

# Instructions for Form CT-3S

## S Corporation Information Report

### Articles 9-A and 22

## General Information

Article 9-A and Article 22 permit the shareholders of a corporation that have made an election under Subchapter S of Chapter One of the Internal Revenue Code to make a similar election to be taxed under the New York State Personal Income Tax Law (Article 22) instead of the New York State Corporate Franchise Tax Law (Article 9-A).

For information about the New York State election, see the instructions for Form CT-6, *Election by Shareholder of a Small Business Corporation*.

### Who Must File Form CT-3S

This form must be filed by a small business corporation in place of Form CT-3 and CT-4 if the shareholders have filed a valid election Form CT-6.

### When to File

File this report on or before March 15, 1988, or within two and one-half months after the close of a fiscal reporting period.

### Extension of Time for Filing a Report

A request for an extension of time to file a report must be filed on Form CT-5 on or before the due date of the report.

### Penalties

Section 658(c) requires every electing New York S corporation to file an information return showing all items of income, loss, deduction and other pertinent information. Failure to file the information return or failure to include the information requested will result in a penalty, imposed pursuant to Section 685(h)(2). The penalty, to be paid by the S corporation, is \$50.00 per shareholder per month or fraction of a month that the failure continues, not to exceed five months. All shareholders of the S corporation during any part of the taxable year who were subject to the New York State personal income tax 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. Failure to include the identifying number of the shareholders in the information return will result in a penalty, imposed pursuant to section 685(k). The penalty to be paid by the S corporation is \$50 for each failure to include an identifying number. The maximum penalty in any calendar year is \$10,000.

## Specific Filing Requirements

A copy of all pages of federal Form 1120S **must** accompany this report.

### Article 31-B, Section 1449-a (Tax on Gains from Certain Real Property Transfers)

This article requires every corporation, with an interest in real property located in New York State to keep a record of the transfer of its stock and report annually every transfer of a "controlling" interest in its stock and any other information that may be required to enforce this article.

Controlling interest of a corporation is either 50 percent or more of the total combined voting power of all classes of stock or 50 percent or more of the capital, profits or beneficial interest in such voting stock.

All corporations must answer both questions on page 1, (preceding Schedule A). If the answer to both questions is yes, a statement must be attached which must provide the following information:

- Name, address, and identification number of the new controlling stockholder. (Use Social Security Number for individuals and Federal Employer Identification Number for corporations.)
- Date transfer was made.
- Location of real property.
- Indicate if the corporation is a cooperative housing corporation.

### Line A

After completing your report, enter the amount of your payment. Your payment should be the full amount shown on line 8.

## Schedule A

**Line 1.** Article 9-A of the Corporation Tax Law provides for the recapture of the Investment tax credit, Retail Enterprise Investment Tax Credit, Research and Development Investment tax credit and EDZ Investment tax credit when property on which the tax credit was claimed under Article 9-A is disposed of or ceases to be in qualified use. An electing New York S corporation, which claimed any of the above tax credits under Article 9-A in a year prior to its election as a New York S corporation, is required

to compute any recapture of the tax credit in the year the property is disposed of or ceases to be in qualified use. Any recapture of the tax credit is required to be paid as tax on Form CT-3S.

Use Form CT-46, Schedule F, or Form DTF-603, Schedule E to compute recaptured tax credits at this line.

**Line 2.** In these instructions, a foreign corporation means a corporation incorporated in another state or country. Foreign corporations that have been authorized by the New York State Department of State to do business in New York State must pay an annual maintenance fee of \$200.00, even if it is an electing small business corporation. The failure of a corporation to pay this fee may result in the revocation of its authority. The maintenance fee is \$200.00 except for short periods. A short period of not more than 6 months will reduce the maintenance fee 50% and a short period of more than 6 months but not more than 9 months will reduce the maintenance fee 25%.

The maintenance fee may be applied against the recapture of tax credits under Article 9-A. If the recapture of tax credits at line 1 equals or exceeds \$200, enter zero on line 2 (you have satisfied the requirement to pay the maintenance fee). If the recapture of tax credits at line 1 is zero or less than \$200, subtract the recaptured tax credit from \$200 and enter the difference as maintenance fee.

Foreign corporations are also subject to a license fee (Article 9, Section 181), to be paid on Form CT-240.

**Line 3.** Total lines 1 and 2 and add \$25 filing fee if applicable.

The Business Tax Reform and Rate Reduction Act of 1987 provides for a filing fee for New York State S Corporations. The fee will be \$25 for 1988. An electing New York State S Corporation, including a foreign corporation, with a short period beginning on or after January 1, 1988 and ending in 1988 will be subject to the \$25 filing fee.

If you are liable for this filing fee, include \$25 at line 3.

**Line 4.** Corporations which filed Form CT-3, CT-3M/4M or CT-4 for the taxable period immediately preceding this taxable period, enter any overpayment of franchise tax which was credited to this taxable period.

**Line 6.** If the amount due is not paid on or before the due date (determined without regard to any extension of time), you must pay interest on the amount of the underpayment from the due date to the date paid. Determine the interest in accordance with Part 603 of the Tax Regulations. For more information on interest rates call Taxpayer Assistance (phone number on last page of instructions).

**Line 7.** In case of failure to file a return when due or if application for extension is invalid, add to the tax and or maintenance fee, less any payments made on or before the due date, 5% per month up to 25% (Section 1085(a)(1)(A)).\*

If a report is not filed within 60 days of the prescribed due date, the addition to tax cannot be less than the smaller of \$100 or 100% of the amount required to be shown (Section 1085(a)(1)(B)).\*

In case of failure to pay the tax or maintenance fee shown on a report, add to the tax, less any payments made on or before the due date, ½ % per month up to 25% (Section 1085(a)(2)).\*

The total of the additional charges may not exceed 5% for any one month except as provided for above (Section 1085(a)(4)).\*

If you think you are not liable for these additional charges, attach a statement to your report explaining the delay in filing and/or payment (Section 1085).\*

\*Section 1085 applies to recapture of tax credits and the maintenance fee, while Section 685 applies to the filing fee.

## Schedule B

### Shareholder Information

Enter complete information for all individuals, estates and trusts who are shareholders of the corporation during any part of the taxable year. Attach a separate sheet if necessary.

## Schedule C

### PART I

#### Shareholders' Pro rata Shares

**Lines 10-28.** Complete lines 10 through 28 for each shareholder of the electing New York S corporation showing his or her pro-rata share of S Corporation's items of income, loss and deduction to the extent included in federal adjusted gross income as shown on Schedule K-1 filed with Federal Form 1120S.

For lines 10, 13 and 19, attach a schedule showing any interest and dividend income and any related expenses which are allocated by the investment allocation percentage on line 48, Schedule E.

For line 15, attach a separate schedule showing the nature and amount of each item for each shareholder.

For line 20, attach a separate schedule showing the nature and amount of each item for each shareholder.

**Line 22.** A shareholder with tax preference items may be required to file Form IT-220, *Minimum Income Tax*. See Form IT-220 and the instructions for Form IT-220 for definitions of tax preference items, filing requirements, and tax computation.

**Line 27.** Attach a separate schedule showing the nature and amount of each item for each shareholder.

## PART II

### Shareholders' Share of Corporation's New York Tax Credits and Tax on Early Dispositions

**Lines 29 a and b.** Section 606(i)(1) of Article 22 of the Tax Law provides that the investment tax credit, research and development investment tax credit and retail enterprise investment tax credit will be allowed to individuals, estates and trusts who are shareholders of an electing New York S Corporation. The amount of the investment tax credit allowed to each shareholder shall be his or her pro rata share of the investment tax credit as computed by the electing New York S Corporation on Form CT-46, Schedules B-1 and B-2.

The investment tax credit computed by the the electing New York S Corporation must be:

- computed at the rate of 4% on property other than research and development property, or
- computed at the rate of 7% on research and development property.

The additional investment tax credit computed on Form CT-46, Schedules C and D is not allowed to an electing New York S Corporation or its shareholders under Article 22 of the Tax Law.

**Line 30.** Section 606(i)(3) of Article 22 of the Tax Law provides for the recapture of the investment tax credit, research and development investment tax credit and retail enterprise investment tax credit by individuals, estates and trusts who are shareholders of an electing New York S Corporation. The recapture of the tax credit is required by the shareholders when property on which the tax credit was claimed under Article 22 is disposed of, or ceases to be in qualified use, or when a shareholder's proportionate stock interest is reduced. The amount of the tax credit to be recaptured by the shareholder shall be his or her pro rata share of the tax credit as computed by the electing New York S Corporation on Form CT-46, Schedule F.

**Line 31.** Section 606(i)(1) of Article 22 of the Tax Law provides that the special additional mortgage recording tax credit will be allowed to individuals, estates and trusts who are shareholders of an electing New York S Corporation. The amount of the special additional mortgage recording tax credit allowed each shareholder shall be his or her pro rata share of the special additional mortgage recording tax credit as computed by the electing New York S Corporation on Form CT-43. See addition A-12.

**Line 32.** Section 606(i)(1) of Article 22 of the Tax Law provides that the economic development zone tax credits (EDZ tax credits) will be allowed to individuals, estates and trusts who are shareholders of an electing New York S Corporation. The amount of the EDZ tax credit allowed to each shareholder shall be his or her pro rata share of the EDZ tax credit as computed by the electing New York S Corporation on Forms DTF-601, 602 and 603.

The EDZ investment tax credit Form DTF-603 computed by the electing New York S Corporation must be computed at a rate of 8%.

The EDZ additional investment tax credit computed on Form DTF-603, Schedule C is not allowed to an electing New York S Corporation or its shareholders under Article 22 of the Tax Law.

**Line 33.** Section 606(i)(3) of Article 22 of the Tax Law provides for the recapture of the EDZ investment tax credit by individuals, estates and trusts who are shareholders of an electing New York S Corporation. The recapture of the tax credit is required by the shareholders when property on which the tax credit was claimed under Article 22 is disposed of or ceases to be in qualified use, or when a shareholder's proportionate stock interest is reduced. The amount of the tax credit to be recaptured by the shareholder shall be his or her pro rata share of the tax credit as computed by the electing New York S Corporation on Form DTF-603, Schedule E.

The following forms must be attached to Form CT-3S if they apply: CT-46, *Claim for Investment Tax Credit*; CT-43, *Claim for Special Additional Mortgage Recording Tax Credit*; DTF-601, *Claim for EDZ Wage Tax Credit*; DTF-602, *Claim for EDZ Capital Corporation Credit*; and DTF-603, *Claim for EDZ Investment Tax Credit*.

## PART III

### Shareholders' Shares of New York Changes from Federal Items

Any of the listed adjustments are to be added to or subtracted from each shareholder's federal adjusted gross income or federal itemized deductions on his or her individual New York State income tax return in arriving at total New York income and New York itemized deductions, respectively.

Use lines 34 through 37 to list **only** those changes that apply to federal adjusted gross income on the individual returns of shareholders.

## ADDITIONS

### Line 34/Accelerated Cost Recovery System (ACRS) Deduction

Enter the accelerated cost recovery system (ACRS) deduction from Form CT-399 Schedule D, line 11, Column a (Section 612(b)(25) of the Tax Law). In the case of an S corporation that is on a fiscal year basis and is using ACRS to determine the deduction, the amount of the modification for the shareholders will be their pro rata share of the deduction determined as of the end of the S corporation year ending within the shareholder's taxable year. For information about new tax law changes affecting the ACRS deductions see the instructions for Form CT-399 (CT-399-1). Attach a copy of Form CT-399 to your CT-3S report.

### Line 35/Other Additions

Identify by item number on a separate schedule any of the following additions that apply to each shareholder's pro rata share of S corporation income, loss and deduction and enter the total of these additions that apply to each shareholder in the proper column on line 35.

**A-1** Interest income on state and local bonds (except those of New York State and its political subdivisions) to the extent not properly included in federal adjusted gross income (Section 612(b)(1) of the Tax Law).

**A-2** Interest or dividend income on bonds or securities of any United States authority, commission or instrumentality that federal laws exempt from federal income tax but not from state income taxes (Section 612(b)(2) of the Tax Law).

**A-3** Amounts deducted for interest on loans used to buy bonds and securities whose interest is exempt from New York State tax, expenses relating to income exempt from New York State tax and amortization of bond premium whose bond interest is exempt from New York State tax (Section 612(b)(4) and (5) of the Tax Law).

**A-4** Any amount that has to be added to your federal adjusted gross income if you made an election under the Tax Law for tax years beginning before 1987 for additional depreciation or research and development expenditures, waste treatment facility expenditures, air pollution control equipment expenditures or acid deposition control equipment (Section 612(b)(6) of the Tax Law). See subtraction S-10.

**A-5** Any amount deducted for percentage depletion on mines, oil and gas wells and other natural deposits (Section 612(b)(10) of the Tax Law).

**A-6** Amounts required under the Tax Law relating to the distributive or pro rata share of allocated entire net income, or the distributive or pro rata share of loss included on Form CT-3S, from an insurance business operating as a member of the New York Insurance Exchange (Section 617-a of the Tax Law).

**A-7 Safe Harbor Leases** — Any amount that was deducted in figuring your federal adjusted gross income (except for mass transit vehicles) solely because of an election made under Section 168(f)(8) of the Internal Revenue Code, as it was in effect for agreements entered into prior to January 1, 1984 (Section 612(b)(23) of the Tax Law).

**A-8 Safe Harbor Leases** — Any amount that would have been included in federal adjusted gross income (except for mass transit vehicles) had the election under Section 168(f)(8) of the Internal Revenue Code, as it was in effect for agreements entered into prior to January 1, 1984, not been made (Section 612(b)(24) of the Tax Law).

**A-9 Tax on Petroleum Business** — The amount of gross receipts tax imposed on petroleum businesses under Article 13-A of the Tax Law that was deducted in figuring each shareholder's pro rata share of S corporation income (Section 612(b)(28) of the Tax Law).

**A-10 Reduction for Taxes** — An amount equal to each shareholder's pro rata share of the S corporation's reductions for the federal minimum tax, tax on certain capital gains and tax on certain passive investment income (Section 612(b)(18) of the Tax Law).

**A-11** Enter in the proper columns all income taxes (including City of New York income taxes) that were deducted in determining each shareholder's pro rata share of the S corporation items of income and deductions (Section 612(b)(3) of the Tax Law). Franchise taxes are not to be added back.

**A-12** The amount of special additional mortgage recording tax that was excluded or deducted in figuring your federal adjusted gross income to the extent the credit was taken (Section 612(b)(15) of the Tax Law). For information about the special additional mortgage recording tax credit, see Form CT-43, *Claim for Special Additional Mortgage Recording Tax Credit*.

## SUBTRACTIONS

### Line 36/New York Depreciation

Enter the total New York depreciation from Form CT-399, Schedule D, line 11, Column b (Section 612(c)(26) of the Tax Law). In the case of an S corporation that is on a fiscal year basis and is using ACRS to determine the cost recovery deduction, the amount of the modification for the shareholders will be their pro rata share of the New York depreciation deduction determined as of the end of the S corporation year ending within the shareholders' taxable year. For information about new tax law changes see the instructions for Form CT-399 (CT-399-I). Attach a copy of Form CT-399 to your CT-3S report.

### Line 37/Other Subtractions

Identify by item number on a separate schedule any of the following subtractions that apply to each shareholder's pro rata share of S corporation income and enter the total of these subtractions that apply to each shareholder in the proper column on line 37.

**S-1** Any refund or credit for overpayment of any income tax (including the refund of the City of New York Unincorporated Business Tax) to the extent included in income reported on Form CT-3S (Section 612(c)(7) of the Tax Law).

**S-2** Interest income on bonds or other obligations of the United States government included as income on Form CT-3S. Include qualified dividends received after April 1, 1987, from regulated investment companies (mutual funds) that invest in obligations of the United States government and meet the 50 percent asset requirement (Section 612(c)(1) of the Tax Law).

**S-3** Interest or dividend income on bonds or securities of any United States authority, commission or instrumentality included as income on Form CT-3S, but exempt from state income taxes under federal laws (Section 612(c)(2) of the Tax Law).

**S-4** Interest or dividend income included on Form CT-3S on bonds or securities to the extent exempt from New York State income taxes (Section 612(c)(6) of the Tax Law).

**S-5** Interest expense on money borrowed to buy or carry bonds or securities the income from which is subject to New York State income tax but exempt from federal income tax, provided this interest was a business expense for the taxable year and was not deducted in figuring S corporation income (Section 612(c)(9) of the Tax Law).

**S-6** Ordinary and necessary business expenses paid or incurred during the taxable year in connection with income, or property held to produce income, that is subject to New York State income tax but exempt from federal income tax, provided these expenses were not deducted in figuring S corporation income (Section 612(c)(10) of the Tax Law).

**S-7** Amortization of bond premium attributable to the taxable year on any bond whose interest income is subject to New York State income tax but exempt from federal income tax, provided this amortization was a business expense for the taxable year and was not deducted in figuring S corporation income (Section 612(c)(10) of the Tax Law).

**S-8** The amount of wages and salaries paid or incurred during the taxable year for which a salaries deduction is not allowed with regard to claiming the federal targeted jobs credit (Section 612(c)(15) of the Tax Law).

**S-9** Cost depletion figured according to federal tax law on property where percentage depletion (addition A-5) was added on line 35 (Section 612(c)(13) of the Tax Law). Further, in the case of sale or exchange of such property, the excess of the New York basis over the federal basis.

**S-10** Special depreciation expenditures or carryover of research and development expenditures incurred in taxable years beginning before 1987 in connection with depreciable tangible business property located in New York State (Section 612(c)(11) of the Tax Law). For more information see Form IT-211, Special Depreciation Schedules and Instructions. Also see addition A-4.

**S-11** Any amount included on Form CT-3S that is the distributive or pro rata share of income or gain from an insurance business operating as a member of the New York Insurance Exchange (Section 617-a of the Tax Law).

**S-12 Safe Harbor Leases** — Any amount that was included in federal adjusted gross income (except for mass transit vehicles) solely because of an election made under Section 168(f)(8) of the Internal Revenue Code, as it was in effect for agreements entered into prior to January 1, 1984 (Section 612(c)(24) of the Tax Law).

**S-13 Safe Harbor Leases** — Any amount that could have been excluded from federal adjusted gross income (except for mass transit vehicles) had the election under Section 168(f)(8) of the Internal Revenue Code, as it was in effect for agreements entered into prior to January 1, 1984, not been made (Section 612(c)(25) of the Tax Law).

**Lines 38 and 39** should be used **only** for changes that apply to federal itemized deductions on the individual returns of shareholders and should exclude any amounts properly reportable on lines 34 through 37. Attach a statement identifying by item number any of the following changes that relate to S corporation items of the shareholders' federal itemized deductions.

### Line 38/Additions to Federal Itemized Deductions

- A** Interest expense on money borrowed to buy or carry bonds or securities subject to New York State income tax, but exempt from federal income tax, if this interest was not deducted on the federal return or subtracted on line 37.
- B** Ordinary and necessary expenses paid or incurred during the taxable year in connection with income, or property held to produce income, that is subject to New York State income tax but exempt from federal income tax if these expenses were not deducted on the federal return or subtracted on line 37.
- C** Amortization of bond premium attributable to the taxable year on any bond whose interest is subject to New York State income tax but exempt from federal income tax if this amortization was not deducted on the federal return or subtracted on line 37.

### Line 39/Subtractions from Federal Itemized Deductions

- A** State, local and foreign income taxes.
- B** Interest expense on money borrowed to buy or carry bonds or securities whose income is exempt from New York State income tax.
- C** Ordinary and necessary expenses paid or incurred in connection with income or property held to produce income that is exempt from New York State income tax.
- D** Amortization of bond premium attributable to the taxable year on any bond whose interest is exempt from New York State income tax.

### Line 40/New York Adjustments to Federal Tax Preference Items

See the instructions for Form IT-220 for an explanation of the required adjustments. On an attached schedule give details of the adjustments to the federal tax preference items for each shareholder.

## Schedule D Business Allocation

Only corporations with nonresident shareholders and property, payroll or sales outside New York State are required to complete this schedule.

The business allocation percentage must be computed by adding the percentages allocated to New York State of the average value of the corporation's real and tangible personal property, whether owned or rented, business receipts factor, payroll factor and an additional factor equal to the business receipts factor and dividing the total percentage by the number of percentages.

Real and tangible personal property owned by the taxpayer must be valued at the adjusted basis of such property for federal income tax purposes. However, the corporation may make a one time, revocable election to value its real and tangible personal property at fair market value. This election must be made on or before the due date for filing the S Corporation Information Report for the S Corporation's first accounting period beginning on or after January 1, 1987.

If you are allocating property and wages outside New York State attach a separate schedule listing:

- Location of real and/or tangible personal property describing how such property is used and
- Number, location and duties of your own employees located outside New York State.

**Line 41a.** For years beginning on or after January 1, 1982, real property and related equipment, except inventoriable goods, that is under construction and is not occupied or used during construction, should be excluded from the numerator and denominator of the property factor. Property or equipment under construction that is partially used by the taxpayer in the regular course of business should be included in the property factor to the extent used.

**Line 41b.** The value of real property rented to the taxpayer generally is eight times the gross rent payable during the year covered by the report. 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 termination of the lease.

**Line 41d.** The term "tangible personal property" means corporeal personal property, such as machinery, tools, implements, goods, wares and merchandise. Do not include cash, shares of stock, bonds, notes, credits or evidences of an interest in property or evidences of debt.

**Line 41e.** The value of tangible personal property rented to the taxpayer is eight times the gross rent payable during the year covered by this report. However, the corporation may make a one-time election on or before the due date of the information report (with regard to extension) for its accounting year beginning in 1987, to phase in over a five year period, the value of tangible personal property rented. If such an election is made, the corporation shall include 20% of the value of each item of rented tangible property for the report year beginning in 1987. For the

reporting years beginning in 1988, 1989, and 1990 the percentage will increase to 40%, 60% and 80% respectively. For years beginning in 1991 and thereafter the percentage will be 100%.

**Line 42a and b.** Sales of tangible personal property are allocated on a destination basis.

**Line 42c.** Services are allocated where performed. For periods beginning on or after January 1, 1982, corporations engaged in the publication of newspapers and periodicals must allocate to New York State receipts from the sale of advertising to the extent that such newspapers and periodicals are delivered to the ultimate purchasers or subscribers in New York State.

**Line 42d.** Rental income is allocated where property is located.

**Line 42e.** Receipts from royalties are allocated where earned.

**Line 42f.** Other business receipts are allocated where earned.

**Line 43.** An additional receipts factor is required to be included in the computation of the business allocation percentage. Enter at this line the same percentage computed on line 42h (Section 210.3(a)(4)).

**Line 44.** Employees within New York include all employees regularly connected with or working out of an office or place of business maintained by the taxpayer within New York, irrespective of where the services of such employees were performed. General executive officers are excluded from the payroll factor. 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 within or out of New York State is not a general executive officer.

**Line 45.** Add percentages on lines 41g, 42h, 43 and 44a.

**Line 46.** Divide line 45 by the number of percentages used.

**EXAMPLES:**

	Corp. A	Corp. B	Corp. C
Property factor	80%	60%	60%
Receipts factor	20%	30%	30%
Additional receipts factor	20%	30%	30%
Payroll factor	60%	0%	None*
<b>TOTAL</b>	<b>180%</b>	<b>120%</b>	<b>120%</b>
Computation	(180 ÷ 4)	(120 ÷ 4)	(120 ÷ 3)
Business Allocation Percentage	45%	30%	40%

\*Corporation C has no employees inside or outside New York. Zero percent (Corporation B) is not a missing percentage unless the numerator and denominator of the factor are missing.

**Schedule E  
Investment Allocation Percentage**

Complete this schedule if the S corporation has both nonresident shareholders and investment income. The S corporation must compute the investment allocation percentage (as provided for under Article 9-A rules and regulations) to determine each nonresident shareholder's pro rata share of New York investment income or New York deduction derived from or connected with the investment capital of the S corporation.

**Schedule E, Column A** — List the name of each of the following items of investment capital of the S corporation: stocks, bonds and other securities issued by a corporation (other than the S corporation, a subsidiary of the S corporation or a DISC) or by the United States, any state, territory or possession of the United States, the District of Columbia, or any foreign country, or any political subdivision or governmental instrumentality of any of the foregoing. Investment capital includes investments in regulated investment corporations (money market funds and mutual funds). Investment capital also includes a loan to a subsidiary, the interest on which is claimed by the subsidiary as a deduction for the purposes of any tax imposed by Articles 9-A, 32 or 33 of the Tax Law, provided such loan is evidenced by a bond or other security. The term subsidiary means a corporation which is controlled by the S corporation, by reason of the S corporation's ownership of more than 50% of the total number of shares of capital stock of such corporation issued and outstanding, which entitles the S corporation as the holder of the shares to vote at elections of its directors or trustees.

Investment capital to be included in Schedule E does not include cash; stock, bonds or other securities held by the S corporation for sale to customers in the regular course of business; investments in securities of an individual, partnership, trust or other non-governmental entity that is not a corporation.

**Schedule E, Column C** — Enter the 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 generally is 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.

**Schedule E, Column D** — 1987 amendments to Article 9-A of the Tax Law now permit the deduction of 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.

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

Total liabilities (see instructions below) (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 Schedule E, Column C, line 47 (G) \_\_\_\_\_  
 Total assets (see instructions below) (H) \_\_\_\_\_  
 Divide line (G) by line (H) (I) \_\_\_\_\_ %  
 Multiply line (F) by line (I) (J) \_\_\_\_\_

**Total liabilities** — To determine total liabilities compute the average value of your total liabilities as shown on the balance sheets of your federal tax return. The computation of average value is generally computed on a quarterly basis. At the option of the taxpayer, a more frequent basis such as monthly, weekly or daily may be used. If your usual accounting practice does not permit a quarterly or more frequent computation, you may use a semiannual or annual computation if no distortion of average value results.

**Total assets** — To determine total assets compute the average value of your total assets as shown on the balance sheets of your federal tax return, as if the S corporation had valued real property and marketable securities at fair market value and all other property at a value determined in accordance with generally accepted accounting principles. Use the same basis of averaging total assets as used to average total liabilities (e.g. monthly, weekly, daily, quarterly, semiannual or annual).

Value of a particular asset shown in Schedule E, Column C (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.

**Schedule E, 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.

**Schedule E, Column F** — Enter the issuer's allocation percentage for each item of investment capital listed in column A. The issuer's allocation percentage is used to compute the amount of investment capital allocated to New York State. The issuer's allocation percentage is obtained from the New York State Corporation Franchise Tax Return filed by the corporation which issued the stock, bond or other security and represents that corporation's amount of capital employed in New York State as compared to total capital employed everywhere. Issuer's allocation percentages can be obtained from tax service publications or by written request (in duplicate) to:

New York State Tax Department  
 Taxpayer Assistance Bureau  
 W.A. Harriman Campus  
 Albany, New York 12227  
 Telephone (518) 457-7034

If the corporation which issued the stock, bond or other security is not required to file a New York State Corporation Franchise Tax Return its issuer's allocation percentage is zero. The issuer's allocation percentage for governmental obligations is zero.

Always enter the issuer's allocation percentage from the first year preceding the current taxable year. Example: If the S corporation is computing Schedule E for 1987, enter the issuer's allocation percentage obtained from the 1986 tax return.