



Instructions for Form CT-44

Claim for Investment Tax Credit for the Financial Services Industry

Tax Law — Sections 210.12, 210.12-D, 1456(i), 1511(q)

CT-44-I

Instructions are included for the following schedules:

Schedule A — Investment tax credit

Schedule B — Employment incentive credit

Schedule C — Recapture of investment tax credit

New for 2002

The investment tax credit (ITC) for the financial services industry has been expanded to include corporations subject to tax under Article 33 (insurance corporations). The credit is available for qualified property placed in service by insurance corporations on or after January 1, 2002, and before October 1, 2008. The basic provisions of the new ITC for insurance corporations are similar to the provisions of the ITC provided for Article 32 filers (banking corporations); therefore the department's interpretations of the ITC for Article 32 will be applicable to the ITC provided for Article 33. For more information, you may refer to TSB-M-98(8)C and TSB-M-00(5)C.

Relief for property destroyed as a direct result of the terrorist attacks of September 11, 2001 – The Tax Law has been amended to provide the following ITC relief for property that was destroyed or ceased to be in qualified use as a direct result of the terrorist attacks of September 11, 2001.

- Qualifying taxpayers may elect to defer ITC recapture to the next tax year. The amount required to be recaptured in the next succeeding year will be augmented with interest computed at a rate equal to two times the underpayment rate in effect on the last day of the tax year in which the recapture occurs. However, qualifying taxpayers that elect deferment and retain 75% of their employees are not required to recapture. Additionally, if 50% or more of a taxpayer's employees died as a direct result of the attacks, the employer is not required to recapture any ITC with respect to the qualifying property; or
- Taxpayers may elect not to defer the ITC recapture. For these taxpayers that purchase replacement property, the ITC base of the replacement property is determined without regard to the normal required basis reduction. For purposes of this election, it does not matter when the destroyed property was placed in service, or whether an ITC was claimed on the destroyed property.

For additional information see TSB-M-02(3)C.

General information

General business corporations, banking corporations, and insurance corporations may claim an investment tax credit under section 210.12, section 1456(i), or section 1511(q) respectively, against the tax imposed by Article 9-A, Article 32, or Article 33 for the tax year during which qualified property is placed in service. For Article 9A or Article 32 filers the property must be placed in service on or after October 1, 1998, and before October 1, 2008. For Article 33 filers, the property must be placed in service on or after January 1, 2002, and before October 1, 2008.

To claim the credit, all or a substantial portion of the employees performing the administrative and support functions resulting from or related to the qualifying uses of such property must be located in New York State.

Compute the investment tax credit on the investment credit base. The *investment credit base* is the cost, or other basis when placed in service in New York State for federal income tax purposes, of qualified tangible property, including buildings and structural components of buildings, less the amount of nonqualified nonrecourse financing for such property. Do not include in the investment credit base any amount that was expensed under section 179(a) of the Internal Revenue Code (IRC).

Section 210.12-D allows an **employment incentive credit** for two years immediately succeeding the tax year in which an

investment tax credit is allowed. This credit is available to Article 9-A filers only. For details, see instructions for Schedule B.

The investment tax credit and the employment incentive credit may not reduce the tax liability to less than the greater of the tax on minimum taxable income or the fixed dollar minimum tax for Article 9-A filers, or to the fixed dollar minimum for Article 32 and Article 33 filers.

Any portion of these credits that cannot be used to reduce current year tax liability may be carried over to following years. An investment tax credit or employment incentive credit may be carried forward for up to 15 tax years (10 tax years for a New York S corporation).

A corporation which qualified as a new business may elect to receive a refund of the investment tax credit instead of carrying forward the unused portion. No interest is paid on the refund. For definition of a new business, see the instructions for line 33 on page 4.

Qualified property

Qualified property for the investment tax credit is tangible property, including buildings and structural components of buildings, that:

- Was acquired, constructed, reconstructed, or erected by the taxpayer on or after October 1, 1998 (for Article 33 filers: on or after January 1, 2002), and before October 1, 2008;
- Is depreciable under section 167 or 168 of the IRC;
- Has a useful life of four years or more;
- Was acquired by the taxpayer by purchase under section 179(d) of the IRC;
- Is located in New York State; and
- Is principally used in the ordinary course of the taxpayer's business in one of the following capacities:
 - As a broker or dealer in connection with the purchase or sale of stocks, bonds, other securities (IRC section 475(c)(2)), or of commodities (IRC section 475(e)), or in providing lending, loan arrangement, or loan origination services to customers in connection with the purchase or sale of securities (IRC section 475(c)(2)).
 - Of providing investment advisory services for a regulated investment company (IRC section 851).
 - As an exchange registered as a national securities exchange (sections 3(A)(1) and 6(A) of the Securities Exchange Act of 1934).
 - As a board of trade (section 1410(a) of the Not-for-Profit Corporation Law).
 - As an entity that is wholly owned by one or more such national securities exchanges or boards of trade and that provides them with automation or technical services (available to Article 9-A taxpayers only).

Though the property must be located in New York State, it is not necessary for the users of the property to be located in New York State. For example, a computer system that is placed in service in New York State would qualify for the credit, even if the brokers accessing the system are located outside New York State.

Property leased to a broker, dealer, national securities exchange, board of trade, or any entity wholly-owned by a national securities exchange or board of trade, as described above, that is an affiliate of the taxpayer, and which principally uses the property in the qualifying activities listed above qualifies for the credit, provided it otherwise meets the criteria for qualified property. Any contract or agreement to lease or rent, or for a license to use the property, is considered a lease. In addition, property qualifies if it meets the criteria and is purchased by the taxpayer, but is principally used by

a broker, dealer, national securities exchange, or board of trade, which is an affiliate of the taxpayer in the qualifying activities listed above.

If qualified property is acquired to replace other insured property that was stolen or was destroyed by fire, storm, shipwreck, or other casualty, the basis of the replacement property is its cost reduced by any amount of gain not recognized for federal income tax purposes because the insurance proceeds were invested in the replacement. If qualified property is acquired to replace property destroyed as a direct result of the terrorist attacks of September 11, 2001, and you did not elect to defer recapture, or escape recapture because you met the employment test, you may compute the investment credit base of the replacement property without regard to any basis reduction required by IRC section 1033.

Recapture of credit - You must compute a recapture of investment tax credit previously allowed, if the property was stolen, destroyed, disposed of, or ceases to be in qualified use prior to the end of its useful life, or if there is an increase in nonqualified nonrecourse financing. See Schedule C instructions on page 4.

Definitions

Affiliate means:

- A partnership 80% or more of whose interest in the partnership's capital or profits is owned or controlled, directly or indirectly, by the taxpayer.
- A corporation 80% or more of whose voting stock is owned or controlled, directly or indirectly, by the taxpayer.
- A corporation who owns or controls, directly or indirectly, 80% or more of the voting stock of the taxpayer.
- A corporation 80% or more of whose voting stock is owned or controlled, directly or indirectly, by the entity that owns or controls, directly or indirectly, 80% or more of the voting stock of the taxpayer.

Commodities, as referred to in these instructions, are those defined in section 475(e)(2) of the IRC.

Cost is the basis of property as defined in section 1012 of the IRC.

Life or useful life (of property) is the depreciable life as provided by section 167 or 168 of the IRC.

Nonqualified nonrecourse financing is any amount for which a taxpayer is protected against loss, and generally, any amount borrowed from a person who has an interest (other than as a creditor) in the activity in which the property is used, or from someone related to a person (other than the taxpayer) who has an interest in the activity. Nonrecourse financing is nonqualified where it is not qualified commercial financing as defined in section 49(a)(1) of the IRC.

Other basis means the adjusted basis for determining gain or loss used as the basis for depreciation under section 167(g) of the IRC.

Principally used means used more than 50%. A building or an addition to a building is principally used in qualifying activities where more than 50% of its usable business floor space is used in qualifying activities. Floor space used for bathrooms, cafeterias, and lounges is not usable business floor space. Equipment is principally used in qualifying activities when it is used in such activities more than 50% of its operating time. Operating time may be determined based on actual time, cost allocations to individual business units, or any other reasonable method that accurately reflects operating time.

Purchase or sale includes, but is not limited to, the issuance, entering into, assumption, offset, assignment, termination, or transfer of stocks, bonds, commodities, or other securities.

A *security* is defined in section 475(c)(2) of the IRC.

Bank or insurance corporation as a dealer: A bank or insurance corporation is acting as a dealer when the corporation either:

- Regularly purchases securities (as defined in IRC section 475(c)(2)) or commodities (as defined in IRC section 475(e)) from or sells securities or commodities to customers in the ordinary course of its trade or business.
- Regularly offers to enter into, assume, offset, assign, or otherwise terminate positions in securities or commodities with customers in the ordinary course of its trade or business.

The credit is not allowed for property located in the bank or insurance corporation's trading department unless the property is principally used by the taxpayer in the ordinary course of the taxpayer's business as a dealer. On audit, it will be necessary for the taxpayer to demonstrate that the qualified property is principally used in the ordinary course of the taxpayer's business as a dealer.

Line instructions

Schedule A — Investment tax credit

Part 1 — Eligibility requirement — To claim this credit, all employees or a substantial portion of the employees performing the administrative and support functions resulting from or related to the qualifying uses of such property must be located in New York State. To meet this requirement, you must maintain the requisite number of employees performing administrative and support functions in New York State during the tax year in which the property is placed in service and the credit claimed. (If the property is used by an affiliate in qualifying activities, the affiliate must maintain that requisite number of employees.) You are presumed to have maintained the requisite number of employees where the average number of employees performing the administrative and support functions is at least 95% of the average number of employees performing these functions during the 36 months immediately preceding the year in which the credit is claimed.

You must compute the average number of employees on a quarterly basis. However, where quarterly employment information is not available for years prior to 1998, for determining the average number of employees during the 36 months immediately preceding the year for which the credit is claimed, you may make a reasonable determination of the average number of employees based upon information available to you.

Employees performing administrative and support functions include all employees other than brokers, dealers, or investment advisors to regulated investment companies. Generally, any employee whose compensation for the tax year is based more than 50% on commissions is presumed to be a broker, dealer, or investment advisor. However, if you do not compensate those employees who are employed as brokers, dealers, investment advisors on a commission basis, you must specifically identify the employees performing those functions, and must exclude those employees from the employment percentage calculation.

Schedule A, Part 1 has been provided as an acceptable method of determining whether a corporation meets the eligibility requirements. As an alternative, you may employ other reasonable methods of determining eligibility. You must demonstrate this alternative method to the Tax Department as an appropriate method.

Article 32 or Article 33 – To determine if you have maintained the requisite number of employees performing administrative and support functions in New York State, include only those employees employed in the department or departments of the bank or insurance corporation that perform the broker, dealer, or investment advisory functions.

National securities exchange, board of trade, or their wholly-owned entities – Identify those employees who are performing the administrative and support functions resulting from or related to the activities of the securities exchange, board of trade, or other entity, and calculate the employment percentage using those employees.

Combined filers under Articles 9-A, 32, and 33 – Apply the appropriate method on an individual entity basis for each company claiming a credit, to determine if each company has maintained the requisite number of employees performing administrative and support functions in New York State in the tax year for which the credit is claimed.

If your corporation **does not meet the eligibility requirements** as stated above, **do not complete Schedule A, Part 2**. You are **not eligible** for the investment tax credit. However, you must complete Schedule B if you are eligible for the employment incentive credit (Article 9-A only). You must complete Schedule C if you need to recapture a credit previously taken. You must also complete the *Summary of tax credit(s)* and the *Computation of investment tax credit used, refunded, or carried forward* sections if you are claiming an investment tax credit, an employment incentive credit, or both.

Line 1 – In columns A through D enter the number of employees who performed administrative and support functions in New York State on the dates listed. Add columns A through D and enter the total in column E.

Lines 2 through 4 – Enter the number of employees who performed administrative and support functions in New York State, on each of the dates listed for the 36 months immediately preceding the year in which you claimed the investment tax credit. Add columns A through D, and enter the total in column E for each line.

If your corporation provided employment in New York State for only part of the 36-month test period, enter the number of employees in each quarter in which you had employment in New York State. If your corporation did not provide employment in New York State at any time during the 36-month test period, skip lines 2 through 7 and enter “100” on line 8.

Line 8 – Divide line 5 by line 7. The result **must equal or exceed 95%**. If it does not, **do not complete** Schedule A, Part 2. **You do not qualify** for the investment tax credit. However, you must complete Schedule B, Schedule C, the *Summary of tax credit(s)* section, or the *Computation of investment tax credit used, refunded, or carried forward* section, if you are eligible for any of the various credits covered by those schedules and sections.

Example:

Part 1 – Eligibility requirement

Number of administrative and support employees in New York State on date specified					
	A 3/31	B 6/30	C 9/30	D 12/31	E Total (A+B+C+D)
1 Current tax year	100	100	125	175	500
2 First test year	100	100	100	100	400
3 Second test year	50	75	75	100	300
4 Third test year	0	0	40	50	90

Line 5 500 ÷ 4 = 125
 Line 6 400 + 300 + 90 = 790
 Line 7 790 ÷ 12 = 66
 Line 8 125 ÷ 66 = 189%

Schedule A, Part 2 — Computation of investment tax credit

Columns A and B – Describe the qualified property placed in service during this tax period. You must list individual items separately and you may not show them as one general category. Attach additional pages if necessary.

Column D – Enter the useful life of each item claimed. Do not use the recovery period of depreciation under the Accelerated Cost Recovery System (ACRS) or the Modified Accelerated Cost Recovery System (MACRS).

Column F – New York C corporations use the appropriate rate from *Rate schedule 1* on page 3 of Form CT-44. New York S corporations use a 4% rate.

Schedule B — Employment incentive credit

Part 1 — Eligibility for employment incentive credit

This credit is for Article 9-A filers only. **Do not complete Schedule B** if your corporation is not subject to tax under Article 9-A.

When a corporation is allowed an investment tax credit, the corporation may be eligible for an employment incentive credit for the next two immediately succeeding tax years. However, the credit is not allowed for those years if the corporation’s average number of employees in New York State is not at least 101% of the average number of employees in New York State during the employment base year.

A corporation that has claimed an investment tax credit for property it purchased that is principally used by an affiliate of the corporation may also be eligible for an employment incentive credit. In this case, the credit is allowed based on the corporation’s average number of employees in New York State. The number of the affiliate’s employees are not taken into consideration.

Employment base year means the calendar year or fiscal year immediately preceding the investment tax credit year, or, if the corporation was not taxable in New York State in the preceding year, the year in which the investment tax credit was allowed. Complete Schedule B, Part 1 to see if your corporation qualifies for the employment incentive credit.

Section 210.12-D(b) defines *the average number of employees* as the total number of employees that are employed within New York State on March 31, June 30, September 30, and December 31, divided by the number of these dates occurring during the tax period. Employees must be located in New York State. **Do not include general executive officers.**

Example:

A corporation filing a report for a fiscal period beginning September 1, 2002, and ending August 31, 2003, would use the following dates to compute the number of New York State employees for that fiscal year: September 30, 2002, December 31, 2002, March 31, 2003, and June 30, 2003.

Complete Part 1 for each period listed in Part 2 for which you claimed an employment incentive credit. Exclude any employee for whom you claimed a ZEA wage tax credit based on employment within a Zone Equivalent Area. However, include such employees for the employment base year on lines 10 and 12.

Column A – Enter the credit year and the base year. *The credit year* is the first or second tax year after the year in which you claimed the investment tax credit.

Columns B, C, D, and E – Enter the total number of employees employed in New York State on each of the dates listed that occurred during your tax year.

Column G – Unless you have a short tax year (less than 12 months), divide the amount in column F by four. If you have a short tax year, divide the amount in column F by the number of dates shown in columns B through E that occur during the short year.

Column H – Divide the average number of employees covered by this claim by the average number of employees in the base year. Carry the result to two decimal places. If the percentage in column H is at least 101%, (1.01), complete Schedule B, Part 2. If the percentage in Column H is **less than 101%** for both tax periods **do not complete Schedule B, Part 2. You do not qualify** for the employment incentive credit.

Schedule B, Part 2 — Computation of employment incentive credit

General

The amount of employment incentive credit is a percentage of the original investment credit base on which the investment tax credit was allowed, for each of the two years immediately following the year the investment tax credit was allowed. The percentage used to compute this credit depends on the level of employment (see *Rate schedule 2* on page 3 of Form CT-44).

New York C corporations – The employment incentive credit may not reduce the tax liability to an amount less than the higher of the tax on minimum taxable income or the fixed dollar minimum.

You may carry the credit forward for up to 15 tax years or until completely used. A New York C corporation cannot claim a refund of the employment incentive credit.

New York S corporations – For shareholders of a New York S corporation who claim an employment incentive credit, any excess employment incentive credit that cannot be used to reduce their current tax liability can be carried forward for up to **ten** tax years. However, a shareholder that qualifies as an owner of a new business may elect to have the excess employment incentive credit refunded.

Schedule C — Recapture of investment tax credit

If property on which an investment tax credit has been allowed is disposed of or ceases to be in qualified use prior to the end of its useful life, the difference between the original credit allowed and the credit allowed for actual use must be added back to the tax otherwise due in the year of disposition.

Property destroyed as a direct result of the September 11, 2001, terrorist attacks may not require recapture, or may be allowed a deferred recapture. If you have property that was destroyed as a direct result of the September 11, 2001, terrorist attacks, please refer to TSB-M-02(3)C before completing Schedule C.

There are different formulas for computing the amount of recaptured investment tax credit for property depreciated under IRC sections 167 and 168.

Column H

(1) For property depreciated solely under IRC section 167, the recapture formula is:

$$\frac{\text{months of unused life}}{\text{months of useful life}} \times \text{original investment tax credit allowed}$$

(2) For three-year property depreciated under IRC section 168, the recapture formula is:

$$\frac{36 \text{ minus the number of months of qualified use}}{36} \times \text{original investment tax credit allowed}$$

Recapture is only required if the property is disposed of or ceases to be in qualified use prior to the end of 36 months.

(3) For property depreciated under IRC section 168, other than three-year property, or buildings, or structural components of buildings, the formula is:

$$\frac{60 \text{ minus the number of months of qualified use}}{60} \times \text{original investment tax credit allowed}$$

Recapture is only required if the property is disposed of or ceases to be in qualified use prior to the end of 60 months.

(4) For buildings or structural components of building depreciated under IRC section 168, the formula is:

$$\frac{\text{months of unused life}}{\text{number of months allowed by the IRC and used by the taxpayer}} \times \text{investment tax credit allowed}$$

Property that is depreciated under IRC section 168 for federal tax purposes, but is required to be depreciated under IRC section 167 for New York State tax purposes (decoupled property), is subject to formula (1) above.

If qualified property has a useful life of more than 12 years, and it has been in use for more than 12 years, no recapture is necessary.

If there is a net increase in nonqualified nonrecourse financing at the end of the tax year, the decrease in the investment tax credit that would have resulted from the net increase in nonqualified nonrecourse financing must be recaptured.

Line 18 – Additional recapture – You must also compute an additional recapture amount equal to the original recapture amount multiplied by the underpayment interest rate in effect on the last day of the tax year.

Taxpayers who elected to defer their recapture (see *Relief for property destroyed as a direct result of the terrorist attacks of September 11, 2001*, on page 1) must compute an additional recapture amount equal to the original recapture amount multiplied by two times the underpayment rate in effect on the last day of the tax year. For applicable rates call the Business Tax Information Center at 1 800 972-1233 or visit our Web site at www.tax.state.ny.us.

Summary of tax credit(s)

Line 25 – This is the net investment tax credit available for use this period. If the amount on line 24 is greater than line 23, you have a net recaptured tax credit. Add the recaptured credit back to the tax on your franchise tax return (Form CT-3, CT-3-A, CT-32, CT-32-A, CT-33, or CT-33-A). S corporations report this amount on Form CT-34-SH.

Computation of investment tax credit used, refunded, or carried forward (New York S corporations do not complete this section)

Line 27 – If you are claiming more than one credit, enter the amount of the credits claimed before this credit. Otherwise, enter "0." Insurance corporations exclude any EZ or ZEA credits.

See the instructions for Forms CT-3, CT-3-A, CT-32, CT-32-A, CT-33, or CT-33-A, for a listing of credits and the order in which the credits are applied.

Line 33 – A corporation that is eligible to claim an investment tax credit and is also a new business as defined in section 210.12(j) 1456(i), or 1511(q) may elect to receive a refund of its unused investment tax credit instead of carrying the credit forward. No interest will be paid on this refund. A *new business* is defined as any business except:

- A corporation in which more than 50% of the number of shares of stock entitling their holders to vote for the election of directors or trustees is owned by a taxpayer subject to tax under sections 183, 184, 185, or 186 of Article 9, Article 9-A, Article 32, or Article 33 of the Tax Law.
- A corporation substantially similar in operation and in ownership to a business entity or entities taxable or previously taxable under sections 183, 184, 185, or 186 of Article 9, Article 9-A, Article 32, or Article 33 of the Tax Law; or that would have been subject to the tax under Article 23, as it was in effect on January 1, 1980; or the income (or losses) of which is (or was) includable under Article 22 of the Tax Law.
- A corporation that has been subject to tax under Article 9-A, 32, or 33 for more than five years (excluding short periods).

Transfer the refund amount to Form CT-3, line 99; Form CT-3-A, line 100; Form CT-32, line 20b; Form CT-32-A, line 22b; Form CT-33, line 27; or Form CT-33-A, line 34.

To avoid the unnecessary exchange of funds, we will apply this refund against the minimum tax due and refund any balance.