NEW YORK STATE 2016

Department of Taxation and Finance

Instructions for Form CT-47
Claim for Farmers' School Tax Credit

CT-47-I

General information

A corporation engaged in the business of farming may be entitled to a corporation franchise tax credit for the school district property taxes paid on qualified agricultural property. In addition, if a partnership (including a limited liability company (LLC) treated as a partnership) is engaged in the business of farming or owns qualified agricultural property, a corporation that is a partner of the partnership may be entitled to the credit. If the credit exceeds the taxpayer's tax for the year, the excess credit may be carried over to following years or, at the taxpayer's option, may be refunded, without interest, or credited as an overpayment to the next tax period. For more information see Publication 51, *Questions and Answers on New York State's Farmers' School Tax Credit,* and Publication 51.1, *Update to Publication 51.*

Note: References to a *partnership* and *partner* in these instructions include an LLC that is treated as a partnership for federal income tax purposes and a corporate member of such an LLC.

Corporate partners: When computing this credit, include the corporate partners' pro rata shares of the partnership's qualified agricultural property and eligible taxes, as well as any other relevant information used to compute the credit.

New York S corporations: Do **not** complete this form. Instead, include on Form CT-34-SH, *New York S Corporation Shareholders' Information Schedule,* the shareholders' amounts of the following: eligible taxes paid; total acres of qualified agricultural property; total acres of qualified agricultural property converted to nonqualified use; and the total acres of qualified conservation property.

Election to deem income

For New York C corporations subject to tax under Tax Law Article 9-A, the federal gross income from farming shall be zero for any tax year in which the shareholders have in place a valid election to deem the income of the corporation to the shareholders. In those circumstances, the corporation is not eligible to claim the credit and should not complete or file this form. However, for the corporation's tax year ending with or within the shareholder's tax year, the corporation must provide to the shareholders their pro rata shares of the following:

- the corporation's entire net income (ENI) (the amount that would be entered on Worksheet A, line 1 of these instructions, if the corporation was required to complete Form CT-47);
- the corporation's principal payments on farm indebtedness (the amount that would be entered on Worksheet A, line 2 of these instructions, if the corporation was required to complete Form CT-47);
- the corporation's federal gross income (the amount that would be entered on Worksheet B, line 5 of these instructions, if the corporation was required to complete Form CT-47); and
- the corporation's gross income from farming (the amount that would be entered on Worksheet B, line 11 of these instructions, if the corporation was required to complete Form CT-47).

To determine the pro rata share of any item of income or principal payments with respect to a shareholder, assign an equal portion of the item to each day of the tax year, then divide that portion pro rata among the shares outstanding that day.

When an S corporation is the shareholder of the C corporation and a valid election to deem income to the shareholder is in place, then the C corporation must provide the same information to the S corporation as it provided to every other shareholder (see bulleted items above). The S corporation must then provide to its shareholders their pro rata shares of those items.

When a C corporation is the shareholder of the C corporation, the shareholder C corporation cannot use the pro rata amounts to determine eligibility for the credit.

For information concerning the election, see Form CT-47.1 *Election or Termination of Election to Deem Income for Purposes of the Farmers' School Tax Credit.*

Definitions of farming

You are *engaged in the business of farming* if you cultivate, operate, or manage a farm for gain or profit, even though the operation may not produce a profit every year. You are also engaged in the business of farming if you are a partner in a partnership (including a member of an LLC that is treated as a partnership for federal income tax purposes) that operates or manages a farm for gain or profit.

You are also engaged in the business of farming if you rent your farm property to another person who uses the property in agricultural production and the rental arrangement meets one of the following conditions:

A. The amount of the rental is a crop share (shared rental agreement). That is, the amount of rent is based upon the actual production of the land, whether paid to you in cash or in kind; **or**

B. You have an arrangement with your tenant for your participation in the farm business and you meet **one** of the following four tests:

   1. You do **any** three of the following: (1) pay or stand good for at least half of the direct costs of producing the crop; (2) furnish at least half of the tools, equipment, and livestock used in producing the crop; (3) consult with your tenant; **and** (4) inspect the production activities periodically.
   2. You regularly and frequently make, or take an important part in making, management decisions substantially contributing to or affecting the success of the enterprise.
   3. Your employees work 100 hours or more, spread over a period of 5 weeks or more, in activities connected with crop production.
   4. You do things that, considered in their total effect, show that you are materially and significantly involved in the production of farm commodities.

Farming includes the operation or management of livestock, dairy, poultry, fish, fruit, fur-bearing animal, and vegetable (commonly referred to as truck) farms. Farming also includes the operation or management of plantations, ranches, ranges, and orchards. For example, *farming* includes, but is not limited to, the raising or production of the following commodities:

- field crops, including corn, wheat, oats, rye, barley, hay, potatoes, and dry beans;
- fruits, including apples, peaches, grapes, cherries, and berries;
- vegetables, whether raised conventionally or hydroponically, including tomatoes, snap beans, cabbage, carrots, beets, and onions;
- horticultural specialties, including nursery stock, ornamental shrubs, and ornamental trees and flowers;
- livestock and livestock products, including cattle, sheep, hogs, goats, horses, poultry, farmed deer, farmed buffalo, ostrich and emus, fur-bearing animals, milk, and eggs;
- aquaculture products, including fish, fish products, water plants, and shellfish (provided the aquaculture products are grown and raised as opposed to merely being harvested or caught);
- honey and beeswax produced from your own bees;
- maple syrup or cider; **and**
- Christmas trees derived from a managed Christmas tree operation whether dug for transplanting or cut from the stump.

Farming also includes the sale of wine from a licensed farm winery, as provided in Alcoholic Beverage Control Law Article 6, a commercial horse boarding operation as defined in Agriculture and Markets Law, section 301, or the sale of cider from a licensed farm cidery, as provided in Alcoholic Beverage Control Law section 58-c.

You are **not** engaged in the business of farming if your principal source of income is from providing agricultural services, such as soil preparation, veterinary services, or farm labor. In addition, you are not engaged in farming if you manage or operate a farm for a fee. Furthermore, if you are cultivating or operating a farm for recreation or leisure (for example, a hobby farm), you are not engaged in the business of farming. Also, forestry and logging are not farming unless the products are used in the operation of a farm or are connected with an otherwise qualifying farm operating as described above.

Line instructions

Complete Part 1 of Form CT-47 to determine if you are eligible to claim the farmers' school tax credit. Complete Part 2 to compute your credit.

Part 1 – Eligibility

Use this part to determine if you are eligible to claim the farmers' school tax credit.

Item A – If you owned qualified agricultural property during the tax year beginning in 2016, or were a partner in a partnership that owned qualified agricultural property during the tax year beginning in 2016, mark an ***X*** in the *Yes* box.

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 that are located on the qualifying property that are used or occupied to carry out agricultural production. Structures or buildings used as residential property by any of the executive officers of the corporation are not considered qualifying agricultural property for the purposes of the credit. Qualified agricultural property also includes land set aside or retired under a federal supply management or soil conservation program or land that at the time it becomes subject to a conservation easement met the other requirements for qualified agricultural property. Qualified agricultural property purchased under a land sales contract is considered owned by the buyer if (1) the buyer is obligated under the land sales contract to pay the school district property taxes on the purchased property, and (2) the buyer is entitled to deduct those taxes as a tax expense for federal income tax purposes. Accordingly, the buyer, if an eligible farmer, is entitled to claim the credit (subject to the credit limitation based on income). A *land sales contract,* commonly referred to as an *installment land contract,* is an agreement to transfer land ownership in exchange for a series of principal and interest payments. The seller does not transfer formal title to the property to the buyer until all or a certain number of payments are made. In addition to an *installment land contract,* a land sales contract may also be referred to as *contract for deed, bond for deed, conditional sale of real estate, contract for sale of land,* and *land contract.* A *lease with an option to purchase* type arrangement is **not** a land sales contract.

Agricultural production means those activities discussed under *Definitions of farming*.

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.

A structure or building qualifies if it is used (1) in the raising and production for sale of agricultural or horticultural 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 or horticultural 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 personal consumption, or (4) a residence.

Note: Any buildings and structures used to process maple sap into syrup, apples into cider, or 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 fruits and vegetables is not considered processing.

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

Item B – If, during the tax year beginning in 2016, you paid eligible school district property taxes on qualified property or you were a partner in a partnership that paid eligible school district property taxes on qualified property, mark an ***X*** in the *Yes* box.

Eligible school district taxes are real property taxes levied by a school district on qualified agricultural property **owned** by you. Qualified agricultural property purchased under a land sales contract is considered owned by the farmer if the farmer is obligated under the contract to pay the school district property taxes and is entitled to deduct those taxes as a tax expense for federal income tax purposes.

Real property taxes levied by towns, villages, cities, or other municipal governments are not eligible taxes. Eligible taxes include taxes paid on qualified agricultural property which you own but rent to someone else. However, eligible taxes do not include taxes paid on qualified agricultural property you rent from someone else, even if the rental agreement provides that you 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 you were a partner in a partnership that owned qualified agricultural property during the tax year beginning in 2016, eligible taxes include your pro rata or distributive share of the taxes paid by the partnership for the year.

If you own both qualified agricultural property and nonqualified property, and you receive only one school tax bill for all the property, you must apportion the total school taxes paid between the qualified and nonqualified property based upon the value of the properties. Your local assessor may be able to tell you the value of your qualified and nonqualified property. If your assessor is unable to provide this information, you may use any other reasonable method, such as basing the value on the recent sale price of similar property in your area, to determine the value. In either case, you should keep records to substantiate how you allocated the taxes.

Item C – Complete Worksheet A. In order for you to qualify for this credit, the amount shown on Worksheet A, line 3, must be less than $300,000.

Worksheet A (for Part 1, Item C)

1	Enter your ENI from Form CT-3 or CT-3-A	**1**	
2	Enter the amount of **principal** paid on farm indebtedness during 2016 *(see instructions below)*	**2**	
3	Subtract line 2 from line 1. If result is less than $300,000, mark an ***X*** in the *Yes* box for question C	**3**	

Farm indebtedness is debt incurred or refinanced that is secured by farm property, where the proceeds of the debt are used for expenditures incurred in the business of farming. Debt or that portion of debt that is secured by a residence does not qualify, even if the proceeds of the loan are used for farm expenditures.

Also include on line 2 your pro rata or distributive share of the amount of principal paid on farm indebtedness from a partnership.

Item D – Complete Worksheet B

Do not include any payments from the Farmland Protection Program, which is administered by the New York State Department of Agriculture and Markets, in Worksheet B.

If the percentage shown on line 12 of Worksheet B is at least 0.6667 (66.67%), mark an ***X*** in the *Yes* box in item D and continue with item E.

If the percentage shown on Worksheet B is less than 0.6667 (66.67%), you may meet this eligibility requirement if your average federal gross income from farming for years 2014, 2015, and 2016 is at least 0.6667 (66.67%) of your 2016 excess federal gross income. To determine this average, complete Worksheet C.

(continued)

Worksheet B (for Part 1, Item D) Keep for your records.

1	Add the amounts on federal Form 1120, lines 3 through 7, and 10 *(see instructions)*	**1**	
2	Add the gain (not loss) amounts on federal Schedule D (Form 1120), column (h), lines 1a through 5, 8a, 8b, 9, 10, 12, 13, and 14 *(see instructions)*	**2**	
3	Add the gain (not loss) amounts on federal Form 4797, column (g), lines 2 through 6, 10, and 13 through 16. However, when Form 4797 is not filed, but you have amounts reported on federal Form 4684, line 31 or line 38a, include the total gain amount (without netting losses) from those lines. *(see instructions)*	**3**	
4	Enter the code B and C amounts shown in box 14 of federal Schedule K-1 (Form 1065) (minus any partnership items included on lines 1 through 3)	**4**	
5	Add lines 1 through 4. This is your federal gross income	**5**	
6	Subtract $30,000 from line 5. This is your excess federal gross income	**6**	
7	Gross profit from farming included on federal Form 1120, line 3 *(see instructions)*	**7**	
8	Gross rents from certain rentals of farm property included on federal Form 1120, line 6 *(see instructions)*	**8**	
9	Add the amounts on federal Form 4797, column (g), that represent gains from the sale of livestock used for draft, breeding, sport, or dairy purposes *(see instructions)*	**9**	
10	Enter the code B amount shown in box 14 of federal Schedule K-1 (Form 1065) *(see instructions)*	**10**	
11	Add lines 7 through 10. This is your gross income from farming	**11**	
12	Divide line 11 by line 6, and round the result to four decimal places	**12**	

Instructions for Worksheet B

Line 1 – If federal Form 1120, line 10, includes both income and loss items, include only the income amounts on line 1. In addition, do not include on line 1 any partnership income included on federal Form 1120, line 10.

Line 2 – Include on line 2 only gains used in figuring the amounts reported in column (h) of Schedule D. You cannot net loss transactions against gain transactions.

Line 3 – Include on line 3 only gains used in figuring the amounts entered in column (g) for Form 4797 or on Form 4684, line 31 or line 38a. You cannot net loss transactions against gain transactions.

Line 7 – If the corporation has both farm and non-farm income, include in line 7 only the gross profit attributable to farming activities (see *Definitions of farming*). In this situation, it may be helpful if the corporation completes a pro forma federal Schedule F (Form 1040), to determine its gross profit (income) from farming.

Line 8 – Include only gross rents from the rental of farm property, and only if the rental arrangement meets one of the two conditions listed under *Definitions of farming.*

Line 9 – Include on line 9 only gains (not losses) reported on Form 4797 that represent gains from the sale of livestock used for draft, breeding, sport or dairy purposes. Do not include any other gains reported on Form 4797 (such as gains from the sale of farm machinery) even though these gains may be related to your farming business.

Line 10 – Do not include gross income from fishing included on federal Schedule K-1 (Form 1065), box 14, code B.

Worksheet C (for Part 1, Item D)

1	Enter the amount from line 6 of your 2016 Worksheet B			**1**	
2	Enter the amount from line 11 of your 2016 Worksheet B	**2**			
3	Enter the amount from line 11 of your 2015 Worksheet B	**3**			
4	Enter the amount from line 11 of your 2014 Worksheet B	**4**			
5	Add lines 2, 3, and 4. Divide this sum by three			**5**	
6	Divide line 5 by line 1 and round the result to four decimal places			**6**	

Instructions for Worksheet C

Lines 3 and 4 – If you did not have any farm income in 2015 or 2014, enter ***0*** on line 3 or line 4.

If you did not keep your Worksheet B from 2014 or 2015, copy the Worksheet B from the 2016 instructions and use it to prepare Worksheet B for the prior years. Label each worksheet and attach it to Form CT-47.

Line 6 – If the result on line 6 of Worksheet C is at least 0.6667 (66.67%), mark an ***X*** in the *Yes* box in Item D and continue with Item E.

Item E – If you and one or more related persons each owned qualified agricultural property on March 1, 2016, mark an ***X*** in the box on Item E. Also, be sure to read the instruction for Part 2, line 4.

A *related person* includes:

- another corporation subject to the corporation franchise tax (Article 9-A) where both corporations are members of the same controlled group as defined under Internal Revenue Code (IRC) section 267(f);
- an individual, estate, or trust that owns more than 50% of the corporation's stock;
- another corporation subject to tax under the Article 9-A franchise tax, if the same person owns more than 50% of the value of the outstanding stock of each corporation; and
- an estate or trust of which the corporation owns, directly or indirectly, more than 50% of the capital, profits, or beneficial interest.

Example: *Corporation A and Corporation B each own qualified agricultural property on March 1, 2016. The same individual owns 100% of the stock of both corporations. Corporations A and B are related persons.*

Item F – You cannot claim the farmers' school tax credit for qualified agricultural property that is converted to nonqualified use during the tax year. If only part of your qualified agricultural property is converted to nonqualified use during the tax year, you can claim credit for the part of the property that is not converted.

In addition, you may be subject to the recapture provision (see *Part 3 – Credit recapture*).

Conversion to nonqualified use is an outward or affirmative act changing the use of agricultural land. The idling, nonuse, or sale of the land is not by itself a conversion.

Example 1: *You sell 100 acres of land to a developer in 2016. The developer actually builds a housing development on the land during 2016 and, as a result, the land is no longer used in agricultural production. This is a conversion to nonqualified use.*

Example 2: *You discontinue farming during 2016, but continue to hold the farm property for investment purposes. This is not a conversion to nonqualified use. However, the farmer cannot claim a credit in years after the year farming operations discontinue because the land is no longer used for agricultural production. However, if the individual qualifies as an eligible farmer in the last year of operation, the individual may claim the credit for that last year.*

Example 3: *You sell qualified agricultural property to another person who continues to use the property in agricultural production. This is not a conversion to nonqualified use. You may claim the credit for your share of the taxes paid in the year of sale if you continue to qualify as an eligible farmer for that year.*

Part 2 – Computation of credit

Line 1 – Enter the total acres of qualified agricultural property owned by you during 2016. Be sure to include the number of acres under buildings or structures that are qualified agricultural property.

If you marked an ***X*** in the box at item F, do not include the acres of property converted to nonqualified use.

Line 4 – If you did not mark an ***X*** in box E in Part 1, enter the amount from Worksheet D, line 3. If you did mark an ***X*** in box E in Part 1, you must allocate your total base acres among yourself and the other related parties. The total base acres must be divided equally between the parties unless you all agree to a different division. If you all agree, you may divide the total base acres in any manner you wish. If you elect an unequal division, you must attach a statement to Form CT-47, setting forth the following information:

- the name, address, and taxpayer identification number of the related person(s); **and**
- the amount of total base acreage allocated to you and the related person(s).

The statement must be signed by you, and by the related person(s) or by any person who is duly authorized to act on behalf of the related person(s).

Worksheet D (for Part 2, line 4)

1	Enter the initial base acreage (qualifying property, up to 350 acres, used in agricultural production)	**1**	
2	Enter the acres of qualified conservation property you owned in 2016 *(see instructions below)*	**2**	
3	Total base acreage *(add line 1 and line 2)*	**3**	

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

Also include on line 2 your pro rata or distributive share of qualified conservation property from a partnership.

Lines 9 and 10 – If you marked an ***X*** in the box at item F, do not include the school taxes paid during the year on property that was converted to nonqualified use.

If you continue to own the property after the conversion to nonqualified use, and the converted property is included as part of your total tax bill, you may allocate the total 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 you by the buyer. When determining the credit, you must reduce your current year's eligible taxes by the amount of these reimbursed taxes.

Line 9 – Enter the eligible school taxes paid by you in 2016. **Attach copies of your paid school district property taxes.**

Line 10 – Enter your pro rata or distributive share of the eligible school taxes paid by your partnership in 2016. If you are a partner in more than one partnership, enter the total of all your shares.

Line 21 – Subtract line 20 from line 19. Enter the resulting value; show any negative amount with a minus (-) sign. If the result is a negative amount, you have a net recaptured credit. Enter this negative amount, using a minus sign, in the appropriate box of the summary of tax credits claimed section of your franchise tax return.

Line 22 – Enter the amount from Form CT-3, Part 2, line 2, or Form CT-3-A, Part 2, line 2, **plus** any net recapture of other tax credits.

Line 23 – If you are claiming more than one tax credit for this year, enter the amount of credits claimed before applying this credit. Otherwise, enter *0*. Tax credits must be applied in a certain order. Refer to Form CT-600-I, *Instructions for Form CT-600,* for the order of credits. If filing as a member of a combined group, include any amount of tax credit(s), including farmers' school tax credit(s) being claimed by other members of the combined group, that you want to apply before your farmers' school tax credit.

Line 27 – Enter the lesser of line 26 or line 21. Transfer this amount to the appropriate box of the summary of tax credits claimed section of your Form CT-3, *General Business Corporation Franchise Tax Return*, or Form CT-3-A, *General Business Corporation Combined Franchise Tax Return*.

Line 30 – Enter the amount from line 29 you want refunded. Transfer this amount to your franchise tax return.

Line 31 – Enter the amount from line 29 you want to have credited as an overpayment to the next tax year. Transfer this amount to your franchise tax return. The total of lines 30 and 31 may not exceed the amount on line 29.

Part 3 – Credit recapture

If all of your qualified property is converted to nonqualified use (see *Item F* instructions) before the end of the second tax year following the year in which you first claimed a credit, the entire credit you claimed on the converted property in the two previous years must be added back in the year of conversion. If only a portion of the qualified agricultural property is converted to nonqualified use, you must add back a proportionate share of the credit claimed. If any of the acres from a partnership included on line 2 are converted to nonqualified use, the credit claimed must be recaptured.

Example 1: *A farmer first claims the credit for tax year 2015. On August 1, 2016, all of the farmer's qualified agricultural property is converted to nonqualified use. In this instance, no credit will be allowed for 2016, and the entire amount of the credit claimed for 2015 must be added back in 2016.*

Example 2: *A farmer first claims the credit for tax year 2013. On June 1, 2016, the entire property is converted to nonqualified use. In this instance, no credit is allowed for the year 2016. However, since the conversion takes place after the end of the second year (2015) following the year in which the credit was first claimed (2013), the farmer is not required to add back the credit claimed in 2013, 2014, or 2015.*

Example 3: *A farmer first claims the credit for tax year 2015. The credit is based on 500 acres of qualified agricultural property owned by the farmer. On September 1, 2016, 100 acres of that property is converted to nonqualified use. In this instance, a credit will be allowed for 2016 based on the 400 acres of qualified agricultural property not converted to nonqualified use, and one-fifth (100/500) of the credit claimed in 2015 must be added back in 2016.*

Need help? and Privacy notification

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