and any other officer charged with the general executive affairs of the corporation. An executive officer whose duties are restricted to territory either inside or outside New York State is not a general executive officer. Employees within New York State include all employees regularly connected with or working out of an office or other place of business you maintained within New York State, no matter where the services of the employees were performed.

**Line 19** — Divide line 18 by three or by the number of factors. This is your allocation percentage for business income and capital. Enter this amount on Form CT-3-S, line 20, and on Form CT-3-S-ATT, Schedule B, line 42. If a factor is missing, add the remaining factors and divide by the total number of factors present. If all factors but one are missing, the remaining factor is the allocation percentage. A factor is missing only if both column A and column B are zero.

*Example: Computation of allocation percentage for business income and capital:*

	<u>Corp. A</u>	<u>Corp. B</u>	<u>Corp. C</u>
Property factor	80%	60%	60%
Receipts factor	20%	30%	30%
Payroll factor	60%	0%	None*
Total	160%	90%	90%
Divided by	3	3	2
Allocation percentage for business income and capital	53%	30%	45%

\* In the example above, Corporation C has no payroll factor since it has no employees either inside or outside New York State. Corporation B has no employees in New York State but has employees outside New York State.

### Schedule A, Part II — Computation of business allocation percentage for aviation corporations

**Line 20 Aircraft arrivals and departures** — Enter the number of landings and takeoffs of an aircraft of an aviation corporation and the number of pickups and deliveries by the aircraft. Do not include arrivals and departures for maintenance, repair, refueling (where no debarkation or embarkation of traffic occurs), training, emergencies, and nonrevenue flights.

**Line 22 Revenue tons handled** — Enter the weight, in tons, of revenue passengers (at 200 pounds per passenger) and revenue cargo first received as originating or connecting traffic, or finally discharged at an airport.

**Line 24 Originating revenue** — Enter revenue from the transportation of revenue passengers and revenue property first received as originating or connecting traffic.

### Schedule A, Part III — Computation of business allocation percentage for trucking and railroad corporations

Beginning January 1, 1998, trucking and railroad corporations that have not made an election to remain taxable under Article 9 are taxable under Article 9-A.

Use Schedule A, Part III to compute the business allocation percentage. The business allocation percentage is computed on the basis of mileage and is used to allocate business income when determining the entire net income base.

The *mileage allocation* is a percentage based on the number of revenue miles traveled within New York State, compared to the total revenue miles traveled everywhere (exclude non-revenue miles, such as deadheading miles).

**Line 28** — Enter on line 28, column A, the number of revenue miles within New York State.

Enter on line 28, column B, the number of revenue miles everywhere.

### Schedule B — Computation and allocation of capital

To determine the value of your assets for the capital base computations, you must include real property and marketable securities at fair market value. All other property must be included at the value shown on your books in accordance with generally accepted accounting principles. Use lines 30 through 34 to adjust the assets you reported on your federal return.

On lines 30 through 35, enter the values at the beginning of the year in column A and at the end of the year in column B. Enter the average value in column C. Average value is generally computed quarterly if your usual accounting practice permits it. However, you may use a more frequent basis such as monthly, weekly, or daily. If your usual accounting practice does not permit a quarterly or more frequent computation of the average value of assets, you may use a semiannual or annual computation if no distortion of average value results.

**Line 30** — Enter your total assets from the balance sheet of your federal tax return.

**Line 31** — Enter the federal balance sheet value of any real property and marketable securities included on line 30.

**Line 33** — Enter the fair market value of real property and marketable securities included on line 31. The *fair market value* of an asset is the price (without deduction of an encumbrance, whether or not the taxpayer is personally liable) at which a willing seller will sell and a willing purchaser will buy. You can generally find the fair market value of marketable securities from price quotes in financial newspapers. To determine fair market value of real property, see TSB-M-85(18.1)C.

**Line 35** — Enter the amount of all liabilities (both long and short term) when computing the capital base. Use the same method of averaging that you used to determine average value of assets.

### Schedule C — Computation of subsidiary capital and subsidiary income

Complete Schedule C if you have any subsidiaries. A *subsidiary* is a corporation that is controlled by the taxpayer, because the taxpayer owns more than 50% of the total number of shares of the corporation's voting capital stock, issued and outstanding. A DISC is not a subsidiary.

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, chains, or both. See 20 NYCRR 3-6.2 for additional information.

### Schedule C, Part I — Computation and allocation of subsidiary capital

*Subsidiary capital* is the taxpayer's total investment in shares of capital stock of 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, minus liabilities directly or indirectly attributable to subsidiary capital.

When computing the amount of indebtedness owed to the taxpayer by its subsidiaries, consider each subsidiary separately. Loans and advances from the parent to the subsidiary may be offset by loans and advances from the same subsidiary to the parent, but may not be reduced to less than zero. Loans and advances from a subsidiary to the parent may not offset the parent's investment in the stock of the subsidiary or offset loans and advances from the parent to any other subsidiary.

*Subsidiary capital* does not include accounts receivable acquired in the ordinary course of trade or business, either for services rendered or for the sale of property primarily held for sale to customers. Each item of subsidiary capital must be reduced by any of the parent's liabilities that are directly or indirectly attributable to that item of subsidiary capital.

**Column A** — Enter the full name and federal employer identification number of each subsidiary.

**Column C** – Enter the average value of each item of your investment in subsidiaries. Average value is generally computed quarterly if your usual accounting practice permits. However, you may use a more frequent basis such as a monthly, weekly, or daily average. If your usual accounting practice does not permit a quarterly or more frequent computation of average value, you may use a semiannual or annual computation if no distortion of average value results. Value marketable securities at fair market value, and other property using generally accepted accounting principles.

**Column D** – Deduct all liabilities, both long-term and short-term, directly or indirectly attributable to subsidiary capital. Use the same method of averaging used to determine the average value of assets in column C. Enter, for each item of subsidiary capital listed in column A, the liabilities directly or indirectly attributable to it. Liabilities directly attributable to an asset (stock or debt) are those that were incurred to acquire that asset.

Use the following worksheet to determine the amount of liabilities indirectly attributable to a particular asset.

#### Worksheet

Total liabilities	<b>A</b>	_____
Liabilities directly attributable to:		
Subsidiary capital	<b>B</b>	_____
Investment capital	<b>C</b>	_____
Business capital	<b>D</b>	_____
Add lines <b>B, C,</b> and <b>D</b>	<b>E</b>	_____
Subtract line <b>E</b> from line <b>A</b>	<b>F</b>	_____
Enter amount from Form CT-3-S-ATT, Schedule C, Part I, line 45, column C	<b>G</b>	_____
Enter amount from Form CT-3-S-ATT, Schedule B, line 34, column C	<b>H</b>	_____
Divide line <b>G</b> by line <b>H</b>	<b>I</b>	_____ %
Multiply line <b>F</b> by line <b>I</b>	<b>J</b>	_____
Value of the particular asset shown in Schedule C, Part I, column C	<b>K</b>	_____
Enter amount from line <b>G</b>	<b>L</b>	_____
Divide line <b>K</b> by line <b>L</b>	<b>M</b>	_____ %
Enter amount from line <b>J</b>	<b>N</b>	_____
Multiply line <b>M</b> by line <b>N</b>	<b>O</b>	_____

In column D, on the line for the asset in question, include the sum of the amount from line **O** of this worksheet and the amount of liabilities directly attributable to that asset.

**Column E** – Determine the net average value of each item listed in column A by subtracting column D from column C. The net average value of any item cannot be less than zero.

**Column F** – Enter the issuer's allocation percentage for each item listed in column A. The issuer's allocation percentage is used to compute the amount of subsidiary capital allocated to New York State. The issuer's allocation percentage is obtained from the New York State corporation franchise tax return filed by the corporation that issued the stock, bond, or other security and represents that corporation's amount of capital employed in New York State as compared to total capital employed everywhere. Issuer's allocation percentages can be obtained from tax service publications or by written request (in duplicate) to: NYS Tax Department, Taxpayer Assistance Bureau, W A Harriman Campus, Albany NY 12227.

For information, see *Need help?* on page 19 of these instructions.

If the corporation that issued the stock, bond, or other security is not required to file a New York State corporation franchise tax return, its issuer's allocation percentage is zero.

Always enter the issuer's allocation percentage from the first year preceding the current tax year. *Example: If the S corporation is computing Schedule C for 2000, enter the issuer's allocation percentage obtained from the issuer's 1999 tax return.*

Issuer's allocation percentages are available from many on-line services, printed tax services, or on the Tax Department's Web site ([www.tax.state.ny.us](http://www.tax.state.ny.us)).

**Column G** – Multiply net average value, column E, of each item listed in column A by its issuer's allocation percentage in column F. This is the value of subsidiary capital allocated to New York State.

#### Schedule C, Part II — Income attributable to subsidiary capital

**Lines 48 through 50** — Enter the amount of interest, dividends, and capital gains attributable to subsidiary capital. In addition, include on line 50 items such as collapsible corporation gain and gain on the sale of subsidiary capital that is not a capital asset for federal tax purposes.

#### Schedule D, Part I — Computation of investment capital and investment allocation percentage

The term *investment capital* means the value of the taxpayer's investments in stocks, bonds, and other corporate or government securities, reduced by directly and indirectly attributable liabilities.

Include in investment capital only those stocks, bonds or other securities that are:

1. Stocks and similar corporate equity instruments such as business trust certificates, and units in a publicly traded partnership taxable as a corporation pursuant to section 208.1 of the Tax Law.
2. Debt instruments (such as bonds) issued by the United States, the District of Columbia, and any state, territory, or possession of the United States, any foreign country, or any political subdivision or governmental instrumentality of the foregoing.
3. Qualifying corporate debt instruments (see Section I on page 15).
4. Options on any item described in 1, 2, or 3 above and not excluded from investment capital nor deemed to be cash (see *Instruments deemed cash* on page 15), or on a stock or bond index or on a futures contract on such an index, unless the options are purchased primarily to diminish the taxpayer's risk of loss from holding one or more positions in assets that constitute business or subsidiary capital.
5. Stock rights and stock warrants not in the possession of the issuer.

The term *instrument* includes stock and debt held in book entry form.

*Investment capital* does not include:

- Stock issued by the taxpayer.
- Stocks, bonds, or other securities constituting subsidiary capital (see Tax Law section 208.4). Debt instruments issued by a subsidiary are not subsidiary capital if the subsidiary claimed and deducted interest on the instruments under Article 9-A, 32, or 33 of the Tax Law.
- Securities of an individual, partnership, trust, or other nongovernmental entity that is not a corporation pursuant to section 208.1 of the Tax Law (such as FNMA and GNMA pass-through certificates).
- Stocks, bonds, and other securities of a DISC, or any indebtedness from a DISC.
- Regular and residual interests in a real estate mortgage investment conduit (REMIC) as defined in section 860D of the IRC.
- Futures and forward contracts.
- Stocks, bonds, and other securities held by the taxpayer for sale to customers in the regular course of business.

If you **own** a stock, bond, or other security that is subject to a repurchase agreement, include this instrument as investment capital. Do not include it if it is held as collateral. See regulation section 3-4.2(f) for a full discussion of securities held subject to a repurchase agreement.

Column A categorizes investment capital into two sections:

Section I — Corporate and governmental debt instruments.

Section II — Corporate stock, stock rights, stock warrants and options.

## Section I

**Column A** — List investments in governmental and qualifying corporate debt instruments (including certificates of deposit), debt instruments issued by the U.S., any state, territory, or possession of the U.S., the District of Columbia, or any foreign country or any political subdivision or government instrumentality of any of the foregoing. Do not include instruments deemed to be cash. See *Instruments deemed cash* below.

The term *qualifying corporate debt instrument* means all debt instruments issued by a corporation **other than** the following:

- Instruments issued by the taxpayer or a DISC.
- Instruments that constitute subsidiary capital in the hands of the taxpayer.
- Instruments acquired by the taxpayer for services rendered or for the sale, rental, or other transfer of property, if the obligor is the recipient of the services or property. However, when a taxpayer sells or otherwise transfers property that is investment capital in the taxpayer's hands and receives in return a corporate obligation issued by the recipient of the property, the corporate obligation, if it is not otherwise excluded from investment capital, would constitute investment capital in the hands of the taxpayer.
- Instruments acquired for funds if (1) the obligor is the recipient of the funds, (2) the taxpayer is principally engaged in the business of lending funds, and (3) the obligation is acquired in the regular course of the taxpayer's business of lending funds. A taxpayer is principally engaged in the business of lending funds if, during the tax year, more than 50% of its gross receipts consist of interest income from loans or net gain from the sale or redemption of notes or other evidences of indebtedness arising from loans made by the taxpayer. Receipts do not include return of principal or nonrecurring, extraordinary items.
- Accepted drafts (such as banker's acceptances and trade acceptances) if the taxpayer is the drawer of the draft.
- Instruments issued by a corporation that is a member of an affiliated group that includes the taxpayer. An *affiliated group* is a corporation or corporations and the common parent thereof.  
A *common parent* means an individual, corporation, partnership, trust, or estate that owns or controls, either directly or indirectly, at least 80% of the voting stock of the corporation or corporations. An affiliated group also includes all other corporations with at least 80% of the voting stock owned or controlled, either directly or indirectly, by one or more of the corporations included in the affiliated group or by the common parent and one or more of the corporations included in the affiliated group.
- Accounts receivable, including those held by a factor.

**Instruments deemed cash** — A debt instrument described above or included in investment capital must be treated as cash if it is:

- Payable on demand.
- Payable by its terms within six months and one day from the date the debt was incurred.
- Payable by its terms more than six months and one day from the date the debt was incurred, on each day in the tax year on and after the first day in the tax year that is not more than six months and one day prior to the maturity date (see *Examples* below).

Cash, under some circumstances, may be treated as investment capital. See the instructions for line 54.

*Examples:*

1. A calendar year taxpayer owns a municipal bond with a maturity date of January 1, 2001. As of July 30, 2000, the first day not more

than six months and one day before the maturity date, and on each day thereafter, the bond is deemed to be cash. The bond should be included in Section I, but in computing the average value of the bond and attributable liabilities, the taxpayer should be treated as no longer owning the bond on any date on or after July 30, 2000. The value of the bond should then be treated as cash for each day the taxpayer continues to own the bond after July 29, 2000.

2. A taxpayer purchased a four-month qualifying corporate debt instrument on the day it was issued, and on the maturity date, renewed it for an additional four-month term. The two four-month debt instruments are deemed to be cash. The renewal of the first four-month debt instrument is treated as the creation of a second, separate debt instrument, each of the two instruments being due within six months and one day of the date on which the debt was incurred.
3. A calendar-year taxpayer owns a five-year qualifying marketable corporate bond with a maturity date of January 1, 2001. The taxpayer also owns corporate stock, but has no cash at any point during the 2000 tax year. The bond is deemed to be cash as of July 1, 2000, the date six months and one day prior to maturity. The fair market value of the bond is \$95,000 on March 31, 2000, \$90,000 on June 30, 2000, \$98,000 on September 30, 2000, and \$100,000 on December 31, 2000. The bond should be listed in Section I, column A, because it qualifies as investment capital. Its average value, to be stated in column C of Section I, is computed as  $(\$95,000 + \$90,000 + 0 + 0)/4 = \$46,250$ . The use of the zeros represents the fact that the taxpayer is deemed to own cash, and not a bond, on September 30 and December 31. The average value of the bond insofar as it is deemed to be cash is computed as  $(0 + 0 + \$98,000 + \$100,000)/4 = \$49,500$ . The use of the zeros represents the fact that the taxpayer owned no cash on March 31 or June 30. The figures \$98,000 and \$100,000 represent the fact that the taxpayer is deemed to own cash in these amounts on September 30 and December 31, respectively. The taxpayer had liabilities attributable to the bond. The amount of the liabilities should be treated in conformity with the above treatment of the value of the bond itself. Thus, the liabilities, that were in the amount of \$10,000, \$12,000, \$8,000, and \$6,000 on the four test dates yield an average liability of \$5,500 attributable to the listed bond  $[(\$10,000 + \$12,000 + 0 + 0)/4 = \$5,500]$ , to be entered in column D of Section I, and an average liability of \$3,500  $[(0 + 0 + \$8,000 + \$6,000)/4 = \$3,500]$  to be applied to determine the net average value of the taxpayer's cash. If the taxpayer elects to treat the deemed cash as investment capital, it would include \$49,500 on line 54, column C, and \$3,500 on line 54, column D. If the cash election is not made, the \$49,500, reduced by \$3,500, would constitute business capital.
4. A taxpayer purchased a debt instrument includable in Section I with a maturity date of December 15, 2000. Any such investment will be deemed cash on the same numerical date as the maturity date, less one day, six months prior. Thus, the date on which this debt instrument becomes cash is June 14, 2000.

## Section II

**Column A** — List investments in the following:

- Stock issued by a corporation.
- Options as described in item 4 of the definition of investment capital on page 14.
- Units in a publicly traded partnership treated as a corporation for purposes of Article 9-A of the Tax Law.
- Business trust certificates.
- Stock rights and stock warrants not in the possession of the issuer.
- Other corporate equity instruments similar to stock.

**Sections I and II — Columns C through G**

**Column C** — Enter the total average fair market value of each item listed in column A. On any date, the fair market value of stocks, bonds, and other regularly traded securities is the mean between the highest and lowest selling prices. The average value is generally computed quarterly if your usual accounting practice permits it, but you may use a monthly, weekly, or daily average. If your usual accounting practice does not permit a quarterly or more frequent computation of average fair market value, you may use a semiannual or annual computation if no distortion of average fair market value results. If the security is not marketable, value it using generally accepted accounting principles (GAAP).

When a debt instrument ceases to be treated as investment capital in Section I and is treated as cash because of the six month and one day rule, compute the column C average value of the debt instrument and the column C average value of cash as shown in *Example 3* above.

**Column D** — Deduct all liabilities, both long-term and short-term, directly or indirectly attributable to investment capital. Use the same method of averaging used to determine the average value of assets in column C. Enter, for each item of investment capital listed in column A, the sum of the liabilities directly or indirectly attributable to it. Liabilities directly attributable to an asset are those that were incurred to acquire that asset. When a debt instrument ceases to be treated as investment capital in Section I and is treated as cash because of the six month and one day rule, compute the column D liabilities of the debt instrument and the column D liabilities of cash as shown in *Example 3* above.

Use the following worksheet to determine the amount of liabilities indirectly attributable to a particular asset.

**Worksheet**

Total liabilities	A	_____
Liabilities directly attributable to:		
Subsidiary capital	B	_____
Investment capital	C	_____
Business capital	D	_____
Add lines B, C, and D	E	_____
Subtract line E from line A	F	_____
Enter amount from Form CT-3-S-ATT, Schedule D, Part I, line 55, column C	G	_____
Enter amount from Form CT-3-S-ATT, Schedule B, line 34, column C	H	_____
Divide line G by line H	I	_____ %
Multiply line F by line I	J	_____
Value of the particular asset shown in Schedule D, Part I, column C	K	_____
Enter amount from line G	L	_____
Divide line K by line L	M	_____ %
Enter amount from line J	N	_____
Multiply line M by line N	O	_____

In column D, on the line for the asset in question, include the sum of the amount from line O of this worksheet and the amount of liabilities directly attributable to that asset.

**Column E** — Determine the net average value of each item listed in column A by subtracting column D from column C. The net average value of any item cannot be less than zero.

**Column F** — Enter the issuer's allocation percentage for each investment listed in column A. The issuer's allocation percentage is used to compute the amount of investment capital allocated to New York State. The issuer's allocation percentage is obtained from the New York State corporation franchise tax return filed by the corporation that issued the stock, bond, or other security and represents that corporation's amount of capital employed in New York State as compared to total capital employed everywhere. Issuer's allocation percentages can be obtained from tax service publications or by written

request (in duplicate). See *Need help?* on page 19 of these instructions.

If the corporation that issued the stock, bond, or other security is not required to file a New York State corporation franchise tax return, its issuer's allocation percentage is zero.

The issuer's allocation percentage for all governmental securities is 0%.

Always enter the issuer's allocation percentage from the first year preceding the current tax year. *Example: If the New York S corporation is computing Schedule D for 2000, enter the issuer's allocation percentage obtained from the issuer's 1999 tax return.*

Issuer's allocation percentages are available from many on-line services, printed tax services, or on the Tax Department's Web site ([www.tax.state.ny.us](http://www.tax.state.ny.us)).

**Column G** — Determine the value of each investment in column A by multiplying each item in column E by the issuer's allocation percentage listed in column F.

**Line 53** — Compute the investment allocation percentage without the addition of cash on line 54.

**Line 54 Cash election** — At the election of the taxpayer, cash on hand and cash on deposit may be treated as either investment capital or business capital. However, no election to treat cash as investment capital may be made when the taxpayer has no other investment capital.

*Cash* includes shares in a money market mutual fund. A money market mutual fund is a no-load, open-end investment company registered under the Federal Investment Company Act of 1940 that attempts to maintain a constant net asset value per share (that is, a *money market* fund). *Cash* also includes debt instruments deemed cash. See *Instruments deemed cash* on page 15.

Cash cannot be split between business capital and investment capital. It must be treated as all business capital or all investment capital.

**Schedule D, Part II — Computation of investment income for allocation**

Complete this schedule if you are allocating part of your entire net income by using an investment allocation percentage from Schedule D, Part I. *Investment income* is income from investment capital to the extent it is included in entire net income, minus deductions allowable in computing entire net income that are attributable to investment capital or investment income, and minus a portion of any net operating loss deduction allowable in computing entire net income.

Income from investment capital includes dividends (other than from a subsidiary, or a DISC), interest, and capital gains and losses from sales or exchanges of investment capital that are included in the computation of entire net income. Professional service corporations (Article 15 or 15-A BCL) must use an investment allocation percentage of 100% (section 210.3(b)(3)).

**Line 56** — Enter interest income received from investment capital listed in Schedule D, Part I, Section I, column A, to the extent included in entire net income.

**Line 57** — Enter interest income received from bank accounts (cash) if included on line 54. Include interest income received from a savings account, checking account, time deposit account (that is, certificate of deposit) or similar accounts, that are usually evidenced by a passbook. Enter "0" on this line if the investment allocation percentage on line 53 is zero. Allocate this interest income by the business allocation percentage as business income.

**Line 58** — Enter interest income from debt instruments deemed cash, if included on line 54.

**Line 59** — Enter dividend income received from investment capital listed in Schedule D, Part I, Section II, Column A, or dividend income received from money market mutual funds included as cash on line 54, to the extent included in entire net income. Include the following:

- 50% of dividends received from money market mutual funds included as cash on line 54. 50% of these dividends were deducted on Form CT-3-S, line 10.
- 50% of dividends received from nonsubsidiary stock that meets the holding requirements of IRC section 246(c). 50% of these dividends were deducted on Form CT-3-S, line 10.
- 50% of subpart F income constituting dividends received from a controlled foreign corporation in which you own 50% or less of the voting stock (see federal Form 1120, Schedule C, line 14). See TSB-A-87 (23.1)C for additional information. 50% of these dividends were deducted on Form CT-3-S, line 10.
- 100% of dividends received from nonsubsidiary stock that did not meet the holding requirements of IRC section 246(c).

**Line 60** — Enter any net capital gains or losses from the sales and exchanges of securities constituting investment capital that were used in computing federal taxable income.

**Line 61** — Other items of investment income include but are not limited to premium income from an unexercised covered call option if the item that covers the call is an item constituting investment capital.

**Line 63** — Enter the amount of **interest** deductions allowed in the computation of entire net income (that is, includable in the amount on the *Line 65 Worksheet*, line E on page 21) that are **directly** attributable to investment capital (or to income, losses, or gains from investment capital).

**Line 64** — Enter the amount of **noninterest** deductions allowed in the computation of entire net income (that is, includable in the amount on the *Line 66 Worksheet*, line E on page 21) that are **directly** attributable to investment capital (or to income, losses, or gains from investment capital).

The direct attribution of deductions is based on an analysis of the facts and circumstances. Deductions directly attributable to investment capital or income include but are not limited to the following:

- Interest on debt incurred to buy investment capital.
- Safe deposit box rentals.
- Financial news subscriptions.
- Salaries of employees engaged in the management and conservation of stocks, bonds, and other securities included in investment capital.
- Investment counsel fees.
- Custodian fees.
- The cost of insurance and fidelity bonds covering investment capital.
- Expenses for legal advice relating to the acquisition of investment capital.

Do not include on lines 63 and 64 interest deductions or non-interest deductions that are directly attributable to:

- Subsidiary capital (or to income, losses, or gains from subsidiary capital) see Form CT-3-S, lines 3a, and 3b.
- Business capital (or to income, losses, or gains from business capital). **Note:** For tax years beginning in 1995 or after, certain expenses may, at the taxpayer's election, be **deemed** to be directly attributable to business capital (or income, losses, or gains from business capital). These expenses include, among others: depletion, advertising, research and development expenses, compensation packages of chief executive officer, chief financial officer and chief operating officer, charitable contributions, and internal auditing expenses. For a complete listing of deductions so **deemed**

attributable to business capital, see section III (A)(1) of TSB-M-95(2)C.

If at least 95% of the non-interest deductions of an operating division or corporation are directly attributable to a particular class of capital or income, 100% of the non-interest deductions of that division or corporation may be directly attributed to that class of capital or income. See section IV of TSB-M-95-(2)C for details.

**Line 65** — Compute the amount of **interest** deductions that are **indirectly** attributable to investment capital (or to income, gains, or losses from investment capital) using the *Line 65 Worksheet*, on page 21.

If you completed the *Line 4a Worksheet* on page 20 of these instructions, skip lines A through I on the *Line 65 Worksheet* and enter on line J the amount from the *Line 4a Worksheet*, line J.

**Line 66** — Compute the amount of **noninterest** deductions that are **indirectly** attributable to investment capital, or to income, gains, or losses from investment capital, using *Line 66 Worksheet*, on page 21.

If you completed the *Line 4b Worksheet* on page 20 of these instructions, skip lines A through I on the *Line 66 Worksheet* and enter on line J the amount from the *Line 4b Worksheet*, line J.

**Line 69** — Apportion any net operating loss deduction claimed on Form CT-3-S, line 12, between business income and investment income. Divide investment income before deduction of any net operating loss (Schedule D, Part II, line 68) by entire net income before deduction of any net operating loss (Form CT-3-S, line 16 plus line 12). Multiply the result by the net operating loss deduction. Enter this amount on line 69.

### Schedule E — Qualified public utilities and transferees, qualified power producers, and qualified pipeline corporations

Qualified public utility corporations must adjust entire net income to reflect modifications for depreciation and federal gain or loss on transition property, and for regulatory assets, pursuant to section 208.9(c-2) of the Tax Law. Complete Schedule E, Part I.

Transferees (whether or not qualified public utilities) of transition property from a qualified public utility in a tax-free transaction must adjust entire net income to reflect modifications to federal gain or loss subsequently recognized on the transition property, pursuant to section 208.9(c-2) (6)(B)(iv) of the Tax Law. Complete Schedule E, Part I, lines 78 and 79.

Qualified power producers and qualified pipeline corporations must adjust entire net income to reflect modifications for depreciation on transition property, pursuant to section 208.9(c-3) of the Tax Law. Complete Schedule E, Part II.

A *qualified public utility* is a taxpayer that:

- Was subject to ratemaking supervision by the New York State Department of Public Service on December 31, 1999.
- Was subject to tax under section 186 of Article 9 of the Tax Law for the tax year ending on December 31, 1999.

A *qualified power producer* is a taxpayer that:

- Was not subject to ratemaking supervision by the New York State Department of Public Service on December 31, 1999.
- Was subject to tax under section 186 of Article 9 of the Tax Law for the tax year ending on December 31, 1999, on account of being principally engaged in the business of supplying electricity.

A *qualified pipeline* is a taxpayer that:

- Was subject to ratemaking supervision by the Federal Energy Regulatory Commission or the New York State Department of Public Service on December 31, 1999.

- Was subject to tax under sections 183 and 184 of Article 9 of the Tax Law for the tax year ending on December 31, 1999, on account of being principally engaged in the business of pipeline transmission.

*Transition property* is property placed in service by a qualified public utility, qualified power producer, or qualified pipeline, before January 1, 2000, for which a depreciation deduction is allowed under section 167 of the IRC. Property is transition property only with respect to the taxpayer that owns it on January 1, 2000, and is not transition property in the hands of a subsequent transferee. (However, see the instructions for Schedule E, lines 78 and 79 for a basis adjustment which may inure from transition property.)

*Book basis of transition property* is the cost of the property minus the accumulated depreciation on the property determined on the taxpayer's books and records in accordance with generally accepted accounting principles.

*New York basis of transition property* is the cost of the property minus the aggregate of the New York depreciation deductions allowed on the property under Article 9-A of the Tax Law. This aggregate is the sum of the amounts on line 75 of Schedule E with respect to the property for all taxable years ending after 1999.

### Schedule E, Part I — Adjustments for qualified public utilities and transferees

Complete this part if you are a qualified public utility. Use lines 71 through 81 to compute the adjustments for entire net income.

Transferees: if you are not a qualified public utility but you are a transferee of transition property from a qualified public utility, use only lines 78, 79, and 81 to compute the adjustments for entire net income.

#### Other additions

**Line 71 Transition property – federal depreciation** — Enter the amount deducted on your federal return for depreciation of transition property. See line 75 to compute the New York depreciation deduction.

**Line 72 Transition property – federal loss** — If transition property is sold or otherwise disposed of at a loss for federal income tax purposes, the amount of the loss must be recalculated for New York State using book basis in place of federal tax basis for the property. Enter the amount of loss deducted on your federal return and see line 76 to recalculate the loss for New York State.

**Line 73 Transition property – New York gain** — If transition property is sold or otherwise disposed of at a gain for federal income tax purposes in a taxable year ending before 2010 (or at any time thereafter if the property is a nuclear electric generating facility), the amount of the gain must be recalculated for New York State using New York basis in place of federal tax basis for the property. However, this recalculation can only reduce the federal gain to zero; it cannot produce a New York loss. Enter the New York gain on transition property calculated using New York basis. If recalculation of the federal gain using New York basis yields a loss, the New York gain is zero. See line 77 to subtract the federal gain.

#### Other subtractions

**Line 75 Transition property – New York depreciation** — In place of the federal depreciation deduction entered on line 71, enter the amount of depreciation expense on transition property shown on your books and records for the tax year and determined in accordance with generally accepted accounting principles.

**Line 76 Transition property – New York loss** — In place of the federal loss entered on line 72, compute the New York loss on the sale or other disposition of transition property by using book basis instead of federal tax basis.

**Line 77 Transition property – federal gain** — Enter the amount of gain included on your federal return from the sale or other disposition of transition property. See line 73 to recalculate the gain for New York State.

**Lines 78 and 79 Transition property – basis adjustment carryover** — If transition property is disposed of in a nonrecognition transaction (*original disposition*), such as a tax-free reorganization or a trade-in for replacement property, a basis adjustment on the transition property carries over to the transferee of the property or to the replacement property, to reduce the gain or increase the loss in a subsequent recognition transaction involving the property that was formerly transition property or the replacement property.

**Line 78 Federal gain** — If the former transition property or the replacement property is sold at a gain for federal income tax purposes in a taxable year ending before 2010 (or at any time thereafter if the property is a nuclear electric generating facility), the gain is reduced, but not below zero, by the New York basis differential. The *New York basis differential* is the amount by which the New York basis of the property exceeds its federal tax basis on the date of **original disposition**. Enter the New York basis differential of the former transition property or the replacement property sold at a federal gain this year, but not more than the amount of differential necessary to bring the federal gain to zero.

**Line 79 Federal loss** — If the former transition property or the replacement property is sold at a loss for federal income tax purposes, the loss is increased by the amount of the book basis differential. The *book basis differential* is the amount by which the book basis of the property exceeds its federal income tax basis on the date of **original disposition**. Enter the book basis differential of the former transition property or the replacement property sold at a federal loss this year.

**Line 80 Regulatory assets** — Enter the amounts recognized as expense on your books and records for the tax year, if the amounts were recognized as expense for federal income tax purposes in a tax year ending on or before December 31, 1999, when: (A) the amounts represent expenditures that, when made, were charged to a deferred debit account or similar asset account on your books and records, and (B) the recognition of expense on your books and records is matched by revenue stemming from a procedure or adjustment allowing the recovery of such expenditures, and (C) the revenue is recognized for federal income tax purposes in the tax year.

### Schedule E, Part II — Adjustments for qualified power producers and qualified pipeline corporations

Complete this part if you are a qualified power producer or a qualified pipeline corporation and you claim a depreciation deduction on transition property for federal income tax purposes. Use lines 82 and 83 to compute the adjustments for entire net income.

#### Other additions

**Line 82** — Enter the amount deducted on your federal return for depreciation of transition property.

#### Other subtractions

**Line 83** — In place of the federal depreciation deduction entered on line 82, compute a New York depreciation deduction by treating all of your transition property as a single asset placed in service on the first day of the federal tax year that ends in 2000. The New York basis for depreciation is the net book value of your transition property on the first day of the federal tax year that ends in 2000 (or on the later date in 1999 that the property is placed in service). To compute the New York deduction, use net book value, the straight-line depreciation method, a 20-year life, and a salvage value of zero.

For qualified power producers, *net book value* is the cost of your transition property minus the accumulated depreciation shown on your books and records, and determined in accordance with generally accepted accounting principles.

For qualified pipeline corporations, *net book value* is the cost of your transition property minus the accumulated depreciation shown on your books and records, and determined in accordance with the regulatory reports filed with the Federal Energy Regulatory Commission or the New York State Department of Public Service.

#### 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 338, 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  
W A HARRIMAN CAMPUS  
ALBANY NY 12227

Line 4a Worksheet

- A. Enter federal interest deductions that would have been shown on federal Form 1120, line 18, had the New York S corporation not made the election under Subchapter S of Chapter One of the IRC and filed federal Form 1120 instead of federal Form 1120S .....
- B. Enter amounts of interest deductions included at A that are required to be added back to federal taxable income in computing entire net income (other than the amount on Form CT-3-S, lines 3a and 4a); for example, interest deductions taken in computing an amount included on Form CT-3-S, line 14.  
Enter the CT-3-S line number and amount below.  
Line # \_\_\_\_\_ Amount \_\_\_\_\_  
Line # \_\_\_\_\_ Amount \_\_\_\_\_  
Line # \_\_\_\_\_ Amount \_\_\_\_\_ Total \_\_\_\_\_
- C. Balance (subtract line B from line A) .....
- D. Enter amounts of interest deductions that are required to be subtracted from federal taxable income in computing entire net income (for example, the interest deductions taken in computing the amount on Form CT-3-S, line 2).  
Enter the CT-3-S line number and amount below.  
Line # \_\_\_\_\_ Amount \_\_\_\_\_  
Line # \_\_\_\_\_ Amount \_\_\_\_\_  
Line # \_\_\_\_\_ Amount \_\_\_\_\_ Total \_\_\_\_\_

- E. Total New York interest deductions included in entire net income (add lines C and D) .....
- F. Enter any interest deductions directly attributable to subsidiary capital included on Form CT-3-S, line 3a .....
- G. Enter any interest deductions directly attributable to investment capital included on Form CT-3-S-ATT, line 63 ....
- H. Enter any interest deduction directly attributable to business capital .....
- I. Subtotal (add lines F, G, and H) .....
- J. Interest deductions subject to indirect attribution (subtract line I from line E) .....
- K. Enter the amount from Form CT-3-S-ATT, line 45, column C .....
- L. Enter the amount from Form CT-3-S-ATT, line 34, column C .....
- M. Percentage (divide line K by line L) ..... %
- N. Amount of interest deductions indirectly attributable to subsidiary capital (multiply line J by line M; enter this amount on line 4a of Form CT-3-S) .....

Line 4b Worksheet

- A. Enter federal noninterest deductions that would have been included on federal Form 1120, line 27 (excluding the amount from federal Form 1120, line 18) had the New York S corporation not made the election under Subchapter S of Chapter One of the IRC and filed federal Form 1120 instead of federal Form 1120S .....
- B. Enter amounts of noninterest deductions included at A that are required to be added back to federal taxable income in computing entire net income (other than the amounts on Form CT-3-S, lines 3b and 4b). Include the New York excess depreciation amount described in Tax Law section 208.9(b)(11) to the extent that such amount was subtracted in computing entire net income for prior taxable years that began on or after January 1, 1987.  
Enter the CT-3-S line number and amount below.  
Line # \_\_\_\_\_ Amount \_\_\_\_\_  
Line # \_\_\_\_\_ Amount \_\_\_\_\_  
Line # \_\_\_\_\_ Amount \_\_\_\_\_ Total \_\_\_\_\_
- C. Balance (subtract line B from line A) .....
- D. Enter amounts of noninterest deductions that are required to be subtracted from federal taxable income in computing entire net income (or amounts related to foreign source income not included on Federal Form 1120).  
These are:
  - The portion of wages and salaries paid or incurred for the tax year for which a deduction is not allowed pursuant to section 280C of the IRC (Tax Law, section 208.9(a)(7)).
  - Depreciation deductions permitted under Article 9-A with respect to **decoupled** property pursuant to Tax Law, section 208.9(a)(11) and (12).
  - Deductions arising from **decoupling** from federal safe harbor lease provisions pursuant to Tax Law, section 208.9(a)(10).
  - The noninterest deductions taken in computing the amount on Form CT-3-S, line 2.
 Enter the CT-3-S line number and amount below.  
Line # \_\_\_\_\_ Amount \_\_\_\_\_  
Line # \_\_\_\_\_ Amount \_\_\_\_\_  
Line # \_\_\_\_\_ Amount \_\_\_\_\_ Total \_\_\_\_\_
- E. Total New York noninterest deductions included in entire net income (add lines C and D) .....

- F. Enter noninterest deductions directly attributable to subsidiary capital from Form CT-3-S, line 3b .....
- G. Enter noninterest deductions directly attributable to investment capital from Form CT-3-S-ATT, line 64 .....
- H. Enter noninterest deductions directly attributable to business capital .....
- I. Subtotal (add lines F, G, and H) .....
- J. Noninterest deductions subject to indirect attribution (subtract line I from line E) .....
- K. Enter gross income attributable to subsidiary capital.  
Gross income from subsidiary capital is that portion of total gross income consisting of dividends, interest, and gains (but not losses) from subsidiary capital. To determine the amount to enter on line K, take the amount of dividends, interest, and gains reported on Form CT-3-S-ATT, line 51, and add back any losses used to compute the amount of capital gains from subsidiary capital on Form CT-3-S-ATT, line 50 .....
- L. Enter total gross income.  
For these purposes total gross income means gross income as defined in the IRC, section 61, increased by (1) those items described in section 61 that are included in the computation of entire net income by reason of Tax Law, § 208.9(c), relating to foreign source income and (2) interest on state and local bonds excluded from gross income under the IRC, section 103. Gross income is not reduced by any deduction for capital losses or by any other deductions .....
- M. Income percentage (divide line K by line L) ..... %
- N. Enter amount from Form CT-3-S-ATT, line 45, column C ...
- O. Enter amount from Form CT-3-S-ATT, line 34, column C ...
- P. Asset percentage (divide line N by line O) ..... %
- Q. Subsidiary capital percentage (If line L is zero, the subsidiary capital percentage is equal to the asset percentage. If line O is zero, the subsidiary capital percentage is equal to the income percentage.)
  - a. Enter percentage from line M \_\_\_\_\_ %;
  - multiply by 2 .....
  - b. Enter percentage from line P .....
  - c. Total (add lines a and b) .....
  - d. Subsidiary capital percentage (divide line c by 3) .....
- R. Amount of noninterest deductions indirectly attributable to subsidiary capital (multiply line J by the percentage from line Q or, if an election has been made to use the asset percentage, by the percentage from line P. Enter this amount on line 4b of Form CT-3-S) .....

Line 65 Worksheet

- A. Enter federal interest deductions that would have been included on federal Form 1120, line 18 had the New York S corporation not made the election under Subchapter S of Chapter One of the IRC and filed federal Form 1120 instead of federal Form 1120S .....
- B. Enter amounts of interest deductions included at A that are required to be added back to federal taxable income in computing entire net income (other than the amount on Form CT-3-S, lines 3a and 4a); for example, interest deductions taken in computing an amount included on Form CT-3-S, line 14.
- Enter the CT-3-S line number and amount below.
- |              |              |             |
|--------------|--------------|-------------|
| Line # _____ | Amount _____ |             |
| Line # _____ | Amount _____ |             |
| Line # _____ | Amount _____ | Total _____ |
- C. Balance (subtract line B from line A) .....
- D. Enter amounts of interest deductions that are required to be subtracted from federal taxable income in computing entire net income (for example, the interest deductions taken in computing the amount on Form CT-3-S, line 2).

- Enter the CT-3-S line number and amount below.
- |              |              |             |
|--------------|--------------|-------------|
| Line # _____ | Amount _____ |             |
| Line # _____ | Amount _____ |             |
| Line # _____ | Amount _____ | Total _____ |
- E. Total New York interest deductions included in entire net income (add lines C and D) .....
- F. Enter any interest deductions directly attributable to subsidiary capital from Form CT-3-S, line 3a .....
- G. Enter any interest deductions directly attributable to investment capital from Form CT-3-S-ATT, line 63 .....
- H. Enter any interest deduction directly attributable to business capital .....
- I. Subtotal (add lines F, G, and H) .....
- J. Interest deductions subject to indirect attribution (subtract line I from line E) .....
- K. Enter the amount from Form CT-3-S-ATT, line 55, column C .....
- L. Enter the amount from Form CT-3-S-ATT, line 34, column C .....
- M. Percentage (divide line K by line L) ..... %
- N. Amount of interest deductions indirectly attributable to investment capital (multiply line J by line M; enter this amount on line 65) .....

Line 66 Worksheet

- A. Enter federal noninterest deductions that would have been included on federal Form 1120, line 27 (excluding the amount from federal Form 1120, line 18) had the New York S corporation not made the election under Subchapter S of Chapter One of the IRC and filed federal Form 1120 instead of federal Form 1120S .....
- B. Enter amounts of noninterest deductions included at A that are required to be added back to federal taxable income in computing entire net income (other than the amounts on Form CT-3-S, lines 3b and 4b). Include the New York excess depreciation amount described in Tax Law section 208.9(b)(11) to the extent that such amount was subtracted in computing entire net income for prior taxable years that began on or after January 1, 1987.
- Enter the CT-3-S line number and amount below.
- |              |              |             |
|--------------|--------------|-------------|
| Line # _____ | Amount _____ |             |
| Line # _____ | Amount _____ |             |
| Line # _____ | Amount _____ | Total _____ |
- C. Balance (subtract line B from line A) .....
- D. Enter amounts of noninterest deductions listed below that are required to be subtracted from federal taxable income in computing entire net income (or amounts related to foreign source income not included on federal Form 1120).
- These are:
- The portion of wages and salaries paid or incurred for the tax year for which a deduction is not allowed pursuant to section 280C of the IRC (Tax Law, section 208.9(a)(7)).
  - Depreciation deductions permitted under Article 9-A with respect to **decoupled** property pursuant to Tax Law, section 208.9(a)(11) and (12).
  - Deductions arising from **decoupling** from federal safe harbor lease provisions pursuant to Tax Law, section 208.9(a)(10).
  - The noninterest deductions taken in computing the amount on Form CT-3-S, line 2.
- Enter the CT-3-S line number and amount below.
- |              |              |             |
|--------------|--------------|-------------|
| Line # _____ | Amount _____ |             |
| Line # _____ | Amount _____ |             |
| Line # _____ | Amount _____ | Total _____ |
- E. Total New York noninterest deductions included in entire net income (add lines C and D) .....
- F. Enter noninterest deductions directly attributable to subsidiary capital from Form CT-3-S, line 3b .....

- G. Enter noninterest deductions directly attributable to investment capital from Form CT-3-S-ATT, line 64 .....
- H. Enter noninterest deductions directly attributable to business capital .....
- I. Subtotal (add lines F, G, and H) .....
- J. Noninterest deductions subject to indirect attribution (subtract line I from line E) .....
- K. Enter gross income attributable to investment capital.  
Gross income from investment capital is that portion of total gross income consisting of (1) dividends, interest, and gains (but not losses) from investment capital and (2) items described at 20 NYCRR 4-8.3(a)(2)-(5). To determine the amount to enter on line K, take the amount of dividends, interest, and gains reported on Form CT-3-S-ATT, line 62, and add back any dividends excluded on Form CT-3-S, line 10, and any losses used to compute the amount of capital gains from investment capital on Form CT-3-S-ATT, line 60 .....
- L. Enter total gross income.  
For these purposes *total gross income* means gross income as defined in the IRC, section 61, increased by (1) those items described in section 61 that are included in the computation of entire net income by reason of Tax Law, § 208.9(c) (relating to foreign source income), and (2) interest on state and local bonds excluded from gross income under the IRC, section 103. Gross income is not reduced by any deduction for capital losses or by any other deductions .....
- M. Income percentage (divide line K by line L) ..... %
- N. Enter amount from Form CT-3-S-ATT, line 55, column C ...
- O. Enter amount from Form CT-3-S-ATT, line 34, column C ...
- P. Asset percentage (divide line N by line O) ..... %
- Q. Investment capital percentage (If line L is zero, the investment capital percentage is equal to the asset percentage. If line O is zero, the investment capital percentage is equal to the income percentage.)
- Enter percentage from line M \_\_\_\_\_ %; multiply by 2 ..... %
  - Enter percentage from line P ..... %
  - Total (add lines a and b) ..... %
  - Investment capital percentage (divide line c by 3) ..... %
- R. Amount of noninterest deductions indirectly attributable to investment capital (multiply line J by the percentage from line Q or, if an election has been made to use the asset percentage, by the percentage from line P. Enter this amount on line 66) .....