IT-230-I
(7/86)

New York State Department of Taxation and Finance

Instructions for Forms IT-230 and IT-230.1

Separate Tax on Lump Sum Distributions

1986

GENERAL INSTRUCTIONS

The New York State separate tax on lump sum distributions (special 10-year averaging method) applies to both residents and nonresidents of New York State who elected the special 10-year averaging method for federal purposes. Residents of the City of New York are also subject to a city separate tax which is computed with the New York State separate tax on one form. Since the City of Yonkers resident income tax surcharge includes a percentage of any New York State separate tax on lump sum distributions, a separate tax computation for the City of Yonkers is not required.

The New York State and City of New York special 10-year averaging methods essentially follow federal methods and definitions. The completed Form IT-230 or IT-230.1 is to be attached to the recipient's New York State and City of New York income tax return.

You should use Form IT-230 if you or the trust for which you are filing received the entire lump sum, or if only trusts shared it. If the lump sum distribution was shared, but not all the recipients were trusts, use Form IT-230.1 (Multiple Recipient Special 10-Year Averaging Method) instead.

Married taxpayers who file separate New York returns must compute their separate tax on lump sum distributions on separate Forms IT-230 or IT-230.I. For married taxpayers filing separately on **one** form, husband's and wife's separate tax is to be reported separately in their respective columns.

Pension amounts received by a retired officer or employee (or their beneficiaries) of New York State or its political subdivisions are not subject to the separate tax on lump sum distributions and are not to be included on lines 1 or 2 of Forms IT-230 and IT-230.1. Attach a statement showing the calculation and description of income reported on lines 1 and 2.

New York State nonresidents: If lump sum distributions are attributable to services performed wholly inside New York State, the entire ordinary income portion is subject to the New York State separate tax on lump sum distributions.

If you receive a lump sum distribution attributable to services performed only partly within New York State, you must determine the part of the distribution attributable to the state. You must first complete whichever applies: Form IT-230, Part I or Part II to line 12, or Form IT-230.1, Part I to line 15 and/or Part II to line 12. Next, determine what percentage of your total compensation is New York State compensation, using this formula:

$$\frac{\text{NYS compensation*}}{\text{Total compensation}} = \text{Percentage of total compensation attributable to NY State.}$$

***Use the amounts of all such compensation included in your New York adjusted gross income for the part of the taxable year immediately prior to retirement and the three taxable years preceding the retirement year.**

This computation must be carried to four decimal places. For example, if the amount used in the computation was $30,000 divided by $90,000, the result would be .3333 (33.33%)

Example: You are a nonresident who performs services partly within New York State as an employee. You retire on July 1, 1986 and elect to use the special 10-year averaging method to tax the ordinary income part of your lump sum distribution. Assuming that the percentages for allocating your salary to New York State were 50% for 1983, 60% for 1984, 75% for 1985 and 40% for the first half of 1986, the percentage used to allocate the taxable balance of your pension benefits to New York State is computed as follows:

Tax year	Total compensation	New York part	
1983	$ 40,000	(50%)	$20,000
1984	40,000	(60%)	24,000
1985	40,000	(75%)	30,000
1986 (6 months)	20,000	(40%)	8,000
Totals	$140,000		$82,000

$\frac{\$82,000}{\$140,000} = 58.57\%$ (percentage of total compensation attributable to **New York State)**

Apply the resulting percentage to the amount on the appropriate line (either Form IT-230, Part I or Part II, line 12; or Form IT-230.1, Part I, line 15 and/or Part II, line 12). Enter the amount allocated to New York State on the dotted portion of the line(s) specified above (whichever is applicable) and label it "Allocated to NYS." Complete the balance of your form using the allocated amount where required in any subsequent calculation.

IMPORTANT — These calculations must be shown on a schedule which you prepare and mark "Lump Sum Distribution Allocation Schedule." Attach this schedule to the back of the Form IT-230 or IT-230.1, which you file with your New York State nonresident return.

City of New York nonresidents — A nonresident of the City of New York is not subject to the city separate tax on lump sum distributions.

SPECIFIC INSTRUCTIONS FOR FORM IT-230

If you or the trust for which you are filing receive the entire lump sum distribution, or if only trusts shared it, and the special 10-year averaging method was elected for federal purposes on federal Form 4972, compute the separate tax on the ordinary income part of the lump sum distribution on Form IT-230 for New York State and City of New York purposes.

Any entry on lines 1 and 2 of Form IT-230 (of either part) will be identical to the corresponding entry on federal Form 4972 (except for pension amounts received from New York State or its political subdivisions).

If you are filing for a trust that shared the distribution only with other trusts, figure the tax on the entire lump sum first. The trusts then share the tax in the same proportion that they share the distribution.

Use Part I of Form IT-230 if (1) 1986 is the first year after 1980 for which you are using 10-year averaging method and (2) you have not received an annuity contract after 1980.

Use Part II of Form IT-230 if there was any other year after1980 for which you used the 10-year averaging method for lump sum distributions, or during which you received an annuity contract.

Using the 10-year averaging method for the capital gain part

If you agreed for federal purposes to figure the tax on the capital gain part of the lump sum distribution as well as the ordinary income part, check the box at the top of Form IT-230. Leave line 1 blank on the form, add the capital gain and ordinary income parts of the lump sum distribution, and report the combined amounts on line 2 of Form IT-230.

Death benefit exclusion — Any federal allowable exclusion will also be allowable for state and city purposes. However, if the sum of the capital gain and/or ordinary income part of the lump sum distribution reported for federal purposes includes a lump sum distribution from a pension plan of a deceased employee of New York State or its political subdivisions, the exclusion allowable for New York State purposes is determined by multiplying the federal exclusion by a fraction, whose numerator is the sum of the capital gain and/or ordinary income part subject to New York State separate tax, and whose denominator is the sum of the capital gain and/or ordinary income part reported for federal purposes.

Distributions eligible for averaging — Follow all federal rules to determine whether a distribution is eligible for the New York State and City of New York special 10-year averaging method.

Percentage — The percentage computation required on the form must be carried to four decimal places. For example, if the amount used in the percentage computation was $10,000 divided by $30,000, the result would be .3333 (33.33%).

Example I — Using Form IT-230 to figure tax on a lump sum distribution with no annuity

In 1986, Mr. Smith, a resident of New York State, retired from the X Corporation. He received a taxable $60,000 lump sum distribution from its qualified plan. His Form 1099-R from the payer of the plan shows $12,000 as ordinary income and $48,000 as capital gain.

Total taxable amount ($12,000 plus $48,000)		**$60,000**
Less minimum distribution allowance:		
Lesser of $10,000 or ½ of $60,000	**$10,000**	
Reduction ($60,000 less $20,000, multiplied by 20%)	**8,000**	**2,000**
Total taxable amount less minimum distribution allowance		**$58,000**
10% of $58,000		**$ 5,800**
State Tax on $5,800 from Tax Rate Schedule		**$ 200**
State Tax on $5,800 multiplied by 10 ($200 multiplied by 10)		**$ 2,000**
Percentage of ordinary income part to total taxable amount ($12,000 divided by $60,000)		**20%**
Tax on ordinary income part of lump sum distribution ($2,000 multiplied by 20%)		**$ 400**

If Mr. Smith uses the 10-year averaging method for the capital gain part also, he would report $60,000 on Form IT-230, line 2, and his tax on it would be $2,000 ($2,000 multiplied by 100%). He would not report the capital gain of $48,000 on federal Schedule D (Form 1040).

Example II — Using Form IT-230 to figure tax on a lump sum distribution with no annuity

In 1986, Ms. Brown, a resident of New York State, retired from the Y Corporation. She received a taxable $60,000 lump sum distribution from its qualified plan. Her Form 1099-R from the payer of the plan shows $12,000 as ordinary income, $18,000 as capital gain, and $30,000 as the current actuarial value of an annuity.

Total taxable amount ($12,000 plus $18,000)		**$30,000**
Add current actuarial value of annuity		**30,000**
Adjusted total taxable amount		**$60,000**
Less minimum distribution allowance:		
Lesser of $10,000 or ½ of $60,000	**$10,000**	
Reduction ($60,000 less $20,000, multiplied by 20%)	**8,000**	**2,000**
Adjusted total taxable amount less minimum distribution allowance		**$58,000**
10% of $58,000		**$ 5,800**

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State Tax on $5,800 from Tax Rate Schedule	$ 200
State Tax on $5,800 multiplied by 10 ($200 multiplied by 10)	$ 2,000
Percentage of current actuarial value of annuity to adjusted total taxable amount ($30,000 divided by $60,000)	50%
Adjusted minimum distribution allowance applicable to current actuarial value of annuity ($2,000 multiplied by 50%)	$ 1,000
Current actuarial value of annuity less minimum distribution allowance applicable to value of annuity ($30,000 less $1,000)	$29,000
10% of $29,000	$ 2,900
State Tax on $2,900 from Tax Rate Schedule	$ 77
State Tax attributable to annuity ($77 multiplied by 10)	$ 770
Tax on adjusted total taxable amount less tax applicable to annuity ($2,000 less $770)	$ 1,230
Percentage of ordinary income part to total taxable amount ($12,000 divided by $30,000)	40%
Tax on ordinary income part of lump sum distribution ($1,230 multiplied by 40%)	$ 492

If Ms. Brown uses the 10-year averaging method for the capital gain part also, she would report $30,000 on Form IT-230, line 2, and her tax on it would be $1,230 ($1,230 × 100%). She would not report the capital gain of $18,000 on federal Schedule D (Form 1040).

SPECIFIC INSTRUCTIONS FOR FORM IT-230.1

If you or the trust for which you are filing shared the lump sum distribution and elected the special 10-year averaging method for federal purposes on federal Form 5544, compute the separate tax on the ordinary income part of the lump sum distribution on Form IT-230.1 for New York State and City of New York purposes. However, if the trust for which you are filing is a multiple recipient and the other recipients are all trusts, use Form IT-230.

Any entry on lines 1 and 2 of Form IT-230.1 (of either part) will be identical to the corresponding entry on federal Form 5544 (except for pension amounts received from New York State or its political subdivisions).

Everyone who files Form IT-230.1 should fill in Part I. Skip line 30 if you complete Part II.

Use Part II if you received another lump sum distribution during 1986. Also use it if there was any other year after 1980 for which you used the 10-year averaging method for lump sum distributions, or during which you receive an annuity contract.

Using the 10-year averaging method for the capital gain part

If you agreed for federal purposes to figure the tax on the capital gain part of the lump sum distribution as well as the ordinary income part, check the box at the top of Form IT-230.1. Leave lines 2 and 3 blank on Part I of the form, add the capital gain and ordinary income parts of the lump sum distribution, and report the combined amount on line 4 of Form IT-230.1.

Death benefit exclusion — Any federal allowable exclusion will also be allowable for state and city purposes. However, if the sum of the capital gain and/or ordinary income part of the lump sum distribution reported for federal purposes includes a lump sum distribution from a pension plan of a deceased employee of New York State or its political subdivisions, the exclusion allowable for New York State purposes is determined by multiplying the federal exclusion by a fraction, whose numerator is the sum of the capital gain and/or ordinary income part subject to New York State separate tax, and whose denominator is the sum of the capital gain and/or ordinary income part reported for federal purposes.

Distributions eligible for averaging — Follow all federal rules to determine whether a distribution is or is not eligible for the New York State and City of New York special 10-year averaging method.

Percentage — The percentage computation required on the form must be carried to four decimal places. For example, if the amount used in the percentage computation was $10,000 divided by $30,000 the result would be .3333 (33.33%).

Example I — Using Form IT-230.1 to figure tax on shared lump sum distribution with no annuity

Mr. Smith and Ms. Brown received a qualifying lump sum distribution of $50,000 in 1986. Mr. Smith received 40 percent of it and Ms. Brown received 60 percent. Mr. Smith's Form 1099-R shows $15,000 as capital gain and $5,000 as ordinary income. The New York State separate tax on Mr. Smith's part of the distribution is figured as follows:

Percentage of total distribution		40%
Capital gain part from Form 1099-R		$15,000
Capital gain part of total distribution ($15,000 divided by 40%)		$37,500
Ordinary income part from Form 1099-R		$ 5,000
Ordinary income part of total distribution ($5,000 divided by 40%)		$12,500
Adjusted total taxable amount ($37,500 plus $12,500)		$50,000
Less minimum distribution allowance:		
Lesser of $10,000 or ½ of $50,000	$10,000	
Reduction ($50,000 less $20,000, multiplied by 20%)	6,000	4,000
Adjusted total taxable amount less minimum distribution allowance		$46,000
10% of $46,000		$ 4,600
State Tax on $4,600 from Tax Rate Schedule		$ 144
State Tax on $4,600 multiplied by 10 ($144 multiplied by 10)		$ 1,440
Percentage of ordinary income part to total taxable amount ($12,500 divided by $50,000)		25%
State Tax on ordinary income part of total lump sum distribution ($1,440 multiplied by 25%)		$ 360
Percentage of total lump sum distribution received by other recipients (100% less 40%)		60%
State Tax on ordinary income part applicable to other recipients ($360 multiplied by 60%)		$ 216
State Tax on Mr. Smith's ordinary income part ($360 less $216)		$ 144

If Mr. Smith uses the 10-year averaging method for the capital gain part also, he would report $20,000 on Form IT-230.1, line 4, and his tax would be $576 ($1,440 × 40% × 100%).

New York State Tax Rate Schedule

If taxable amount is: over	but not over	enter in New York State column
$ 0	$1,000	2% of taxable amount
1,000	3,000	$20 plus 3% of excess over $1,000
3,000	5,000	80 plus 4% " " " 3,000
5,000	7,000	160 plus 5% " " " 5,000
7,000	9,000	260 plus 6% " " " 7,000
9,000	11,000	380 plus 7% " " " 9,000
11,000	13,500	520 plus 8% " " " 11,000
13,500	16,000	720 plus 9% " " " 13,500
16,000	18,500	945 plus 10% " " " 16,000
18,500	21,000	1,195 plus 11% " " " 18,500
21,000	23,500	1,470 plus 12% " " " 21,000
23,500	26,000	1,770 plus 13% " " " 23,500
26,000		2,095 plus 13.5% " " " 26,000

City of New York Tax Rate Schedule

If taxable amount is: over	but not over	enter in City of New York column
$ 0	$1,000	0.9% of taxable amount
1,000	3,000	$ 9 plus 1.4% of excess over $1,000
3,000	5,000	37 plus 1.8% " " " 3,000
5,000	7,000	73 plus 2.0% " " " 5,000
7,000	9,000	113 plus 2.3% " " " 7,000
9,000	11,000	159 plus 2.5% " " " 9,000
11,000	13,000	209 plus 2.7% " " " 11,000
13,000	15,000	263 plus 2.9% " " " 13,000
15,000	17,000	321 plus 3.1% " " " 15,000
17,000	19,000	383 plus 3.3% " " " 17,000
19,000	21,000	449 plus 3.5% " " " 19,000
21,000	23,000	519 plus 3.8% " " " 21,000
23,000	25,000	595 plus 4.0% " " " 23,000
25,000		675 plus 4.3% " " " 25,000