



Instructions for Form CT-34-SH

New York S Corporation Shareholders' Information Schedule

CT-34-SH-1

Important reminder to file a complete return: You must complete all required schedules and forms that make up your return, and include **all pages** of those forms and schedules when you file. Returns that are missing required pages or that have pages with missing entries are considered incomplete and cannot be processed, and may subject taxpayers to penalty and interest.

Filing requirements

You must attach Form CT-34-SH to one of the following franchise tax returns: Form CT-3-S or CT-32-S.

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

Schedule A — Shareholders' New York State modifications and credits

Part 1 — Total shareholder modifications related to S corporation items

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

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

Partners — If the S corporation has income from a partnership, include any New York adjustments that apply to that income, as well as any additions to or subtractions from federal itemized deductions, on the applicable lines below. Obtain your share of partnership additions and subtractions from the partnership.

Beneficiaries (estates and trusts) — If the S corporation has income from an estate or trust, any New York adjustments that apply to that income, as well as any additions to or subtractions from federal itemized deductions, will be shown in your share of a single fiduciary adjustment. If the adjustment is a net addition, enter this amount on line 3; if the adjustment is a net subtraction, enter this amount on line 5. Identify this item as **FA**.

If you filed federal Form 4970, *Tax on Accumulation Distribution of Trusts*, you must include on line 3 the amount of income you reported on Form 4970, line 1, less any interest income on state and local bonds and obligations on New York State and its local governments (that was included on Form 4970, line 5). Be sure to identify the source of this income as **Form 4970 income**.

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

Line 1 — New York franchise taxes

Enter the Article 9-A or Article 32 corporate franchise tax, including the applicable fixed dollar minimum tax (Article 9-A) or the \$250 fixed dollar minimum (Article 32), to the extent the tax was excluded from federal income (section 612(b)(3)). See subtraction ES-26.

Line 2 — Federal depreciation deduction

Enter the federal depreciation deduction from Form CT-399, *Depreciation Adjustment Schedule*, line 10, column A (section 612(b)(8), (25), and (27)).

Line 3 — Other additions

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

EA-1 Personal income taxes and unincorporated business taxes deducted in determining partnership ordinary income (only for S corporations that are corporate partners) — No personal income taxes may be deducted by partners in partnerships in determining their New York taxable income.

If the partnership included a deduction for state, local, or foreign income taxes, or unincorporated business taxes (including New York City unincorporated business taxes) in computing its federal ordinary income, include the total deduction. For example, if the partnership deducted New York City unincorporated business tax on federal Form 1065 or 1065-B, include that tax deduction.

Note: The limited liability company (LLC)/limited liability partnership (LLP) filing fee is not an income tax and is not added back.

EA-2 Accelerated cost recovery system (ACRS) deduction (only for S corporations that are corporate partners) — If the partnership claimed ACRS depreciation in computing its federal ordinary income for:

- property placed in service during tax years 1981 through 1984 (other than 280F property); or
- property placed in service outside New York State during tax years 1985 through 1993 and fiscal tax years beginning in 1993 (other than 280F property), and the partnership elects to continue using Internal Revenue Code (IRC) 167 depreciation (see TSB-M-99(1)),

include that deduction. The partnership must complete Form IT-399, *New York State Depreciation Schedule*, and you must attach it to Form CT-34-SH.

EA-3 Interest income on state and local bonds and obligations (but not those of New York State or its local governments) — Interest income on obligations of other states or political subdivisions of those states that is exempt from federal income tax is subject to New York State tax. This includes interest income on state and local bonds (but not those of New York State and local governments within the state), interest and dividend income from tax-exempt bond mutual funds, and tax-exempt money market funds that invest in obligations of states other than New York (section 612(b)(1)).

EA-4 Investment income from certain obligations of United States (US) government agencies or affiliations — Federal laws specifically exempt investment income from certain obligations of US government agencies or affiliations from federal taxation but not from state taxation.

If you received or were credited with any interest or dividend income from any US authority, commission, or instrumentality that federal laws exempt from federal income tax but do not exempt from state income tax, include that income (section 612(b)(2)).

EA-5 Expenses relating to income exempt from New York State tax — Amounts deducted for interest on loans used to buy bonds, obligations, or securities whose interest income is taxable for federal purposes but is exempt from New York State tax, expenses relating to income exempt from New York State tax, and amortization of bond premium whose bond interest income is taxable for federal purposes but is exempt from New York State tax. Also enter amounts deducted for interest expenses relating to the production of income which is taxable for federal purposes but exempt from New York State tax (section 612(b)(4) and (5)).

EA-6 Special additional mortgage recording tax deduction (only for S corporations that are corporate partners) — If the partnership deducted special additional mortgage recording tax in computing its federal ordinary income, and the special additional mortgage recording tax was paid before January 1, 1988, and in a prior year the partnership was allowed a New York State personal income tax credit for that tax, include the amount deducted. Partnerships do not make the addition for the tax paid to record a mortgage on or after January 1, 2004, even if the partnership claimed a credit for that tax.

EA-7 Special additional mortgage recording tax basis adjustment (only for S corporations that are corporate partners) — If property on which the partnership paid the special additional mortgage recording tax was sold or disposed of, and a special additional mortgage recording tax was paid before January 1, 1988, and in a prior year the partners claimed the New York State personal income tax credit for the tax paid on that property, and the federal basis of the property was not adjusted to reflect the amount of the credit allowed, include on this line the amount of the basis that was not adjusted for the amount of the credit claimed.

EA-8 Special depreciation — If you made an election for tax years beginning before 1987 for:

- special depreciation;
- research and development expenditures;
- waste treatment facility expenditures;
- air pollution control equipment expenditures; **or**
- acid deposition control equipment,

include the amount of depreciation or expenditures relating to these items that was deducted in computing your federal income (section 612(b)(6)). For more information see Form IT-211-I, *Instructions for Form IT-211*. Also see subtraction ES-13.

EA-9 Percentage depletion — Any amount deducted for percentage depletion on mines, oil and gas wells, and other natural deposits (section 612(b)(10)).

EA-10 New business investment; deferral recognition — The amount of capital gain deferred on the sale of a capital asset if new business investment property was sold (section 612(b)(22)).

EA-11 Safe harbor leases (such a lease is a financial arrangement between a corporation, partnership, or certain grantor trusts; and a person, firm, estate, or trust to acquire and use an asset; the arrangement is allowed for federal tax purposes, but is not allowed for state purposes unless it involves mass transit vehicles) — If in computing federal income you took deductions attributable to a safe harbor lease (except for mass transit vehicles) made under an election provided for by IRC section 168(f)(8) as it was in effect for agreements entered into prior to January 1, 1984, include this amount on this line. Also see EA-12, ES-15, and ES-16.

EA-12 Safe harbor leases (see EA-11 for examples of safe harbor leases) — If in the current tax year you were involved in a safe harbor lease (except for mass transit vehicles) made under an election provided for by IRC section 168(f)(8) as it was in effect for agreements entered into prior to January 1, 1984, include the income that you would have included in your federal income if such election had not been made. Also see EA-11, ES-15, and ES-16.

EA-13 ACRS year of disposition adjustment (only for S corporations that are corporate partners) — If the partnership disposed of property that was depreciated for federal purposes using ACRS, and if ACRS depreciation was not allowed for state purposes (see EA-2), the partnership must complete Part 2 of Form IT-399, to determine the amount, if any, to include on this line.

EA-14 Qualified emerging technology investments (QETIs) — If you elected to defer the gain from the sale of a QETI, you must include the amount previously deferred when the reinvestment in the qualified emerging technology company (QETC) which qualified you for that deferral is sold (section 612(b)(35)). See ES-18.

EA-15 Royalty payments made to a related member or members — For tax years beginning on or after January 1, 2003, you may be required to add back certain royalty payments made during the tax year to a related member or members for the use of intangible

property, such as trademarks or patents, and interest payments made to a related member or members, to the extent the payments were deducted in computing federal income. (For more information, see Tax Law section 612(r).)

EA-16 IRC section 168(k) property depreciation (only for S corporations that are corporate partners) — New York State does not follow the federal depreciation for IRC section 168(k) property (except for resurgence zone property, and New York liberty zone property described in IRC section 1400L(b)(2)) placed in service inside or outside New York State on or after June 1, 2003.

If the partnership claimed a depreciation deduction for property under IRC section 168(k) (except for resurgence zone property, and New York liberty zone property described in IRC section 1400L(b)(2)) on federal Form 1065, the partnership must complete Part 1 of Form IT-398, *New York State Depreciation Schedule for IRC Section 168(k) Property*, to determine the amount to include on this line.

EA-17 Sport utility vehicle (SUV) expense deduction — If in computing federal income you claimed an IRC section 179 deduction for an SUV that weighs more than 6,000 pounds, include the amount of that deduction (section 612(b)(36)).

An *SUV* means any four-wheeled passenger vehicle manufactured primarily for use on public streets, roads, and highways. However, *SUV* does not include: any ambulance, hearse, or combination ambulance-hearse used directly in your trade or business; any vehicle used directly in your trade or business of transporting persons or property for compensation or hire; or any truck, van, or motor home. A *truck* is defined as any vehicle that has a primary load-carrying device or container attached, or is equipped with an open cargo area or covered box not readily accessible from the passenger compartment.

EA-18 New York's 529 college savings program distributions (only for S corporations that are corporate partners) — If the partnership made a nonqualified withdrawal from an account established under **New York's 529 college savings program**, include the amount of the withdrawal.

A withdrawal is nonqualified if: 1) the funds are used for purposes other than the higher education of the designated beneficiary; 2) withdrawal is actually disbursed in cash or in kind from the qualified state tuition program, even if the amount withdrawn is reinvested in New York's 529 college savings program within the IRC 60-day rollover period; or 3) on or after January 1, 2003, the funds are transferred from New York's 529 college savings program to another state's program (whether for the same beneficiary or for the benefit of another family member).

However, nonqualified withdrawals do not include any withdrawals made in tax year 2009 as a result of the death or disability of the designated beneficiary, regardless of how the funds are used.

Note: Transfers between accounts of family members not disbursed in cash or in-kind within New York's 529 college savings program are not considered distributions within the meaning of Tax Law section 612(b)(34) and are therefore not required to be added back as a nonqualified withdrawal.

EA-19 Environmental remediation insurance premiums — If the S corporation included a deduction for premiums paid for environmental remediation insurance and such premiums were deducted in calculating federal income, include the amount to the extent the credit was allowed (section 612(b)(37)).

EA-20 Reduction for S corporation taxes — The S corporation's reduction for the federal tax on certain built-in gains and certain passive investment income (section 612(b)(18)).

EA-21 New York special additional mortgage recording tax deduction — The amount of special additional mortgage recording tax paid by the corporation in a tax year beginning before 1994, when the property for which the tax was paid is sold or disposed of at a gain or loss, and the basis of such property was not adjusted by the special additional mortgage recording tax credit (section 612(b)(16)).

EA-22 Adjustments for Article 23 Metropolitan Commuter Transportation Mobility Tax (MCTMT) — Enter the amount of any Article 23 MCTMT to the extent the tax was excluded from federal income.

Line 4 — Allowable New York depreciation

Enter the total allowable New York depreciation from Form CT-399, line 10, column B (section 612(c)(16), (26), and (28)).

Line 5 — Other subtractions

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

ES-1 ACRS depreciation (only for S corporations that are corporate partners) — If the partnership claimed ACRS depreciation in computing its federal ordinary income for:

- property placed in service during tax years 1981 through 1984 (other than 280F property); **or**
- property placed in service outside New York State during 1985 through 1993 and fiscal tax years beginning in 1993 (other than 280F property) and the partnership elects to continue using IRC section 167 depreciation (see TSB-M-99(1)),

include the amount of the partnership's New York State depreciation deduction. The partnership must complete Form IT-399, and you must attach it to Form CT-34-SH.

ES-2 Income tax refunds (only for S corporations that are corporate partners) — If the partnership included in its federal ordinary income any refund or credit for overpayment of any income tax (including the New York City unincorporated business tax) or Article 23 MCTMT, include that refund on this line.

ES-3 Interest income on US government bonds — Interest income on bonds or other obligations of the US government included in S corporation income. Dividends received from a regulated investment company (mutual fund) that invests in obligations of the US government and meet the 50% asset requirement each quarter qualify for this subtraction. The portion of dividends that may be subtracted is based upon the portion of taxable income received by the mutual fund that is derived from federal obligations (section 612(c)(1)).

ES-4 Certain investment income from US government agencies If the S corporation included in federal income any interest or dividend income on bonds or securities of any US authority, commission, or instrumentality that is exempt from state income taxes under federal laws, include that income on this line (section 612(c)(2)). If you are uncertain whether a particular federal bond or security is exempt from state income tax, contact the Corporation Tax Information Center (see *Need help?* in the instructions for your franchise tax return).

ES-5 Certain investment income exempted by other New York State laws — If the S corporation included in federal income any interest or dividend income from any obligations or securities authorized by the laws of New York State, and if that income is exempt from state taxation by those laws (such as income received from bonds, mortgages, and income debenture certificates of limited dividend housing corporations organized under the Private Housing Finance Law), include that income on this line (section 612(c)(2)). If you are uncertain whether a particular obligation or security is exempt from state income tax, contact the Corporation Tax Information Center (see *Need help?* in the instructions for your franchise tax return).

ES-6 Interest expense on loans used to buy federal tax exempt obligations subject to New York State tax — Interest expense on money borrowed to buy or carry bonds or securities, the income of which is subject to New York State tax but exempt from federal income tax, provided this interest was a business expense for the tax year and the S corporation did not deduct the expense from the income on its federal return (section 612(c)(9)).

ES-7 Expenses (other than interest expense) connected with federal tax exempt income subject to New York State tax Ordinary and necessary business expenses paid or incurred during the tax year in connection with income, or property used to produce income, that is subject to New York State income tax but exempt from federal income tax, provided the S corporation did not deduct the expenses from income on its federal return (section 612(c)(10)).

ES-8 Amortizable bond premiums — Amortization of bond premiums attributable to the tax year on any bond whose interest income is

subject to New York State income tax but exempt from federal income tax, provided this amortization was a business expense for the tax year and the S corporation did not deduct the expense from income on its federal return (section 612(c)(10)).

ES-9 Wage and salary expenses allowed as federal credits but not as federal expenses — The IRC allows certain wage and salary payments to be taken as credits against tax instead of expenses against income. If the S corporation took a federal credit for which a deduction for wages and salary expense is not allowed under IRC section 280C, include the wage and salary payments not deductible for federal purposes on this line.

ES-10 Sales or dispositions of assets acquired before 1960 with greater state than federal basis — When federal taxable gains are realized from the sale of certain assets that have higher adjusted basis for New York State tax purposes, subtraction adjustments must be made to reduce the gain for New York State tax purposes.

If you are reporting a gain for federal tax purposes that was from **either**:

- property that had a higher adjusted basis for New York State income tax purposes than for federal income tax purposes on December 31, 1959 (or on the last day of a fiscal year ending during 1960); **or**
- property that was held in connection with mines, oil or gas wells, and other natural deposits and that had a higher adjusted basis for New York State income tax purposes than for federal tax purposes when sold;

include on this line the lesser of:

- the gain itself; **or**
- the difference in the adjusted basis.

ES-11 Income earned before 1960 and previously reported to New York State (only for S corporations that are corporate partners) Due to a different set of New York State income tax laws that applied to tax years ending before 1960 (and any fiscal year ending during 1960), income that is reportable for federal purposes this year may have already been reported for New York State tax purposes. This income is not subject to New York State tax again.

If the partnership reported any income or gain on its federal return for this tax year (including annuity income) that was properly reported as income on the New York State partnership return of this partnership for a tax year prior to 1960 (or a fiscal year ending in 1960), include this income on this line.

ES-12 Cost depletion — New York State does not allow percentage depletion of natural resource holdings (see EA-9), but does allow cost depletion.

If you are making addition EA-9 for any percentage depletion deducted for federal purposes, include the cost depletion that would be allowed on that property by IRC section 611, without any reference to either IRC section 613 or 613A.

ES-13 Special depreciation expenditures or carryover of research and development expenditures — The excess expenditures incurred in tax years beginning before 1987 in connection with depreciable, tangible business property located in New York State may be carried over to the following tax year or years, and subtracted from a taxpayer's federal income for that year(s), if those expenses exceeded your New York income before the allowance of those expenditures (section 612(c)(11)). For more information see Form IT-211-I. Also see addition EA-8.

ES-14 Gain to be subtracted from the sale of a new business investment included in federal income — The amount of gain from the sale of a New York State new business to the extent that it was included in federal income (section 612(c)(20)).

ES-15 Safe harbor leases (see EA-11 for a definition of safe harbor leases) — If an amount was included in your federal income (except for mass transit vehicles) solely because you made the safe harbor election on your federal return for agreements entered into before January 1, 1984, include that amount on this line.

ES-16 Safe harbor leases (see EA-11 for a definition of safe harbor leases) — If an amount could have been excluded from your federal

income (except for mass transit vehicles) had the safe harbor election not been made on your federal tax return for agreements entered into before January 1, 1984, include that amount on this line.

ES-17 ACRS year of disposition adjustment (only for S corporations that are corporate partners) — If the partnership disposed of property during the tax year that was depreciated for federal purposes using ACRS, and if ACRS depreciation was not allowed for state purposes (see EA-2), the partnership must complete Part 2 of Form IT-399 to determine the amount, if any, to be included on this line.

ES-18 Qualified emerging technology investments (QETIs) — The amount of gain included in federal income from the sale of a QETI that the New York S corporation elects to defer for New York purposes.

The New York S corporation may defer the gain on the sale of QETIs that are:

- held for more than 36 months, and
- rolled over into the purchase of a QETI within 365 days.

Replacement QETI must be purchased within the 365-day period beginning on the date of sale. The 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 the replacement QETI. The gain deferral applies to any QETI sold on or after March 12, 1999, that meets the holding-period criteria. The gain deferred must be added back in the year the replacement QETI is sold.

If you elect to defer the gain from the sale of a QETI, include the amount of the gain deferral to the extent the gain was included in federal income. 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 New York S corporation return is filed, report 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 New York S corporation return is filed, the New York S corporation must file an amended return to claim the deduction. In addition, each shareholder must file an amended personal income tax return to claim his or her pro rata share of the deduction.

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

A *QETC* is a company located in New York State that has total annual product sales of 10 million dollars or less and meets either of the following criteria:

- its primary products or services are classified as emerging technologies, or
- it has research and development activities in New York State, and its ratio of research and development funds to net sales equals or exceeds the average ratio for all surveyed companies classified (as determined by the National Science Foundation in the most recently published results from its *Survey of Industry Research and Development*, or any comparable successor survey, as determined by the Tax Department).

ES-19 Distributions made to a victim of Nazi persecution — If you included in your federal income amounts received from an eligible settlement fund or grantor trust as defined by Tax Law section 13 (because it or a predecessor or assignor was persecuted or targeted for persecution by the Nazi regime because of race, religion, ethnicity, sexual orientation, national origin, or physical or mental disability or handicap) or distributions received because of its status as a victim of Nazi persecution, include that amount on this line.

ES-20 Royalty payments made to a related member or members — For tax years beginning on or after January 1, 2003, you may be required to subtract certain royalty payments for the use of intangible property such as trademarks or patents, and interest

payments that you received either directly or indirectly during the tax year from a related member or members, to the extent the payments were included in federal income, and the payments were required to be added back by the related member or members in accordance with EA-15.

If you, as a related member, included in federal income certain royalty or interest payments during the tax year for the use of intangible property, include that amount on this line.

ES-21 IRC section 168(k) property depreciation (only for S corporations that are corporate partners) — New York State does not follow the federal depreciation for IRC section 168(k) property (except for resurgence zone property, and New York liberty zone property described in IRC section 1400L(b)(2)) placed in service inside or outside New York State on or after June 1, 2003.

If the partnership claimed a depreciation deduction for IRC section 168(k) property (except for resurgence zone property, and New York liberty zone property described in IRC section 1400L(b)(2)) on federal Form 1065, the partnership must complete Part 1 of Form IT-398 to compute the amount of New York depreciation to include on this line.

ES-22 Amount of IRC section 168(k) property deduction that is greater than the depreciation claimed for New York State (year of disposition adjustment) (only for S corporations that are corporate partners) — If the partnership disposed of IRC section 168(k) property (except for resurgence zone property, and New York liberty zone property described in IRC section 1400L(b)(2)) placed in service inside or outside New York State on or after June 1, 2003, and the total federal depreciation deduction is more than the New York depreciation deduction for that property, the partnership must complete Part 2 of Form IT-398 to compute the amount of the disposition adjustment to enter on this line.

ES-23 Sport utility vehicle (SUV) expense deduction recapture If, in computing federal income, you are required to recapture certain amounts claimed as an IRC section 179 deduction for an SUV that weighs more than 6,000 pounds, and the vehicle was previously subject to the modification EA-17, include the amount to be recaptured on this line.

ES-24 New York's 529 college savings program deduction (only for S corporations that are corporate partners) — If the partnership made contributions as the account owner to one or more 529 college savings program account(s) established under **New York's 529 college savings program**, and the contributions were not deductible or eligible for a credit for federal income tax purposes, include that amount on this line.

ES-25 New York's 529 college savings program distributions (only for S corporations that are corporate partners) — If the partnership made a withdrawal from an account established under **New York's 529 college savings program**, and part of the withdrawal was included in its federal income, include on this line the amount included in federal income.

ES-26 Franchise tax refunds — The amount of any refund or credit of the tax imposed under Tax Law Article 9-A for a New York S corporation tax year ending after 1990, or under Tax Law Article 32 for a New York S corporation tax year ending after 1996, to the extent the tax was included on federal income in a prior tax year under Tax Law section 612(b)(3).

Other items

Note: Lines 6 and 7 should be used only for additions or subtractions to federal itemized deductions on the individual returns of shareholders and should exclude any amounts properly reportable on lines 3 and 5. Attach a statement identifying by letter and amount the following additions or subtractions to the shareholders' federal itemized deductions that must be made as a result of New York S corporation items.

Line 6 — Additions to federal itemized deductions

- Interest expense on money borrowed to buy or carry bonds or securities subject to New York State income tax, but exempt from

federal income tax, if this interest expense was not deducted on the federal return or subtracted on line 5.

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

Line 7 – Subtractions from federal itemized deductions

- D. State, local, and foreign income taxes properly deductible as a federal itemized deduction rather than a deduction for federal adjusted gross income (FAGI).
- E. Interest expense on money borrowed to buy or carry bonds or securities whose income is exempt from New York State income tax, if not added on line 3.
- F. Ordinary and necessary expenses paid or incurred in connection with income, or property held to produce income, that is exempt from New York State income tax, if not added on line 3.
- G. Amortization of bond premium attributable to the tax year on any bond whose interest income is exempt from New York State income tax, if not added on line 3.
- H. Article 23 MCTMT properly deductible as a federal itemized deduction rather than a deduction for FAGI.

Line 8 – New York State adjustments to federal tax preference items

See Form IT-220-I, *Instructions for Form IT-220*, for an explanation of the required adjustments.

Part 2 – Total S corporation New York State credits and taxes on early dispositions

Lines 9 through 63 — Enter on the appropriate line the amount of any tax credits originating this year, and the amount of recapture of any tax credit that originated in a tax year in which the corporation was a New York S corporation (*New York S year*). Attach the applicable credit claim form(s). Shareholders must include their pro rata shares of each of these tax credits and recapture amounts in computing their personal income tax returns.

Do not include any recapture of a tax credit that originated in a tax year in which the corporation was a New York C corporation (*New York C year*). Include these amounts on the applicable lines of your S corporation franchise tax return.

Tax credits that originate in a New York S year:

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

Tax credits that originate in a New York C year:

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

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

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

S corporations that are partners in partnerships must complete any applicable credit claim forms and attach them to Forms CT-3-S and CT-34-SH.

Exceptions:

- Farmers' school tax credit (see instructions for lines 28 through 31).
- QEZE tax reduction credit (see instructions for lines 24 through 27).

Lines 9 through 12 – Investment tax credits — The investment tax credit and retail enterprise investment tax credit are allowed at a reduced rate to shareholders of a New York S corporation. The rate is:

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

The credit for rehabilitation of historic barns is the amount of qualified rehabilitation expenditures multiplied by 25% (.25). Include on line 9 the amount of historic barn credit computed on Form CT-46-ATT, *Credit for Rehabilitation Expenses for Retail Enterprises and Historic Barns*.

When computing an investment tax credit on property placed in service on or after January 1, 1997, the shareholders of a New York S corporation may claim an employment incentive credit for each of the two years following the investment credit year. Include on line 9 the amount of employment incentive credit computed on Form CT-46, *Claim for Investment Tax Credit (Includes Employment Incentive Credit)*.

Lines 13 through 18 – Empire zone (EZ) tax credits — The EZ investment tax credit on Form CT-603, *Claim for EZ Investment Tax Credit and EZ Employment Incentive Credit*, is computed at a reduced rate of 8% for New York S corporations.

When computing an EZ investment tax credit on property placed in service on or after January 1, 1997, the shareholders of a New York S corporation may claim an EZ employment incentive credit for each of the three years following the investment credit year. Include on line 15 the amount of EZ employment incentive credit computed on Form CT-603.

Line 14 — Enter the total credit from investments in certified EZ businesses from Form CT-602, *Claim for EZ Capital Tax Credit*, Schedule A, including any credit passed through to the S corporation from a partnership.

Line 15 — Enter the total credit from monetary contributions to EZ community development projects from Form CT-602, Schedule B, including any credit passed through to the S corporation from a partnership.

Lines 19 through 27 – Qualified empire zone enterprise (QEZE) tax credits

Line 19 — An S corporation that is passing through to its shareholders QEZE real property tax credit amounts passed through to the S corporation from a partnership must include on this line all amounts of credit received from each partnership in addition to any amount of credit that is generated by the S corporation.

Line 20 — An S corporation that is required to pass through to its shareholders amounts of recapture of QEZE real property tax credit that were passed through to the S corporation from a partnership must include on this line all amounts of recapture received from each partnership in addition to any amount of recapture that is generated by the S corporation.

Lines 21, 22, and 23 — Only the employment increase factor, zone allocation factor, and benefit period factor of the S corporation itself, as reported on Form CT-604, *Claim for QEZE Tax Reduction Credit*, should be reported on lines 21, 22, and 23.

Lines 24 through 27 – S corporations that are corporate partners — An S corporation that is passing through to its shareholders the employment increase factor, zone allocation factor, and benefit period factor that were passed through to the S corporation from a partnership reports this information on lines 25, 26, and 27. When reporting this information, include the employer identification number (EIN) of the partnership on line 24. An S corporation must also report to its shareholders the pro rata share of the income attributable to the QEZE partnership that is allocated to

New York State (see *Worksheet A* in Form CT-604-CP-I, *Instructions for Form CT-604-CP* for more information).

Lines 28 through 31 – Farmers’ school tax credit

S corporations do not complete Form CT-47, *Claim for Farmers’ School Tax Credit*. Instead, the shareholders use their pro rata shares of the amounts on lines 28 through 31 to claim the credit on Form IT-217, *Claim for Farmers’ School Tax Credit*. Include on these lines any amounts of these items that have been passed through to the S corporation from a partnership.

Line 28 — *Qualified agricultural property* includes land and land improvements located in New York State that are used in agricultural production. It also includes property you purchased under a land sales contract that is considered owned by you if you are obligated under the land sales contract to pay school district property taxes on the purchased property, and you are entitled to deduct those taxes as a tax expense for federal income tax purposes.

A *land sales contract*, commonly referred to as an *installment land contract*, is an agreement to transfer land ownership in exchange for a series of principal and interest payments. The seller does not transfer formal title to the property to the buyer until all or a certain number of payments are made. In addition to an *installment land contract*, a land sales contract may also be referred to as *contract for deed*, *bond for deed*, *conditional sale of real estate*, *contract for sale of land*, and *land contract*. A lease with an option to purchase type arrangement is not a land sales contract.

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

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

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

Note: If you are producing maple syrup or cider, or selling wine from a farm winery, the buildings and structures used to process the sap into syrup, the apples into cider, or the grapes into wine are considered qualified agricultural property, even though the property is used in processing.

Processing means doing something to a farm commodity beyond what is needed to make it initially marketable. The mere sorting, washing, and packaging of commodities is not considered processing.

A *residence* includes a structure such as a house, a mobile home, and any other buildings associated with it, such as garages or sheds, that are used for residential purposes.

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

For more information concerning qualified agricultural property, see Publication 51, *Questions and Answers on New York State’s Farmers’ School Tax Credit*, and Publication 51.1, *Update to Publication 51 Questions and Answers on New York State’s Farmers’ School Tax Credit*.

Line 29 — *Eligible school district property taxes* are real property taxes levied by a school district on qualified agricultural property **owned** by the S corporation. Real property taxes levied by towns, villages, cities, or their municipal governments are not eligible school district property taxes. Eligible school district property taxes include school district taxes paid on qualified property the S corporation owns but rents to someone else. However, eligible school district property

taxes do not include school district property taxes paid on qualified agricultural property you rent from someone else, even if the rental agreement provides that you must actually pay the taxes.

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

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

Do not include school taxes paid on property converted to nonqualified use during the year. (See the definition for *conversion to nonqualified use* under the line 30 instructions.)

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

If the converted property is sold, the closing documents will show the amount of school taxes reimbursed to the S corporation by the buyer. The S corporation must reduce its current year’s eligible school district taxes paid by the amount of these reimbursed taxes. For more information on eligible taxes, see Publications 51 and 51.1.

Line 30 — Enter any acres of property that were converted to nonqualified use during the tax year. *Conversion to nonqualified use* means an outward or affirmative act changing the use of the agricultural property. The idling, nonuse, or sale of the property is not by itself a conversion.

Example 1: *You sell 100 acres of land to a developer in tax year 2009. The developer actually builds a housing development on the land during the tax year, and as a result the land is no longer used in agricultural production. This would be considered a conversion to nonqualified use.*

Example 2: *You discontinue farming during 2009, but continue to hold the farm property for investment purposes. This would **not** constitute a conversion to nonqualified use.*

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

Line 63 — If you are claiming a tax credit for which no line is provided on Form CT-34-SH, enter the name(s) of the tax credit(s) and form number(s). Provide shareholders of the New York S corporation with their pro rata share of the credit(s) that can be claimed on their tax return.

Schedule B — Shareholders’ identifying information

You must complete Schedule B and provide the identifying information for each shareholder (photocopy Schedule B, as needed). Provide each shareholder’s name and address (as it appears on the federal Schedule K-1 you attach), either the social security number (SSN) or the EIN, the shareholder’s ownership percentage in the corporation, and the shareholder’s residency status. Complete this information for each shareholder who held an interest in the S corporation at any time during the tax year.

Need help? and Privacy notification

See the instructions for your franchise tax return.