



Instructions for Forms CT-3-S-A, CT-3-S-A/ATT, and CT-3-S-A/B
New York S Corporation Combined Franchise Tax Return,
Schedules A, B, and C, and Combined Group Detail Spreadsheet

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New for 2004

Visit the Corporate Franchise Tax Up-to-Date information page on our Web site at www.nystax.gov for Tax Law changes or forms corrections that occurred after the forms and instructions were printed.

Changes to the fixed dollar minimum tax

For tax years beginning in 2004 and 2005, the fixed dollar minimum tax amounts have changed. For more information, see the Fixed dollar minimum tax schedule on page 5.

For tax years beginning in 2003, 2004, and 2005, the Tax Law was amended for New York S corporations, eliminating the tax on the entire net income (ENI) base, and imposing the fixed dollar minimum tax as calculated using the Fixed dollar minimum tax schedule on page 5 of the instructions. For a New York S corporation termination year, the tax for a New York S corporation short year is the fixed dollar minimum tax. A New York S corporation must still calculate the ENI base and capital base.

Long-term care insurance credit increased

For tax years beginning on or after January 1, 2004, the long-term care insurance credit has been increased to 20% of the premiums paid during the tax year for the purchase of qualifying long-term care insurance. For more information, see Form CT-249, Claim for Long-Term Care Insurance Credit.

Empire State film production credit

For tax years beginning on or after January 1, 2004, a new tax credit is available for the film and television production industry. The credit is equal to 10% of the qualified film production costs attributable to the use of tangible property or the performance of services at a qualified film production facility. The amount of credit allowed for the current year is allocated by the Governor's Office for Motion Picture and Television Development. For more information, see Form CT-248, Claim for Empire State Film Production Credit.

Transitional provisions for the Gramm-Leach-Bliley Act extended

The tax provisions that were scheduled to expire for tax years beginning on or after January 1, 2004, have been extended for two years. For more information on the provisions that were extended, see TSB-M-02(1)C, Summary of Legislative Changes Enacted in 2001, page 6.

Gift for Prostate Cancer Research, Detection, and Education Fund

A new line has been added to Form CT-3-S-A (line 60c) so you can contribute to the Prostate Cancer Research, Detection, and Education Fund. The fund will be used to provide grants to the New York State Coalition to Cure Prostate Cancer, which will help coordinate and manage prostate cancer research, detection, and education efforts in New York

State. New York State will match your donation, dollar for dollar. If you want to contribute, see the applicable line instructions.

Extension of the alternative fuels credit

The existing provisions relating to alternative fuels credits are clarified and extended for one year to property placed in service in tax years beginning on or before December 31, 2004. For more information, see TSB-M-04(2.1)C, Amendments to the Alternative Fuels Credits and Exemptions, and Form CT-40, Claim for Alternative Fuels Credit.

Qualified emerging technology company (QETC) credits expanded

Effective August 20, 2004, the definition of emerging technologies in Public Authorities Law section 3102-e was broadened to include biotechnology companies. This definition is used to determine eligibility for the QETC credits. For more information, see Form DTF-620, Application for Certification of a Qualified Emerging Technology Company; Form DTF-621, Claim for QETC Employment Credit; and Form DTF-622, Claim for QETC Capital Tax Credit.

Your refund may be applied to a city of New York tax warrant judgment debt

Due to a recent law change, your refund may be reduced by amounts owed for a city of New York tax warrant judgment debt. For additional information concerning these changes, see Collection of debts from your refund on page 10.

Filing fees for disregarded single member limited liability corporations (SMLLCs)

Effective for tax years beginning in 2003 and 2004, every SMLLC that is a disregarded entity for federal income tax purposes, and has income derived from New York sources, must file Form IT-204-LL, Limited Liability Company/Limited Liability Partnership Filing Fee Payment Form, and pay a filing fee within 30 days after the last day of its tax year. For more information, see TSB-M-03(5)C, Summary of Corporation Tax Legislative Changes Enacted in 2003.

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 IRC. Federal S corporations subject to Tax Law Article 9-A or Article 32 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.

Who must file Form CT-3-S-A

A group of S corporations, excluding New York bank S corporations, meeting the requirements outlined below, must use Form CT-3-S-A, *New York S Corporation Combined Franchise Tax Return*, to file on a combined basis. Corporations included on Form CT-3-S-A may only be combined with other S corporations. A New York C corporation may not be included as a member of a combined return on Form CT-3-S-A. See TSB-M-97(4)C, *Combined Filing for New York "S" Corporations*, for details.

A group of C corporations must use Form CT-3-A, *General Business Corporation Combined Franchise Tax Return*, to file on a combined basis.

The corporation in the combined group that is responsible for filing this form is designated the payer corporation. Any other corporations included in the combined return are designated member corporations, and must each file Form CT-3-S-A/C, *Report by an S Corporation Included in a Combined Franchise Tax Return*, except a nontaxpayer included in the group.

Corporations may be permitted or required to file on a combined basis at the discretion of the Tax Department. When you file Form CT-3-S-A, you must also provide a *Combined Filer Statement* (Form CT-50 or CT-51) listing the names, addresses, and other identifying information for each member of the group. For additional information see the instructions for Form CT-50 (existing combined groups) or Form CT-51 (new combined groups). Corporations will be allowed to file on a combined basis if they meet the following requirements:

- (1) The corporations must be operating a unitary business;
- (2) Filing on a separate basis would distort New York activities, business income, or capital; and
- (3) The corporations must also meet the 80% ownership or control test.

See *New York State Codes, Rules and Regulations*, Title 20 (20 NYCRR), sections 6-2.1 through 6-2.7, for complete details.

Qualified subchapter S subsidiary

A corporation that is a qualified subchapter S subsidiary (QSSS) cannot be included on a New York State combined return as a separate member. A QSSS that is owned by a member of the combined group (including a foreign corporation member not taxable in New York State) is treated as a division of the member, and the member must include as its own the assets, liabilities, income, and deductions of the QSSS. For additional information, see TSB-M-97(6)C. Where New York State follows federal QSSS treatment, the QSSS will not be considered a subsidiary of the member corporation.

Which forms to file

The following forms are required to be filed with Form CT-3-S-A:

Form CT-3-S-A/B, *Combined Group Detail Spreadsheet*, must be filed if there is more than one member in the combined group, other than the payer corporation. It details the individual member corporation's information. The lines on this form are identical to the lines on Form CT-3-S-A; therefore, separate line instructions are not needed.

Form CT-3-S-A/C, *Report by an S Corporation Included in a Combined Franchise Tax Return*, must be filed by each member of the combined group, except a nontaxpayer included in the group. No remittance of tax is required with this form.

Form CT-34-SH, *New York S Corporation Shareholders' Information Schedule*, must be filed by each corporation included in the combined group and attached to the appropriate Form CT-3-S-A/C.

Form CT-3-S-A/ATT, *Schedules A, B, and C - Attachment to Form CT-3-S-A*, must be filed by those members of the combined group that have investment capital or subsidiary capital or are qualified public utility corporations and transferees, qualified power producers, or qualified pipeline corporations required to adjust entire net income (ENI).

All Forms CT-3-S-A/B, CT-3-S-A/C, and CT-3-S-A/ATT should be attached to the payer corporation's Form CT-3-S-A.

Other forms you may need to file

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 for you 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 terminate New York S corporation status.

Form CT-8, *Claim for Credit or Refund of Corporation Franchise Tax Paid*, or an amended return, may be 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 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-33-D, *Tax on Premiums Paid or Payable to an Unauthorized Insurer*, must be filed by each corporation that 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, *Direct Writings Tax*, for more information.)

Form CT-60-QSSS, *Qualified Subchapter S Subsidiary Information Schedule*, must be filed to notify the Tax Department that a qualified subchapter S subsidiary (QSSS) is included in your return.

To notify the Tax Department that a QSSS is included in your return, mark an **X** in the appropriate box on the front page of Form CT-3-S-A and attach Form CT-60-QSSS to it.

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 will continue 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.
- b. Nontaxpayer parent** — New York will follow the federal QSSS treatment where the QSSS is a New York taxpayer but the parent is not, if the parent elects to be taxed as a New York S corporation by filing Form CT-6. The parent and QSSS are taxed as a single New York S corporation. 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.
- 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 must 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 that 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 member corporation.

Form CT-186-A, *Utility Services Tax Return — Gross Operating Income*, must be filed by 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 through the use of mains, pipes, or wires for ultimate consumption or use by the purchaser in New York State. The corporation must pay a tax on its gross operating income under Article 9 section 186-a.

Form CT-186-E, *Telecommunications Tax Return and Utility Services Tax Return* or **Form CT-186-EZ, *Telecommunications Tax Return — Short Form***, must be filed by a corporation that provides telecommunication services. The corporation must pay an excise tax on its gross receipts from the sale of telecommunication services under Article 9 section 186-e.

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

Form CT-240, Foreign Corporation License Fee Return, must be filed by each member of the combined group organized outside New York State (except a nontaxpayer included in the group) 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 return was filed.

Form CT-245, Maintenance Fee and Activities Return for a Foreign Corporation Disclaiming Tax Liability, must be filed by a foreign corporation authorized to do business in New York State but disclaiming tax liability. The annual maintenance fee is \$300, unless you file a short period return, which may reduce your maintenance fee to less than \$300.

If it is determined that a franchise tax return is required, this fee may be claimed as a credit against any tax due under Article 9-A.

Form CT-399, Depreciation Adjustment Schedule, must be filed to compute the allowable New York State depreciation deduction if you claim: 1) 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, or 2) the 30%/50% federal special depreciation for certain property placed in service on or after June 1, 2003, in tax years beginning after December 31, 2002.

Form CT-400, Estimated Tax for Corporations, must be filed if the combined group's New York State franchise tax liability can reasonably be expected to exceed \$1,000. For more details, see Form CT-400.

Form CT-3360, Federal Changes to Corporate Taxable Income, must be filed by a combined group 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 IT-204-LL, Limited Liability Company/Limited Liability Partnership Filing Fee Payment Form, must also be filed for tax years beginning in 2003 and 2004 by SMLLCs (that are treated as disregarded entities for federal income tax purposes and that have income derived from New York State sources) to pay a mandatory filing fee of \$100. Form IT-204-LL must be filed within 30 days after the last day of the tax year.

Form IT-2658, Report of Estimated Tax for Nonresident Individual Partners and Shareholders, must be filed by a New York S corporation that is required to pay estimated tax on behalf of a shareholder who is a nonresident individual. For more details, see Forms IT-2658 and IT-2658-ATT, *Attachment to Report of Estimated Tax for Nonresident Individual Partners and Shareholders*.

Form IT-2659, Estimated Tax Penalties for Partnerships and New York S Corporations, will help you determine if you underpaid estimated tax on behalf of a shareholder who is a nonresident individual, and if so, compute the penalty due.

Form DTF-95, Business Tax Account Update, must be completed if there have been any changes in any member corporation's business name, identification number, mailing address, business address, telephone number, or owner/officer information, and you have not previously notified us.

Form DTF-96, Report of Address Change for Business Tax Accounts, should be used if only the member corporation's address has changed.

Publication 20, Tax Guide for New Businesses, should be consulted for additional information regarding other taxes that may apply to you.

When to file

File your return within 2½ months after the end of your reporting period. If you are reporting for the calendar year, your return is due on or before March 15. If your filing date falls on a Saturday, Sunday, or legal holiday, file your return on or before the next business day.

Extension if you cannot meet the filing deadline

If you cannot meet the filing deadline, request a six-month extension of time by filing Form CT-5.3, *Request for Six-Month Extension to File*, on or before the due date of the return. No additional extension of time to file Form CT-3-S-A will be granted beyond six months.

For more information, see the *Need help?* section on page 23.

Where to file

If payment is enclosed, mail return to:

NYS CORPORATION TAX
PROCESSING UNIT
PO BOX 1909
ALBANY NY 12201-1909

If payment is not enclosed, mail return to:

NYS CORPORATION TAX
PROCESSING UNIT
PO BOX 22095
ALBANY NY 12201-2095

Private delivery services

If you choose, you may use a private delivery service, instead of the U.S. Postal Service, to file your return and pay tax. However, if, at a later date, you need to establish the date you filed your return or paid your tax, 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 23 for information on ordering forms and publications.) If you have used a designated private delivery service and need to establish the date you filed your return, contact that private delivery service for instructions on how to obtain written proof of the date your return was given to the delivery service for delivery. 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.

Penalties and interest

If you pay after the due date

If the combined group does not pay the tax due on or before the original due date, it must pay interest on the amount of underpayment from the original due date of the return (**without** regard to an extension of time to file). Exclude from the interest computation any amount shown on line 52a or 52b, 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.

If you file and pay after the due date

Compute the additional charges for late filing and late payment on the amount of tax less any payment made on or before the due date (determined **with** regard to any extension of time for filing). Exclude from the penalty computation any amount shown on line 52a or 52b, 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 the combined group is not liable for these additional charges, attach a statement to the return explaining the delay in filing, payment, or both (section 1085).

Note: You may compute your penalty and interest by accessing our Web site at www.nystax.gov and clicking on *Electronic Services*, or you may call 1 800 972-1233, and we will compute the penalty and interest for you.

If you understate your 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)).

If you underpay your estimated tax

If you can reasonably expect your New York State franchise tax liability to exceed \$1,000, you must file a declaration of estimated tax on Form CT-400. 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*.

If you fail to pay estimated tax on behalf of a shareholder

If the New York S corporation is required to pay estimated tax on behalf of a shareholder and fails to do so, a penalty of \$50 per shareholder for each failure to pay may be imposed on the New York S corporation. The penalty may be waived if it is shown that the failure is due to reasonable cause and not due to willful neglect.

If you underpay estimated tax on behalf of a shareholder

If estimated tax is underpaid, the New York S corporation may be subject to the underpayment of estimated tax penalty. For complete details, see Form IT-2659, *Estimated Tax Penalties for Partnerships and New York S Corporations*.

If you fail to provide shareholder information

If you do not file Form CT-3-S-A on time or fail to provide the shareholder information required (all items of income, loss, deduction, and other pertinent information), you will have to pay a penalty. The penalty is \$50 per shareholder per month or fraction of a month up to a total of \$250 per shareholder (section 685(h)(2)). You will also have to pay an additional 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. These penalties may be waived if it is shown that the failure is due to reasonable cause and not due to willful neglect.

If you fail to provide information about your issuer's allocation percentage

Tax Law Section 1085(o) provides for a penalty of \$500 for failure to provide information needed to compute issuer's allocation percentages. See instructions for line 36.

Other penalties

Strong civil and criminal penalties may be imposed for negligence or fraud. For more information, contact the Business Tax Information Center (see *Need help?* on page 23).

Is this an amended return?

If you are filing an amended return for any purpose, including an amended return filed with Form CT-8 or CT-3360, mark an **X** in the **Amended return** box on the front page of Form CT-3-S-A.

Are you terminating your business?

Legal dissolution or surrender of authority requires the consent of the Commissioner of Taxation and Finance. Do not mark a franchise tax return as *Final* or *Out of Business* unless you have first contacted our Dissolution Unit. For detailed information about legal dissolution or surrender of authority, see Publication 110, *Information and Instructions for Termination of Business Corporations*.

Corporations wishing to dissolve or surrender their authority to do business in New York must contact the Tax Department. Please call 1 800 327-9688 (Dissolution Unit) in the month you wish to stop conducting business in New York.

A New York S corporation included in a combined return is required to file a return on the date of its cessation or the date of its change of classification. However, a corporation that is taxed on the basis of a combined return, and ceases to be subject to tax under Article 9-A or ceases to exercise its franchise but remains subject to tax, may secure the permission of the Tax Commissioner to be included in the combined return, if it pays the fixed dollar minimum tax at the time of application for permission. (Reg. section 2-3.1(d))

New York S corporation termination year

The New York S election can terminate on a day other than the first day of the tax 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). For the S short year, the corporation must file Form CT-3-S or may elect to be included in the combined return. For the C short year, the corporation must file Form CT-3 or CT-4 and may also be liable for the MTA surcharge (Form CT-3M/4M). The due date of the S short year return is the same as the New York C short year return.

When a section 338(h)(10) election is made for a target corporation that is a New York S corporation, the tax results of the federal election are recognized for New York State purposes. The target corporation that is a New York S corporation must file two short period reports. The first report is filed as a New York S corporation up to the date the election takes effect. The target corporation is also required to file a second short period report as a New York C corporation up to the end of its tax year.

Computation of tax in New York S corporation termination 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.

If the federal and New York S elections terminate at the same time, ENI assigned to the S short year and to 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 Internal Revenue Code (IRC) section 1362(e)(2) or normal tax accounting rules under IRC section 1362(e)(3).

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

- 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 IRC section 1362(e)(2).

Reporting period

The tax year for all members of the combined group in New York State must be the same as the federal tax year. Use this tax return for tax years beginning in 2004 (both calendar and fiscal), and for short periods beginning in 2005 and ending before December 31, 2005.

Short periods — proration of fixed dollar minimum tax and maintenance fee

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

| Period | Reduction |
|---|-----------|
| Not more than 6 months | 50% |
| More than 6 months but not more than 9 months | 25% |
| More than 9 months | None |

You are subject to the maintenance fee for the entire period in which you are authorized to do business in New York State.

Overview of corporation franchise tax

Tax base

The combined S group subject to Tax Law Article 9-A must compute the fixed dollar minimum tax for the payer corporation and each taxable member of the combined S group.

For tax years beginning in 2003, 2004, and 2005, the franchise tax for a New York S Corporation is the applicable fixed dollar minimum tax (including the \$800 fixed dollar minimum tax) determined under Tax Law section 210(1)(d)).

Accordingly, for tax years beginning in 2004 and 2005, a New York S Corporation computes its fixed dollar minimum tax as follows:

Fixed dollar minimum tax schedule for all New York S corporations

| For a corporation with gross payroll of: | The fixed dollar minimum tax equals: |
|--|--------------------------------------|
| \$25,000,000 or more | \$10,000 |
| Less than \$25,000,000 but more than \$6,250,000 | \$5,000 |
| Not more than \$6,250,000 but more than \$1,000,000 | \$425 |
| Not more than \$1,000,000 but more than \$500,000 | \$325 |
| \$500,000 or less | \$100* |
| However, if the corporation's gross payroll, total receipts, and average value of gross assets are each \$1,000 or less: | \$800 |

For tax years beginning in 2003 please refer to the fixed dollar minimum chart that accompanies the 2003 instructions.

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

**If a tax year is less than 12 months, compute the gross payroll and total receipts by dividing the amount of each by the total number of months in the short period and multiplying the result by 12.

How to avoid an erroneous assessment based on fixed dollar minimum tax

To avoid an erroneous assessment or a delay of your refund, you must enter an amount in the *Gross payroll*, *Total receipts*, and *Average value of gross assets* boxes provided on Form CT-3-S-A, line 37 through 39, for the payer corporation and on Form CT-3-S-A/C, lines 1a, 1b, and 1c, for each taxable member of the combined S group. If you do not have payroll, receipts, or assets, enter **0** in the appropriate box(es).

Failure to make an entry in these boxes may result in an assessment of tax or reduction of your refund/credit.

How to fill out your tax return

Important identifying information

For us to process your corporation tax forms, it is important that we have the necessary identifying information. Please include your EIN and file number on each corporation tax form mailed and keep a record of that information.

If you use a paid preparer or accounting firm, make sure they use your complete and accurate identifying information when completing all forms.

Are you claiming an overpayment?

If you are claiming an overpayment on Form CT-3-S-A, line 63, mark an **X** in the box on the front of your return to the right of your EIN and file number.

Name, address, and business information

Enter the S corporation's legal name, and also enter the corporation's mailing name if different from the S corporation's legal name.

If your address has changed, enter your new address in the appropriate area and mark an **X** in the box under the name and address block at the top of your return so that we can update your address. **Do not** mark an **X** in this box for any change of business information other than address.

You must report any changes in your business name, ID number, mailing address, physical address, telephone number, or owner/officer information on Form DTF-95, *Business Tax Account Update*. If only your address has changed, you may use Form DTF-96, *Report of Address Change for Business Tax Accounts*, to correct your address for corporation tax or other tax types (see *Need help?* on page 23).

NAICS business code number and business activity

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

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. Round any amount less than 50 cents to the next lower dollar.

Negative amounts

Show any negative amounts with a minus (-) sign.

Percentages

When computing allocation percentages, convert decimals into the percentages by moving the decimal point two spaces to the right. Round percentages to four decimal places.

Example: $5,000/7,500 = 0.6666666 = 66.6667\%$.

Signature

The combined return (Form CT-3-S-A) must be certified by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or other officer authorized by the payer corporation.

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.

Is your return in processible form?

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 (this includes the required signature).

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.

We will accept computer-produced corporation tax returns if they meet our printing specifications. For more information, see Publication 76, *Specifications for Reproduction of New York State Corporation Tax Forms*.

Form CT-3-S-A/B exception: A computer printout that replicates all the information requested on Form CT-3-S-A/B may be substituted for the actual form. The printout may be reduced to fit on an 8½-by-11-inch sheet of paper. This exception applies to Form CT-3-S-A/B only. It does **not** apply to Form CT-3-S-A or any other corporation tax form.

New way to indicate whether you need a tax packet

If you do not need a tax packet mailed to you next year, you need do nothing. This is a new procedure that will help us save tax dollars by reducing our printing and mailing costs. You probably will not need a packet if, for example, you use a paid preparer or a software program to prepare your return. Instead of a packet, we will send you Form TP-1.1, which you or your preparer should use to confirm your employer identification number, file number, and mailing information on your next return. Form TP-1.1 also describes other options for obtaining any forms you may need.

If you do need a tax packet mailed to you for next year's taxes, mark an **X** in the box on the front page. **You must now mark the box to receive a packet.**

Line instructions for Forms CT-3-S-A and CT-3-S-A/B

General explanation

Corporations in the combined group must compute combined ENI, combined business and investment capital, and combined fixed dollar minimum tax according to 20 NYCRR, sections 3-2.10, 3-3.8, and 3-5.3, respectively.

Form CT-3-S-A provides a column A for the payer corporation and column B, *Total members*, for the other members of the group. If there is only one member of the group other than the payer corporation, enter the figures of the member in column B on Form CT-3-S-A. If there are two or more members of the group other than the payer corporation, the figures for column B on Form CT-3-S-A are taken from Form CT-3-S-A/B, *Combined Group Detail Spreadsheet*.

Form CT-3-S-A/B provides a column for each member in the group other than the payer corporation. The columns are added together and the totals are then carried to the total members column B on Form CT-3-S-A.

Columns A and B of Form CT-3-S-A are then added together, and the subtotal is indicated in column C.

Enter in column D any intercorporate eliminations. Attach an explanation of any entry made in this column.

Subtract column D from the subtotal in column C and enter the balance in column E.

The line instructions below are used for Form CT-3-S-A and for Form CT-3-S-A/B where applicable.

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**.

Lines 1 through 21 — Computation of combined entire net income (ENI) base

Special instructions for computing ENI by a parent of a QSSS

Where New York follows federal QSSS treatment, the parent should compute its ENI 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 will be deemed to be those of the parent corporation;
- The stocks, bonds, and other securities issued by and any indebtedness from the QSSS shall not be subsidiary capital or investment capital of the parent corporation;
- Transactions between the parent corporation and the QSSS, including payment of interest and dividends, shall not be taken into account; and
- General executive officers of the QSSS shall be deemed to be general executive officers of the parent.

Line 1

Enter the amount of FTI 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. Each member of the combined group must attach the following to Form CT-3-S-A: (1) a copy of its actual federal Form 1120S filed, and (2) a statement (or federal pro forma Form 1120) showing the computation of FTI required to be shown on Form 1120, line 28. The statement or pro forma Form 1120 must include the following items not reported on federal Form 1120S:

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

Lines 2 through 7 — Additions

Use lines 2 through 7 to add items that are not included in FTI but must be included in New York State ENI.

Line 2

Enter all interest received or accrued from federal, state, municipal, and other obligations that is exempt from federal income tax 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.

Lines 3a, 3b, 4a, and 4b — Expenses attributable to subsidiary capital

Complete lines 3a, 3b, 4a, and 4b to report any expenses directly or indirectly attributable to combined subsidiary capital. The term *combined subsidiary capital*, as used in these instructions for lines 3a, 3b, 4a, and 4b, means stocks or indebtedness of a corporation not included on this return that constitute subsidiary capital includable on line 146, column E. See TSB-M-88(5)C, *Direct and Indirect Attribution of Deductions, Article 9-A*, for complete details on the attribution of **interest** expenses and TSB-M-95(2)C, *Attribution of Noninterest Deductions*, on the attribution of **noninterest** expenses.

If you do not have subsidiary capital, enter **0** on lines 3a, 3b, 4a, and 4b.

A *subsidiary* is a corporation (except a DISC) of which over 50% of the number of shares entitling the holders to vote for the election of directors or trustees is owned by the taxpayer. 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. A limited liability company (LLC) that is over 50% owned by a corporation and elects to be treated as a corporation for federal tax purposes is a *subsidiary*. For more information, see 20 NYCRR 3-6.2.

Subsidiary capital is the value of certain assets reduced by attributable liabilities. These assets include all investments in the stock of subsidiary corporations, plus all debts from subsidiary corporations (other than accounts receivable acquired for services rendered or property sold to customers in the ordinary course of business) whether or not evidenced by bonds or other written instruments, on which interest is not claimed and deducted by the subsidiary under Article 9-A, 32, or 33 of the New York State Tax Law. For more information, see 20 NYCRR 3-6.3.

Line 3a

Enter the amount of **interest** deductions allowed in the computation of ENI (includable in the amount of *Worksheet for Line 4a*, line E on page 19) that are **directly** attributable to combined subsidiary capital (or to income, losses, or gains from combined subsidiary capital).

Line 3b

Enter the amount of **noninterest** deductions allowed in the computation of ENI (includable in the amount of *Worksheet for line 4b*, line E, on page 20) that are **directly** attributable to combined subsidiary capital (or to income, losses, or gains from combined subsidiary capital).

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

- interest on debt incurred to buy combined subsidiary capital
- salaries of employees engaged in the management, supervision, or conservation of combined subsidiary capital
- expenses for legal advice relating to the acquisition of subsidiary capital
- stewardship deductions relating to combined subsidiary capital

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

- Combined investment capital (or to income, losses, or gains from investment capital); see Form CT-3-S-A, line 135 or line 136.
- Combined 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 TSB-M-95(2)C, section III (A)(1).

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

Line 4a

Enter the amount of **interest** deductions that are **indirectly** attributable to combined subsidiary capital (or to income, gains, or losses from combined subsidiary capital) (computed on *Worksheet for Line 4a*, line N on page 19).

Line 4b

Enter the amount of **noninterest** deductions that are **indirectly** attributable to combined subsidiary capital (or to income, gains, or losses from combined subsidiary capital) (computed on *Worksheet for Line 4b*, line R, page 20).

Line 5

Enter the amount deducted on your federal return for New York taxes imposed under Article 9 sections 183, 183-a, 184, 184-a, and Articles 9-A and 32. Include the amount deducted for taxes paid or accrued to other U.S. states, their political subdivisions, any foreign country, and the District of Columbia if they are based 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 6

Use this line if:

- The corporation claims the federal accelerated cost recovery system/modified accelerated cost recovery system (ACRS/MACRS) deduction for property placed in service **either** in or outside New York State after 1980 in tax periods beginning before 1985; or
- The corporation claims the federal ACRS/MACRS deduction for property placed in service **outside** New York State in tax periods beginning after 1984 and before tax periods beginning in 1994, and the corporation made the election to continue using IRC section 167 depreciation deduction for the property; or
- The corporation claims the 30%/50% federal special depreciation under IRC section 168(k) for property (excluding qualified resurgence zone property described in Tax Law section 208.9 (q) or qualified New York liberty zone property described in IRC section 1400L(b)(2)) placed in service on or after June 1, 2003, in tax years beginning after December 31, 2002; or
- The corporation disposes of ACRS/MACRS property or property for which you claimed the 30%/50% federal special depreciation this year and the New York depreciation modifications applied in prior years.

If this line applies, complete Form CT-399. Include from Form CT-399, Part I, line 3, column E, the amount of your federal deduction that must be added back to FTI; or, if you disposed of property this year, use the amount from Form CT-399, Part III, line 10, column A. (Enter your recomputed deduction on line 13 of this form.)

Line 7

If you have any of the following other additions to FTI, 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 FTI 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 would have been required to include in the computation of your FTI if you had not made the election permitted under IRC section 168(f)(8) 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 Tax Law section 253(1-a) allowed as a deduction in determining FTI, 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 Tax Law section 253(1-a) 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 (QETIs) — If you elected to defer the gain from the sale of QETIs, then you must add to FTI the amount previously deferred when the reinvestment in the New York qualified emerging technology company which qualified you for that deferral is sold. See page 8, subtraction S-5.

A-5 Qualified public utility corporations must make the required additions under Tax Law section 208.9(c-2). Qualified power producers and qualified pipeline corporations must make the required additions under Tax Law section 208.9(c-3). For more information, see instructions for Form CT-3-S-A/ATT, Schedule C (page 17).

A-6 Amount of related member royalty expense required to be added back pursuant to Tax Law section 208.9(o).

A-7 Amount of SUV depreciation required to be added back pursuant to Tax Law section 208.9(b)(16).

Lines 9 through 15 — Subtractions

Use lines 9 through 15 to subtract items that are included in FTI but should not be included in New York ENI.

Line 9

Complete lines 142 through 145 and enter the amount from line 145, reduced by the amount of dividends included on line 1, column D. This amount must include capital gains and any other income and gain from subsidiary capital that was included as part of FTI. You must include as subsidiary dividends 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). Do not include foreign dividend gross-up under IRC section 78. A DISC does not qualify as a subsidiary.

Line 10

Enter 50% of dividends received from nonsubsidiary stock that meets the holding requirements of IRC 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 investment capital (cash) on Form CT-3-S-A, line 126.

Do not include "grossed-up" dividends, pursuant to IRC section 78. For more information, see TSB-M-89(14)C.

Line 11

Enter foreign dividend gross-up pursuant to IRC section 78 (see federal Form 1120, Schedule C, line 15). ENI **does not include** any amount treated as dividends pursuant to IRC section 78 (section 208.9(a)(6)).

Line 12

Each member of the group must separately determine a New York State net operating loss deduction (NOLD).

Any carryback or carryforward from a year in which a combined return was filed must be based upon the combined NOL of the group of corporations filing the return. The portion of the combined loss attributable to any member of the combined group, which files a separate report for a preceding or succeeding tax year, will be an amount bearing the same relation to the combined loss as the NOL of such corporations bears to the total NOL of all member corporations having losses.

Enter the combined New York NOLD on line 12. Attach a separate sheet providing details of the New York NOLs claimed.

These rules apply:

- A New York S corporation is allowed a NOLD 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 a NOLD on federal Form 1120).
- A deduction is not allowed for a NOL of a member sustained during any tax 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.
- IRC section 172 federal losses must be adjusted in accordance with Article 9-A, section 208.9(a), (b), and (g).
- The New York State NOLD is limited to the amount required under section 172 of the IRC to reduce FTI to zero.

- For NOLs sustained in tax years beginning **after** August 5, 1997, the NOL may be carried back two years (with an exception for certain disaster losses) and may be carried forward for 20 years.
- For NOLs sustained in tax years beginning **on or before** August 5, 1997, the NOL may be carried forward 15 years.
- For certain NOLs incurred in tax years ending in 2001 and 2002, the NOL may be carried back five years, unless the taxpayer elects for federal tax purposes to disregard the five-year carryback. If you are claiming a five-year carryback, please attach a schedule of the computation.
- A New York S year is treated as a tax year for purposes of determining the number of tax years to which the NOL may be carried back or forward (Tax Law section 208.9(f)(4)).
- The New York State NOL carryback is computed as if the corporation elected under IRC section 172 to relinquish the carryback provisions, except for the first \$10,000 for each loss year that may be carried back.
- Any portion of the New York State \$10,000 NOL carryback that was not carried back may be carried forward.
- The New York NOLD for any particular year is limited to the federal NOLD for that year. (For the purposes of this limitation, a corporation that has elected to carry back up to \$10,000 of its NOL for New York State purposes, should compute its federal NOLD as if it only carried back the same \$10,000.)

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 a timely election must carry the first \$10,000 of the NOL back before the loss can be carried forward.

Line 13

Use this line if:

- The corporation claims the federal ACRS/MACRS deduction for property placed in service **either** in or outside New York State after 1980 in tax periods beginning before 1985; or
- The corporation claims the federal ACRS/MACRS deduction for property placed in service **outside** New York State in tax periods beginning after 1984 and before tax periods beginning in 1994, and the corporation made the election to continue using IRC section 167 depreciation deduction for the property; or
- The corporation claims the 30%/50% federal special depreciation under IRC section 168(k) for property (excluding qualified resurgence zone property described in section 208.9 (q) of the Tax Law or qualified New York liberty zone property described in IRC section 1400L(b)(2)) placed in service on or after June 1, 2003, in tax years beginning after December 31, 2002; or
- The corporation disposes of ACRS/MACRS property or property for which you claimed the 30%/50% federal special depreciation this year and the New York depreciation modifications applied in prior years.

If this line applies, enter the amount from Form CT-399, Part I, line 3, column I, or, if you have disposed of property this year, use the amount from Form CT-399, Part III, line 10, column B, and attach the form. For more information, see Form CT-399.

Line 14

If you have any of the following other subtractions from FTI, enter the total amount of those subtractions and attach a list:

- S-1** 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, less any deductions allowed in computing FTI that are directly or indirectly attributable to those receipts.
- S-2** Include any refund or credit of a tax imposed under Tax Law Article 9-A or Article 32, for which no exclusion or deduction was allowed in determining the taxpayer's ENI for any prior year, or any refund or credit of a tax imposed under Tax Law section 183, 183-a, 184, or 184-a. 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 280C in the computation of your FTI 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 FTI 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 FTI 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 defined in IRC section 103(b)(9) are exempt from these adjustments.

S-5 You may defer the gain on the sale of QETIs that are (1) held for more than 36 months and (2) 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 a 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 FTI the amount of the gain deferral (to the extent the gain is included in FTI). If purchase of the replacement QETI within the 365-day period occurs in the same tax year as the sale of the original QETI, or in the following tax 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 tax 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. For more information, refer to pages 5 and 6 of TSB-M-98(7)C.

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 FTI. Do not include amounts received from assets acquired with these assets or with the proceeds from the sale of these assets (Tax Law Article 1, section 13).

S-7 Qualified public utility corporations and transferees must make the required subtractions under Tax Law section 208.9(c-2). Qualified power producers and qualified pipeline corporations must make the required subtractions under Tax Law section 208.9(c-3). For additional information, see instructions for Form CT-3-S-A/ATT, Schedule C (page 17).

S-8 Amount of related member royalty income required to be subtracted pursuant to Tax Law section 208.9(o).

S-9 Amount of SUV recapture required to be subtracted pursuant to Tax Law section 208.9(a)(16).

Lines 17 through 21 — Combined entire net income base

The *combined entire net income base* is the portion of your ENI allocated to New York State with certain adjustments. It may consist of both business and investment income.

Line 17

Enter the amount of combined investment income from line 141. Do not enter more than the amount on line 16. If you had no investment income, enter **0**.

Line 20

Multiply line 18 by your combined business allocation percentage from lines 87, 90, or 121. If you claim a combined business allocation of 100%, enter the full amount from line 18.

Lines 22 through 36 — Computation of combined capital base and combined group issuer's allocation percentage

Lines 22 through 36 are used to determine the issuer's allocation percentage of the combined group. Complete these lines if any member of the combined group:

- has subsidiary capital;
- has investment capital;
- is incorporated in a state other than New York State; or
- has a business allocation percentage of less than 100%.

If none of the members has any of these attributes, skip lines 22 through 35 and enter 100% on line 36.

When computing combined business capital and combined investment capital, all intercorporate stockholdings, intercorporate bills, intercorporate notes receivable and payable, intercorporate accounts receivable and payable, and other intercorporate indebtedness must be eliminated.

To determine the value of your assets for the combined 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 22 through 26 to adjust the value of the assets you reported on your federal return. If you are not required to complete the balance sheet on the federal tax return, enter the amount which would have been reported on the federal return.

On lines 22 through 27, enter the average value. *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 22

Enter your total assets from the balance sheet of your federal tax return.

Line 23

Enter the federal balance sheet value of any real property and marketable securities included on line 22.

Line 25

Enter the fair market value of real property and marketable securities included on line 23. 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. See TSB-M-85(18.1)C for determination of fair market value of real property.

Line 27

Enter the amount of all long-term and short-term liabilities, direct or indirect, attributable to assets on line 22.

Use the same method of averaging used to determine average value of assets.

Line 29

Enter combined subsidiary capital from line 148, column E. If you have no subsidiary capital, enter 0.

Line 31

Enter combined investment capital from line 127, column E. If you have no investment capital, enter 0.

Line 34

If you claim a combined business collection of 100%, enter the full amount from line 32.

Line 36

The issuer's allocation percentage represents the amount of capital employed within New York State compared to the total capital employed everywhere. If each member of the combined group does not supply the information needed to compute their issuer's allocation percentage, the payer corporation may have to pay a \$500 penalty.

To determine the percentage, add lines 33, 34, and 35, then divide by the amount on line 28 (total combined capital).

Lines 37 through 39

To avoid an erroneous assessment or a delay of your refund, you must enter an amount in the *Gross payroll*, *Total receipts*, and *Average value of gross assets* boxes provided on Form CT-3-S-A, lines 37 through 39, for the payer corporation and on Form CT-3-S-A/C, line 1, for each taxable member. If you do not have payroll, receipts, or assets, enter 0 in the appropriate box(es).

Line 37

Gross payroll — Include 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 (short period), 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, including any employment credits deducted on line 8, plus any wages included in the cost of goods sold, Form 1120S, Schedule A, line 3.

Line 38

Total receipts — Include receipts from the sale of tangible personal property, services performed, rentals, royalties, receipts from the sales of rights for closed circuit and cable television transmissions, and all other business receipts received in the regular course of business. For a short period, annualize total receipts by dividing them by the number of months in the short period and multiplying the result by 12.

Include the amount reported on Federal Form 1120S, *Income* section, lines 1c and 5, and the amount that you would have reported on federal Form 1120 or 1120-A, *Income* section, lines 6 and 7.

Do not include any nonbusiness dividends, nonbusiness interest, or business or investment gains or losses.

Line 39

Average value of gross assets — The *average value of gross assets* is the average fair market value of real property and marketable securities, plus all other property at the value shown on your books, in accordance with generally accepted accounting principles. Use the amount from Form CT-3-S-A, line 26, column A.

Line 40

The fixed dollar minimum tax is determined by the payer corporation's gross payroll, total receipts, and average value of gross assets.

See *Fixed dollar minimum tax schedule* on page 5 to determine the applicable fixed dollar minimum tax. The fixed dollar minimum tax may be reduced for short periods. See *Short periods — proration of fixed dollar minimum tax and maintenance fee* on page 4 for the appropriate reduction for short periods.

Line 41

If you claimed any New York State tax credits during any year prior to becoming 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 some or all of the credit.

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

Line 43

Enter the amount of special additional mortgage recording tax credit from Form CT-43.

Lines 50a and 50b

On line 50a, include the total fixed dollar minimum taxes of members that computed a \$5,000 or \$10,000 fixed dollar minimum tax on Form CT-3-S-A/C.

On line 50b, include the total fixed dollar minimum taxes of members that computed a \$100, \$325, \$425, or \$800 fixed dollar minimum tax on Form CT-3-S-A/C.

However, if any of the members included on line 50b are foreign authorized corporations and their fixed dollar minimum tax is less than the required maintenance fee, they must increase their payment so the fixed dollar minimum tax of the authorized foreign corporation equals \$300. Include this amount (difference between \$300 and the tax calculated on line 50b) on Form CT-3-S-A/C and on the payment line A on the front of Form CT-3-S-A. A member that computes a short period fixed dollar minimum tax would use line 50a or 50b depending on whether its fixed dollar minimum tax is greater or less than \$1,000 after the reduction for the short period. If greater than \$1,000, use line 50a; if less than \$1,000, use line 50b. The total of lines 50a and 50b should equal the total amounts listed on the individual Forms CT-3-S-A/C.

Line 52b

If the combined group did not file Form CT-5.3 and the total tax on lines 44 and 50a exceeds \$1,000, you must pay a mandatory installment for the period that follows the period covered by this return. If the total tax on lines 44 and 50a exceeds \$1,000 but does not exceed \$100,000, multiply the total of lines 44 and 50a by 25% (.25) and enter the result on this line. If the total tax on lines 44 and 50a exceeds \$100,000, multiply the total of lines 44 and 50a by 30% (.3) and enter the result on this line. If the total of lines 44 and 50a is less than \$1,000, enter 0 on this line.

Line 56

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. Mark an **X** in the box and enter the penalty on this line.

Lines 57 and 58

If you are not filing this return and paying the tax due on time, you must pay interest and additional charges. (See instructions on page 3.)

Lines 60a, 60b, and 60c

If you want to contribute to *Return a Gift to Wildlife, Breast Cancer Research and Education Fund*, or *Prostate Cancer Research Detection, and Education Fund*, 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 cannot change the amount of your gift after you file your return.

Lines 63 through 65

You may apply an overpayment as a credit to your next state franchise tax period or you may have it refunded. Indicate on these lines the amounts you wish transferred to the following tax year or refunded.

Unrequested refunds credited forward — If the group overpays its tax, it will not automatically receive a refund unless an entry is made on either line 65 or 66a. Instead, we will credit your overpayment to the following tax year. 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.

Collection of debts from your refund — We will keep all or part of your refund if you owe a past-due, legally enforceable debt to the Internal Revenue Service (IRS) or to a New York State agency, or if you owe a city of New York tax warrant judgment debt. A *New York State agency* includes any state department, board, bureau, division, commission, committee, public authority, public benefit corporation, council, office, or other entity performing a governmental or proprietary function for the state or a social services district. 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, or whether you owe a city of New York tax warrant judgment debt, contact the IRS, the state agency, or the New York City Department of Finance.

For New York State tax liabilities only, call 1 800 835-3554 (from areas 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.

For New York City liabilities only, call (212) 232-3550.

Lines 67 through 74 — Composition of prepayments on line 54

If you need more space, write **see attached** in this section, and attach a separate sheet showing all relevant prepayment information. Transfer the total shown on the attached sheet to line 54.

Line 73

Include on line 73 only prepayments made separately by members that were reported on Form(s) CT-3-S-A/C, line 7.

Line 75

Enter the total amount of interest deducted by the members in computing the FTI reported on line 1.

Computation of combined business allocation percentage

Allocation on combined returns is made on the basis of combined amounts from which intercorporate items (including intercorporate receipts) are eliminated.

You allocate by multiplying combined business income by your combined business allocation percentage (lines 87, 90, or 121), and combined investment income by the combined investment allocation percentage (line 125). For information on the allocation of investment income or investment capital, see the instructions for Form CT-3-S-A/ATT, Schedule A, beginning on page 14 of this form.

Lines 77a through 121 provide for an allocation of business income and business capital both in and outside New York State. If you claim a business allocation percentage of less than 100%, you need to complete the appropriate lines (77a through 121) as they apply to your business activity.

If you claim a business allocation percentage of 100%, you do not need to complete lines 77a through 121.

Computation of combined business allocation percentage for aviation corporations

Lines 77a through 87 are used by aviation corporations. Three factors are averaged: aircraft arrivals and departures, revenue tons handled, and originating revenue.

Lines 77a and 78

Enter the number of aircraft landings and takeoffs 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.

Lines 80a and 81

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.

Lines 83a and 84

Enter revenue from the transportation of revenue passengers and revenue property first received as originating or connecting traffic.

Computation of combined business allocation percentage for railroad and trucking corporations**Lines 88, 89, and 90**

Railroad and trucking corporations must allocate on the basis of mileage using this schedule. 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. Nonrevenue miles, such as deadheading miles, should be excluded.

Computation of combined business allocation percentage for general business corporations**Lines 91 through 121**

Lines 91 through 121 are for general business corporations, utility corporations formerly taxable under Tax Law section 186, and corporations principally engaged in the transportation, transmission, and distribution of gas, electricity, or steam (TTD corporations) formerly taxable under Tax Law sections 183 and 184.

On lines 91 through 121, the combined business allocation percentage for general business corporations is computed by averaging three factors: property, payroll, and business receipts. This percentage is used to allocate combined business income when computing the combined ENI base.

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.

You must value real and tangible personal property owned by the corporation at the adjusted basis used for federal income tax reporting. 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. This election applies to corporations included in a combined return only if all of the corporations included in the return make the election.

Corporations with nonresident shareholders — Nonresident shareholders of New York S corporations must determine the amount of business and investment income, losses, and deductions reported on Form CT-34-SH by using the separate business allocation percentage or investment allocation percentage from each member corporation (including the payer corporation). The combined business or investment allocation percentages should not be used. Each member corporation with a nonresident shareholder must compute its separate business allocation percentage or investment allocation percentage on the appropriate lines of Form CT-3-S-A/B, *Combined Group Detail Spreadsheet*.

Do not include intercorporate rents or intercorporate business receipts in the receipts factor. Capitalized intercorporate rent expense must be eliminated from the property factor if the lessor and lessee are both part of the combined group.

Lines 91 and 92

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.

Lines 93 and 94

Enter the average value of rented real property. 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, repairs, etc.) and amortization of leasehold improvements that revert to the lessor at the end of the lease.

Lines 95 and 96

Enter the average value of inventories.

Lines 97 and 98

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.

Lines 99 and 100

Enter the average value of tangible personal property you rented. The value of rented tangible personal property is generally eight times the gross rent payable during the year covered by this return.

Lines 104 and 105

Receipts from the sale of tangible personal property are allocable to New York State when either of the following applies:

- The receipts are earned in New York State; or
- Shipments are made to points in 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, when 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 that will be sufficient to demonstrate the destination of property include:

- a bill of lading or other shipping document designating the destination location, regardless of the FOB point; **or**
- a purchase invoice designating the destination location.

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

The law 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 or after August 9, 1995.

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

Lines 106 and 107

Enter receipts for services performed, based on where they are performed. Receipts from intercorporate sales and services performed should be eliminated from the receipts factor. Special rules apply to certain receipts.

Receipts from broadcasting and 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 — Receipts received from an investment company for the sale of management, administration, or distribution services must be allocated based on the domicile of the shareholders of the investment company (section 210.3(a)(6)(A)(ii)). For more information, see TSB-M-88(9)C, *Allocation of Receipts from services provided to a Regulated Investment Company (Mutual Fund) and Similar Investment Companies*.

Receipts by registered securities and commodities dealers — The following rules apply for determining whether a receipt is deemed to arise from services performed in New York State by a registered securities or commodities broker or dealer for purposes of computing the receipts factor of the business allocation percentage (section 210.3(a)(9)(A)).

A *registered securities or commodities broker or dealer* is a broker or dealer who is registered by the Securities and Exchange Commission (SEC) or the Commodities Futures Trading Commission and includes over-the-counter (OTC) derivatives dealers as defined under regulations of the SEC (17 CFR 240.3b-12). The terms *securities* and *commodities* have the same meanings as the meanings in IRC sections 475(c)(2) and 475(e)(2).

- **Brokerage commissions** — Brokerage commissions earned from the execution of securities or commodities purchase or sales orders for the accounts of customers are deemed to arise from a service performed in New York State if the customer who is responsible for paying the commissions is located in New York State.
- **Margin interest** — Margin interest earned on brokerage accounts is deemed to arise from a service performed in New York State if the customer who is responsible for paying the margin interest is located in New York State.
- **Account maintenance fees** — Account maintenance fees are deemed to arise from a service performed in New York State if the customer who is responsible for paying the account maintenance fees is located in New York State.
- **Income from principal transactions** — Gross income from principal transactions (that is, transactions where the registered broker or dealer is acting as principal for its own account, rather than as an agent for the customer) are deemed to arise from a service performed in New York State if the production credits for these transactions are awarded to a New York State branch, office, or employee of the taxpayer.

Registered broker dealers may elect to source the gross income from principal transactions based on the location of the customer to the principal transaction.

If the election is made, gross income from principal transactions is deemed to arise from a service performed in New York State to the extent that the gross proceeds from the transactions are generated from sales of securities or commodities to customers within the state based upon the mailing addresses of those customers in the records of the taxpayer. For additional information, see TSB-M-02(5)C, *Summary of Corporation Tax Changes Enacted in 2002*.

- **Fees from advisory services for the underwriting of securities** — Fees earned from advisory service for a customer in connection with the underwriting of securities (when the customer is the entity contemplating the issuance of the securities or is issuing securities), or for the management of an underwriting of securities, are deemed to arise from a service performed in New York State if the customer responsible for paying the fee is located in New York State.

Receipts from the primary spread for the underwriting of securities
 Receipts from the primary spread or selling concession from underwriting securities are deemed to arise from a service performed in New York State if production credits are awarded to a branch, office, or employee of the taxpayer in New York State as a result of the sale of underwritten securities.

Interest earned on loans to affiliates — Interest earned on loans and advances made by a taxpayer to an affiliate with whom they are not required or permitted to file a combined return are deemed to arise from a service performed in New York State if the principal place of business of the affiliate who is responsible for the payment of interest is located in New York State.

Fees for management or advisory services — Fees earned from management or advisory services, including fees from advisory services for activities relating to mergers or acquisition activities, are deemed to arise from a service in New York State if the customer responsible for paying these fees is located in New York State.

A customer is located in New York State if the mailing address of the customer that appears in the broker's or dealer's records is in New York State.

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

| | |
|--|--------------------------|
| Receipts from: | Allocate receipts |
| • Pickup and delivery both made in NYS | 100% to NYS |
| • Pickup only made in NYS | 50% to NYS |
| • Delivery only made in NYS | 50% to NYS |

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

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

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

Lines 108 and 109

Enter receipts from all property that was rented to others. Receipts from rentals of real and tangible personal property situated in New York State are allocated to New York State. Rental receipts include all amounts received for the use of or occupation of property, whether or not such property is owned by the taxpayer. Gross receipts from real and tangible personal property that is subleased must be included in the receipts factor. Intercorporate rents should be eliminated.

Lines 110 and 111

Enter receipts of royalties. Receipts of royalties from the use in New York State of patents and copyrights are allocated to New York State. Royalties include all amounts received by the taxpayer for the use of patents or copyrights, whether or not such patents or copyrights were issued to or are owned by the taxpayer. A patent or copyright is used in New York State to the extent that the activities thereunder occur in New York State.

Lines 112 and 113

Enter all other business receipts, allocated where earned.

Lines 117 and 118

Enter the total amount of all wages and other 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. Intercorporate wages and salaries should be eliminated from the payroll factor.

Line 121

If the property, payroll, or receipts 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 the numerator and denominator are zero.

Example

Computation of allocation percentage for business income and capital:

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

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

Computation of combined investment capital and investment allocation percentage

Lines 122 and 123

The amounts on Form CT-3-S-A, lines 122A, B, and D and 123A, B, and D are obtained as shown below. The amounts on Form CT-3-S-A/B, line 122A, B, and D are obtained in the same manner as indicated in column A below.

| <u>Line</u> | <u>Column A (Payer)</u> | <u>Column B (Total members)</u> |
|-------------|-------------------------------------|--|
| 122A | from CT-3-S-A/ATT, line 3, column C | a) if only one subsidiary, from CT-3-S-A/ATT, line 3, column C, or b) if more than one subsidiary, from CT-3-S-A/B, line 122A, Total column |
| 122B | from CT-3-S-A/ATT, line 3, column D | a) if only one subsidiary, from CT-3-S-A/ATT, line 3, column D, or b) if more than one subsidiary, from CT-3-S-A/B, line 122B, Total column |
| 122D | from CT-3-S-A/ATT, line 3, column G | a) if only one subsidiary, from CT-3-S-A/ATT, line 3, column G, or b) if more than one subsidiary, from CT-3-S-A/B, line 122D, Total column |
| 123A | from CT-3-S-A/ATT, line 4, column C | a) if only one subsidiary, from CT-3-S-A/ATT, line 4, column C, or b) if more than one subsidiary, from CT-3-S-A/B, line 123A, Total column |
| 123B | from CT-3-S-A/ATT, line 4, column D | a) if only one subsidiary, from CT-3-S-A/ATT, line 4, column D, or b) if more than one subsidiary, from CT-3-S-A/B, line 123B, Total column |
| 123D | from CT-3-S-A/ATT, line 4, column G | a) if only one subsidiary, from CT-3-S-A/ATT, line 4, column G, or b) if more than one subsidiary, from CT-3-S-A/B, line 123D, Total column |

Line 126

If you elect to treat cash as investment capital, then the amounts entered on Form CT-3-S-A, line 126, are obtained as shown below. The amounts on Form CT-3-S-A/B, line 126, are obtained in the same manner as indicated in Column A below.

Column A (Payer)

from CT-3-S-A/ATT, line 6, column E

Column B (Total members)

- a) if only one subsidiary, from CT-3-S-A/ATT, line 6, column E, or
b) if more than one subsidiary, from CT-3-S-A/B, line 126, Total column

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.

If one member of the combined group has investment capital, then all the members of the combined group may elect to treat cash as investment capital. All corporations in the combined group must make the same election.

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 (such as a money market fund). Cash also includes debt instruments deemed cash. Also 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.

Computation of combined investment income for allocation

Lines 128 through 141

Complete this section if you are allocating part of the combined ENI by using the investment allocation percentage from line 125. Investment income is income from investment capital to the extent it is included in ENI, less any deductions allowable in computing ENI that are attributable to investment capital or investment income, and less a portion of any net operating loss deduction allowable in computing ENI.

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 of the BCL) must use an investment allocation percentage of 100% (section 210.3(b) (3)).

Line 128

Enter interest income received from investment capital listed on Form CT-3-S-A/ATT, Schedule A, Section I, to the extent included in ENI.

Line 129

Enter interest income received from bank accounts (cash) if cash is entered on line 126. Include interest income received from a savings account, checking account, time deposit account (**other than** certificates of deposit) or similar accounts, which are usually evidenced by a passbook. Enter 0 on this line if the investment allocation percentage on line 125 is zero. In that case, this interest will be allocated by the business allocation percentage and included as part of business income.

Line 130

Enter interest income from debt instruments deemed cash (**including** a certificate of deposit), if cash is entered on line 126.

Line 131

Enter dividend income received from investment capital listed on Form CT-3-S-A/ATT, Schedule A, Section II, or dividend income received from money market mutual funds included as cash on line 126. To the extent included in ENI, include the following:

- 50% of dividends received from money market mutual funds included as cash on line 126;

- 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-A, 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; and
- 100% of dividends received from nonsubsidiary stock that did not meet the holding requirements of IRC section 246(c);

Line 132

Enter any net capital gains or losses from the sale or exchange of securities constituting investment capital that were used in computing FTI.

Line 133

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 asset constituting investment capital.

Lines 135 and 136

Complete lines 135 and 136 if you have combined investment capital includable on Form CT-3-S-A, line 124A (otherwise, enter 0 on lines 135 and 136). The term *combined investment capital* as used in these instructions for lines 135-138 means stocks, bonds, and other securities (other than those issued by a corporation included in this return) that constitute investment capital.

Line 135

Enter the amount of **interest** deductions allowable in the computation of combined ENI (includable in the amount on *Worksheet for Line 137*, line E, on page 21) that are **directly** attributable to combined investment capital (or to income, losses, or gains from combined investment capital).

Line 136

Enter the amount of **noninterest** deductions allowed in the computation of ENI (includable in the amount on *Worksheet for Line 138*, line E, on page 22 that are **directly** attributable to combined investment capital (or to income, losses, or gains from combined investment capital).

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

- interest on debt incurred to acquire combined 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 combined investment capital
- investment counsel fees
- custodian fees
- the cost of insurance and fidelity bonds covering combined investment capital
- expenses for legal advice relating to the acquisition of combined investment capital

Do not include on lines 135 or 136 interest deductions or noninterest deductions that are directly attributable to:

- combined subsidiary capital (or to income, losses, or gains from combined subsidiary capital) see Form CT-3-S-A, lines 3a and 3b; or
- combined business capital (or to income, losses, or gains from combined 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, a corporation, or a combined group are directly attributable to a particular class of capital or income, 100% of the noninterest deductions of that division, corporation, or combined group may be directly attributed to that class of capital or income. See section IV of TSB-M-95(2)C for details.

Lines 137 and 138

Complete lines 137 and 138 if you have combined investment capital includable on Form CT-3-S-A, line 124A. Otherwise, enter 0 on lines 137 and 138.

Line 137

Enter the amount of **interest** deductions that are **indirectly** attributable to combined investment capital, or to income, gains, or losses from combined investment capital, computed on *Worksheet for Line 137*, line N, on page 21.

If you completed the *Worksheet for Line 4a* on page 19, skip lines A through I of *Worksheet for Line 137* on page 21 and enter on line J the amount from the *Worksheet for Line 4a*, line J.

Line references to Form CT-3-S-A in this worksheet are also line references to Form CT-3-S-A/B unless otherwise stated.

Line 138

Enter the amount of **noninterest** deductions that are **indirectly** attributable to combined investment capital, or to income, gains or losses from investment capital, computed on *Worksheet for Line 138*, line R (on page 22).

If you completed *Worksheet for Line 4b* on page 20, skip lines A through I of *Worksheet for Line 138* (on page 22), and enter on line J the amount from *Worksheet for Line 4b*, line J.

Line references to Form CT-3-S-A in this worksheet are also line references to Form CT-3-S-A/B unless otherwise stated.

Line 140

Apportion any NOLD claimed on Form CT-3-S-A, line 12, between business income and investment income. Divide investment income before deduction of any NOL by ENI before deduction of any NOL. Multiply the result by the NOLD.

Computation of income from combined subsidiary capital

Lines 142 through 144

A *subsidiary* is a corporation of which more than 50% of the total number of shares of the corporation's voting stock, issued and outstanding, is owned by the taxpayer. A DISC is not a subsidiary.

Enter interest, dividends, and capital gains attributable to subsidiary capital. In addition, include on line 144 items such as collapsible corporation gain and gain from the sale of subsidiary capital that is not a capital asset for federal tax purposes.

Computation and allocation of combined subsidiary capital base

Lines 146, 147, 148, and 149

The amounts on Form CT-3-S-A, lines 146 through 149, are obtained as shown below. The amounts on Form CT-3-S-A/B, lines 146 through 149, are obtained in the same manner as indicated in Column A below.

| <u>Line</u> | <u>Column A (Payer)</u> | <u>Column B (Total members)</u> |
|-------------|-------------------------------------|---|
| 146 | from CT-3-S-A/ATT, line 8, column C | a) if only one subsidiary, from CT-3-S-A/ATT, line 8, column C, or b) if more than one subsidiary, from CT-3-S-A/B, line 146, Total column |
| 147 | from CT-3-S-A/ATT, line 8, column D | a) if only one subsidiary, from CT-3-S-A/ATT, line 8, column D, or b) if more than one subsidiary, from CT-3-S-A/B, line 147, Total column |
| 148 | from CT-3-S-A/ATT, line 9, column E | a) if only one subsidiary, from CT-3-S-A/ATT, line 9, column E, or b) if more than one subsidiary, from CT-3-S-A/B, line 148, Total column |

| | | |
|-----|--------------------------------------|--|
| 149 | from CT-3-S-A/ATT, line 10, column G | a) if only one subsidiary, from CT-3-S-A/ATT, line 10, column G, or b) if more than one subsidiary, from CT-3-S-A/B, line 149, Total column |
|-----|--------------------------------------|--|

Line Instructions for Form CT-3-S-A/ATT, Schedules A, B, and C

This form must be filed by any member of the combined group, including the payer corporation, which has investment capital or subsidiary capital. When computing combined investment capital, all investments in the stock of corporations included in the combined return and any indebtedness from corporations including the combined group must be eliminated on Form CT-3-S-A, column D.

Schedule A – Investment capital information

The term *investment capital* means the value of the taxpayer's investments in stocks, bonds, and other corporate or governmental 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 Tax Law section 208.1;
- (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);
- (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 or 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; or
- (6) investments in stocks, bonds, and other securities of an LLC that is not owned 50% or more and which has made an election to be treated as a corporation for federal tax purposes.

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

Investment capital does not include:

- (1) stock issued by the taxpayer;
- (2) 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 for purposes of Tax Law Article 9-A, 32 or 33;
- (3) securities of an individual, partnership, trust, or other nongovernmental entity that is not a corporation pursuant to Tax Law section 208.1 (such as FNMA and GNMA pass through certificates);
- (4) stocks, bonds, and other securities of a DISC, or any indebtedness from a DISC;
- (5) regular and residual interests in a real estate mortgage investment conduit (REMIC) as defined in section 860D of the IRC;
- (6) futures and forward contracts; and
- (7) 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 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.

Do not include stocks, bonds, and other securities issued by and any indebtedness from a QSSS, in the computation of investment capital if the QSSS is included in parent's return.

Schedule A categorizes investment capital into two sections:

Section I – *Corporate and governmental debt instruments*

Section II – *Corporate stock, stock rights, stock warrants, and stock options*

Section I — Corporate and governmental debt instruments

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 hands of the taxpayer 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 (i) the obligor is the recipient of the funds, (ii) the taxpayer is principally engaged in the business of lending funds, and (iii) 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, on a separate basis, 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. The term *affiliated group* means a corporation or corporations and the common parent thereof. The term *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 at least 80% of the voting stock of which is 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 payable:

- on demand; **or**
- by its terms within six months and one day from the date the debt was incurred; **or**
- 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).

Cash, under certain circumstances, may be treated as investment capital. See instructions for line 6 on page 16.

Examples

1. A calendar-year taxpayer owns a municipal bond with a maturity date of 1/31/05. As of 7/30/04, 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 7/30/04. The value of the bond should then be treated as cash for each day the taxpayer continues to own the bond after 7/29/04.
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 at all times during the tax year owns a five-year qualifying, marketable corporate bond with a maturity date of 1/2/05. The taxpayer also owns corporate stock, but has no cash at any point during the 2004 tax year. The bond is deemed to be cash as of 7/1/04, the date six months and one day prior to maturity. The fair market value of the bond is \$95,000 on 3/31/04, \$90,000 on 6/30/04, \$98,000 on 9/30/04 and \$100,000 on 12/31/04. The bond should be listed in Section I because it qualifies as investment capital. Its average value, to be stated in column C of Section I, is computed as $(\$95,000 + \$90,000 + 0 + 0) \div 4 = \$46,250$. The use of the zeros represents the fact that the taxpayer is deemed to own cash, and not a bond, on 9/30 and 12/31. The average value of the bond insofar as it is deemed to be cash is computed as $(0 + 0 + \$98,000 + \$100,000) \div 4 = \$49,500$. The use of the zeros represents the fact that the taxpayer owned no cash on 3/31 or 6/30. The figures \$98,000 and \$100,000 represent the fact that the taxpayer is deemed to own cash in those amounts on 9/30 and 12/31, 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, which 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 $(\$10,000 + \$12,000 + 0 + 0) \div 4 = \$5,500$, to be entered in column D of Section I, and an average liability of \$3,500 $(0 + 0 + \$8,000 + \$6,000) \div 4 = \$3,500$ 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 6, column C and \$3,500 on line 6, 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 12/15/04. 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 6/14/04.

Column C

Enter the total average fair market value of each item listed in schedule 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).

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 schedule 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. (See Example 3 on this page.)

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

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 D Worksheet | |
|---|------------|
| A Total liabilities (enter amount from Form CT-3-S-A, or Form CT-3-S-A/B line 27 appropriate column) | A. _____ |
| Liabilities directly attributable to: | |
| B Subsidiary capital | B. _____ |
| C Investment capital | C. _____ |
| D Business capital | D. _____ |
| E Total liabilities directly attributable (add lines B, C, and D) | E. _____ |
| F Total liabilities indirectly attributable (subtract line E from line A) | F. _____ |
| G Average value of investment capital (enter amount from Form CT-3-S-A/ATT, line 7, column C) | G. _____ |
| H Average value of adjusted total assets (enter amount from Form CT-3-S-A or CT-3-S-A/B, line 26, appropriate column) | H. _____ |
| I Divide line G by line H | I. _____ % |
| J Multiply line F by line I | J. _____ |
| K Value of the particular asset | K. _____ |
| L Enter amount from line G | L. _____ |
| M Divide line K by line L | M. _____ % |
| N Enter amount from line J | N. _____ |
| O Liabilities indirectly attributable to a particular asset (multiply line M by line N) | O. _____ |

Column E

Determine the net average value of each item listed in schedule 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 schedule A. The issuer's allocation percentage used to compute subsidiary capital allocated to New York State and investment capital allocated to New York State is the percentage determined on the New York State tax return filed by the issuing corporation for the preceding year.

Up to three issuer's allocation percentages may be obtained by calling toll free 1 800 225-5829. From areas outside the U.S. and outside Canada, call (518) 485-6800. More than three may be obtained from the Tax Department's Web site at www.nystax.gov.

Issuer's allocation percentages are also available from many online and printed tax services.

The issuer's allocation percentage on government bonds listed in Section I is 0%.

Column G

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

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

List investments in the following:

- stock issued by a corporation
- options as described in item (4) of the definition of investment capital listed on page 14
- units in a publicly traded partnership treated as a corporation for purposes of Tax Law Article 9-A
- business trust certificates
- stock rights and stock warrants not in the possession of the issuer
- other corporate equity instruments similar to stock

Columns C through G

See instructions for Section I, columns C through G.

Section III — Computation of investment capital

Line 6 — 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.

If one member of the combined group has investment capital, then all the members of the combined group may elect to treat cash as investment capital. All corporations in the combined group must make the same election.

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. Also 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 B — Computation and allocation of subsidiary capital base

Enter the full name and federal employer identification number of each subsidiary.

A *subsidiary* is a corporation (except a DISC) of which over 50% of the number of shares entitling the holders to vote for the election of directors or trustees is owned by the taxpayer. 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. A limited liability company (LLC) that is over 50% owned by a corporation and elects to be treated as a corporation for federal tax purposes is a *subsidiary*. For more information, see 20 NYCRR 3-6.2.

Subsidiary capital is the value of certain assets reduced by attributable liabilities. These assets include all investments in the stock of subsidiary corporations, plus all debts from subsidiary corporations (other than accounts receivable acquired for services rendered or property sold to customers in the ordinary course of business) whether or not evidenced by bonds or other written instruments, on which interest is not claimed and deducted by the subsidiary under Article 9-A, 32, or 33 of the New York State Tax Law. For more information, see 20 NYCRR 3-6.3.

When computing the amount of indebtedness owed to the taxpayer by its subsidiaries, each subsidiary should be considered 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 sales 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.

Do not include stocks, bonds, and other securities issued by a QSSS, nor any indebtedness from a QSSS, in the computation of subsidiary capital.

Column C

Enter the average value of each item of subsidiary capital. 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 items of subsidiary capital 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.

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 D Worksheet

| | |
|---|-----------|
| A Total liabilities (enter amount from Form CT-3-S-A, or Form CT-3-S-A/B, line 27, appropriate column) | A. _____ |
| Liabilities directly attributable to: | |
| B Subsidiary capital | B. _____ |
| C Investment capital | C. _____ |
| D Business capital | D. _____ |
| E Total liabilities directly attributable (add lines B, C, and D) | E. _____ |
| F Total liabilities indirectly attributable (subtract line E from line A) | F. _____ |
| G Average value of subsidiary capital (enter amount from Form CT-3-S-A/ATT, line 8, column C) | G. _____ |
| H Average value of adjusted total assets (enter amount from Form CT-3-S-A or CT-3-S-A/B, line 26, appropriate column) | H. _____ |
| I Divide line G by line H | I. _____% |
| J Multiply line F by line I | J. _____ |
| K Value of the particular asset | K. _____ |
| L Enter amount from line G | L. _____ |
| M Divide line K by line L | M. _____% |
| N Enter amount from line J | N. _____ |
| O Liabilities indirectly attributable to a particular asset (multiply line M by line N) | O. _____ |

Column E

Determine the net average value of each item listed in schedule B 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 schedule B. The issuer's allocation percentage used to compute subsidiary capital allocated to New York State and investment capital allocated to New York State is the percentage determined on the New York State tax return filed by the issuing corporation for the preceding year.

Up to three issuer's allocation percentages may be obtained by calling toll free 1 800 225-5829. From areas outside the U.S. and outside Canada, call (518) 485-6800. More than three may be obtained from the Tax Department's Web site at www.nystax.gov.

Issuer's allocation percentages are also available from many online and printed tax services.

Column G

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

Schedule C - Qualified public utilities and transferees, qualified power producers, and qualified pipeline corporations**General**

Qualified public utility corporations must adjust ENI to reflect modifications for depreciation and federal gain or loss on transition property, and for regulatory assets, pursuant to Tax Law section 208.9(c-2). Complete Schedule C, Section I.

Transferees (whether or not qualified public utilities) of transition property from a qualified public utility in a tax-free transaction must adjust ENI to reflect modifications to federal gain or loss subsequently recognized on the transition property, pursuant to Tax Law section 208.9(c-2)(6)(B)(iv). Complete Schedule C, Section I, lines 18 and 19.

Qualified power producers and qualified pipeline corporations must adjust ENI to reflect modifications for depreciation on transition property, pursuant to Tax Law section 208.9(c-3). Complete Schedule C, Section 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, **and**
- was subject to tax under Tax Law Article 9, section 186, 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, **and**
- was subject to tax under Tax Law Article 9, section 186, 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, **and**
- was subject to tax under Tax Law Article 9, sections 183 and 184, 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 IRC section 167. Property is transition property only with respect to the taxpayer which owns it on January 1, 2000, and is not transition property in the hands of a subsequent transferee. (However, see the instructions for Schedule C, lines 18 and 19, for a basis adjustment which may inure from transition property.)

Book basis of transition property is the cost of the property less 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 less the aggregate of the New York depreciation deductions allowed on the property under Tax Law Article 9-A. This aggregate is the sum of the amounts on line 15 of Schedule C with respect to the property for all taxable years ending after 1999.

Schedule C, Section I - Adjustments for qualified public utilities and transferees

Complete this section if you are a qualified public utility. Use lines 11 through 21 to compute the adjustments for ENI. 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 18, 19, and 21 to compute the adjustments for ENI.

Other additions**Line 11 — Transition property - federal depreciation**

Enter the amount deducted on your federal return for depreciation of transition property. See line 15 to compute the New York depreciation deduction.

Line 12 —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 using book basis in place of federal tax basis for the property. Enter here the amount of loss deducted on your federal return and see line 16 to recalculate the loss for New York.

Line 13 — Transition property - New York gain

If transition property is sold or otherwise disposed of at a gain for federal income tax purposes in a tax 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 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 here 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 17 to subtract the federal gain.

Other subtractions**Line 15 —Transition property - New York depreciation**

In place of the federal depreciation deduction entered on line 11, 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 (GAAP).

In the case of a financing arrangement when, for federal purposes, the qualified public utility is treated as the owner of the transition property and allowed a depreciation deduction for federal income tax purposes but not allowed a depreciation deduction for GAAP purposes, you should compute the New York depreciation in accordance with GAAP as if the transition property was depreciated on your books and records.

Line 16 —Transition property - New York loss

In place of the federal loss entered on line 12, compute the New York loss on the sale or other disposition of transition property by using book basis instead of federal tax basis.

Line 17—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 13 to recalculate the gain for New York.

Lines 18 and 19 — 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, in order to reduce the gain or increase the loss in a subsequent recognition transaction involving the property which was formerly transition property or the replacement property.

Line 18: Federal gain

If the former transition property or the replacement property is sold at a gain for federal income tax purposes in a tax 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 here 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 19: 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 here the book basis differential of the former transition property or the replacement property sold at a federal loss this year.

Line 20: Regulatory assets

Enter the amounts recognized as expense on your books and records for the tax year that were recognized as expense for federal income tax purposes in a tax year ending on or before December 31, 1999, and where: (A) such amounts representing expenditures that, when made, were charged to a deferred debit account or similar asset account on your books

and records; (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 C, Section II - Adjustments for qualified power producers and qualified pipeline corporations

Complete this section 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 22 and 23 to compute the adjustments for ENI.

Other additions**Line 22**

Enter the amount deducted on your federal return for depreciation of transition property.

Other subtractions**Line 23**

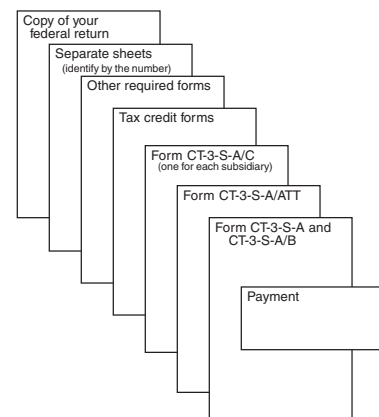
In place of the federal depreciation deduction entered on line 22, compute a New York depreciation deduction by treating all of your transition property as a single asset placed in service on the first day of the federal tax year that ends in 2000. The New York basis for depreciation is the net book 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.

When preparing and mailing your corporation franchise tax return, please be sure to:

- Include your employer identification number and file number on each form filed.
- Have the appropriate individuals sign the return.
- Make your check payable to: **New York State Corporation Tax**.
- Read the instructions.
- Use the correct forms.
- If **you do not need forms mailed to you next year, make no mark in the box** located above the signature area on Form CT-3-S-A. (Mark the box only with an **X** only if you do need forms mailed to you.)
- Attach a complete copy of your federal return.
- Attach all forms and any schedules and tax credit claim forms used to compute your tax.
- Assemble your return and attachments this way:



Worksheet for Line 4a

- 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 A. _____
- B. Enter amounts of interest deductions included on line A that are required to be added back to FTI in computing ENI (other than the amount on Form CT-3-S-A, lines 3a and 4a). Enter the CT-3-S-A line number and amount below.
 Line # _____ Amount _____
 Line # _____ Amount _____
 Line # _____ Amount _____ Total B. _____
- C. Balance (subtract line B from line A) C. _____
- D. Enter amounts of interest deductions that are required to be subtracted from FTI in computing ENI (for example, the interest deductions taken in computing the amount on Form CT-3-S-A, line 2), or amounts related to foreign source income not included on federal Form 1120. Enter the CT-3-S-A line number and amount below.
 Line # _____ Amount _____
 Line # _____ Amount _____
 Line # _____ Amount _____ Total D. _____

- E. Total New York interest deductions included in ENI (add lines C and D) E. _____
- F. Enter any interest deductions directly attributable to subsidiary capital included on Form CT-3-S-A, line 3a F. _____
- G. Enter any interest deductions directly attributable to investment capital included on Form CT-3-S-A, line 135 G. _____
- H. Enter any interest deduction directly attributable to business capital H. _____
- I. Subtotal (add lines F, G, and H) I. _____
- J. Interest deductions subject to indirect attribution (subtract line I from line E) J. _____
- K. Enter the amount from Form CT-3-S-A, line 146, (reduced by any portion of the amount that is required to be eliminated in column D) K. _____
- L. Enter the amount from Form CT-3-S-A, line 26, (reduced by any portion of the amount that is required to be eliminated in column D) L. _____
- M. Percentage (divide line K by line L) M. _____%
- N. Amount of interest deductions indirectly attributable to combined subsidiary capital (multiply line J by line M; enter this amount on line 4a) N. _____

(instructions continue on page 7)

Worksheet for Line 4b

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) A. _____

B. Enter amounts of noninterest deductions included on line A that are required to be added back to FTI in computing ENI (other than the amounts on Form CT-3-S-A, 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 ENI for prior years that began on or after January 1, 1987. Enter the CT-3-S-A line number and amount below.

| | | |
|--------------|--------------|----------------|
| Line # _____ | Amount _____ | |
| Line # _____ | Amount _____ | |
| Line # _____ | Amount _____ | Total B. _____ |

C. Balance (subtract line B from line A) C. _____

D. Enter amounts of noninterest deductions listed below that are required to be subtracted from FTI in computing ENI. These are:

- The portion of wages and salaries paid or incurred for the tax year for which a deduction is not allowed pursuant to IRC section 280C (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)
 - Depreciation deduction permitted under Article 9-A for decoupled property pursuant to Tax Law sections 208.9(o) and 208.9(p)
 - Related member royalty income deduction permitted under Article 9-A pursuant to Tax Law section 208.9(o)
 - SUV recapture permitted under Article 9-A pursuant to Tax Law section 208.9(a)(16)
 - Deduction for qualified public utilities permitted under Article 9-A pursuant to Tax Law section 208.9(c-2)
 - Deduction for qualified power producers and qualified pipeline corporations permitted under Article 9-A pursuant to Tax Law section 208.9(c-3)
 - Deduction for sale of qualified emerging technology investment (QETI) permitted under Article 9-A pursuant to Tax Law section 208.9(1)
 - Deduction for eligible settlement fund or eligible grantor trust permitted under Article 1 pursuant to Tax Law section 13
 - The noninterest deductions taken in computing the amount on Form CT-3-S-A, line 2
- Enter the CT-3-S-A line number and amount below.
- | | | |
|--------------|--------------|----------------|
| Line # _____ | Amount _____ | |
| Line # _____ | Amount _____ | |
| Line # _____ | Amount _____ | Total D. _____ |

E. Total New York noninterest deductions included in ENI (add lines C and D) E. _____

F. Enter noninterest deductions directly attributable to subsidiary capital from Form CT-3-S-A, line 3b F. _____

G. Enter noninterest deductions directly attributable to investment capital included on Form CT-3-S-A, line 136 G. _____

H. Enter noninterest deductions directly attributable to business capital H. _____

I. Subtotal (add lines F, G, and H) I. _____

J. Noninterest deductions subject to indirect attribution (subtract line I from line E) J. _____

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-A, line 145, and add back any losses used to compute the amount of capital gains from subsidiary capital on line 144. These amounts should be reduced by any portions of such amounts required to be eliminated as intercorporate transactions K. _____

L. Enter total gross income. Total gross income means gross income as defined in IRC section 61, increased by (a) those items described in section 6 that are included in the computation of ENI by reason of Tax Law section 208.9(c) (relating to foreign source income) and (b) interest on state and local bonds excluded from gross income under IRC section 103. Gross income is not reduced by any deduction for capital losses or by any other deductions. Combined gross income should be adjusted for any intercorporate transactions L. _____

M. Income percentage (divide line K by line L) M. _____ %

N. Enter the amount from Form CT-3-S-A, line 146 (reduced by any portion of such amount that is required to be eliminated in column D) N. _____

O. Enter the amount from Form CT-3-S-A, line 26 (reduced by any portion of such amount that is required to be eliminated in column D) O. _____

P. Asset percentage (divide line N by line O) P. _____ %

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 two _____ %
- b. Enter percentage from line P _____ %
- c. Total (add lines a and b) _____ %
- d. Subsidiary capital percentage (divide line c by three) .. Q. _____ %

R. Amount of noninterest deductions indirectly attributable to combined 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.) R. _____

Worksheet for Line 137

Interest deductions indirectly attributable to combined investment capital

A. Enter federal interest deductions included on federal Form 1120, line 18 A. _____

B. Enter amounts of interest deductions included on line A that are required to be added back to FTI in computing ENI (other than the amount on Form CT-3-S-A, lines 3a and 4a).

Enter the Form CT-3-S-A line numbers and amounts below.

Line # _____ Amount _____
Line # _____ Amount _____
Line # _____ Amount _____ Total B. _____

C. Balance (subtract line B from line A) C. _____

D. Enter amounts of interest deductions that are required to be subtracted from FTI in computing ENI (for example, the interest deductions taken in computing the amount on Form CT-3-S-A, line 2, or amounts related to foreign source income not included on federal Form 1120).

Enter the Form CT-3-S-A line number and amount below.

Line # _____ Amount _____
Line # _____ Amount _____
Line # _____ Amount _____ Total D. _____

E. Total New York interest deductions included in ENI (add lines C and D) E. _____

F. Enter any interest deduction directly attributable to subsidiary capital from Form CT-3-S-A, line 3a F. _____

G. Enter any interest deductions directly attributable to investment capital from Form CT-3-S-A, line 135 G. _____

H. Enter any interest deductions directly attributable to business capital H. _____

I. Subtotal (add lines F, G, and H) I. _____

J. Interest deductions subject to indirect attribution (subtract line I from line E) J. _____

K. For Form CT-3-S-A/B, enter the amount from Form CT-3-S-A/ATT, line 7, column C. For Form CT-3-S-A, enter the sum of lines 122A, 123A, and 126, column E. K. _____

L. Enter the amount from Form CT-3-S-A, line 26, (reduced by any portion of the amount that is required to be eliminated in column D) L. _____

M. Percentage (divide line K by line L) M. _____%

N. Amount of interest deductions indirectly attributable to combined investment capital (multiply line J by line M; enter this amount on line 137) N. _____

(instructions continue on page 14)

Worksheet for Line 138

Noninterest deductions indirectly attributable to combined investment capital

A. Enter federal noninterest deductions included on federal Form 1120, line 27 (excluding the amount from federal Form 1120, line 18) A. _____

B. Enter amounts of noninterest deductions included on line A that are required to be added back to FTI in computing ENI (other than the amounts on Form CT-3-S-A, lines 3b and 4b). Include the New York excess depreciation amount described in Tax Law section 208.9(b)(11) to the extent that the amount was subtracted in computing ENI for prior tax years that began on or after January 1, 1987. Enter the Form CT-3-S-A line number and amount below.
Line # _____ Amount _____
Line # _____ Amount _____
Line # _____ Amount _____ Total B. _____

C. Balance (subtract line B from line A) C. _____

D. Enter amounts of noninterest deductions listed below that are required to be subtracted from FTI in computing ENI.
- In the case of a taxpayer organized outside the United States; deductions attributable to income that is not included in FTI but is required to be included in ENI (such as, foreign source income) (Tax Law section 208.9(c); also see 20 NYCRR 3-2.3(a)(9))
- The portion of wages and salaries paid or incurred for the tax year for which a deduction is not allowed pursuant to IRC section 280C (Tax Law section 208.9(a)(7))
- Depreciation deductions permitted under Article 9-A with respect to decoupled property pursuant to Tax Law sections 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)
- Depreciation deduction permitted under Article 9-A for decoupled property pursuant to Tax Law sections 208.9(o) and 208.9(p)
- Related member royalty income deduction permitted under Article 9-A pursuant to Tax Law section 208.9(o)
- SUV recapture permitted under Article 9-A pursuant to Tax Law section 208.9(a)(16)
- Deduction for qualified public utilities and transferees permitted under Article 9-A pursuant to Tax law section 208.9(c-2)
- Deduction for qualified power producers and qualified pipeline corporations permitted under Article 9-A pursuant to Tax Law section 208.9(c-3)
- Deduction for sale of qualified emerging technology investment permitted under Article 9-A pursuant to Tax Law section 208.9(1)
- Deduction for eligible settlement fund or eligible grantor trust permitted under Article 1 pursuant to Tax Law section 13
- The noninterest deductions taken in computing the amount on Form CT-3-S-A, line 2
Enter the Form CT-3-S-A line number and amount below.
Line # _____ Amount _____
Line # _____ Amount _____
Line # _____ Amount _____ Total D. _____

E. Total New York noninterest deductions included in ENI (add lines C and D) E. _____

F. Enter noninterest deductions directly attributable to subsidiary capital from Form CT-3-S-A, line 3b ... F. _____

G. Enter noninterest deductions directly attributable to investment capital from Form CT-3-S-A, line 136 G. _____

H. Enter noninterest deductions directly attributable to business capital H. _____

I. Subtotal (add lines F, G, and H) I. _____

J. Noninterest deductions subject to indirect attribution (subtract line I from line E) J. _____

K. Enter gross income attributable to investment capital. Gross income from combined investment capital is that portion of total gross income consisting of (a) dividends, interest, and gains (but not losses) from investment capital and (b) items described in 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-A, line 134, and add back any dividends excluded on Form CT-3-S-A, line 11, and any losses used to compute the amount of capital gains from combined investment capital on line 132. These amounts should be reduced by any portion of the amounts required to be eliminated as intercorporate transactions. K. _____

L. Total gross income means gross income as defined in IRC section 61, increased by (a) those items described in section 61 that are included in the computation of ENI by reason of Tax Law section 208.9(c) (relating to foreign source income), and (b) interest on state and local bonds excluded from gross income under IRC section 103. Gross income is not reduced by any deduction for capital losses or by any other deductions. Combined gross income should be adjusted for any intercorporate transactions. L. _____

M. Income percentage (divide line K by line L) M. _____ %

N. Enter amount from Form CT-3-S-A/ATT, line 7, column C reduced by any portion of the amount required to be eliminated at Form CT-3-S-A, lines 122a and 123a, column D N. _____

O. Enter amount from Form CT-3-S-A, line 26 (reduced by any portion of the amount which is required to be eliminated in column D) O. _____

P. Asset percentage (divide line N by line O) P. _____ %

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.)

a. Enter percentage from line M _____ % ; multiply by two %

b. Enter percentage from line P %

c. Total (add lines a and b) %

d. Combined Investment capital percentage (divide line c by three) Q. _____ %

R. Amount of noninterest deductions indirectly attributable to combined 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 138.) R. _____

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— Notes —