1988

New York State Department of Taxation and Finance

Instructions for Form IT-204 Partnership Return

IT-204-I

Changes for 1988

- The Tax Reform and Reduction Act of 1987 has substantially changed the method nonresidents use to figure their 1988 tax. Nonresidents first figure a base tax as if they were New York State residents, including income, gains, losses and deductions from all sources. Then the nonresident multiplies the base tax by a fraction whose numerator is income from New York State sources and whose denominator is federal adjusted gross income. The nonresident partners include only their distributive share of any partnership income, gain, loss and deduction entering into their federal adjusted gross income derived from or connected with New York sources in the numerator.
- The modifications in Schedule B, Part II are reportable at 100%. As a result, Part II for each partner has been changed from two columns to one column.
- The New York adjustments to federal tax preference items has been deleted from line 8, Part II of Schedule B, and inserted as line 24b in Part IV of Schedule B.

  Itemized deductions are reportable at 100% by the nonresident partner in Schedule B, Part IV.

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 1988 or other fiscal year beginning in 1988. 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.

Penalty

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 or (2) files a return that fails to show all the information required, 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 5 months) 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 those partners who are subject to tax under Article 22 (relating to the New York State personal income tax).

City of New York 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, 25 Elm Place, 3rd Floor, Brooklyn, NY 11201.

City of Yonkers Nonresident Partner Allocation

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

Who Must File

Partnerships are not subject to personal income tax. But every partnership (1) having a partner who is a resident of New York State or (2) having any income from New York State sources must file a return on Form IT-204 regardless of the amount of its income.

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 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.

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 where its affairs are systematically and regularly carried on, or (2) it performs a series of acts or transactions 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 Part IV of Schedule B to show the allocation to New York State of the nonresident partner's share of income and deductions.

When to File

Returns for calendar year 1988 are due April 17, 1989. 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 taxable year, resulting in an accounting period of less than 12 months for federal income tax purposes, the return is due the 15th day of the fourth month after the end of the accounting period.

If you need more time to file a partnership return, file Form IT-370, *Application for Automatic Extension of Time to File*, by the due date of the partnership return. Federal Forms 2758 and 4868 are not acceptable substitutes.

Use the same accounting period and method for Form IT-204 as you use for federal income tax purposes. If you change your partnership's tax year or accounting method for your federal return, do the same on your *New York State Partnership Return*.

Where to File

Mail your return to:

NYS Income Tax
W. A. Harriman Campus
Albany, NY 12227-0125

Forms and Assistance

You can get **forms and publications** at many banks and public libraries. You can also get forms by calling toll free (from New York State only) 1 800 462-8100. From areas outside New York State, call (518) 436-1073.

For **information** or answers to your New York State tax questions, call toll free (from New York State only) 1 800 CALL TAX (1 800 225-5829). From areas outside New York State, call (518) 438-8581. Telephone assistance is available from 8 a.m. to 5 p.m., Monday through Friday.

If you want to write instead of calling, address your letter to **NYS Tax Department, Taxpayer Assistance Bureau, W. A. Harriman Campus, Albany, NY 12227**

Amended Return or Federal Change

An amended New York State partnership return is required to be filed if an amended federal partnership return is filed, or if federal audit of the partnership return changes any item of income, deduction or tax preference item previously reported to the Internal Revenue Service. The amended New York State return must be filed within 90 days of the date the federal amended partnership return is filed or, in the case of a federal audit, within 90 days after the final determination of the change.

An amended New York State partnership return must also be filed, to correct any error on the original New York State partnership return, whether or not an amended federal partnership return was filed for that year.

To amend your original Form IT-204, get a blank Form IT-204 for the tax year that is to be amended and write "Amended" at the top. Complete the form entering the corrected information.

Privacy Notification

The authority to request this information, including identifying numbers (social security numbers, etc.), is found in Sections 651, 652, 658, 697, 1306, 1332 and 1342, Articles 22, 30, 30-A and 30-B in general of the Tax Law;, Article 2-E of the General City Law, and Part 152 of the Personal Income Tax Regulations. The principal purpose for which the information is collected is to assist the Department of Taxation and Finance in determining New York State personal income tax liabilities under Article 22 of the Tax Law, New York City personal income tax liabilities under Article 30 of the Tax Law and Article 2-E of the General City Law, and City of Yonkers income tax surcharge on residents and earnings tax on nonresidents under Articles 30-A and 30-B of the Tax Law. The authority to maintain this information is found in section 697(e) of the Tax Law and Section 152.8 of the Personal Income Tax Regulations.

The information will be used for tax administration purposes and as necessary under Tax Law Sections 171-a, 171-b, 171-c, 171-d, 171-e and 697 and for any other purpose authorized by law, and when the taxpayer gives written authorization to this department for another department, person, agency or entity to have access, limited or otherwise, to information contained in its return.

Failure to provide the requested information may result in civil or criminal penalties, or both under sections 685, 1312, 1332, 1342 and Article 37 of the Tax Law.

This information will be maintained by the Director, Data Management Services Bureau, Processing and Revenue Management Division, Department of Taxation and Finance, W. A. Harriman Campus, Building 8, Room 905, Albany, New York 12227-0125, telephone (from New York State only) 1 800 CALL TAX (1 800 225-5829), from areas outside New York State call (518) 438-8581.

Specific Instructions

Attach federal Form 1065, Schedule K-1 and all supporting attachments to Form IT-204.

However if the partnership conducts business entirely outside of New York State, copies of federal Schedule K-1 are required for all resident

partners only. Attach a statement to your return indicating that:

1. There is no income derived from New York sources by the partnership;
2. All other partners of the partnership are nonresidents of New York State;
3. There are a total of _____ nonresident partners;
4. If at any time in the course of an audit, it is deemed necessary to have copies of Schedule K-1 for nonresident partners such information will be available for submission.

All information on Form IT-204 should be for the calendar year January 1 through December 31, 1988 or for the fiscal year of the partnership. If filing for a fiscal year, enter the month and day the tax year began, and the month, day and year that it ended at the top of page 1.

Name and Address Box

Enter in the spaces at the top of the return the exact legal name, trade name, if any, and address of the partnership. The legal name is the name in which the business owns property or acquires debt. Enter the trade name or d/b/a (doing-business-as) name if different from legal name. Also enter its employer identification number, principal business activity and date the business was started. Answer questions A through F.

If you checked the "Yes" boxes for both questions A and B, see *Real Property Transfer Gains Tax* below. For question E, enter the number of partners in the partnership during any part of the partnership's taxable year who were also subject to the New York State personal income tax (under Article 22 of the Tax Law) during any part of that tax year.

If you have any other New York tax accounts, check the appropriate boxes on lines 1 and 2 of question F and enter the identification number(s).

Real Property Transfer Gains Tax

Section 1449-a. of Article 31-B of the Tax Law requires every partnership with an interest in real property located in New York State to keep a record of and report annually every transfer of a "controlling interest" in such partnership.

A "controlling interest" is 50 percent or more of the capital, profits or beneficial interest in such partnership.

If you checked the "Yes" boxes for both questions A and B, attach a statement giving complete details including:

1. name, address and identifying number of partner(s) (transferee) who acquired the controlling interest;
2. name, address and identifying number of partner(s) (transferor) who transferred an interest;
3. date of acquisition by the transferee, and
4. amount of consideration paid by the transferee to acquire the controlling interest.

Schedule A

Complete Part I 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 (i.e., branch office, agency, factory, etc.), and state whether it is rented or owned by the partnership.

Complete Part II 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.

Even though Part II may not fairly and equitably reflect the income from New York, and an authorized alternate allocation method is used, Part II must still be completed. 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.

Line 1a/Real property owned

Enter in column 1 the average value of all real property owned by the business. Enter in column 2 the average value of real property located within New York State.

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

Line 1b/Real property rented from others

The value of real property rented to the business and to be included in line 1b generally is eight times the gross rent payable during the taxable 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 lieu 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 which 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 1c/Tangible personal property owned

Enter in column 1 the average value (determined in accordance with the instruction for line 1a) of all tangible personal property owned by the business. Enter in column 2 the average value of tangible personal property located within New York State.

Line 2/Wages, salaries and other personal service compensation paid during the year

The amounts to be entered on line 2 include wages, etc., paid only to **employees** of the partnership. Do not include payments to independent contractors, independent sales agents, etc. Enter on line 2 in column 1 the total of such pay to employees during the taxable year for partnership operations carried on both in and out of New York State. Enter on line 2 in column 2 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, Part II, line 5, you subtracted an amount based on wages not allowed because of the federal targeted jobs credit, this change should be reflected here in wages and salaries paid during the year.

Line 3/Gross sales of merchandise, or charges for services, during the year

The amount to be entered on line 3 in column 1 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 3 in column 2 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 3 in column 2.

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. The preparer required to sign the partnership return must sign it by hand; signature stamps or labels are not acceptable. If someone prepares the return and does not charge you, the paid preparer's area should not be filled in.

Paid tax return preparers should get Publication 50, *Information for Paid Preparers of New York Income Tax Returns,* for more details.

Schedule B

Complete Part I, Part II, and Part III for all partners who were members of the partnership during any part of the taxable year. However, **where the partnership does no business in New York State, Part II need not be completed for nonresidents.**

You must complete Part IV for each nonresident partner where 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 percent. The nonresident partners' New York amounts are computed using the appropriate allocation method as explained below.

Nonresident partners' allocation

A nonresident member of a partnership is required to 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 carried on in New York State.

Enter in Part IV the items of partnership income, gain, loss and deduction to be reflected in the partner's individual New York return. 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 IV the nonresident partner's distributive share 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 the next page.)

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 at line 5, Part II of Schedule A, or an authorized alternate method, to determine the portion of the nonresident partner's share of any item that is derived from or connected with New York sources (with the exception of the real property items).

The amount shown under the nonresident partner's name (Part IV) for any item of income or deduction entering into the computation of total federal income is to be included in the amount shown in the appropriate column(s) of Form IT-203 and thus becomes part of the partner's total income from New York sources.

Partnership deduction items not entering into the computation of federal adjusted income are to be reflected on Form IT-203, page 2, lines 33 through 47 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 return 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 Schedule B or the amount computed using an authorized alternate method.

Show the nonresident partners' share of specially allocated items on a separate schedule. Follow the same format that is used for Part IV.

Part II - Partners' shares of 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.

Use lines 1 through 5 to list **only** those changes that apply to total federal income on the individual returns of partners.

Additions

Line 1/Income and unincorporated business taxes

Enter all income and unincorporated business taxes (including New York City income and unincorporated business taxes) that were deducted in determining each partner's share of federal ordinary income (section 612(b)(3) of the Tax Law).

Line 2/Accelerated cost recovery system (ACRS) deduction

Enter the accelerated cost recovery system (ACRS) deduction from Form IT-399, line 1, column G (Section 612(b)(25) of the Tax Law). Form IT-399 must be attached to Form IT-204. This adjustment must be made for property placed in service during taxable years beginning in 1981, 1982, 1983 and 1984. It also must be made for property placed in service outside New York State in taxable years beginning after December 31, 1984 (including property on which ACRS depreciation was figured in accordance with the Federal Tax Reform Act of 1986), except for property subject to the provisions of Section 280F of the Internal Revenue Code (such as luxury automobiles). In the case of a partnership that is on a fiscal-year basis and is using ACRS to determine the deduction, the amount of the modification for the partners will be their distributive share of the deduction determined as of the end of the partnership year ending within the partner's taxable year. Also, see the instructions for line 4.

Line 3/Other additions

Identify by item number on a separate schedule any of the following additions that apply to each partner's distributive share of partnership income and enter the total of these additions that apply to each partner in the proper column on line 3.

These additions also apply to any amounts reported on the separate schedule of specially allocated items to the extent they are not reflected on lines 6 and 7.

A-1 Interest income on state and local bonds (but not those of New York State or its localities) to the extent not included in the partner's federal adjusted gross income (Section 612(b)(1) of the Tax Law).

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

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

A-4 The amount of special additional mortgage recording tax that was excluded or deducted in figuring the partner's federal adjusted gross income to the extent the credit was taken (section 612(b)(15) of the Tax Law).

A-5 The amount of special additional mortgage recording tax paid when the property for which the tax was paid is sold or disposed of at a gain or loss and the basis of such property was not adjusted for the special additional mortgage recording tax credit (section 612(b)(16) of the Tax Law).

A-6 Any amount that has to be added to the partner's distributive share if the partnership made an election for tax years beginning before 1987 for special depreciation or research and development expenditures, waste treatment facility expenditures, air pollution control equipment expenditures or acid deposition control equipment (section 612(b)(6) of the Tax Law). See subtraction S-12.

A-7 Any amount deducted for percentage depletion on mines, oil and gas wells and other natural deposits (section 612(b)(10) of the Tax Law).

A-8 Amounts required under the Tax Law relating to the distributive or pro rata share of allocated entire net income, or the distributive or pro rata share of loss included on Form IT-204, from an insurance business operating as a member of the New York Insurance Exchange (section 617-a of the Tax Law). Also, see subtraction S-13.

A-9 New Business investment deferral recognition — The amount of capital gain deferred on the sale of a capital asset if the new business investment property is sold (section 612(b)(22) of the Tax Law).

A-10 Safe harbor leases — Any amount that was deducted in figuring the partner's distributive share (except for mass transit vehicles) solely because of an election made under section 168(f)(8) of the Internal Revenue Code, as it was in effect for agreements entered into prior to January 1, 1984 (section 612(b)(23) of the Tax Law).

A-11 Safe harbor leases — Any amount that would have been included in the partner's distributive share (except for mass transit vehicles) had the election under section 168(f)(8) of the Internal Revenue Code, as it was in effect for agreements entered into prior to January 1, 1984, **not** been made (section 612(b)(24) of the Tax Law).

A-12 Accelerated cost recovery property — Year of disposition adjustment — In the year that the partnership disposes of property, the amount by which the total depreciation allowed for New York State purposes is greater than the total federal deductions on that property (including ACRS depreciation figured in accordance with the Federal Tax Reform Act of 1986) (section 612(b)(27) of the Tax Law). Use Form IT-399, *Depreciation,* to figure the adjustment. See subtraction S-17.

A-13 Tax on petroleum businesses — The amount of gross receipts tax imposed on petroleum businesses under Article 13-A of the Tax Law that was deducted in figuring each partner's distributive share of partnership income (section 612(b)(28) of the Tax Law).

Subtractions

Line 4/New York depreciation

Enter the total New York State depreciation from Form IT-399, line 1, column F. This adjustment must be made for property placed in service during taxable years beginning in 1981, 1982, 1983 and 1984. It also must be made for property placed in service outside New York State in taxable years beginning after December 31, 1984, (including property on which ACRS depreciation was figured in accordance with the Federal Tax Reform Act of 1986), except for property subject to the provisions of section 280F of the Internal Revenue Code (such as luxury automobiles). In the case of a partnership that is on a fiscal-year basis and is using ACRS to determine the deduction, the amount of the modification for the partners will be their distributive share of the New York depreciation deduction determined as of the end of the partnership year ending within the partner's taxable year. Also, see the instructions for line 2 (section 612(c)(26) of the Tax Law). Form IT-399 must be attached to Form IT-204.

Line 5/Other subtractions

Identify by item number on a separate schedule any of the following subtractions that apply to each partner's distributive share of partnership income and enter the total of these subtractions that apply to each partner in the proper column on line 5.

These subtractions also apply to any amounts reported on the separate schedule of specially allocated items to the extent they are not reflected on lines 6 and 7.

S-1 Any refund or credit for overpayment of any income tax (including refund of New York City unincorporated business tax) to the extent included in income reported on Form IT-204 (section 612(c)(7) of the Tax Law).

S-2 Interest income on bonds or other obligations of the United States government included as income on Form IT-204. Include on line 5 qualifying dividends received from regulated investment companies (mutual funds) that invest in obligations of the United States government and meet the 50 percent asset requirement. (section 612(c)(1) of the Tax Law).

S-3 Interest or dividend income on bonds or securities of any United States authority, commission or instrumentality included as income on Form IT-204, but exempt from state income taxes under federal laws (section 612(c)(2) of the Tax Law).

S-4 Interest or dividend income included on Form IT-204 on bonds or securities to the extent exempt from New York State income taxes (section 612(c)(6) of the Tax Law).

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

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

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

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

S-9 The portion of gain included on Form IT-204 from the sale or other disposition of property that had a higher 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), that does not exceed such difference in basis. For purposes of Form IT-204, Part II, line 5, all amounts are to be considered at 100%.

S-10 The amount of income or gain included on Form IT-204 that was properly included in income or gain on a prior New York State return of this partnership under Article 16 of the Tax Law (pertaining to personal income taxes) (section 612(c)(5) of the Tax Law).

S-11 Cost depletion figured according to federal tax law on property where percentage depletion (addition A-7) was added in Part II, line 3 (section 612(c)(13) of the Tax Law). Further, in the case of sale or exchange of such property, the excess of the New York basis over the federal basis.

S-12 Special depreciation expenditures, or carryover of research and development expenditures incurred in taxable years beginning before 1987, in connection with depreciable, tangible business property located in New York State (section 612(c)(11) of the Tax Law). For more information, see Form IT-211, *Special Depreciation*, and instructions. Also, see addition A-6.

S-13 Any amount included on Form IT-204 that is the distributive or pro rata share of income or gain from an insurance business operating as a member of the New York Insurance Exchange (section 617-a of the Tax Law). Also, see addition A-8.

S-14 New business investment exclusion — The amount of gain to be subtracted from the sale of a New York new business investment that was included on Form IT-204 (section 612(c)(20) of the Tax Law).

S-15 Safe harbor leases — Any amount that was included in the partner's distributive share (except for mass transit vehicles) solely because of an election made under Section 168(f)(8) of the Internal Revenue Code, as it was in effect for agreements entered into prior to January 1, 1984 (section 612(c)(24) of the Tax Law).

S-16 Safe harbor leases — Any amount that could have been excluded from the partner's distributive share (except for mass transit vehicles) had the election under section 168(f)(8) of the Internal Revenue Code, as it was in effect for agreements entered into prior to January 1, 1984, **not** been made (section 612(c)(25) of the Tax Law).

S-17 Accelerated cost recovery property — year of disposition adjustment — In the year the partnership disposes of property, the amount by which the total federal accelerated cost recovery deductions (including ACRS depreciation figured in accordance with Federal Tax Reform Act of 1986) were greater than the total depreciation the partnership took for New York State purposes on that property (section 612(c)(28) of the Tax Law). Use Form IT-399, *Depreciation*, to figure the adjustment. See addition A-12.

Lines 6 and 7 should be used **only** for changes that apply to federal itemized deductions on the individual returns of partners and should exclude any amounts properly reportable in Part II on lines 1 through 5. Attach a statement identifying by item number any of the following changes that relate to partnership items of the partners' federal itemized deductions.

Line 6/Additions to federal itemized deductions

A Interest expense on money borrowed to buy or carry bonds or securities subject to New York State income tax but exempt from federal income tax, if this interest was not deducted on the federal return or subtracted on Part II, line 5.

B Ordinary and necessary expenses paid or incurred during the taxable year in connection with income, or property held to produce income, that is subject to New York State income tax but exempt from federal income tax, if these expenses were not deducted on the federal return or subtracted on Part II, line 5.

C Amortization of bond premium attributable to the taxable year on any bond whose interest income is subject to New York State income tax but exempt from federal income tax, if this amortization was not deducted on the federal return or subtracted on Part II, line 5.

Line 7/Subtractions from federal itemized deductions

A State, local and foreign income taxes (including unincorporated business taxes).

B Interest expense on money borrowed to buy or carry bonds or securities whose income is exempt from New York State income tax.

C Ordinary and necessary expenses paid or incurred in connection with income or property held to produce income that is exempt from New York State income tax, but only to the extent deducted in figuring your federal taxable income.

D Amortization of bond premium attributable to the taxable 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 8/Additional Information

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

Part III - Partners' shares of credits and taxes on early dispositions

Enter each partner's distributive share of the credits computed at the partnership level. Also, enter each partner's distributive share of taxes on early dispositions on which the partners were allowed distributive shares of the credit. The taxes on early dispositions are to be computed at the partnership level. The following forms must be attached to Form IT-204 if they apply:

Form IT-212, *Investment Credit*

Form DTF-601, 602, or 603, *Economic Development Zone Credits*.

1987 was the last year that the special additional mortgage recording tax credit could be claimed. However, any unused credit from a prior year can be carried over. Include on line 11 the special additional mortgage recording tax credit carryover for 1988. Attach a schedule showing how the credit carryover was figured. See additions A-4 and A-5 on page 3 of these instructions.

Part IV - Nonresident partners' allocation

Lines 14 through 22 and line 26

The nonresident partners' New York amounts of federal items of income, gain, loss and deduction as shown on federal Schedules K-1 are computed using the business allocation percentage from Schedule A, Part II, line 5.

Line 23 is used to report a nonresident partner's distributive shares of charitable contributions and itemized deductions as reported on his individual federal Form 1040. If itemized deductions are reported on line 23, they must be reported at 100%. Attach a detailed schedule of these deductions.

Lines 24a and 24b

A partner with tax preference items shown on line 24a and New York adjustments to federal tax preference items on line 24b may be required to file Form IT-220, *Minimum Income Tax*. See Form IT-220 and instructions.

For each nonresident partner only, submit a schedule listing the tax preference items and New York adjustments derived from or connected with New York State sources that are included in the amounts reported on lines 24a and 24b.

Line 25

See federal Schedule K-1 from the partnership return for the amount of investment interest expense to be included on federal Form 4952.