NEW YORK STATE | Department of Taxation and Finance

Important

Article 32 of the Tax Law was repealed, effective for tax years beginning on or after January 1, 2015, by Part A of Chapter 59 of the Laws of 2014. As a result, this TSB-M is obsolete and cannot be relied upon for tax years on or after that date insofar as the TSB-M addresses matters relating to Article 32.

For additional information concerning the Article 32 repeal, see Transitional Filing Provisions for Taxpayers Affected By Corporate Tax Reform Legislation.

This TSB-M begins on page 2 below.

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New York State Department of Taxation and Finance
Taxpayer Services Division
Technical Services Bureau

TSB-M-78 (21)C
Corporation Tax
Instructions and Interpretations Section
September 12, 1978

Subject: Savings Banks and Savings and Loan Associations with reference to the computation of the alternative minimum tax.

The following question has been raised concerning Article 32 (Franchise Tax on Banking Corporation) of the Tax Law.

Question:

What is the proper method of computing the alternative minimum tax on savings banks and savings and loan associations set forth in section 1455(b)(2) of the Tax Law?

Answer:

Section 1455(b)(2) of the Tax Law provides that one of the alternative minimum taxes for a Savings Bank and Savings and Loan Association is:

> "...two percent of the interest or dividends credited by it to depositors or shareholders during the taxable year, provided that, in determining such amount, each interest or dividend credit to a depositor or shareholder shall be deemed to be the interest or dividend actually credited or the interest or dividend which would have been credited if it had been computed and credited at the rate of three and one-half percent per annum, whichever is less."

If the simple annual (stated) rate of interest is 3½% per year or less, then the alternative minimum tax is 2% of the amount of interest or dividends actually credited to the account during the taxable year. For example, if an account has a simple annual rate of interest of 3½% per year which is compounded daily using a 365/360 dividend factor and is credited to the account quarterly, the alternative minimum tax is 2% of the amount actually credited to the account during the year even though the effective yield of the account is more than 3½% per year.

If the simple annual rate of interest is greater than 3½% per year, then the alternative minimum tax is computed as follows:

1. Accounts are grouped as to type, that is, all accounts which have the same simple annual rate of interest (e.g. 5¼% per annum), the same dividend factor (360/360, 365/365, 365/360), the same method of compounding (e.g. daily), the same basis of compounding (e.g. day of deposit to day of withdrawal), and the same frequency of crediting interest to the account (e.g. monthly) are grouped together.

2. Ascertain the amount of interest which would have been credited to that type of account for each period for which interest is credited as if the simple annual rate of interest had been 3½% per year.. That is, the same method that is used in determining what amount of interest is to be credited to an account for the simple annual rate of interest shall be used when applying the 3½% rate of interest. For purposes of computing the amount of interest which would have been credited in the case of daily compounding, it is permissible to use the average daily balance for the period for which interest is credited rather than the actual daily balance for each day in such period. For example, it is permissible to use the daily balance for the period January 1 to March 31 if interest is credited to that type of account quarterly.

For purposes of computing the average daily balance, interest earned for the period is not included in the daily balance of any day included in that period even though a depositor had a right to withdraw such interest on the last day of that period. However, such interest is included for those days it is left on deposit after it is credited when computing the average daily balance of the next period.

See examples.

Example 1:

Taxpayer A, a Savings Bank, has only one type of liability account. The balance for all depositors in this type of account at the beginning of the year was $10,000.00. The terms of the account, as published, are: 5% Interest Rate, Compounding Daily, Day of Deposit to Day of Withdrawal Basis, Credited Quarterly, 365/360 Dividend Factor, No Dividend if Account has Zero Balance at the End of the Quarter. The activity in the accounts was as follows:

1)	February 15	-	$100.00 deposits
2)	March 31	-	127.68 interest credits
3)	June 10	-	200.00 deposits
4)	June 30	-	130.51 interest credits
5)	August 31	-	l00.00 Withdrawals
6)	September 30	-	135.21 interest credits
7)	October 15	-	200.00 deposits
8)	December 31	-	138.23 interest credits

Total interest subject to the alternative tax is computed as follows:

Column #1	Column #2	Column #3	Column #4
Average Daily Balance in Credit Period*	Number of Days in Credit Period	Col.#1 x Co1.#2 x3½%	Col.#3 ÷360
10,050.00	90	31,657.50	87.94
10,273.83	91	32,722.15	90.89
10,524.49	92	33,888.86	94.14
10,762.9'7	92	34,656.76	96.27
	Total Interest Credited as if at 3½%		$369.24

*See Appendix A for Computation

Example 2:

Taxpayer B, also a Savings Bank, has another Type of account with the following published terms: 5% Interest Rate, Semiannual Compounding and Crediting with 10 Free Days Monthly and Forfeiture on Dollar Declines. The total beginning balance for all depositors in this type of account was $1,000.00. The total activity in all the depositors' accounts of this type during the year was as follows:

1)	January 9	-	$100.00 deposits
2)	February 9	-	200.00 deposits
3)	March 28	-	250.00 withdrawals
4)	April 9	-	500.00 deposits
5)	May 9	-	400.00 deposits
6)	June 28	-	800.00 withdrawals
7)	June 30	-	27.51 interest credits
8)	July 9	-	300.00 deposits
9)	August 9	-	300.00 deposits
10)	September 28	-	550.00 withdrawals
11)	October 9	-	600.00 deposits
12)	November 9	-	500.00 deposits
13)	December 28	-	550.00 withdrawals
14)	December 31	-	37.56 interest credits

Total interest subject to the alternative tax is computed as follows:

Column #!	Column #2	Column #3
Average Daily Balance in Credit Period*	Applicable Interest Rate for Credit Period 3½% ÷ 2	Applicable Interest for Credit Period Col. #1 x Col. #2
1100.28	.0175	19.25
1502.51	.0175	26.29
	Total Interest Credited as if at 3½%	45.54

*See Appendix B for Computation

Example3:

Taxpayer C has the same type of account as Taxpayer B in Example 2, except that Compounding and Crediting is done on a Quarterly, rather than Semiannual, basis. The beginning balance and all deposits and withdrawals are the same as in Example 2. Interest credits during the year are as follows:

1)	March 31	-	$13.13
2)	June 30	-	14.54
3)	September 30	-	15.35
4)	December 31	-	22.41

Total interest subject to the alternative tax is computed accordingly:

Column #1	Column #2	Column #3
Average Daily Balance in Credit Period	Applicable Interest Rate for Credit Period 3½% ÷ 4	Applicable Interest for Credit Period Col. #1 x Col. #2
1050.00	.00875	9.19
1163.13	.00875	10.18
1227.67	.00875	10.74
1793.02	.00875	15.69
	Total Interest Credited as if at 3½%	45.80

Example 4:

Taxpayer D, a Savings and Loan Association, has an Income Certificate Time Deposit type account. The published terms of the account are: 8% Interest Rate, Compounding Daily, Payable Monthly, 365/365 Dividend Factor. The beginning balance of all depositors in this type of account was $1000.00. The only activity in this type account was interest credits as follows:

1)	January 31	-	$6.81
2)	February 28	-	6.20
3)	March 31	-	6.90
4)	April 30	-	6.73
5)	May 31	-	6.99
6)	June 30	-	6.82
7)	July 31	-	7.09
8)	August 31	-	7.14
9)	September 30	-	6.95
10)	October 31	-	7.24
11)	November 30	-	7.04
12)	December 31	-	7.34

Total interest subject to the alternative tax is computed as follows:

Column #1 Average Daily Balance in Credit Period	Column #2 Number of Days in Credit Period	Column #3 Col. #1 x Col. #2 x 3½%	Column #4 Col. #3 ÷ 365
1000.00	31	1085.00	2.97
1006.81	28	986.67	2.70
1013.01	31	1099.12	3.01
1019.91	30	1070.91	2.93
1026.64	31	1113.90	3.05
1033.63	30	1085.31	2.97
1040.45	31	1128.89	3.09
1047.54	31	1136.58	3.11
1054.68	30	1107.41	3.03
1061.63	31	1151.87	3.16
1068.87	30	1122.31	3.07
1075.91	31	1167.36	3.20
		Total Interest Credited as if at 3½%	36.29

Example 5:

Taxpayer E, also a Savings and Loan Association, has the same type of account as Taxpayer D in Example 4 except that interest is Payable Quarterly rather than Monthly. Again the beginning balance in E's account was $1000.00 and the only activity was interest credits as follows:

1)	March 31	-	$19.91
2)	June 30	-	20.54
3)	September 30	-	21.18
4)	December 31	-	21.62

Total interest subject to the alternative tax is computed as follows:

Column #1 Average Daily Balance in Audit Period	Column #2 Applicable Interest Rate for Credit Period 3½% ÷ 4	Column #3 Applicable Interest for Credit Period Col. #1 x Col. #2
1000.00	.00875	8.75
1019.91	.00875	8.92
1040.45	.00875	9.10
1061.63	.00875	9.29
	Total Interest Credited as if at 3½%	36.06

Example 6:

Taxpayer F, another Savings and Loan Association, has the sane type of account as Taxpayer D in Example 4 except that Taxpayer F uses a 365/360 Dividend Factor. The beginning balance of all depositors in this type of account was $1000.00. The only activity in this type account was interest credits as follows:

1)	January 31	-	$6.91
2)	February 28	-	6.28
3)	March 31	-	7.01
4)	April 30	-	6.82
5)	May 31	-	7.10
6)	June 30	-	6.91
7)	July 31	-	7.20
8)	August 31	-	7.24
9)	September 30	-	7.06
10)	October 31	-	7.34
11)	November 30	-	7.16
12)	December 31	-	7.44

Total interest subject to the alternative tax is computed as follows:

Column #1	Column #2	Column #3	Column #4
Average Daily Balance in Credit Period	Number of Days in Credit Period	Col. #1 x Col. #2 x 3½%	Col. #3 ÷ 360
1000.00	31	1085.00	3.01
1006.91	28	986.77	2.74
1013.19	31	1099.31	3.05
1020.20	30	1071.21	2.98
1027.02	31	1114.32	3.10
1034.12	30	1085.83	3.02
1041.03	31	1129.52	3.14
1048.23	31	1137.11	3.16
1055.47	30	1108.24	3.08
1062.53	31	1152.85	3.20
1069.87	30	1123.36	3.12
1077.03	31	1168.58	3.25
		Total Interest Credited as if at 3½%	36.85

APPENDIX A

Average Daily Balance

The average daily balance of the account mentioned in Example #1 is computed as follows:

	Column #1	Column #2	Column #3	Column #4
	Period	Number of Days in Period	Principal Balance	Col. #2 x Col. #3
1st Quarter	Jan. 1 - Feb. 14	45	10,000.00	450,000.00
	Feb. 15 - Mar. 31	45	10,100.00	454,500.00
		90		904,500.00
				÷ 90
	Average daily deposit in period			10,050.00
2nd Quarter	April 1 - June 9	70	10,227.68	715,937.60
	June 10 - June 30	21	10,427.68	218,981.28
		91		934,918.88
				÷ 91
	Average daily deposit in period			10,273.83
3rd Quarter	Jul. 1 - Aug. 30	61	10,558.19	644,049.59
	Aug. 31 - Sept. 30	31	10,458.19	324,203.89
		92		968,253.48
				÷ 92
	Average daily deposit in period			10,524.49
4th Quarter	Oct. 1 - Oct. 14	14	10,593.40	148,307.60
	Oct. 15 - Dec. 31	78	10,793.40	841,885.20
		92		990,192.80
				÷ 92
	Average daily deposit in period			10,762.97

APPENDIX B

Average Daily Balance

The average daily balance of the account mentioned in Example #2 is computed as follows:

	Column #1 Period	Column #2 Number of Days in Period	Column #3 Principal Balance	Column #4 Col. #2 x Col. #3
1st Semiannual Period	Jan. 1 - Mar. 31	90	1,050.00	94,500.00
	Apr. 1 - June 30	91	1,150.00	104,650.00
		181	=======	199,150.00
		===		÷ 181
				1,100.28
2nd Semiannual Period	Jul. 1 - Sept. 30	92	1,227.51	112,930.92
	Oct. 1- Dec. 31	92	1,777.51	163,530.92
		184	======	276,461.84
		===		÷ 184
				1,502.51