



Instructions for Form IT-204

Partnership Return

IT-204-I

Highlights for 2005

- **Six-month extension now available**

Form IT-370-PF, *Application for Automatic Six-Month Extension of Time to File for Partnerships and Fiduciaries*, now automatically extends the due date of your return for **six** months instead of four. See *Extension of time to file* on page 3.

- **Investment credit expanded**

An investment credit is now available for property that is principally used as a qualified film production facility. For additional information, see Form IT-212, *Investment Credit*, and its instructions.

- **Brownfield credits now available**

For tax years beginning on or after April 1, 2005, a partnership participating in the *Brownfield Cleanup Program* may be eligible for any one of three new credits relating to the cleanup and redevelopment of brownfield sites. For additional information, see the instructions for new Forms IT-611, *Claim for Brownfield Redevelopment Tax Credit*; IT-612, *Claim for Remediated Brownfield Credit for Real Property Taxes*; and IT-613, *Claim for Environmental Remediation Insurance Credit*.

Also, for tax years beginning on or after April 1, 2005, if a partnership included a deduction for premiums paid for environmental remediation insurance where such premiums are deducted in calculating federal ordinary income, then the premiums must be added back to the extent the credit was allowed. For additional information, see New York addition A-19 on page 7.

- **Fuel cell electric generating equipment credit expanded**

Beginning on or after July 1, 2005, individuals, partners in a partnership, shareholders of S corporations, and beneficiaries of estates and trusts may claim the fuel cell electric generating equipment credit. The credit applies to qualified fuel cell electric generating equipment expenditures made on or after July 1, 2005. Previously, only individuals could claim a credit for fuel cell electric generating equipment installed at their principal residence. For additional information, see Form IT-259, *Claim for Fuel Cell Electric Generating Equipment Credit*, and its instructions.

- **Special additional mortgage recording tax credit**

For tax years beginning on and after January 1, 2004, a credit is allowed equal to the amount of the special additional mortgage recording tax paid by the partnership for mortgages recorded on or after January 1, 2004, on real property located in New York State. For additional information, see Form IT-256, *Claim for Special Additional Mortgage Recording Tax Credit*, and its instructions.

- **New QETC credit**

For tax years beginning on or after January 1, 2005, this new credit is allowed for an eligible partnership that is a qualified emerging technology company (QETC). For additional information, see Form DTF-619, *Claim for QETC Facilities, Operations, and Training Credit*, and its instructions.

- **QEZE and EZ credits revised**

Numerous changes have been made to the QEZE and EZ credits. For additional information, see TSB-M-05(5)I, *Summary of Certain Personal Income Tax Legislative Changes Enacted in 2005*, and the applicable credit claim forms.

- **Alternative fuels credit expired**

The alternative fuels credit **expired** for property placed in service after December 31, 2004.

- **New reporting requirements for tax shelters**

There are new reporting requirements with respect to the disclosure of information relating to transactions that present the potential for tax avoidance (a tax shelter). These new reporting requirements are similar to the tax shelter disclosure requirements for federal income tax purposes. Separate reporting requirements are imposed on those who utilize tax shelters and those who promote the use of tax shelters. For additional information, see TSB-M-05(2)C,(4)I, TSB-M-05(2.1)C,(4.1)I, and Publication 671.

- **LLC, LLP, and single-member LLC disregarded entity filing fees extended for tax years 2005 and 2006**

The increased filing fees for LLCs and LLPs that were enacted in 2003 have been extended for tax years beginning in 2005 and 2006. For more information,

see the instructions for Form IT-204-LL, *Limited Liability Company/Limited Liability Partnership Filing Fee Payment Form*.

General information

Limited liability companies and limited liability partnerships

New York State allows for the formation of limited liability companies and limited liability partnerships in New York State (domestic LLCs and LLPs). In addition, New York recognizes LLCs and LLPs formed under the laws of other states and foreign countries (foreign LLCs and LLPs). Any domestic or foreign LLC or LLP that is required to file a New York State partnership return must also complete and file Form IT-204-LL. For more information regarding LLCs and LLPs, see Form IT-204-LL-I.

Effective August 8, 1995, certain investment companies, that are established and regulated under Article 12 of the New York State Banking Law, are able to organize themselves as limited liability investment companies (LLICs). The LLIC option is available only to Article 12 investment companies that serve as holding companies for foreign banking operations. Also, effective July 21, 1998, certain trust companies, that are established and regulated under section 102-A of the New York State Banking Law, are able to organize themselves as limited liability trust companies (LLTCs). The LLTC option is available only to Article 3 trust companies that do not receive deposits from the general public and are exempt from obtaining insurance of deposits and share accounts. Any LLIC or LLTC that is required to file a New York State partnership return must also complete and file Form IT-204-LL. For more information regarding LLICs and LLTC's, see Form IT-204-LL-I.

Estimated tax for nonresident individuals and corporate partners, members, and shareholders

Tax Law section 658 was amended for 2003 to require the following entities that have income derived from New York sources to make estimated tax payments on behalf of partners or shareholders who are nonresident individuals or C corporations (any corporation other than a federal S corporation):

- New York S corporations
- partnerships (other than publicly traded partnerships as defined in Internal Revenue Code (IRC) section 7704)
- limited liability companies (LLCs) or limited liability partnerships (LLPs) that are treated as partnerships for federal income tax purposes

The new law applies to tax years 2003 and after. For more information, see the instructions for Form IT-2658.

In the case of an underpayment of estimated tax by the partnership, a penalty as determined under Tax Law section 685(c) will be added to the estimated tax required to be paid. For more information, see the instructions for Form IT-2659, *Estimated Tax Penalties for Partnerships and New York S Corporations*.

Purpose of form

Form IT-204 is used to report income, deductions, gains, losses, and credits from the operation of a partnership for the calendar year 2005 or other fiscal year beginning in 2005. All items reported on Form IT-204 or on attachments to it are subject to verification, audit, and revision by the New York State Tax Department.

Penalties

Partnership — A penalty is imposed against the partnership if the partnership is required to file a partnership return and (1) fails to file the return on time, including extensions, (2) files a return that fails to show all the information required, or (3) fails to file an amended partnership return within 90 days of the date the final federal determination or disallowance is issued or when the federal amended partnership return is filed, unless the failure is due to reasonable cause and not due to willful neglect.

The amount of the penalty for each month or fraction of a month (for a maximum of five months) that the failure continues is \$50 multiplied by the total number of persons who were partners in the partnership during any part of the partnership's tax year for which the return is due. In counting the number of partners for purposes of this penalty, include only individuals, estates, and trusts subject to tax under Article 22. Do not include corporations or partnerships.

Requirements for paid preparers — A penalty of \$50 per return or claim for refund will be assessed a paid preparer for failure to comply with any of the following requirements:

- Sign the tax return or claim for refund.
- Include the identifying number of the paid preparer (if an individual paid preparer is an employee of an employer or a partner in a partnership that is a paid preparer, the return or claim for refund must also include the identifying number of the employer or partnership).
- Furnish a completed copy of the tax return to the taxpayer not later than the time the return is presented for the taxpayer's signature.
- Keep a completed copy of the return prepared for each taxpayer, or keep the name and identification number of each

taxpayer for whom a return was prepared on a list, and make the copy or list available for inspection upon request.

A paid preparer must keep a completed copy of the return or information on the list for three years after the due date of the return (without regard to extensions) or three years after the date the return was presented to the taxpayer for signature, whichever is later.

A paid preparer may be subject to a maximum penalty of \$25,000 for failure to comply with any of the requirements listed above.

New York City unincorporated business tax

These instructions apply to the New York State partnership return only. They do not apply to the New York City unincorporated business tax, which is administered by the New York City Department of Finance, 59 Maiden Lane, 18th Floor, New York NY 10038.

Yonkers nonresident partner allocation

Every partnership doing business in Yonkers and having a partner who is a nonresident of Yonkers must complete Form Y-204, *Yonkers Nonresident Partner Allocation*, and show the net earnings from self-employment.

Who must file

Partnerships are not subject to personal income tax. But every partnership having either (1) at least one partner who is an individual, estate, or trust that is a resident of New York State or (2) any income, gain, loss, or deduction from New York State sources must file a return on Form IT-204 regardless of the amount of its income. Otherwise, New York State law does not currently require a partnership to file a return solely because it has a partner that is either a partnership or corporation formed under the laws of New York State, even though such partner may be responsible for filing its own return with New York State.

A partnership is not considered to be engaged in a business, trade, profession, or occupation, and it is therefore not required to file for any tax year in which it neither receives income nor incurs any expenses treated as deductions or credits for federal income tax purposes.

If you are filing a return specifically because you have a New York resident partner, but do not conduct business in New York, you do not have to submit federal Schedules K-1 for nonresident partners. In addition, you do not have to complete Schedule A. However, include in Schedule B the totals for all partners. Include on Form IT-204-ATT only a list of the resident partners.

Income from New York State sources includes:

1. income attributable to the ownership of any interest in real property or tangible personal property located in New York State and intangible personal property to the extent that it is used in a business, trade, profession, or occupation carried on in New York State; **and**
2. income attributable to a business, trade, profession, or occupation carried on in New York State; **and**
3. any gain from the sale, transfer or other disposition of shares of stock in a cooperative housing corporation in connection with the grant or transfer of a proprietary leasehold when the real property comprising the units of such cooperative housing corporation is located in New York State, whether or not connected with a business

A partnership carries on a business, trade, profession, or occupation within New York State if (1) it maintains or operates an office, a shop, a store, a warehouse, a factory, an agency, or other place in New York State where its affairs are systematically and regularly carried on, or (2) it performs a series of acts or transactions in New York State with regularity and continuity for livelihood or profit, as distinguished from isolated or incidental transactions.

If a nonresident is a member of a partnership that carries on business (as defined above) both in and out of New York State, complete Schedule B, Part 3.

Certain publicly traded partnerships and associations, which previously filed Form IT-204, are treated as a corporation pursuant to IRC section 7704.

If you have purchased or renewed a taxable insurance contract from an insurer not authorized to transact business in New York State, you must complete Form CT-33-D, *Tax on Premiums Paid or Payable to an Unauthorized Insurer*. This return must be filed within 60 days after the end of the calendar quarter in which the contract was purchased or renewed.

If you purchase or renew a taxable insurance contract from an insurer not authorized to transact business in New York State under a certificate of authority from the Superintendent of Insurance, you will be liable for a tax of 3.6% of the premium. (See Form CT-33-D and TSB-M-90(9)C for more information.)

When to file

Returns for calendar year 2005 are due April 17, 2006. Fiscal-year returns are due the 15th day of the fourth month after the end of the tax year.

If a partnership is terminated and completely liquidated during its normal tax year, resulting in an accounting period of

number, principal business activity, principal product or service, and date the business was started.

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

Special condition for filing your 2005 partnership return

If the partnership qualifies for the special condition below, enter code **03** in the entry boxes on the form.

03 Out of the country — Enter this code for partnerships that keep their records and books of account outside the United States and Puerto Rico and qualify for an automatic two-month extension of time to file their federal returns. For additional information, see *When to file* on page 2.

Items A through G

Complete items A through G. For item A, the definition of a *portfolio investment partnership* is a limited partnership that meets the gross income requirement of IRC section 851(b)(2) and is not a dealer (within the meaning of IRC section 1236) in stocks or securities. For item F, enter the number of partners in the partnership that are required to be listed on Form(s) IT-204-ATT. See the instructions for Form IT-204-ATT on page 12.

If you have any other New York tax accounts, mark an **X** in the appropriate boxes on lines 1 and 2 of item G and enter the identification number(s).

Schedule A

Complete Part 1 if the partnership carries on business both in and out of New York State. Enter the exact location of each place where the partnership carries on business; describe each place (for example, branch office, agency, factory), and state whether it is rented or owned by the partnership.

Complete Part 2 if the partnership carries on business both in and out of New York State but does not maintain books and records from which the New York business income can be determined.

Part 2 must still be completed even though it may not fairly and equitably reflect the income from New York and an authorized alternate allocation method is used. A detailed explanation of the authorized alternate method used to determine the New York income must be attached, together with full details of any **changes** increasing or decreasing the amount of New York income computed by the authorized alternate method.

If your partnership is a partner in another partnership (hereinafter referred to as the *lower tier partnership*) the source and character of the distributive share of each item of your partnership to any partner of your partnership that is attributable to the

lower tier partnership retains the source and character determined at the level of the lower tier partnership. Such source and character are not changed by reason of the fact that any such item flows through your partnership to such member.

Property percentage

Figure the average value of real and tangible personal property connected with the partnership by completing lines 1, 2, and 3.

Line 1 Real property owned — Enter in column A the average value of all real and tangible personal property connected with the partnership by completing lines 1, 2, and 3.

The average value of the property is determined by (1) adding its adjusted basis at the beginning of the tax year to its adjusted basis at the end of the tax year and (2) dividing by two.

Line 2 Real property rented from others The value of real property rented to the business, and to be included in line 2, is eight times the gross rent payable during the tax year for which the return is filed. *Gross rent* includes any amount payable for the use or possession of real property, or any part thereof, whether designated as a fixed sum of money or as a percentage of sales, profits or otherwise; any amount payable as additional rent, or in place of rent, such as interest, taxes, insurance, repairs or any other amount required to be paid by the terms of a lease or other agreement; and the cost of any improvement to real property made by or on behalf of the business that reverts to the owner or lessor upon termination of a lease or other arrangement. However, if a building is erected on leased land by or on behalf of the business, the value of the building is determined in the same manner as if it were owned by the business.

Line 3 Tangible personal property owned — Enter in column A the average value (determined in accordance with the instruction for line 1) of all tangible personal property (including any inventory) owned by the business. Enter in column B the average value of tangible personal property located in New York State.

Line 4 Property percentage — Add lines 1, 2, and 3 in columns A and B and enter each total on line 4. Divide the column B total by the column A total and round the result to the fourth decimal place. For example, if the total in column A is \$15,000 and the total in column B is \$10,000, divide \$10,000 by the \$15,000 and enter the result (.6667) as a percentage (66.67%) in column C.

Line 5 Payroll percentage — The amounts to be entered on line 5 include wages, etc., paid only to **employees** of the partnership. Do not include payments to

independent contractors, independent sales agents, etc. Enter on line 5 in column A the total of such pay to employees during the tax year for partnership operations carried on both in and out of New York State. Enter on line 5 in column B the amount of that pay for operations carried on in New York State. Operations are considered to be carried on in New York State if the employee works in or travels out of an office or other place of business located in New York State. If in Schedule B, line 10, you subtracted an amount based on wages not allowed because of either the Indian employment credit, a work opportunity credit, or an empowerment zone employment credit, this change should be reflected here in wages and salaries paid during the year. Divide the column B total by the column A total. Round the result to the fourth decimal place and enter it as a percentage in column C.

Line 6 Gross income percentage — The amount to be entered on line 6 in column A is total gross sales made, or charges for services performed, by the partners or by employees, agents, agencies, or independent contractors of the partnership in and out of New York State. The amount to be entered on line 6 in column B is the part of total gross sales or charges that represents sales made or services performed by or through an agency in New York State. This includes sales made or services performed by employees, agents, agencies, or independent contractors situated at, connected with, or sent out from offices of the partnership (or its agencies) located in New York State. For example, if a salesman working out of the New York office of the business covers the states of New York, New Jersey, and Pennsylvania, **all** sales made by him are to be allocated to New York State and included on line 6 in column B. Divide the column B total by the column A total. Round the result to the fourth decimal place and enter it as a percentage in column C.

Third-party designee

Do you want to authorize a friend, family member, or any other person (third-party designee) to discuss your 2005 tax return with the New York State Tax Department?

If **No**, mark an **X** in the *No* box.

If **Yes**, mark an **X** in the *Yes* box.

Enter the designee's name, phone number, and any five numbers the designee chooses as his or her personal identification number (PIN). If you want to authorize the paid preparer who signed your return to discuss the return with the Tax Department, just enter **Preparer** in the space for the designee's name. You do not have to provide the other information requested.

If you mark the *Yes* box, you (and your spouse, if filing a joint return) are authorizing the Tax Department to discuss with the designee any questions that arise

during the processing of your return. You are also authorizing the designee to:

- give the Tax Department any information that is missing from your return;
- call the Tax Department for information about the processing of your return or the status of your refund or payment(s); and
- respond to certain Tax Department notices that you share with the designee about math errors, offsets, and return preparation. We will **not** send notices to the designee.

You are not authorizing the designee to receive your refund check, bind you to anything (including any additional tax liability), or otherwise represent you before the Tax Department. If you want the designee to perform those services for you, you must file Form POA-1, *Power of Attorney*. Copies of statutory tax notices or documents (such as a *Notice of Deficiency*) will only be sent to your designee if you file Form POA-1.

A third-party designee authorization cannot be revoked. However, the authorization will end automatically on the due date (without regard to extensions) for filing your 2006 tax return. For most taxpayers, the due date will be April 16, 2007.

Signatures

A **general partner** must sign Form IT-204.

Anyone you pay to prepare the partnership return must also sign it and fill in the other blanks in the paid preparer's area of the return. If someone prepares the return and does not charge you, the paid preparer's area should not be filled in.

Enter your daytime telephone number including the area code. This voluntary entry will enable the Tax Department to correct minor errors or omissions by calling you rather than writing or sending back your return. **You are not required to give your telephone number.**

Note to paid preparers — When signing a taxpayer's New York State income tax return, you must enter the same identification number that you used on the taxpayer's federal return, either your social security number or your federal preparer tax identification number (PTIN). If you did not prepare a federal income tax return for the taxpayer, you must use your PTIN if you have one; otherwise, use your social security number.

Schedule B

Complete Parts 1 and 2, and include the totals for all partners of the partnership.

You must complete Part 3 if the partnership conducts business in and out of New York State and the partnership's allocation percentage to New York State is less than 100%.

Part 1 — Partners' New York modifications to federal items

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

You must enter only the total New York modifications to federal items in the *Total dollars* column. However, you must still inform each partner of their share of the total amount for each item reported in Schedule B since the partners need this information to complete their individual tax returns.

Ways you can inform each partner of his or her share of New York modifications to federal items include but are not limited to:

- a separate letter to each partner, **or**
- a notation in the margin or at the bottom of the federal Schedule K-1.

Use lines 9 and 10 to list **only** those modifications to federal adjusted gross income on the individual returns of the partners. Use lines 11 and 12 for those modifications that apply to the partners' federal itemized deductions.

Line 9 New York State additions — On a separate schedule identify any of the following additions that apply to the partnership by writing the item number(s) (A-1 through A-19) and the amount of each addition. Enter the total amount of the additions on line 9 in the *Total dollars* column.

A-1 Personal income taxes and unincorporated business taxes deducted in determining partnership ordinary income — No personal income taxes can be deducted by the partners in determining their New York taxable incomes.

If the partnership included a deduction for state, local, or foreign income taxes, or unincorporated business taxes (including New York City unincorporated business taxes) in figuring its federal ordinary income, **then** include the total deduction on line 9. For example, if the partnership deducted New York City unincorporated business tax on federal Form 1065 or 1065-B, include that tax deduction on line 9.

Note: The LLC/LLP filing fee is not an income tax and is not added back on line 9.

A-2 Accelerated cost recovery system (ACRS) deduction — If you claimed ACRS depreciation on your federal return for:

- property placed in service during tax years 1981 through 1984 (other than 280F property); **or**

- property placed in service outside New York State during tax years 1985-1993 and fiscal tax years beginning in 1993 (other than 280F property), and you elect to continue using IRC 167 depreciation (see TSB-M-99(1)I);

then include on line 9 that deduction. The partnership must complete Form IT-399, *New York State Depreciation Schedule*, and attach it to Form IT-204.

A-3 Interest income on state and local bonds and obligations (but not those of New York State or its local governments)

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

If the partnership received or was credited with this type of income during the tax year, **and** the income was not includable in the partnership's federal income, **then** include that income on line 9.

A-4 Investment income from certain obligations of U.S. government agencies or affiliations — Federal laws specifically exempt investment income from certain obligations of U.S. government agencies or affiliations from federal taxation but not from state taxation.

If the partnership received or was credited with any interest or dividend income from any United States authority, commission, or instrumentality that federal laws exempt from federal income tax but do not exempt from state income tax, **then** include that income on line 9.

A-5 Interest expense on loans used to buy obligations exempt from New York State tax, amortized bond premium on bonds that are exempt from New York tax, and other expenses relating to the production of income exempt from New York State tax

- If the partnership's federal ordinary income includes a deduction for interest expense used to buy bonds, obligations, or securities whose interest income is taxable for federal purposes but exempt from New York State tax, **then** include that expense on line 9.
- If the partnership's ordinary income includes a deduction for the amortization of bond premiums on bonds whose interest income is taxable for federal purposes but exempt from New York State tax, **then** include that interest expense on line 9.
- If the partnership's ordinary income includes a deduction for expenses

related to the production for income that is taxable for federal purposes but exempt from New York State tax, **then** include that interest expense on line 9.

A-6 Special additional mortgage recording tax deduction — If the partnership excluded or deducted special additional mortgage recording tax in figuring its federal ordinary income, **and** the partners were previously allowed a New York State credit for that tax on their personal income tax returns, **then** include on line 9 the amount that was excluded or deducted.

A-7 Special additional mortgage recording tax basis adjustment — If property on which you paid the special additional mortgage recording tax is sold or disposed of, **and** the partners claimed the New York State credit in a prior year for the special additional mortgage recording tax paid on that property, **and** the federal basis of the property was not adjusted to reflect the amount of credit allowed, **then** include on line 9 the amount of the basis that was not adjusted for the amount of the credit claimed.

A-8 Special depreciation — If the partnership made an election for tax years beginning before 1987 for:

- special depreciation (see Form IT-211),
- research and development expenditures,
- waste treatment facility expenditures,
- air pollution control equipment expenditures, **or**
- acid deposition control equipment,

then include on line 9 the depreciation or expenditure related to these items that was deducted for federal tax purposes. See subtraction S-13.

A-9 Percentage depletion — If the partnership claimed a deduction on its federal return for percentage depletion, **then** include on line 9 the deduction. See subtraction S-12.

A-10 New business investment; deferral recognition — If in any tax year beginning on or after January 1, 1982, and before 1988, the partners chose to subtract all or a portion of a partnership long-term capital gain from their federal adjusted gross incomes because that amount had been reinvested by the partnership in a new New York business, **and if** that reinvestment was sold in the current tax year, **then** include on line 9 the amount that had previously been subtracted.

A-11 Safe harbor leases (such a lease is a financial arrangement between either a corporation, partnership, or certain grantor trusts and a person, firm, estate, or trust to acquire and use an asset; the arrangement is allowed for federal tax purposes, but is not allowed for state purposes unless it involves mass transit vehicles) — If in

figuring its federal ordinary income, the partnership took deductions attributable to a safe harbor lease (except for mass transit vehicles) made under an election provided for by IRC section 168(f)(8) as it was in effect for agreements entered into prior to January 1, 1984, **then** include those deductions on line 9. **Also see A-12, S-15, and S-16.**

A-12 Safe harbor leases (see A-11 above for definition of safe harbor leases) **If** the partnership's financial matters for the current tax year involved a safe harbor lease (except for mass transit vehicles) made under an election provided for by IRC section 168(f)(8) as it was in effect for agreements entered into prior to January 1, 1984, **then** include on line 9 the income that the partnership would have included in its federal ordinary income if such election had not been made. **Also see A-11, S-15, and S-16.**

A-13 ACRS; year of disposition adjustment — If the partnership disposed of property which was depreciated for federal purposes using ACRS, **and if** ACRS depreciation was not allowed for state purposes (see A-2 on page 5), **then** the partnership must complete Part 2 of Form IT-399 to figure the amount, if any, to include on line 9.

A-14 Qualified emerging technology investments (QETI) — If the partnership elected to defer the gain from the sale of QETI, **then** the partnership must include on line 9 the amount previously deferred when the reinvestment in the qualified emerging technology company which qualified the partnership for that deferral is sold. See subtraction S-18 on page 8.

A-15 Royalty and interest payments made to a related member or members — For tax years beginning on or after January 1, 2003, a partnership may be required to add back certain royalty payments made during the tax year to a related member or members for the use of intangible property, such as trademarks or patents, and interest payments made to a related member or members, to the extent the payments were deducted in figuring federal ordinary income. (For more information, see Tax Law section 612(r)).

If the partnership included a deduction for certain royalty payments, or certain interest payments made during the tax year in figuring its federal ordinary income, **then** include the deduction on line 9.

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

If the partnership claimed a depreciation deduction for property under IRC section 168(k), (except for resurgence zone property, and New York liberty zone property described in IRC section 1400L(b)(2)) on your federal Form 1065, **then** the partnership must complete Part 1 of Form IT-398, *New York State Depreciation Schedule for IRC Section 168(k) Property*, to determine the amount to include on line 9 and attach it to Form IT-204.

A-17 Sport utility vehicle expense deduction — If the partnership, in computing its federal ordinary income claimed an IRC section 179 deduction with respect to an SUV that weighs more than 6000 pounds, **then** include the amount of that deduction on line 9.

A sport utility vehicle means any four-wheeled passenger vehicle manufactured primarily for use on public streets, roads, and highways. However, *sport utility vehicle* does not include (1) any ambulance, hearse, or combination ambulance-hearse used by a partnership directly in a trade or business; (2) any vehicle used by a partnership directly in the trade or business of transporting persons or property for compensation or hire; **or** (3) any truck, van, or motor home. A *truck* is defined as any vehicle that has a primary load-carrying device or container attached, or is equipped with an open cargo area or covered box not readily accessible from the passenger compartment.

Note: If a partner is an eligible farmer for purposes of the farmers' school tax credit, the partner is not required to make their share of the A-17 addition modification.

A-18 New York's 529 college savings program excess distributions — If the partnership made a nonqualified withdrawal from an account established under New York's 529 college savings program, **then** include the amount of the withdrawal on line 9.

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

However, nonqualified withdrawals do not include any withdrawals made in tax year 2005 as a result of the death or disability of the designated beneficiary, regardless of how the funds are used.

Please note: Transfers between accounts of family members not disbursed in cash

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

A-19 Environmental remediation insurance premiums — For tax years beginning on or after April 1, 2005, if a partnership included a deduction for premiums paid for environmental remediation insurance where such premiums were deducted in calculating federal ordinary income, then include the amount on line 9, to the extent the credit was allowed.

Line 10 New York State subtractions

On a separate schedule, identify any of the following subtractions that apply to the partnership by writing the item number (S-1 through S-25) and the amount of each subtraction. Enter the total amount of the subtractions on line 10 in the *Total dollars* column.

S-1 New York depreciation — If you claimed ACRS depreciation on your federal return for:

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

then complete Part 1 of Form IT-399 to figure the New York depreciation to include on line 10.

S-2 Income tax refunds — If the partnership included in its federal ordinary income any refund or credit for overpayment of any income tax (including the New York City unincorporated business tax), **then** include that refund on line 10.

S-3 Interest income on U.S. government bonds — Interest income on bonds or other obligations of the U.S. government is **not** taxed by New York. If the partnership included income from these obligations in its federal ordinary income, **then** include that income on line 10.

S-4 Certain investment income from U.S. government agencies — If the partnership included in its federal ordinary income any interest or dividend income on bonds or securities of any United States authority or commission or instrumentality that is exempt from state income taxes under federal laws, **then** include that income on line 10. If you are uncertain whether a particular federal bond or security is exempt from state income tax, contact the New York State Tax Department (see *Need help?* on page 12).

S-5 Certain investment income exempted by other New York State laws

If the partnership included in its federal ordinary income any interest or dividend income from any obligations or securities authorized to be issued by the laws of New York State, **and if** that income is exempt from state taxation by those laws (such as income received from bonds, mortgages, and income debenture certificates of limited dividend housing corporations organized under the Private Housing Finance Law), **then** include that income on line 10. If you are uncertain whether a particular obligation or security is exempt from state income tax, contact the New York State Tax Department (see *Need help?* on page 12).

S-6 Interest expense on loans used to buy federally tax exempt obligations that are taxable to New York State — If

income from these obligations would have been includable in the partnership's federal ordinary income (not portfolio income) if it was subject to federal tax, **then** interest expense incurred to buy those obligations is deductible by the partners in determining their New York adjusted gross incomes.

If you are including on line 9 interest income from bonds or other obligations that are federally tax exempt but taxable to New York State (see A-3 and A-4 on page 5), **and if** the partnership incurred interest expense on loans used to purchase those obligations that was not deductible for federal purposes, **then** include that expense on line 10.

S-7 Expenses (other than interest expense) connected with federally tax exempt income that is taxable to New York State — If this type of income would have been includable in federal ordinary income if it were subject to federal tax, expenses incurred to acquire or maintain that income are deductible in determining each partner's New York adjusted gross income.

If you are including on line 9 income that is federally tax exempt but taxable to New York State, **and if** you incurred expenses during the tax year to either produce or collect that income or manage, conserve, or protect the assets that produce that income, **and if** those expenses were not deductible for federal purposes, **then** include those expenses on line 10.

S-8 Amortizable bond premiums on bonds the interest on which is federally tax exempt but taxable to New York State

If the income on these bonds would have been includable in federal ordinary income (not portfolio income) if it were subject to federal tax, then the amortizable bond premium on these bonds is deductible in determining each partner's New York adjusted gross income.

If you included on line 9 interest income on bonds that is federally tax exempt but taxable to New York State, **and if** those

bonds were bought for more than their face value (that is, at a premium), **and if** the amortizable bond premium on those bonds for the tax year was not deducted by the partnership for federal tax purposes, **then** include that amortization on line 10.

S-9 Wage and salary expenses allowed as federal credits but not as federal expenses — The federal government

allows certain wage and salary payments to others to be taken as credits against taxes instead of as expenses against income. New York State does not have comparable credits, but does allow the expenses.

If you are entitled to take either an Indian employment credit, a work opportunity credit, or an empowerment zone employment credit for wages and salaries paid during the tax year, **then** include the wage payments not deductible for federal purposes on line 10.

S-10 Sales or dispositions of assets acquired before 1960 with greater state than federal basis — When federally

taxable gains are realized from the sale of certain assets that have higher adjusted basis for state tax purposes, subtraction adjustments must be made to reduce the gain for state tax purposes. State income tax laws prior to 1960 and currently existing state income tax laws about depletion can cause these differences in adjusted basis.

If the partnership is reporting a gain for federal tax purposes that was from **either**:

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

then include on line 10 the **lesser of**:

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

S-11 Income earned before 1960 and previously reported to New York State

Due to a different set of state income tax laws that applied to tax years ending before 1960 (and any fiscal year ending during 1960), income that is reportable for federal purposes this year may have already been reported for New York purposes. This income is not subject to New York tax again.

If the partnership reported any income or gain on its federal return for this tax year (including annuity income) that was properly reported as income on the New York State partnership return of this partnership for a tax year prior to 1960 (or a fiscal year ending in 1960), **then** include this income on line 10.

S-12 Cost depletion — New York State does not allow percentage depletion of natural resource holdings (see A-9 on page 6) but does allow cost depletion.

If you are making addition A-9 for any percentage depletion deducted for federal purposes, **then**:

- compute the cost depletion that would be allowed on that property by IRC section 611, without any reference to either section 613 or 613A of that code; **and**
- include that amount on line 10.

S-13 Special depreciation expenditures

The excess expenditures incurred in tax years beginning before 1987 in connection with depreciable, tangible business property located in New York State may be carried over to the following tax year or years and subtracted from the partner's federal adjusted gross incomes for that year(s) if those expenses exceeded your New York adjusted gross income before the allowance of those expenditures.

If the partnership incurred such expenditures, **then** complete Form IT-211, *Special Depreciation Schedule*, to determine the amount to include on line 10.

S-14 Gain to be subtracted from the sale of a new business investment included in federal income — If the partnership reported a capital gain on its federal income tax return from the sale of a new business investment that was issued to the partnership before 1988 **and** was held by the partnership for at least four years, **then** enter on line 10:

- if the investment was held at least four years but less than five years, 25% of that federal gain; **or**
- if the investment was held at least five years but less than six years, 50% of that federal gain; **or**
- if the investment was held at least six years, 100% of that federal gain.

S-15 Safe harbor leases (see A-11 for a definition of safe harbor leases) — If an amount was included in the partnership's federal income (except for mass transit vehicles) solely because the partnership made the safe harbor election on its federal return for agreements entered into before January 1, 1984, **then** include that amount on line 10.

S-16 Safe harbor leases (see A-11 for a definition of safe harbor leases) — If an amount could have been excluded from the partnership's federal income (except for mass transit vehicles) had the safe harbor election not been made on its federal tax return for agreements entered into before January 1, 1984, **then** include that amount on line 10.

S-17 ACRS; year of disposition adjustment — If the partnership disposed of property during the tax year that was depreciated for federal purposes using ACRS, **and** if ACRS depreciation was not allowed for state purposes (see A-2 on page 5), **then** the partnership must complete Part 2 of Form IT-399 to figure the amount, if any, to be included on line 10.

S-18 Qualified emerging technologies investments (QETI) — The partnership 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 replacement QETI. The gain deferral applies to any QETI sold on or after March 12, 1999, that meets the holding-period criteria. The gain deferred must be added back in the year the replacement QETI is sold.

If the partnership elects to defer the gain from the sale of QETI, **then** include on line 10 the amount of the gain deferral to the extent the gain was 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 partnership return is filed, **then** report the deduction on that return. If purchase of the replacement QETI within the 365-day period occurs in the following tax year and on or after the date the partnership return is filed, **then** the partnership must file an amended return to claim the deduction. In addition, each partner must file an amended personal income tax return to claim his or her share of the deduction.

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

A *qualified emerging technology company* is a company located in New York State that has total annual product sales of 10 million

dollars or less and meets either of the following criteria:

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

S-19 Distributions made to a victim of Nazi persecution — If the partnership included in its federal ordinary income amounts received from an eligible settlement fund or grantor trust as defined by section 13 of the Tax Law, (because it or a predecessor or assignor was persecuted or targeted for persecution by the Nazi regime because of race, religion, ethnicity, sexual orientation, national origin, or physical or mental disability or handicap), or distributions received because of its status as a victim of Nazi persecution, **then** include that amount on line 10.

S-20 Royalty and interest payments made to a related member or members — For tax years beginning on or after January 1, 2003, a partnership may be required to subtract certain royalty payments for the use of intangible property such as trademarks or patents, and interest payments that the partnership received either directly or indirectly during the tax year from a related member or members, to the extent the payments were included in federal ordinary income, and the payments were required to be added back by the related member or members in accordance with A-15.

If the partnership, as a related member, included in federal ordinary income certain royalty or interest payments during the tax year for the use of intangible property, **then** include that amount on line 10. See addition A-15.

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

If the partnership claimed a depreciation deduction for IRC section 168(k) property, (except for resurgence zone property, and New York liberty zone property described in IRC section 1400L(b)(2)) on your federal Form 1065, **then** complete Part 1 of Form IT-398, *New York State Depreciation*

Schedule for IRC Section 168(k) Property, to compute the amount of New York depreciation to include on line 10. Attach Form IT-398 to Form IT-204. See addition A-16.

S-22 Amount of IRC section 168(k) property deduction which is greater than the depreciation claimed for New York State (year of disposition adjustment) — If the partnership disposed of IRC section 168(k) property (except for resurgence zone property, and New York liberty zone property described in IRC section 1400L(b)(2)) placed in service inside or outside New York State on or after June 1, 2003, **and** the total federal depreciation deduction is more than the New York depreciation deduction for that property, **then** the partnership must complete Part 2 of Form IT-398, *New York State Depreciation Schedule for IRC Section 168(k) Property*, to compute the amount of the disposition adjustment to enter on line 10. Attach Form IT-398 to Form IT-204.

S-23 Sport utility vehicle expense deduction recapture — If, in computing federal ordinary income, the partnership is required to recapture certain amounts claimed as an IRC section 179 deduction with respect to an SUV that weighs more than 6000 pounds, and the vehicle was previously subject to the modification A-17, **then** include the amount to be recaptured on line 10. See addition A-17.

A *sport utility vehicle* means any four-wheeled passenger vehicle manufactured primarily for use on public streets, roads, and highways. However, *sport utility vehicle* does not include (1) any ambulance, hearse, or combination ambulance-hearse used by a partnership directly in a trade or business; (2) any vehicle used by a partnership directly in the trade or business of transporting persons or property for compensation or hire; **or** (3) any truck, van, or motor home. A *truck* is defined as any vehicle that has a primary load-carrying device or container attached, or is equipped with an open cargo area or covered box not readily accessible from the passenger compartment.

Note: If a partner is an eligible farmer for purposes of the farmers' school tax credit, the partner is not required to make their share of the S-23 subtraction modification.

S-24 New York's 529 college savings program deduction — If the partnership made contributions as the account owner to one or more 529 college savings program account(s) established under New York's 529 college savings program, **and** the contributions were not deductible or eligible for a credit for federal income tax purposes, **then** include that amount on line 10.

S-25 New York's 529 college savings program distributions — If the partnership made a withdrawal from an account established under New York's 529 college savings program, and part of the withdrawal was included in its federal income, **then** include on line 10 the amount included in federal income.

Lines 11 and 12 — Used **only** for modifications that apply to federal itemized deductions on the individual returns of partners and should exclude any amounts properly reportable on lines 9 and 10. Attach a statement identifying by item number any of the following modifications that relate to partnership items of the partners' federal itemized deductions.

Line 11 Additions to federal itemized deductions

- A** Interest expense on money borrowed to purchase or carry bonds or securities whose interest is subject to New York State income tax but exempt from federal income tax, if this interest expense was not deducted on the federal return or subtracted on line 10.
- B** Ordinary and necessary expenses paid or incurred during the tax year in connection with income, or property held to produce income, that is subject to New York State income tax but exempt from federal income tax, if these expenses were not deducted on the federal return or subtracted on line 10.
- C** Amortization of bond premium attributable to the tax year on any bond whose interest income is subject to New York State income tax but exempt from federal income tax, if this amortization was not deducted on the federal return or subtracted on line 10.

Line 12 Subtractions from federal itemized deductions

- D** State, local, and foreign income taxes (including unincorporated business taxes).
- E** Interest expense on money borrowed to purchase or carry bonds or securities whose interest is exempt from New York State income tax.
- F** Ordinary and necessary expenses paid or incurred in connection with income, or property held to produce income, that is exempt from New York State income tax, but only to the extent deducted in figuring your federal taxable income.
- G** Amortization of bond premium attributable to the tax year on any bond whose interest income is exempt from New York State income tax, but only to the extent deducted in figuring your federal taxable income.

Line 13 — Enter the total amount of interest on indebtedness incurred to purchase or carry obligations or securities when the income from those securities is exempt from New York income tax and interest is included in investment interest expense required to be passed through to partners.

Line 14 — Enter the total amount of New York adjustments to federal tax preference items for resident partners and nonresident partners who are not required to allocate. See the instructions for Form IT-220, *Minimum Income Tax*, for the New York Adjustments to federal tax preference items.

Part 2 — Partners' credit information

Note: Although only the partnership totals for the following items are required to be reported on Form IT-204, the partnership must identify each partner's distributive share of each item. The partners need this information to complete their individual tax returns.

Ways you can identify each partner's share of New York State credits include but are not limited to:

- a separate letter to each partner, **or**
- a notation in the margin or at the bottom of the federal Schedule K-1.

Lines 15 through 47 and line 52 — Enter the total credits, taxes on early dispositions, QEZE decimal factors, and total acreage for purposes of the farmers' school tax credit, computed at the partnership level, on the appropriate lines. The following forms must be attached to Form IT-204 if they apply:

- Forms IT-601, IT-602, IT-603, or IT-605, empire zone (EZ) credits;
- Form IT-606, *Claim for QEZE Credit for Real Property Taxes*;
- Form IT-611, *Claim for Brownfield Redevelopment Credit*;
- Form IT-612, *Claim for Remediated Brownfield Credit for Real Property Taxes*;
- Form IT-613, *Claim for Environmental Remediation Insurance Credit*;
- Form DTF-619, *Claim for QETC Facilities, Operations, and Training Credit*;
- Form DTF-621 or DTF-622, qualified emerging technology company (QETC) credits;
- Form DTF-623, *Claim for Industrial or Manufacturing Business (IMB) Credit*;
- Form DTF-624, *Claim for Low-Income Housing Credit*;
- Form DTF-626, *Recapture of Low-Income Housing Credit*;
- Form DTF-630, *Claim for Green Building Credit*;
- Form IT-212, *Investment Credit*;
- Form IT-248, *Claim for Empire State Film Production Credit*.

- Form IT-249, *Claim for Long-Term Care Insurance Credit*;
- Form IT-250, *Claim for Credit for Purchase of an Automated External Defibrillator*;
- Form IT-251, *Credit for Employment of Persons with Disabilities*;
- Form IT-252, *Investment Tax Credit for the Financial Services Industry*;
- Form IT-253, *Alternative Fuels Credit Carryover and Credit Recapture*;
- Form IT-256, *Claim for Special Additional Mortgage Recording Tax Credit*;
- Form IT-259, *Claim for Fuel Cell Electric Generating Equipment Credit*.

The partners in a partnership may be allowed a credit if the partnership restores a historic barn. The amount of the credit is 25% of the qualifying rehabilitation expenditures paid or incurred to restore a historic barn located in New York State. For more information, see Form IT-212-ATT-I, *Instructions for Form IT-212-ATT, Claim for Historic Barn Rehabilitation Credit and Employment Incentive Credit*.

Partners in a partnership that owns land and buildings located in New York State that are used in agricultural production may be entitled to the farmers' school tax credit for their share of the school district property taxes which the partnership pays on the land and buildings. In addition, if the partner claimed this credit in 2003 or 2004 and the partnership converted part or all of its qualified agricultural property to nonqualified use in 2005, the partners may have to recapture all or part of the 2003 or 2004 credit. For more information, see the instructions for Schedule B, Part 2, and Publication 51, *Questions and Answers on New York State's Farmers' School Tax Credit*.

Line 37 — Enter the employment increase factor computed on Form IT-604, line 13 or line 44.

Line 38 — Enter the zone allocation factor computed on Form IT-604, line 19 or line 50.

Line 39 — Enter the benefit period factor from Form IT-604, page 3, *Benefit period factor table*, or line 56.

Line 48 — If the partnership owned qualified agricultural property during the tax year, enter the total acres of qualified property owned on line 48. Be sure to include the number of acres under buildings or structures that are qualified agricultural property. If the partnership was a partner in another partnership, or a beneficiary of an estate or trust that owned qualified agricultural property, also include the partnership's share of the acres of qualified property owned by the other partnership or estate or trust.

Qualified agricultural property includes land and land improvements located in New York State that are used in agricultural

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

Land used in agricultural production includes land under structures or buildings which are qualified agricultural property, and land in support of a farm operation, such as farm ponds, drainage swamps, wetlands, and access roads. It also includes land set aside or retired under a federal supply management or soil conservation program.

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

A structure or building is **not** qualified agricultural property if it is used for (1) the processing of agricultural commodities, or (2) the retail merchandising of agricultural commodities, or (3) the storage of commodities for the personal use of the partnership or its partners, or (4) the personal residence of any of the partners.

Note: In the case of the production of maple syrup or cider, and the sale of wine from a licensed farm winery as provided in Article 6 of the Alcoholic Beverage Control Law, buildings and structures used to process the sap into syrup, the apples into cider, or the grapes into wine are considered qualified agricultural property even though the property is used in processing.

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

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

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

Do not include on line 48 any acres of property that were converted to nonqualified use during the tax year. **Conversion to nonqualified use** means an outward or affirmative act changing the use of the agricultural property. The idling, nonuse, or sale of the property is not by itself a conversion.

Example 1: You sell 100 acres of land to a developer in tax year 2005. The developer actually builds a housing development on the land during the tax year, and as a result the land is no longer used in agricultural production. This would be considered a conversion to nonqualified use.

Example 2: You discontinue farming during 2005, but continue to hold the farm property for investment purposes. This would **not** constitute a conversion to nonqualified use.

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

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

Line 49 — *Qualified conservation property* is acreage that, during the tax year, is enrolled in or participating in a federal environmental conservation acreage reserve program under Title III of the Federal Agricultural Improvement and Reform Act of 1996.

Line 50 — If the partnership paid eligible taxes on qualified agricultural property during the tax year, enter the total amount paid on line 50. If the partnership was a partner in another partnership or the beneficiary of an estate or trust that paid eligible taxes during the year, also include on line 50 the partnership's share of eligible taxes paid by the other partnership or estate or trust.

Eligible taxes are real property taxes levied by a school district on qualified agricultural property **owned** by the partnership. Real property taxes levied by towns, villages, cities, or their municipal governments are not eligible taxes. Eligible taxes include school district taxes paid on qualified property which the partnership owns but rents to someone else. However, eligible taxes do not include school district taxes paid on qualified agricultural property the partnership rents from someone else, even if the rental agreement provides that the partnership must actually pay the taxes.

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

If the partnership owns both qualified agricultural property and nonqualified agricultural property, and it receives only one school tax bill for all the property, it must apportion the total school taxes paid between the qualified and nonqualified property based upon the values of the property. The local assessor may be able

to tell you the value of your qualified and nonqualified property. If the assessor is unable to provide this information, the partnership may use any other reasonable method, such as basing the value on the recent sale price of similar property in the area, to determine the value. In either case, the partnership should keep records to substantiate the allocation.

Do not include on line 50 school taxes paid on property converted to nonqualified use during the year. (See *Conversion to nonqualified use* on page 10.)

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

If the converted property is sold, the closing documents will show the amount of school taxes reimbursed to the partnership by the buyer. The partnership must reduce its current year's eligible taxes paid by the amount of these reimbursed taxes.

For more information concerning eligible taxes, see Publication 51, *Questions and Answers on New York State's Farmers' School Tax Credit*.

Line 51 — If the partnership owned qualified agricultural property during tax year 2004, and all or part of that property was converted to nonqualified use during tax year 2005, enter the number of acres of qualified agricultural property converted to nonqualified use. For the definition of *conversion to nonqualified use*, see page 10.

Part 3 — Income and deductions allocated to New York

If the income from the partnership is all from New York sources, do not complete Schedule B, Part 3. You must complete Part 3 if the partnership conducts business in and out of New York State and the partnership's allocation percentage to New York State is less than 100%.

Corporate partners — In order to determine their New York State corporation franchise tax liabilities, corporate partners in your partnership will also need to know the New York State rules for their share of your property, receipts, payroll, investment capital assets and investment capital liabilities. Such rules can be found in Form CT-3/4-I, *Instructions for Forms CT-4, CT-3, and CT-3-ATT*.

Enter in this section the total amount of federal partnership income, gain, loss, and deduction that is allocated to New York.

The federal items of income, gain, loss, and deduction as shown on federal Form 1065 or 1065-B, Schedule K are

allocated to New York using the business allocation percentage from line 8, or the separate book method. Do not include in the allocation any items of real property.

You must enter the total amount of each item of income and deduction allocated to New York in the *Allocated New York amounts* column.

The total nonresident partners' New York amounts are computed using the appropriate allocation method as explained in the following section.

Part-year resident partners — If you were a partner and changed your New York resident status during the tax year, you must prorate your distributive share of partnership income according to the number of days in your resident and nonresident periods. The portion prorated to your nonresident period is limited to the percentage of the distributive share of partnership income derived from or connected with New York State sources.

Nonresident partners' allocation — A nonresident member of a partnership must include in the partner's individual New York State income tax return the partner's distributive share, for federal tax purposes, of items of partnership income, gain, loss, deduction, and tax preference items derived from or connected with New York State sources that is (a) from real or tangible personal property having an actual situs in New York State, or (b) from a business, trade, profession, or occupation carried on in New York State.

Enter in Part 3 the total items of partnership income, gain, loss, and deduction determined to be from New York. A partnership carrying on business in and out of New York State that maintains books and records from which the New York income of the business can be determined will enter in Part 3 the total amount of all nonresident partner's distributive shares of partnership items derived from New York State sources as determined from the books of account. However, amounts attributable to real property located in New York are 100% reportable by a nonresident partner and amounts attributable to real property located outside New York are not reportable by a nonresident partner (attach computation). (See *Special statutory limitations on partnership agreements*, below.)

A partnership carrying on business in and out of New York State that does not maintain books and records from which the New York income can be determined will use the business allocation percentage computed in Schedule A, Part 2, line 8, or an authorized alternate method, to determine the total of all nonresident partners' shares of any item that is derived from or connected with New York sources (with the exception of the real property items).

Each partner's share of the amount shown in Part 3, *Income and deductions allocated to New York*, for any item of income or deduction entering into the computation of total federal income must be included in the amount shown in the *New York State amount* column of Form IT-203 and is part of the individual nonresident partner's total income from New York sources.

Partnership deduction items not entering into the computation of federal adjusted income are to be reflected in the *New York State itemized deduction worksheet*, lines a through n of Form IT-203, as if the partner were a resident and would be 100% reportable (providing the New York standard deduction is not claimed).

Special statutory limitations on partnership agreements — Regardless of any provision in the partnership agreement, a nonresident partner is not permitted to treat as non-New York income a greater proportion of the partnership income than the percentage of income of the partnership from non-New York sources. In addition, the partner is not permitted to claim a greater proportion of losses or deductions connected with New York sources than the partner's share of losses or deductions generally.

The characterization in a partnership agreement of payments to nonresident partners as salary, or as interest for the use of capital, does not affect the determination of whether such payments are derived from New York sources.

Nonresident partners must enter on their individual returns the amount for adjusted gross income items only determined from the partnership's books and records or enter the amount multiplied by the business allocation percentage from line 8, or the amount computed using an authorized alternate method.

Show the total of all nonresident partners' specifically allocated items on a separate schedule. Follow the same format used for Part 3.

Line 62 — Is used to report the total itemized deductions. If itemized deductions are reported on line 62, they must be reported at 100%. Attach a detailed schedule of these deductions.

Lines 63 and 64 — Enter the total amount of federal items of tax preference and New York adjustments allocated to New York.

Submit a schedule listing the tax preference items and New York adjustments derived from or connected with New York State sources.

Line 65 — See federal Form 1065 or 1065-B, Schedule K for the amount of investment interest expense to be included on line 65. This item must be reported at 100%.

Instructions for Form IT-204-ATT

Complete Form IT-204-ATT by entering the legal name and employer identification number of the partnership as shown on Form IT-204. In column A, provide each partner's name and address as it appears on federal Schedule K-1. In the second column, B/C, enter the partner's social security number **or** employer identification number, and the ownership percentage in the partnership. Round the percentage to two decimal places. Mark an **X** in the applicable residency status box(es) in column D. Use the partner's physical residence, not mailing address, in determining resident status. Mark an **X** in the box in column E to indicate the entity type of each partner, if any.

If a partnership received or previously received in a prior year Form IT-2658-E, *Certificate of Exemption from Partnership or New York S Corporation Estimated Tax Paid on Behalf of Nonresident Individual Partners or Shareholders*, from a nonresident individual partner, or received or previously received in a prior year Form CT-2658-E, *Certificate of Exemption from Partnership or New York S Corporation Estimated Tax Paid on Behalf of Corporate Partners*, from a corporate partner that is valid for 2005, mark an **X** in the box in column F. If the partner is a resident individual partner, another partnership, or an estate or trust, leave column F blank.

Note: For partners that are a corporation or another partnership, do not complete column D.

Mark an **X** in the appropriate box in column E. The following definitions have been provided to help you determine which box to mark, if any.

A *New York State corporation* is a corporation formed under the laws of New York.

A *foreign corporation* is a corporation formed outside of New York.

A *partnership*, as defined in IRC section 761, includes a syndicate, group, pool, joint venture, or other unincorporated organization through or by means of which any business, financial operation or venture is carried on, and which is not a corporation or an estate or trust.

An *estate* is a legal entity created to wind up the decedent's affairs, pay debts, expenses, and taxes, and ultimately distribute the property and any accumulated income to those persons entitled to receive them.

A *trust* is a legal arrangement whereby one party, the trustee(s), holds legal title to the property for the benefit of another party or parties, the beneficiaries.

A *single-member LLC (SMLLC)* may choose to be taxed as a corporation or to be disregarded as an entity for federal income tax purposes. If the LLC is disregarded and the single member is an individual, the LLC will be treated as a sole proprietorship for New York personal income tax purposes. If the LLC is disregarded and the single member is a corporation, the LLC will be considered part of the corporation for New York corporate franchise tax purposes, and Form IT-204-LL is not required to be filed.

Note: An LLC with more than one member that is a disregarded entity for federal income tax purposes would mark an **X** in the partnership box.

This information must be completed for each partner who was a member of the

partnership at any time during the tax year. However, if you are filing a return specifically because you have a New York resident partner, you need only list the resident partners. See *Specific instructions* beginning on page 3. The number of partners on Form IT-204-ATT may not necessarily agree with the number of partners in the partnership.

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 Records Management and Data Entry, NYS Tax Department, W A Harriman Campus, Albany NY 12227; telephone 1 800 225-5829. From areas outside the United States and outside Canada, call (518) 485-6800.

Need help?



Internet access: www.nystax.gov

Access our Answer Center for answers to frequently asked questions; check your refund status; check your estimated tax account; download forms, publications; get tax updates and other information.



Fax-on-demand forms: Forms are available 24 hours a day, 7 days a week.

1 800 748-3676



Telephone assistance is available from 8:00 A.M. to 5:00 P.M. (eastern time), Monday through Friday.

Refund status: 1 800 443-3200
(Automated service for refund status is available 24 hours a day, 7 days a week.)

To order forms and publications: 1 800 462-8100

Personal Income Tax Information Center: 1 800 225-5829

From areas outside the U.S. and outside Canada: (518) 485-6800



Hotline for the hearing and speech impaired: If you have access to a telecommunications device for the deaf (TDD), contact us at 1 800 634-2110. If you do not own a TDD, check with independent living centers or community action programs to find out where machines are available for public use.



Persons with disabilities: In compliance with the Americans with Disabilities Act, we will ensure that our lobbies, offices, meeting rooms, and other facilities are accessible to persons with disabilities. If you have questions about special accommodations for persons with disabilities, please call 1 800 225-5829.