NEW YORK STATE 2016

Department of Taxation and Finance

Instructions for Form CT-224

Tax Law – Article 9-A, Section 208.9(c-2) and (c-3)

CT-224-I

General information

This form is only required to be filled out by qualified public utilities and transferees, power producers, and pipeline corporations previously taxable under Article 9. This form allows these taxpayers to make the necessary adjustments to entire net income (ENI) required by Tax Law section 208.9(c-2) and 208.9(c-3). In this form, references to ENI include combined ENI when the taxpayer is a member of a combined return. Each corporation in the combined group that is required to make the adjustments to ENI required by Tax Law section 208.9(c-2) and 208.9(c-3) must complete a separate Form CT-224.

Qualified public utility corporations: Complete Schedule A to adjust ENI to reflect modifications for depreciation, federal gain or loss on transition property, and for regulatory assets according to Tax Law section 208.9(c-2).

Transferees (whether or not qualified public utilities) of transition property from a qualified public utility in a tax-free transaction: Complete only lines 8, 9, and 11 to adjust ENI to reflect modifications to federal gain or loss subsequently recognized on the transition property, according to Tax Law section 208.9(c-2)(6)(B)(iv).

Qualified power producers and qualified pipeline corporations: Complete Schedule B to adjust ENI to reflect modifications for depreciation on transition property according to Tax Law section 208.9(c-3).

Definitions

A *qualified public utility* is a taxpayer that:

- was subject to ratemaking supervision by the New York State Department of Public Service on December 31, 1999; **and**
- was subject to tax under Tax Law, Article 9, section 186 for the tax year ending on December 31, 1999.

A *qualified power producer* is a taxpayer that:

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

A *qualified pipeline* is a taxpayer that:

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

Note: A public utility, power producer, or pipeline corporation that does not meet the above definitions is not required to make the 208.9(c-2) and (c-3) adjustments.

Transition property is property placed in service by a qualified public utility, qualified power producer, or qualified pipeline before January 1, 2000, for which a depreciation deduction is allowed under IRC section 167. Property is transition property only for the taxpayer that owns it on January 1, 2000, and is not transition property in the hands of a subsequent transferee. (However, see the instructions for Schedule A, lines 8 and 9 for a basis adjustment that may inure from transition property.)

Book basis of transition property is the cost of the property minus the accumulated depreciation on the property determined on the taxpayer's books and records in accordance with generally accepted accounting practices (GAAP).

New York basis of transition property is the cost of the property minus the aggregate of the New York depreciation deductions allowed on the property under Tax Law Article 9-A. This aggregate is the sum of all amounts reported in previous years as New York depreciation deductions for transition property.

Line instructions

Schedule A – Adjustments for qualified public utilities and transferees

Complete this schedule if you are a qualified public utility. Use lines 1 through 11 to compute the adjustments for ENI.

Transferees: If you are not a qualified public utility but you are a transferee of transition property from a qualified public utility, use only lines 8, 9, and 11 to compute the adjustments for ENI.

Other additions

Line 1 – Enter the amount deducted on your federal return for depreciation of transition property (see *Definitions)*. See line 5 instructions to compute the New York depreciation deduction.

Line 2 – If transition property is sold or otherwise disposed of at a loss for federal income tax purposes, you must recalculate the amount of the loss for New York using book basis in place of federal tax basis for the property. Enter on this line the amount of loss deducted on your federal return and see line 6 instructions to recalculate the loss for New York.

Line 3 – If transition property of a nuclear electric generating facility is sold or otherwise disposed of at a gain for federal income tax purposes, you must recalculate the amount of the gain for New York using New York basis in place of federal tax basis for the property. However, this recalculation can only reduce the federal gain to zero; it cannot produce a New York loss. Enter on this line the New York gain on transition property calculated using New York basis. If recalculation of the federal gain using New York basis yields a loss, the New York gain is zero. See line 7 instructions to subtract the federal gain.

Line 4 – Form CT-3 filers: Include this amount on Form CT-225, *New York State Modifications*, Schedule A.

Form CT-3-A filers: The designated agent of a combined group includes this amount on Form CT-225-A, *New York State Modifications (for filers of combined franchise tax returns)*, Schedule A. All other members of a combined group include this amount on Form CT-225-A/B, *Group Member's Detail Spreadsheet - Attachment to Form CT-225-A, New York State Modification (for filers of combined franchise tax returns)*, Schedule A.

Other subtractions

Line 5 – In place of the federal depreciation deduction entered on line 1, enter the amount of depreciation expense on transition property shown on your books and records for the tax year and determined in accordance with GAAP.

In the case of a financing arrangement where for federal purposes the qualified public utility is treated as the owner of the transition property and allowed a depreciation deduction for federal income tax purposes but not allowed a depreciation deduction for GAAP purposes, you should compute the New York depreciation deduction in accordance with GAAP as if the transition property was depreciated on your books and records.

Line 6 – In place of the federal loss entered on line 2, compute the New York loss on the sale or other disposition of transition property by using book basis instead of federal tax basis.

Line 7 – Enter the amount of gain included on your federal return from the sale or other disposition of transition property. See line 3 instructions to recalculate the gain for New York.

Lines 8 and 9

Transition property basis adjustment carryover

If transition property is disposed of in a nonrecognition transaction (original disposition), such as a tax-free reorganization or a trade-in for replacement property, a basis adjustment on the transition property carries over to the transferee of the property, or to the replacement property, to reduce the gain or increase the loss in a subsequent recognition transaction involving the property that was former transition property or the replacement property.

Line 8 – If the former transition or replacement property of a nuclear electric generating facility is sold at a gain for federal income tax purposes, the gain is reduced, but not below zero, by the New York basis differential. The *New York basis differential* is the amount by which the New York basis of the property exceeds its federal tax basis on the date of **original disposition**. Enter here the New York basis differential of property that was former transition property or the replacement property sold at a federal gain this year, but not more than the amount of differential necessary to bring the federal gain to zero.

Line 9 – If the former transition or the replacement property is sold at a loss for federal income tax purposes, the loss is increased by the amount of the book basis differential. The *book basis differential* is the amount by which the book basis of the property exceeds its federal income tax basis on the date of **original disposition***.* Enter here the book basis differential of the former transition property or the replacement property sold at a federal loss this year.

Line 10 – Enter the amounts recognized as expenses on your books and records for the tax year that were recognized as expenses for federal income tax purposes in a tax year ending on or before December 31, 1999, if:

a) such amounts represent expenditures that, when made, were charged to a deferred debit account or similar asset account on your books and records;
b) the recognition of expense on your books and records is matched by revenue stemming from a procedure or adjustment allowing the recovery of such expenditures; and
c) such revenue is recognized for federal income tax purposes in the tax year.

Line 11 – Form CT-3 filers: Include this amount on Form CT-225, Schedule B.

Form CT-3-A filers: The designated agent of a combined group includes this amount on Form CT-225-A, Schedule B. All other members of a combined group include this amount on their Form CT-225-A/B, Schedule B.

Schedule B – Adjustments for qualified power producers and qualified pipeline corporations

Complete this part if you are a qualified power producer or a qualified pipeline corporation and you claim a depreciation deduction on transition property for federal income tax purposes. Use lines 12 and 13 to compute the adjustments to ENI.

Other additions

Line 12 – Enter the amount deducted on your federal return for depreciation of transition property (see *Definitions)*.

Other subtractions

Line 13 – In place of the federal depreciation deduction entered on line 12, compute a New York depreciation deduction by treating all of your transition property as a single asset placed in service on the first day of the federal tax year that ends in 2000. The *New York State basis for depreciation* is the net book value of your transition property on the first day of the federal tax year that ends in 2000 (or on the later date in 1999 that the property is placed in service). To compute the New York deduction, use net book value, the straight-line depreciation method, a 20-year life, and a salvage value of zero.

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

For qualified pipeline corporations, *net book value* is the cost of your transition property minus the accumulated depreciation shown on your books and records, and determined in accordance with the regulatory reports filed with the Federal Energy Regulatory Commission or the New York State Department of Public Service.

Need help? and Privacy notification

See Form CT-1, *Supplement to Corporation Tax Instructions*.