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Highlights for 2001

On October 1, 2001, as these instructions were being prepared for printing, the New York State Legislature and Governor Pataki were considering tax law changes that could affect your 2001 tax return and 2002 estimated taxes. For up-to-date information, visit our Web site at www.tax.state.ny.us

Registered securities and commodities dealers - For tax years beginning on or after January 1, 2001, the computation of the receipts factor of the business allocation percentage was amended with respect to certain receipts earned by registered securities and commodities dealers. Brokerage commissions, margin interest and account maintenance fees are deemed to arise from services performed in New York if the customer who is responsible for paying these fees is located in New York. For additional information, see the instructions for Form CT-3-S-A/ATT, Schedule A, Section I, included in this packet and TSB-M-00(5)C.

Aviation corporations - For tax years beginning on or after January 1, 2001, the computation of the business allocation percentage for aviation corporations has changed. Only 60% of the New York amounts of revenue aircraft arrivals and departures, revenue tons handled and origination revenue will be included in the numerator of the computation of the business allocation percentage. For more information, see the instructions for Form CT-3-S-A/ATT, Schedule A, Section II, included in this packet.

Credit for the purchase of an automated external defibrillator - For tax years beginning on or after January 1, 2001, taxpayers subject to tax under Article 9-A may claim a credit for the purchase (other than resale) of an automated external defibrillator as defined under section 3000-b of the Public Health Law. For additional information, see TSB-M-99(4)C, and Form CT-250.

Green building credit - For tax years beginning on or after January 1, 2001, a new credit is available for the construction, rehabilitation, and maintenance of buildings with high environmental standards and energy efficiency through the use of environmentally preferable building materials and renewable and clean energy technologies. For more information, see TSB-M-00(5)C and Form DTF-630.

Low income housing credit - For tax years beginning on or after January 1, 2001, the New York State low-income housing credit program provides for a new credit for the construction and rehabilitation of low-income housing in New York State. For additional information, see TSB-M-00(2)C and Form DTF-624.

New qualified empire zone enterprise (QEZE) credits - For tax years beginning on or after January 1, 2001, the Empire Zones Program Act provides for two new tax credits for taxpayers located in Empire Zones who are Qualified Empire Zone Enterprises (QEZEs). Taxpayers who are certified under Article 18-B of the General Municipal Law who meet an employment test may qualify for credits against their franchise tax (or, in the case of an S corporation, a credit against the shareholder's personal income tax) for real property taxes paid and/or a tax reduction credit. For additional information, see TSB-M-01(1)C and Form CT-604.

Empire zone tax credit forms renumbered - For tax years beginning on or after January 1, 2001, empire zone tax credit forms previously numbered with a "DTF" prefix have been separated and renumbered into corporation tax forms (forms with a "CT" prefix) and income tax forms (forms with a "IT" prefix) as shown in the following table. New York S corporations compute their EZ and ZEA credits on the appropriate corporation tax form. Shareholders of a New York S corporation will report their pro rata share of the credits on the corresponding income tax form.

Individuals, partnerships, estates and trusts will compute their credit on the appropriate income tax form.

Table with 2 columns: Previous form number and name, and New corporation tax form number. Rows include: Form DTF-601 Claim for EZ Wage Tax Credit (CT-601), Form DTF-601.1 Claim for ZEA Wage Tax Credit (CT-601.1), Form DTF-602 Claim for EZ Capital Tax Credit (CT-602), Form DTF-603 Claim for EZ Investment Tax Credit and EZ Employment Incentive Credit (CT-603), DTF-605 Claim for EZ Investment Tax Credit and EZ Employment Incentive Tax Credit for the Financial Services Industry (CT-605).

**Enhanced tax credits** - For tax years beginning on or after January 1, 2001, the following tax credits have been enhanced:

- the farmers' school tax credit on Form CT-47;
- the EZ wage tax credit on Form CT-601;
- the ZEA wage tax credit on Form CT-601.1;
- the EZ employment incentive credit on Form CT-603;
- the QETC employment credit on Form DTF-621; and
- the QETC capital tax credit on Form DTF-622.

For more information, see TSB-M-99(4)C or TSB-M-00(5)C.

**Combined filing – air freight forwarders** - For tax years beginning on or after January 1, 2001, the Tax Law has been amended to allow the filing of a combined report under Article 9-A by a corporation principally engaged in aviation and a corporation that is a qualified air freight forwarder with respect to the aviation corporation. For more information, see TSB-M-99(4)C.

## General Information

### 1. Who must file

A group of S corporations, meeting the requirements outlined below, may 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 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 member corporation of 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* 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.

### 2. Which forms to file

The following forms are required to be filed with Form CT-3-S-A, *New York S Corporation Combined Franchise Tax Return*:

**Form CT-3-S-A/B, Combined Group Detail Spreadsheet**, must be filed for the members of the combined group except 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**, Schedules A and B should be filed by those members of the combined group that have investment capital or subsidiary capital. Schedule C must be filed by members of the combined group that are:

- qualified public utility corporations and transferees required to adjust entire net income under section 208.9(c-2) of the Tax Law; and
- qualified power producers and qualified pipeline corporations required to adjust entire net income under section 208.9(c-3) of the Tax Law.

Utility corporations formerly taxable under section 186 of the Tax Law, and corporations principally engaged in the transportation, transmission, and distribution of gas, electricity, or steam (TTD corporations) formerly taxable under sections 183 and 184 of the Tax Law, use the combined business allocation percentage for general business corporations on lines 91 through 121.

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.

### 3. Other forms you may require

**Form CT-400, Estimated Tax for Corporations** - If the combined group's New York State franchise tax liability can reasonably be expected to exceed \$1,000, you must file a declaration of estimated tax.

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

**Form CT-399, Depreciation Adjustment Schedule**, must be used by each corporation to compute the allowable New York State depreciation deduction if it claims the federal Accelerated Cost Recovery System (ACRS) depreciation or Modified Accelerated Cost Recovery System (MACRS) deduction for certain property placed in service after December 31, 1980.

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

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

**Form DTF-95, Business Tax Account Update** — If there have been any changes in 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, complete Form DTF-95, *Business Tax Account Update*.

For information about ordering forms, refer to *Need help?* on page 22.

#### 4. When to file

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

##### Private delivery services

If you choose, you may use a private delivery service, instead of the U.S. Postal Service, to file your return. However, if, at a later date, you need to establish the date you filed your return, you cannot use the date recorded by a private delivery service **unless** you used a delivery service that has been designated by the U.S. Secretary of the Treasury or the Commissioner of Taxation and Finance. (Currently designated delivery services are listed in Publication 55, *Designated Private Delivery Services*. See *Need help?* on page 23 of these instructions for information on ordering forms and publications.) If you use **any** private delivery service, whether it is a designated service or not, address your return to: **State Processing Center, 431C Broadway, Albany NY 12204-4836.**

##### Extension

If you cannot meet the filing deadline, request a six-month extension of time by filing Form CT-5.3, *Request for Six-Month Extension to File*.

For more information, contact the Taxpayer Assistance Bureau. See the *Need help?* section for address and telephone numbers.

#### 5. Where to file

Mail returns to: NYS Corporation Tax, Processing Unit, PO Box 1909, Albany NY 12201-1909.

If you use a delivery service other than the U.S. Postal Service, see *Private delivery services* above.

#### 6. Other forms and taxes that may apply to you

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

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

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

All other claims for refunds must be received within three years from the date the return was filed, or two years from the date the tax was paid, whichever is later.

**Form CT-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) in order to pay the license fee based on capital stock. This return must be filed when the corporation files its first franchise tax return, or if capital stock employed in New York State has increased since the last license fee report was filed. For more details see Form CT-240.

**Form CT-33-D, Tax on Premiums Paid or Payable to an Unauthorized Insurer**, must be filed 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 for more information.)

**Form CT-186-A, Utility Services Tax Return Gross Operating Income**, must be filed by each 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 (Article 9, section 186-a). The corporation must pay a tax on its gross operating income.

**Form CT-186-E, Telecommunications Tax Return and Utility Services Tax Return or Form CT-186-EZ, Telecommunications Tax Return - Short Form** — A corporation subject to tax under Article 9-A, that also provides telecommunication services, must pay a tax on its gross receipts from the provision of telecommunication services. For further information see Form CT-186-E-I, *Instructions for Form CT-186-E*.

**Form CT-3360, Federal Changes to Corporate Taxable Income**, must be filed by a combined group to report any correction made by the IRS in taxable income previously reported for any year, including changes based on the renegotiation of a government contract.

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

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

#### 7. Overview of corporation franchise tax

##### Tax bases

The combined S group subject to Article 9-A of the Tax Law must compute a tax on entire net income (reduced by its Article 22 equivalent) and a fixed dollar minimum tax. The group must pay the tax that results in the highest amount owed. In addition, each taxable member of the combined S group must pay the fixed dollar minimum tax.

##### Tax rates

See tax rate schedules on page 22 of these instructions.

**Short periods - proration of fixed dollar minimum tax** - The fixed dollar minimum tax may be reduced for short periods:

- A period of not more than 6 months                      50% reduction
- A period of more than 6 months  
but not more than 9 months                                      25% reduction
- A period of over 9 months                                      no reduction

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

To avoid an erroneous assessment or a delay in your refund, you must enter an amount in the **Gross payroll** box provided on Form CT-3-S-A, line 40 for the payer corporation and on Form CT-3-S-A/C, line 1 for each taxable member. If you do not have payroll, enter "0" in the box.

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

#### 8. Penalties and interest

##### Failure to provide shareholder information

If you don't file Form CT-3-S-A on time, providing the shareholder information required on Form CT-3-S-A/C for each shareholder (all items of income, loss, deduction, and other pertinent information), you will have to pay a penalty (section 685(h)(2)). The penalty is \$50 per shareholder per month or fraction of a month up to a total of \$250 per shareholder. You will also have to pay a penalty of \$50 for each shareholder whose social security number you do not show (section 685(k)). All shareholders of the S corporation during any part of the tax year must be counted. The penalty may be waived if it is shown that the failure is due to reasonable cause and not due to willful neglect.

##### Late payment — interest

A combined group that does not pay the tax due on or before the original due date must pay interest on the amount of underpayment. Interest is charged from the date of the original due date of the return (determined **without** regard to an extension of time to file) to the date the tax is paid. 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.

#### Late filing and late payment — additional charges

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.

- A. 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)).
- B. 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)).
- C. 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)).
- D. 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:** If you wish, we will compute the interest (line 57) and penalty (line 58) for you. Call the Business Tax Information Center at the number listed in *Need help?* on page 23.

#### Penalty for understating tax

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

#### Penalty for underpaying estimated tax

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

#### Penalty for failure to provide information relating to your issuer's allocation percentage

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

#### Civil and criminal penalties

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

## 9. Termination of business

### Dissolution or surrender of authority

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*.

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 CT3M/4M). The due date of the S short year return is the same as the New York C short year return.

If the federal and New York S elections terminate at the same time, entire net income 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 section 1362(e) (2) of the IRC or normal tax accounting rules under section 1362(e) (3) of the IRC.

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

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

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

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.

## 10. Reminders

### Employer identification number, file number, and other identifying information

When preparing your corporation tax return, please be sure to accurately complete the corporation's identifying information including your current address. You will find your **employer identification number** and **file number** just above your printed corporation name and address. Keep a record of your identifying information for future use.

Employer ID number Name Number and street City or town	File number   State ZIP code
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If you use a paid preparer or accounting firm, make sure they use your complete and accurate information when completing all forms prepared for you.

### Change of address

If your address has changed, please enter your new address in the appropriate area and check the box below the address so that we can update your address for this tax type. Do not check this box for any change of business information other than for your address.

### Changes in business information

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 this and all other tax types.

You can get these forms by fax, phone, or from our Web site. See *Need help?* on page 22 for the phone number and Web address.

### Processible forms

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

### Use of reproduced and computerized forms

Photocopies of returns are acceptable if they are of good quality and have an original signature in the proper place.

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

**Note — 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.

### Do you need a tax packet?

If you use a paid preparer, or if you use computer software to prepare your return, or if for any other reason you do not need a tax packet mailed to you for next year's taxes, please check the box above the certification and signature. By checking this box, you will help us reduce printing and mailing costs.

### 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.

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

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### Whole dollar amounts

You may elect to show amounts in whole dollars rather than dollars and cents. Round an amount from fifty cents through ninety-nine cents to the next higher dollar, and round any amount less than fifty cents to the next lower dollar.

### Percentages

When computing allocation percentages, convert decimals into percentages by moving the decimal point two spaces to the right. Percentages should be carried out to four decimal places. For example:  $5,000/7,500 = .6666666 = 66.6667\%$ .

### Negative amounts

Show any negative amounts in parentheses.

### 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 2001 (both calendar and fiscal), and for short periods beginning in 2002 and ending before December 31, 2002. If you are a calendar-year filer, check the box in the upper right corner on the front of the form. If you are a fiscal-year filer, complete the beginning and ending tax period boxes in the upper right corner on the front of the form.

### NAICS business code number

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

### General explanation

Corporations in the combined group must compute combined entire net income, and combined business and investment capital, according to 20 NYCRR, sections 3-2.10, and 3-3.8, respectively.

Use Form CT-3-S-A to compute the combined tax. The form 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, the figures of the member are entered in column B of the 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 the 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

#### Special instructions for computing entire net income by a parent of a QSSS

Where New York follows federal QSSS treatment, the parent should compute its entire net income using the following rules:

- The assets, liabilities, income and deductions, property, payroll, receipts, capital, credits, and all other tax attributes and elements of economic activity of the QSSS shall 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 federal taxable income that you would have reported on federal Form 1120, line 28, had the election under Subchapter S of Chapter One of the IRC not been made. Each member of the combined group must attach the following to Form CT-3-S-A: (1) a copy of its actual Form 1120S filed, and (2) a statement (or pro forma Form 1120) showing the computation of federal taxable income required to be shown on federal Form 1120, line 28. The statement or pro forma federal Form 1120, must include the following items not reported on federal Form 1120S:

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

**Lines 2 through 7 — Additions**

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

**Line 2** — Enter all interest received or accrued from federal, state, municipal, and other obligations that 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. Taxpayers should refer to TSB-M-88(5)C for complete details regarding the attribution of **interest** expenses and TSB-M-95(2)C regarding the attribution of **noninterest** expenses.

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

A *subsidiary* is a corporation (not including 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 for the issuing corporation. Actual beneficial ownership of stock does not mean indirect ownership or control of a corporation through a corporate structure consisting of several tiers or chains. See NYCRR 3-6.2 for additional information.

*Subsidiary capital* is the corporation's total investment in shares of capital stock of its subsidiaries and the amount of indebtedness owed to the taxpayer by its subsidiaries (whether or not evidenced by written instruments) on which interest is not claimed and deducted by the subsidiary against any tax imposed by Article 9-A, 32, or 33, less liabilities directly or indirectly attributable to subsidiary capital.

**Line 3a** — Enter the amount of **interest** deductions allowed in the computation of entire net income (that is, includable in the amount of *Line 4a Worksheet*, line E, on page 6 of these instructions) 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 entire net income (that is, includable in the amount of *Line 4b Worksheet*, line E, on page 6 of these instructions) 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; and
- 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; or
- 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 section III (A)(1) of TSB-M-95(2)C.

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 section IV of TSB-M-95(2)C 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 below on *Worksheet for Line 4a*, line N).

**Worksheet for Line 4a**

<p>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 .....</p> <p>B. Enter amounts of interest deductions included on line A that are required to be added back to federal taxable income in computing entire net income (other than the amount on Form CT-3-S-A, lines 3a and 4a). Enter the CT-3-S-A line number and amount below. Line # _____ Amount _____ Line # _____ Amount _____ Line # _____ Amount _____ Total _____</p> <p>C. Balance (subtract line B from line A) .....</p> <p>D. Enter amounts of interest deductions that are required to be subtracted from federal taxable income in computing entire net income (for example, the interest deductions taken in computing the amount on Form CT-3-S-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 _____</p>	<p>E. Total New York interest deductions included in entire net income (add lines C and D) .....</p> <p>F. Enter any interest deductions directly attributable to subsidiary capital included on Form CT-3-S-A, line 3a .....</p> <p>G. Enter any interest deductions directly attributable to investment capital included on Form CT-3-S-A, line 135 ..</p> <p>H. Enter any interest deduction directly attributable to business capital .....</p> <p>I. Subtotal (add lines F, G, and H) .....</p> <p>J. Interest deductions subject to indirect attribution (subtract line I from line E) .....</p> <p>K. 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) .....</p> <p>L. 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) .....</p> <p>M. Percentage (divide line K by line L) .....</p> <p>N. Amount of interest deductions indirectly attributable to combined subsidiary capital (multiply line J by line M; enter this amount on line 4a) .....</p>
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**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 below on *Worksheet for Line 4b*, line R).

**Worksheet for Line 4b**

<p>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) .....</p> <p>B. Enter amounts of noninterest deductions included on line A that are required to be added back to federal taxable income in computing entire net income (other than the amounts on Form CT-3-S-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 entire net income for prior taxable 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 _____</p> <p>C. Balance (subtract line B from line A) .....</p> <p>D. Enter amounts of noninterest deductions listed below that are required to be subtracted from federal taxable income in computing entire net income. These are: — The portion of wages and salaries paid or incurred for the tax year for which a deduction is not allowed pursuant to section 280C of the IRC (Tax Law, Section 208.9(a)(7)) — Depreciation deductions permitted under Article 9-A with respect to <b>decoupled</b> property pursuant to Tax Law, section 208.9(a)(11) and (12) — Deductions arising from <b>decoupling</b> from federal safe harbor lease provisions pursuant to Tax Law, section 208.9(a)(10) — The noninterest deductions taken in computing the amount on Form CT-3-S-A, line 2 Enter the CT-3-S-A line number and amount below. Line # _____ Amount _____ Line # _____ Amount _____ Line # _____ Amount _____ Total _____</p> <p>E. Total New York noninterest deductions included in entire net income (add lines C and D) .....</p> <p>F. Enter noninterest deductions directly attributable to subsidiary capital from Form CT-3-S-A, line 3b .....</p> <p>G. Enter noninterest deductions directly attributable to investment capital included on Form CT-3-S-A, line 136 .....</p> <p>H. Enter noninterest deductions directly attributable to business capital .....</p>	<p>I. Subtotal (add lines F, G, and H) .....</p> <p>J. Noninterest deductions subject to indirect attribution (subtract line I from line E) .....</p> <p>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 .....</p> <p>L. Enter total gross income. <i>Total gross income</i> means gross income as defined in the IRC, section 61, increased by (a) those items described in section 61 that are included in the computation of entire net income by reason of Tax Law, § 208.9(c) (relating to foreign source income) and (b) interest on state and local bonds excluded from gross income under the IRC, section 103. Gross income is not reduced by any deduction for capital losses or by any other deductions. Combined gross income should be adjusted for any intercorporate transactions .....</p> <p>M. Income percentage (divide line K by line L) .....</p> <p>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) .....</p> <p>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) .....</p> <p>P. Asset percentage (divide line N by line O) .....</p> <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 2 .....</p> <p>b. Enter percentage from line P .....</p> <p>c. Total (add lines a and b) .....</p> <p>d. Subsidiary capital percentage (divide line c by 3) .....</p> <p>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.) .....</p>
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**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 ACRS/MACRS deduction for property placed in service **either** inside 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 disposes of ACRS/MACRS property 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 1, column E, the amount of your federal deduction that must be added back to federal taxable income; or, if you disposed of property this year, use the amount from Form CT-399, Part III, line 8, column A. (Enter your recomputed deduction on line 13 of this form.)

**Line 7**

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

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

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

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

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

**A-4 Qualified emerging technology investments (QETI)** - If you elected to defer the gain from the sale of QETI, then you must add to federal taxable income the amount previously deferred when the reinvestment in the New York qualified emerging technology company which qualified you for that deferral is sold. See subtraction S-5 on page 9.

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

**Lines 9 through 15 — Subtractions**

Use lines 9 through 15 to subtract items that are included in federal taxable income but should not be included in New York entire net income.

**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 federal taxable income. 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 section 78 of the IRC. For more information see TSB-M-89(14)C.

**Line 11**

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

**Line 12**

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

Any carryback or carryforward from a year in which a combined return was filed must be based upon the combined net operating loss 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 net operating loss of such corporations bears to the total net operating loss of all member corporations having losses.

Enter the New York net operating loss deduction on line 12. Attach a separate sheet, providing details of the New York net operating losses claimed.

These rules apply:

- A New York S corporation is allowed a net operating loss deduction 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 net operating loss deduction on federal Form 1120, line 29a).
- A deduction is not allowed for a net operating loss 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 net operating loss deduction is limited to the amount required under section 172 of the IRC to reduce federal taxable income to zero.
- For net operating losses sustained in tax years beginning after August 5, 1997, the NOL may be carried back only 2 years instead of 3 years, but may be carried forward for 20 years (with an exception for certain disaster losses). For net operating losses sustained in tax years beginning on or before August 5, 1997, the NOL may be carried back 3 years and carried forward 15 years.

- The New York State net operating loss carryback is computed as if the corporation elected under section 172 of the IRC to relinquish the carryback provisions, except for the first \$10,000 for each loss year that may be carried back.
- Any portion of the New York State \$10,000 net operating loss carryback that was not carried back may be carried forward.
- The New York net operating loss deduction for any particular year is limited to the federal net operating loss deduction for that year. (For the purposes of this limitation, a corporation that has elected to carry back up to \$10,000 of its net operating loss for New York State purposes, should compute its federal net operating loss deduction as if it only carried back the same \$10,000.)

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 net operating loss 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** inside 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 disposes of ACRS/MACRS property this year and the New York depreciation modifications applied in prior years.

If this line applies, in place of the disallowed ACRS and MACRS deduction entered on line 6, you may compute a depreciation deduction by any method permitted under IRC section 167 (as it would have applied to property placed in service on December 31, 1980). For more information see Form CT-399, *Depreciation Adjustment Schedule*. Enter the amount from Form CT-399, Part I, line 1, column I, or, if you have disposed of property this year, use the amount from Form CT-399, Part III, line 8, column B, and attach the form.

### Line 14

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

- S-1** 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 federal taxable income that are directly or indirectly attributable to those receipts.
- S-2** Include any refund or credit of a tax imposed under Article 9-A or Article 32 of the Tax Law, for which no exclusion or deduction was allowed in determining the taxpayer's entire net income for any prior year, or any refund or credit of a tax imposed under section 183, 183-a, 184, or 184-a of the Tax Law. Do not include on this line any refund or credit of tax that was used to offset an addition of tax on line 5. Do not include any refund or credit of New York City taxes.
- S-3** Include the amount of wages disallowed under IRC section 280C in the computation of your federal taxable income because you claimed a federal credit. Attach a copy of the appropriate federal credit form.

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

- Any amount included in your federal taxable income solely as a result of an election made under IRC section 168(f)(8) as it was in effect on December 31, 1983.

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

Leases for qualified mass-commuting vehicles as defined in IRC section 103(b)(9) are exempt from these adjustments.

**S-5** You may defer the gain on the sale of qualified emerging technology investments (QETI) that are (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 federal taxable income the amount of the gain deferral (to the extent the gain is included in federal taxable income). If purchase of the replacement QETI within the 365 day period occurs in the same 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.

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

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

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

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

### Lines 17 through 21 — Combined entire net income base

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

#### Line 17

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 your property, payroll, and sales were entirely within New York State, 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.

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 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 your property, payroll and sales were entirely within New York State, 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, column E, then divide by the amount on line 28 (total combined capital).

**Line 37**

If the combined entire net income base shown on line 21 is a loss, enter "0" on line 37. If the combined entire net income base on line 21 is a gain, determine your tax rate for line 37. To determine your tax rates, you must determine whether you are a regular taxpayer or if you qualify as a small business taxpayer under section 210.1(f) of the Tax Law.

- Regular taxpayers multiply line 21 by the regular tax rate of 8% or 7.5%. See tax rate tables on page 21 to determine the tax rate that applies.
- Small business taxpayers multiply line 21 by the small business tax rate of 7.5%

**Small business taxpayer - (Tax Law, section 210.1(f))**

A combined group qualifies as a small business taxpayer if:

- its combined entire net income on line 16 (before allocation) is not more than \$290,000; and
- the aggregate amount of money and property the members received for stock, as a contribution to capital and as paid-in surplus is not more than \$1,000,000 on the last day of its tax year; and
- if any member of the group is part of an affiliated group, as defined in IRC section 1504, the affiliated group meets the above criteria.

**Small business taxpayers - short periods**

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

**Line 38**

If the combined entire net income base shown on line 21 is a loss, enter "0" on line 38. If the combined entire net income base on line 21 is a gain, determine your Article 22 tax equivalent reduction rate.

- Regular taxpayers multiply line 21 by the Article 22 tax equivalent reduction rate of 7.175% or 6.85%. See tax rate tables on page 21 to determine the Article 22 tax equivalent rate that applies.
- Small business taxpayers multiply line 21 by the small business Article 22 tax equivalent reduction rate of:
  - (1) 7.45% of first \$200,000, plus
  - (2) 6.85% of amount over \$200,000, but not over \$250,000, plus
  - (3) 3.85% of amount over \$250,000, but not over \$290,000

**Line 40**

The fixed dollar minimum tax is determined by the payer corporation's gross payroll. The fixed dollar minimum taxes are listed on page 21.

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

fixed dollar minimum tax may be reduced for short periods. See page 3, *Short periods — proration of fixed dollar minimum tax.*

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

#### Line 42

Subtract line 41 from line 40.

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**The Article 22 tax equivalent reduction amount cannot reduce the fixed dollar minimum tax on line 42 to less than \$100 (reduced for short periods).**

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#### Line 44

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

#### Line 46

The special additional mortgage recording tax credit cannot reduce the franchise tax below the fixed dollar minimum tax on line 42. If line 45 is less than the fixed dollar minimum tax shown on line 42, enter on line 46 the fixed dollar minimum tax from line 42.

#### Line 47

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 forms to compute the recaptured tax credits.

#### Lines 50a and 50b

On line 50a, include the total fixed dollar minimum taxes of members that computed a \$1,500 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, \$225, \$325, or \$425 fixed dollar minimum tax on Form CT-3-S-A/C. A member that computes a short period fixed dollar minimum tax would use line 50a if its fixed dollar minimum tax is greater than \$1,000 after the reduction for the short period. 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 tax on line 48 or 50a is more than \$1,000, you must pay a mandatory installment for the period that follows the one covered by this return. The installment must be equal to 25% of the total of lines 48 and 50a.

#### 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. Check 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 60 and 61

If you want to contribute to Return a Gift to Wildlife or the Breast Cancer Research 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 66. 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 a New York State agency. This includes any state department, board, bureau, division, commission, committee, public authority, public benefit corporation, council, office, or other entity performing a governmental or proprietary function for the state, or a social services district. Any amount over your debt will be refunded.

If you have any questions about whether you owe a past-due legally enforceable debt to the IRS or a state agency, contact the IRS or that particular state agency.

For New York State tax liabilities **only** call 1 800 835-3554 (outside the U.S. and Canada call (518) 485-6800) or write to NYS Tax Department, Tax Compliance Division, W A Harriman Campus, Albany NY 12227.

#### Line 71

Include on line 71 only prepayments made separately by members which were reported on Form(s) CT-3-S-A/C, line 7.

#### Line 73

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

#### Line 74

List any year during the past five for which any corporation in the combined group was audited by the IRS.

#### 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 77 through 121), and combined investment income by the combined investment allocation percentage (lines 122 through 125).

If you claim a business allocation percentage of less than 100%, you must complete the appropriate lines between lines 77 and 121.

If your property, payroll, and sales were entirely within New York State, you do not need to complete line 77 through 121. Your allocation is 100%.

Lines 77 through 87 are used by aviation corporations. Three factors are averaged: aircraft arrivals and departures, revenue tons handled, and originating revenue. For taxable years beginning on or after January 1, 2001, only 60% of the New York factors will be included in the numerator of the three factors. The combined percentage is used to allocate combined business income.

Lines 88 through 90 are for railroad and trucking corporations. These corporations compute their business allocation percentage by comparing revenue miles traveled in New York State to total revenue miles traveled everywhere. The combined percentage is used to allocate combined business income.

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

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 entire net income 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*.

### Lines 77 and 78

Enter the number of landings and takeoffs of an aircraft of an aviation corporation and the number of pickups and deliveries by the aircraft. Arrivals and departures for maintenance, repair, refueling (where no debarkation or embarkation of traffic occurs), training, emergencies, and nonrevenue flights should not be included.

### Lines 80 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 83 and 84

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

### Lines 88, 89, and 90

Railroad and trucking corporations 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.

### Lines 91 through 121

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:

- shipments are made to points in New York State; or
- the receipts are earned within New York State.

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

- The property is shipped via common carrier, contract carrier, or via the taxpayer's vehicle or other means of transportation, to a point within New York State. If the property is shipped to a point within New York State, it is presumed that the destination of the property is a point within 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 within New York State. When possession of the property is transferred within New York State, it is presumed that the destination of the property is a point within New York State, unless the taxpayer has evidence that shows that the destination of the property is a point outside New York State; or
- 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 within New York State. When 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 within New York State.

Examples of types of evidence which 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 F.O.B. point; and
- a purchase invoice designating the destination location.

The Arts and Cultural Affairs Law has been amended to provide 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 amendment applies to works of art which are:

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

The amendment 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.

**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** — 100% of the 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 by registered securities and commodities dealers**

Section 210.3(a) was amended by adding a new subparagraph (9)(A). This new subparagraph amended the receipts factor of the business allocation percentage with respect to certain receipts earned by a registered securities or commodities broker or dealer. A *registered securities or commodities broker or dealer* is a broker or dealer who is registered by the Securities and Exchange Commission or the Commodities Futures Trading Commission. The term securities and commodities have the same meanings as the meanings in sections 475(c)(2) and 475(e)(2) of the Internal Revenue Code.

For taxable years beginning on or after January 1, 2001, 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.

**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.

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

**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 fraction:**

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

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 you rented to others. Rental receipts are attributable to the location of property. Intercorporate rents should be eliminated.

**Lines 110 and 111**

Enter receipts from royalties, allocated where earned.

**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 either 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>	60%	0%	None*
<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 factors since it has no employees either inside or outside New York State. Corporation B has no employees in New York State but has employees outside New York State.

**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.

<b>Line</b>	<b>Column A (Payer)</b>	<b>Column B (Total members)</b>
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, <i>Total</i> 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, <i>Total</i> 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, <i>Total</i> 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, <i>Total</i> 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, <i>Total</i> 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, <i>Total</i> 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.

<b>Column A (Payer)</b>	<b>Column B (Total members)</b>
from CT-3-S-A/ATT, line 6, column E	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, <i>Total</i> 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, see also *Instruments deemed cash* on page 17.

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

**Lines 128 through 141**

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

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

**Line 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 entire net income.

**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 (such as a certificate 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 as part of business income.

**Line 130**

Enter interest income from debt instruments deemed cash, 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 entire net income, 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 federal taxable income.

**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 line 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 entire net income (that is, includable in the amount on *Line 137 Worksheet*, line E, below) 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 entire net income (that is, includable in the amount on *Line 138 Worksheet*, line E, on page 15 of these instructions) 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; and
- 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 below on *Worksheet for Line 137*, line N.

If you completed the *Line 4a Worksheet* on page 6 of these instructions, skip lines A through I on the worksheet below 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.

**Worksheet for Line 137**

**Interest deductions indirectly attributable to combined investment capital**

<p>A. Enter federal interest deductions included on federal Form 1120, line 18 .....</p> <p>B. Enter amounts of interest deductions included on line A that are required to be added back to federal taxable income in computing entire net income (other than the amount on Form CT-3-S-A, lines 3a and 4a). Enter the Form CT-3-S-A line numbers and amounts below. Line # _____ Amount _____ Line # _____ Amount _____ Line # _____ Amount _____ Total _____</p> <p>C. Balance (subtract line B from line A) .....</p> <p>D. Enter amounts of interest deductions that are required to be subtracted from federal taxable income in computing entire net income (for example, the interest deductions taken in computing the amount on Form CT-3-S-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 _____</p>	<p>E. Total New York interest deductions included in entire net income (add lines C and D) .....</p> <p>F. Enter any interest deduction directly attributable to subsidiary capital from Form CT-3-S-A, line 3a .....</p> <p>G. Enter any interest deductions directly attributable to investment capital from Form CT-3-S-A, line 135 ...</p> <p>H. Enter any interest deductions directly attributable to business capital .....</p> <p>I. Subtotal (add lines F, G, and H) .....</p> <p>J. Interest deductions subject to indirect attribution (subtract line I from line E) .....</p> <p>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, column E, 123A, column E, and 126. ....</p> <p>L. 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) .....</p> <p>M. Percentage (divide line K by line L) ..... %</p> <p>N. Amount of interest deductions indirectly attributable to combined investment capital (multiply line J by line M; enter this amount on line 137) .....</p>
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**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 below on *Worksheet for Line 138*, line R.

If you completed *Worksheet for Line 4b* on page 6 of these instructions, skip lines A through I below, 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.

**Worksheet for Line 138**

**Non-interest 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) \_\_\_\_\_

B. Enter amounts of noninterest deductions included on line A that are required to be added back to federal taxable income in computing entire net income (other than the amounts on Form CT-3-S-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 entire net income for prior taxable 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 \_\_\_\_\_

C. Balance (subtract line B from line A) \_\_\_\_\_

D. Enter amounts of noninterest deductions listed below that are required to be subtracted from federal taxable income in computing entire net income

— In the case of a taxpayer organized outside the United States; deductions attributable to income that is not included in federal taxable income but is required to be included in entire net income (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 section 280C of the IRC (Tax Law section 208.9(a)(7))

— Depreciation deductions permitted under Article 9-A with respect to **decoupled** property pursuant to Tax Law section 208.9(a)(11) and (12)

— Deductions arising from **decoupling** from federal safe harbor lease provisions pursuant to Tax Law section 208.9(a)(10)

— The noninterest deductions taken in computing the amount on Form CT-3-S-A, line 2

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

Line # \_\_\_\_\_ Amount \_\_\_\_\_  
 Line # \_\_\_\_\_ Amount \_\_\_\_\_  
 Line # \_\_\_\_\_ Amount \_\_\_\_\_ Total \_\_\_\_\_

E. Total New York noninterest deductions included in entire net income (add lines C and D) \_\_\_\_\_

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

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

H. Enter noninterest deductions directly attributable to business capital \_\_\_\_\_

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

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

K. Enter gross income attributable to investment capital. Gross income from 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 such amounts required to be eliminated as intercorporate transactions. \_\_\_\_\_

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 entire net income by reason of section 208.9(c) of the Tax Law (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. \_\_\_\_\_

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

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

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

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

Q. Investment capital percentage (If line L is zero, the investment capital percentage is equal to the asset percentage. If line O is zero, the investment capital percentage is equal to the income percentage.)

a. Enter percentage from line M \_\_\_\_\_ % ; multiply by 2 \_\_\_\_\_ %

b. Enter percentage from line P \_\_\_\_\_ %

c. Total (add lines a and b) \_\_\_\_\_ %

d. Combined Investment capital percentage (divide line c by 3) \_\_\_\_\_ %

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. \_\_\_\_\_

**Line 140**

Apportion any net operating loss deduction claimed on Form CT-3-S-A, line 12, between business income and investment income. Divide investment income before deduction of any net operating loss by entire net income before deduction of any net operating loss. Multiply the result by the net operating loss deduction.

**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.

**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.

Line	Column A (Payer)	Column B (Total members)
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

**Instructions for Form CT-3-S-A/B, Combined Group Detail Spreadsheet**

The lines on this form are identical to the lines on Form CT-3-S-A. Therefore, separate line instructions are not needed.

Amounts from the total column on Form CT-3-S-A/B should be transferred to column B on Form CT-3-S-A. Enter these amounts on the same line of Form CT-3-S-A.

**12. 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 included in the combined group must be eliminated on Form CT-3-S-A, column D.

**Schedule A**

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 section 208.1 of the Tax Law;
- (2) debt instruments (such as bonds) issued by the United States, the District of Columbia, and any state, territory, or possession of the United States, any foreign country or any political subdivision or governmental instrumentality of the foregoing;
- (3) qualifying corporate debt instruments (see Section I);
- (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 17) 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; or
- (5) stock rights and stock warrants not in the possession of the issuer.

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 Article 9-A, 32 or 33 of the Tax Law;
- (3) securities of an individual, partnership, trust, or other nongovernmental entity that is not a corporation pursuant to section 208.1 of the Tax Law (such as FNMA and GNMA pass through certificates);
- (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.

Column 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 — Investment capital information — corporate and governmental debt instruments**

**Column A**

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

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

- instruments issued by the taxpayer or a DISC;
- instruments which 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; and
- 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:

- (1) if payable on demand;
- (2) if payable by its terms within 6 months and 1 day from the date the debt was incurred; or
- (3) if payable by its terms more than 6 months and 1 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 which is not more than 6 months and 1 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 18.

#### Examples

1. A calendar year taxpayer owns a municipal bond with a maturity date of 1/31/02. As of 7/30/01, 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 7/30/01. The value of the bond should then be treated as cash for each day the taxpayer continues to own the bond after 7/29/01.
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 1/2/02. The taxpayer also owns corporate stock, but has no cash at any point during the 2001 tax year. The bond is deemed to be cash as of 7/1/01, the date six months and one day prior to maturity. The fair market value of the bond is \$95,000 on 3/31/01, \$90,000 on 6/30/01, \$98,000 on 9/30/01 and \$100,000 on 12/31/01. The bond should be listed in Section I, column A, because it qualifies as investment capital. Its average value, to be stated in column C of Section I, is computed as  $(\$95,000 + \$90,000 + 0 + 0) \div 4 = \$46,250$ . 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 12/15/01. 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 6/14/01.

#### Column C

Enter the total average fair market value of each item listed in column A. On any date, the fair market value of stocks, bonds, and other regularly traded securities is the mean between the highest and lowest selling prices.

The average value is generally computed quarterly if your usual accounting practice permits it, but you may use a monthly, weekly, or daily average. If your usual accounting practice does not permit a quarterly or more frequent computation of average fair market value, you may use a semiannual or annual computation if no distortion of average fair market value results. If the security is not marketable, value it using generally accepted accounting principles (GAAP).

#### Column D

Deduct all liabilities, both long-term and short-term, directly or indirectly attributable to investment capital. Use the same method of averaging used to determine the average value of assets in column C. Enter for each item of investment capital listed in column A the sum of the liabilities directly or indirectly attributable to it. Liabilities directly attributable to an asset are those that were incurred to acquire that asset. (See Example 3 above.)

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

Column D Worksheet	
Total liabilities	A _____
Liabilities directly attributable to:	
Subsidiary capital	B _____
Investment capital	C _____
Business capital	D _____
Add lines B, C, and D	E _____
Subtract line E from line A	F _____
Enter amount from Form CT-3-S-A/ATT, line 7, column C	G _____
Enter amount from Form CT-3-S-A or CT-3-S-A/B, line 26, appropriate column	H _____
Divide line G by line H	I _____%
Multiply line F by line I	J _____
Value of the particular asset	K _____
Enter amount from line G	L _____
Divide line K by line L	M _____%
Enter amount from line J	N _____
Multiply line M by line N	O _____

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

#### Column E

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

#### Column F

Enter the issuer's allocation percentage for each investment listed in column A. The issuer's allocation percentage 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. You may obtain some of these percentages from tax service publications or the Tax Department Web site, ([www.tax.state.ny.us](http://www.tax.state.ny.us)).

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 or by written request. Make the written request (in duplicate) to:

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

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

#### Column G

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

### Section II — Investment capital information — corporate stock, stock rights, stock warrants, and stock options

#### Column A

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 16;
- units in a publicly traded partnership treated as a corporation for purposes of Article 9-A of the Tax Law;
- business trust certificates;

- stock rights and stock warrants not in the possession of the issuer; and
- 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. See also *Instruments deemed cash* on page 17.

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

#### Lines 8 through 10

A *subsidiary* is a corporation (not including 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 for 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 and/or chains. See NYCRR 3-6.2 for additional information.

*Subsidiary capital* is the taxpayer's total investment in shares of capital stock of its subsidiaries and the amount of indebtedness owed to the taxpayer by its subsidiaries (whether or not evidenced by written instruments) on which interest is not claimed and deducted by the subsidiary against any tax imposed by Article 9-A, 32, or 33, less liabilities directly or indirectly attributable to subsidiary capital.

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.

#### Column A

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

#### 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	
Total liabilities	A _____
Liabilities directly attributable to:	
Subsidiary capital	B _____
Investment capital	C _____
Business capital	D _____
Add lines B, C, and D	E _____
Subtract line E from line A	F _____
Enter amount from Form CT-3-S-A/ATT, line 8, column C	G _____
Enter amount from Form CT-3-S-A or CT-3-S-A/B, line 26, appropriate column	H _____
Divide line G by line H	I _____
Multiply line F by line I	J _____
Value of the particular asset	K _____
Enter amount from line G	L _____
Divide line K by line L	M _____
Enter amount from line J	N _____
Multiply line M by line N	O _____

**Column E**

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

**Column F**

Enter the issuer's allocation percentage for each item listed in column A. The issuer's allocation percentage 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. You may obtain some of these percentages from tax service publications or the Tax Department Web site ([www.tax.state.ny.us](http://www.tax.state.ny.us)).

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 or by written request. Make the written request (in duplicate) to:

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

**Column G**

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

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

**General**

Qualified public utility corporations must adjust entire net income to reflect modifications for depreciation and federal gain or loss on transition property, and for regulatory assets, pursuant to section 208.9(c-2) of the Tax Law. Complete Schedule 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 entire net income to reflect modifications to federal gain or loss subsequently recognized on the transition property, pursuant to section 208.9(c-2)(6)(B)(iv) of the Tax Law. Complete Schedule C, Section I, lines 18 and 19.

Qualified power producers and qualified pipeline corporations must adjust entire net income to reflect modifications for depreciation on transition property, pursuant to section 208.9(c-3) of the Tax Law. Complete Schedule 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 section 186 of Article 9 of the Tax Law for the tax year ending on December 31, 1999.

A *qualified power producer* is a taxpayer that:

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

A *qualified pipeline* is a taxpayer that:

- was subject to ratemaking supervision by the Federal Energy Regulatory Commission or the New York State Department of Public Service on December 31, 1999, and
- was subject to tax under sections 183 and 184 of Article 9 of the Tax Law for the tax year ending on December 31, 1999, on account of being principally engaged in the business of pipeline transmission.

*Transition property* is property placed in service by a qualified public utility, qualified power producer, or qualified pipeline before January 1, 2000, for which a depreciation deduction is allowed under section 167 of the IRC. Property is transition property only with respect to the taxpayer 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 Article 9-A of the Tax Law. 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 entire net income. Transferees: if you are not a qualified public utility but you are a transferee of transition property from a qualified public utility, use only lines 18, 19, and 21 to compute the adjustments for entire net income.

**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 taxable year ending before 2010 (or at any time thereafter if the property is a nuclear electric generating facility), the amount of the gain must be recalculated for New York 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 principals.

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 taxable year ending before 2010 (or at any time thereafter if the property is a nuclear electric generating facility), the gain is reduced, but not below zero, by the New York basis differential. The *New York basis differential* is the amount by which the New York basis of the property exceeds its federal tax basis on the date of *original disposition*. Enter 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 is 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 entire net income.

**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.

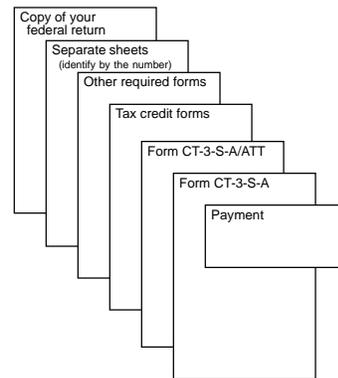
For qualified power producers, net book value is the cost of your transition property minus the accumulated depreciation shown on your books and records, and determined in accordance with generally accepted accounting principles.

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 2001 corporate franchise tax return, please be sure to:**

- Include your employer identification number and file number on each form filed. You will find your **employer identification number** and **file number** just above your printed corporation name and address.
- Have the appropriate individuals sign the return.
- Make your check payable to: **New York State Corporation Tax.**

- 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:



**Tax rates** for New York S corporations that do not qualify as a small business taxpayer (see page 9)

	Tax rate for tax years beginning after June 30, 2000, and before July 1, 2001	Tax rate for tax years beginning after June 30, 2001, and before July 1, 2003
Line 37 rate - entire net income base	8%	7.5%
Line 38 rate - Article 22 tax equivalent reduction	7.175%	6.85%

**Tax rates** for New York S corporations that qualify as a small business taxpayer (see page 9)

	Tax rates for tax years beginning after June 30, 1999, and before July 1, 2003
Line 37 rate - entire net income base	7.5%
Line 38 rate - Article 22 tax equivalent reduction	1. 7.45% of 1 <sup>st</sup> \$200,000, plus 2. 6.85% of amount over \$200,000, but not over \$250,000, plus 3. 3.85% of amount over \$250,000, but not over \$290,000

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

- New York S corporations that do not qualify as a small business taxpayer, and
- New York S corporations that qualify as a small business taxpayer.

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

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

## Privacy notification

The Commissioner of Taxation and Finance may collect and maintain personal information pursuant to the New York State Tax Law, including but not limited to, sections 171, 171-a, 287, 308, 429, 475, 505, 697, 1096, 1142, and 1415 of that Law; and may require disclosure of social security numbers pursuant to 42 USC 405(c)(2)(C)(i).

This information will be used to determine and administer tax liabilities and, when authorized by law, for certain tax offset and exchange of tax information programs as well as for any other lawful purpose.

Information concerning quarterly wages paid to employees is provided to certain state agencies for purposes of fraud prevention, support enforcement, evaluation of the effectiveness of certain employment and training programs and other purposes authorized by law.

Failure to provide the required information may subject you to civil or criminal penalties, or both, under the Tax Law.

This information is maintained by the Director of the Registration and Data Services Bureau, NYS Tax Department, Building 8, Room 338, W A Harriman Campus, Albany NY 12227; telephone 1 800 225-5829. From areas outside the United States and Canada, call (518) 485-6800.

## Need help?

 **Telephone assistance** is available from 8:30 a.m. to 4:25 p.m. (eastern time), Monday through Friday.  
Business Tax information: 1 800 972-1233  
Forms and publications: 1 800 462-8100  
From outside the U.S. and outside Canada: (518) 485-6800  
Fax-on-demand forms: 1 800 748-3676

Hearing and speech impaired (telecommunications device for the deaf (TDD) callers only): 1 800 634-2110 (8:30 a.m. to 4:25 p.m., eastern time)



**Internet access:** [www.tax.state.ny.us](http://www.tax.state.ny.us)

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