



Instructions for Form IT-204 Partnership Return

IT-204-I

Highlights for 2001

Automated external defibrillator machine credit

A new credit is available for the purchase of an automated external defibrillator machine. The credit is equal to the cost of the unit, but may not exceed \$500 per unit (there is no limit on the number of units for which the credit may be taken). The credit may not be carried forward and is not refundable. For more information, see Form IT-250, *Claim for Credit for Purchase of an Automated External Defibrillator*.

Farmers' school tax credit

The base acreage amount used to compute the farmers' school tax credit is increased by acreage enrolled or participating in a federal environmental conservation acreage reserve program pursuant to Title III of the Federal Agricultural Improvement and Reform Act of 1996.

Wage tax credit

The wage tax credit for wages paid in empire zones and zone equivalent areas has been increased. The credit increased to \$3,000 for targeted employees and to \$1,500 for other individuals. In addition, the period in which taxpayers may claim the ZEA wage credit is increased from two to five years.

Residential fuel oil storage tank credit

A new credit is available for the cost of removal and the cost of permanent closure of an unprotected residential fuel oil storage tank, and the purchase and installation costs of a new residential fuel oil storage tank used to provide heating fuel for single- to four-family residences located in New York. For more information, see new Form IT-254, *Claim for Residential Fuel Oil Storage Tank Credit*.

QETC employment and investment credits

QETC employment and investment credits are expanded to remanufacturers of certain commodities that would otherwise enter the solid waste stream.

Two new credits under the Empire Zone (EZ) Program

There is a new credit for real property taxes paid by a qualified empire zone enterprise (QEZE) on property which it owns in an empire zone. There is also a new QEZE tax reduction credit. For more information, see Form IT-604, *Claim for QEZE Credit for Real Property Taxes and QEZE Tax Reduction Credit*.

Green building credit

The new green building credit consists of the sum of six credit components, and in each case is based on the applicable costs paid or incurred. The credit applies to costs paid or incurred on or after June 1, 1999, for property placed in service, or which has received a final certificate of occupancy, in tax years beginning on or after January 1, 2001. For more information, see new Form DTF-630, *Claim for Green Building Credit*.

Low-income housing credit

A new low-income housing credit is now allowed for the construction or rehabilitation of rent-restricted housing in New York State. For more information, see new Form DTF-624, *Claim for Low-Income Housing Credit*.

Form number changes

Selected DTF credit claim forms previously used for both income and corporation tax purposes have been obsolete and replaced with separate income tax and corporation tax forms. The old DTF numbers and the new income tax form numbers are:

- Form DTF-601 is now **Form IT-601**, *Claim for EZ Wage Tax Credit*,
- Form DTF-601.1 is now **Form IT-601.1**, *Claim for ZEA Wage Tax Credit*,
- Form DTF-602 is now **Form IT-602**, *Claim for EZ Capital Tax Credit*,
- Form DTF-603 is now **Form IT-603**, *Claim for EZ Investment Tax Credit and EZ Employment Incentive Credit*,
- Form DTF-605 is now **Form IT-605**, *Claim for EZ Investment Tax Credit and EZ Employment Incentive for the Financial Services Industry*.

General Information

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, *Limited Liability Company/Partnership Filing Fee Payment Form*. For more information regarding LLCs and LLPs, see Form IT-204-LL.

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 LLTCs, see Form IT-204-LL.

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 2001 or other fiscal year beginning in 2001. 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.

Failure of paid preparers to comply with requirements - 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:

- failure to sign the tax return or claim for refund;
- failure to 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);
- failure to 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;
- failure to keep a completed copy of the return prepared for each taxpayer or to keep the name and identification number of each taxpayer for whom a return was prepared on a list and to make the copy or list available for inspection upon request. The period for retaining a completed copy of the return or information on the list is 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.

For each of the requirements listed above, a paid preparer may be subject to a maximum penalty of \$25,000.

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, 4th Floor, Brooklyn, NY 11201.

City of 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, *City of 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 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 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 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 III.

Certain publicly traded partnerships and associations, which previously filed Form IT-204, are treated as a corporation pursuant to Internal Revenue Code (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 2001 are due April 15, 2002. If the partnership's principal business, office, or agency is located in the state of New York (except the city of New York and the counties of Nassau, Rockland, Suffolk, and Westchester), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island or Vermont, the filing deadline is April 16, 2002. 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 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.

Use the same accounting period and method for Form IT-204 as you use for federal Form 1065 or 1065-B. If you change your partnership's tax year or accounting method for your federal return, do the same on your New York State Form IT-204, *Partnership Return*.

Extension of time to file

If you need more time to file a partnership return, file Form IT-370-PF, *Application for Automatic Extension of Time to File for Partnerships and Fiduciaries*, by the due date of the partnership return. Federal Form 8736 is acceptable in lieu of Form IT-370-PF. Federal Forms 2758 and 4868 are not acceptable substitutes.

If you have filed Form IT-370-PF and still need more time, use Form IT-372-PF, *Application for Additional Extension of Time to File for Partnerships and Fiduciaries*, to request up to an additional three months to file. Except in cases of undue hardship, we will not accept Form IT-372-PF if you do not first file Form IT-370-PF.

Where to file

Mail your return to:
STATE PROCESSING CENTER
PO BOX 61000
ALBANY NY 12261-0001

Private delivery services

If you choose, you may use a private delivery service, instead of the U.S. Postal Service, to file your return. However, if, at a later date, you need to establish the date you filed your return, you cannot use the date recorded by a private delivery service unless you used a delivery service that has been designated by the U.S. Secretary of the Treasury or the Commissioner of Taxation and Finance. (Currently designated delivery services are listed in Publication 55, Designated Private Delivery Services. See Need help? below for information on ordering forms and publications.) If you use any private delivery service, whether it is a designated service or not, address your return to: State Processing Center, 431C Broadway, Albany NY 12204-4836.

Need help?



Tax information: 1 800 225-5829
Forms and publications: 1 800 462-8100
Refund status: Access our Web site or call 1 800 443-3200; if electronically filed: 1 800 353-0708; direct deposit refunds: 1 800 321-3213
From outside the U.S. and outside Canada: (518) 485-6800
Fax-on-demand forms: 1 800 748-3676
Hearing and speech impaired (telecommunications device for the deaf (TDD) callers only): 1 800 634-2110



Internet access: www.tax.state.ny.us
Estimated tax: Access our Web site to check your balance and reconcile your account.

Amended return or federal change

An amended New York State partnership return must be filed if an amended federal partnership return is filed, or if a 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. Attach a copy of the federal report of examination changes and a signed statement indicating you concede the federal audit changes. If you do not concede the federal audit changes, attach a signed statement explaining why.

If the partnership fails to file the required amended return or fails to submit the required partner information (showing the identification number of each partner and the portion of the federal change allocable to each), the partnership will be subject to a penalty of \$50 per partner per month or fraction of a month, up to a maximum of five months.

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, and attach an explanation of the changes.

Specific instructions

Attach federal Form 1065 or 1065-B, federal Schedules K-1, and all supporting attachments to Form IT-204, including Form IT-204-ATT. However, if the partnership conducts business **entirely outside** of New York State, and you are filing a return specifically because you have a New York resident partner, you do not have to submit Schedules K-1 for nonresident partners. In addition, you do not have to complete Schedule A. Include in Schedule B the totals for all partners. Include on Form IT-204-ATT only a list of the resident partners. Attach a statement to your return indicating that:

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

If the partnership conducts business entirely within **or** within and without New York State, include on Form IT-204-ATT all resident and nonresident partners.

All information on Form IT-204 should be for the calendar year January 1 through December 31, 2001, or for the fiscal year of the partnership which began in 2001. 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 the front page.

Filing in your tax return

Form IT-204 has been designed to let us use the latest scanning and image-processing equipment. Rectangular boxes have been printed on the form to guide you in making your typewritten or handwritten entries. This will enable our scanning equipment to more accurately read your return and let

us process it more efficiently. Please spend a moment reviewing the method below for making your entries:

- Please print (using a blue or black ballpoint pen; no pencils, please) or type all "X" marks and money amounts in the boxes or spaces provided.
- Do not use dollar signs, commas, decimal points, dashes, or any other punctuation marks or symbols. All necessary punctuation has been printed on the form and amounts are rounded to dollars only.
- Write your numerals like this:

1	2	3	4	5	6	7	8	9	0	X
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- Make your money amount entries in the boxes allowing one numeral for each box.

Example: If your entry for line 1, column A is \$23,750,500, your money field entry should look like this:

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1	.	,	23	,	750	,	500
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- Leave **blank** any entry areas that do not apply to you, and treat these blanks as zeros. Do not enter zero in these areas unless instructed to do so.

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 the legal name. Also enter the business's employer identification 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.

Answer questions A through G. For question F, enter the number of partners in the partnership that are required to be listed on Form IT-204-ATT. See the instructions for Form IT-204-ATT on page 11.

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

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 (for

example, branch office, agency, factory), 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.

Part II 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 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 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 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 carry the result to four decimal places. 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 13, 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. Carry the result to four decimal places 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. Carry the result to four decimal places and enter it as a percentage in column C.

Line 9 Authorization for paid preparer — If you want to authorize the Tax Department to discuss this return with the paid preparer listed at the bottom of your Form IT-204, mark an **X** in the Yes box. If you do not want to authorize the Tax Department to discuss your return with that paid preparer, mark an **X** in the No box.

By marking an **X** in the Yes box (and only the Yes box), you authorize the paid preparer or other employees of a designated tax return preparer firm to receive confidential information from the Tax Department relevant to this return. This does not provide a paid preparer with authority to make any binding commitments on your behalf with the Tax Department.

If you want to designate an individual to represent you or otherwise act on your behalf, such as by executing waivers, consents, or closing agreements, you must file Form POA-1, *Power of Attorney*, making that designation with the Tax Department.

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 paid 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.

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.

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.**

Schedule B

Complete Parts I and II, and include the totals for all partners of the partnership.

You must complete Part III 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 I - 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* 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 10 and 11 to list **only** those modifications to federal adjusted gross income on the individual returns of the partners. Use lines 12 and 13 for those modifications that apply to the partners' federal itemized deductions.

Line 10 New York State additions

On a separate schedule identify any of the following additions that apply to the partnership by writing the item number (A-1 through A-14) and the amount of each addition. Enter the total amount of the additions on line 10 in the *Total* 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 10. 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 10.

Note

The limited liability company / limited liability partnership filing fee is not an income tax and is not added back on line 10.

A-2 Accelerated cost recovery system (ACRS) deduction — New York State does not allow the federal accelerated cost recovery system depreciation deduction (ACRS) for property (except for property classified as IRC section 280F property) placed in service inside or outside New York State during tax years 1981, 1982, 1983, and 1984. You must figure your New York depreciation by using one of the methods provided for in section 167 of the IRC as it was in effect on December 31, 1980 (for example, straight line, declining balance, etc.).

For property (except for property classified as IRC section 280F property) placed in service outside New York State for tax years beginning after 1984 but before 1994, New York did not allow ACRS or MACRS depreciation under section 168 of the IRC. Instead, New York allowed the depreciation deduction that would have been allowed under IRC section 167 as it was in effect on December 31, 1980.

However, as a result of a recent court decision, if you claimed ACRS depreciation on your federal return for property not classified as IRC section 280F property and that property was placed in service outside New York State in tax years beginning after December 31, 1984, but before January 1, 1994 (including property on which ACRS depreciation was figured in accordance with the Federal Tax Reform Act of 1986), you may:

- continue using the **pre-1981** IRC section 167 depreciation on that property, making the applicable depreciation addition and subtraction; or
- choose to switch to the IRC section 168 depreciation deduction.

A taxpayer choosing to switch to the IRC section 168 depreciation deduction is no longer required to make the New York depreciation addition and subtraction adjustments, since you will now be

allowed to claim the same depreciation as was claimed on the federal tax return for property placed in service outside New York State in tax years 1985 through 1993. If you switch to IRC section 168 depreciation, you must use IRC section 168 depreciation from this tax year forward, and must use it for all of your subject property. For more information concerning this property, see TSB-M-99(1)I. This TSB-M is available on the Tax Department Web site at www.tax.state.ny.us.

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;

then include on line 10 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 10.

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 10.

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

- (a) 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 10.
- (b) 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 10.
- (c) 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 10.

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 10 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 10 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 10 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 on mines, oil and gas wells, and other natural deposits, **then** include on line 10 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 10 the amount that had previously been subtracted.

A-11 Deductions attributable to 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 section 168(f)(8) of the IRC as it was in effect for agreements entered into prior to January 1, 1984, **then** include those deductions on line 10. **Also see A-12, S-15, and S-16.**

A-12 Safe harbor leases; election for qualified leased property (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 section 168(f)(8) of the IRC as it was in effect for agreements entered into prior to January 1, 1984, **then** include on line 10 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 Accelerated cost recovery property; 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 II of Form IT-399 to figure the amount, if any, to include on line 10.

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 10 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.

Line 11 New York 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-19) and the amount of each subtraction. Enter the total amount of the subtractions on line 11 in the *Total* column.

S-1 New York depreciation

New York State does not allow the federal ACRS depreciation deduction for property (except for property classified as IRC section 280F property) placed in service inside or outside New York State during tax years 1981, 1982, 1983, and 1984. You must figure your New York depreciation by using one of the methods provided for in section 167 of the IRC as it was in effect on December 31, 1980 (for example, straight line, declining balance, etc.).

For property (except for property classified as IRC section 280F property) placed in service outside New York State for tax years beginning after 1984 but before 1994, New York did not allow ACRS or MACRS depreciation under section 168 of the IRC. Instead, New York allowed the depreciation deduction that would have been allowed under IRC section 167 as it was in effect on December 31, 1980.

However, as a result of a recent court decision, **if** you claimed ACRS depreciation on your federal return for property not classified as IRC section 280F property and that property was placed in service **outside** New York State in tax years beginning after December 31, 1984, but before January 1, 1994 (including property on which ACRS depreciation was figured in accordance with the Federal Tax Reform Act of 1986), **then** you may:

- continue using the **pre-1981** IRC section 167 depreciation on that property, making the applicable depreciation addition and subtraction; **or**
- choose to switch to the IRC section 168 depreciation deduction.

A taxpayer choosing to switch to the IRC section 168 depreciation deduction is no longer required to make the New York depreciation addition and subtraction adjustments, since you will now be allowed to claim the same depreciation as was claimed on the federal tax return for property placed in service outside New York State in tax years 1985 through 1993. If you switch to IRC section 168 depreciation, you must use IRC section 168 depreciation from this tax year forward, and must use it for all of your subject property. For more information concerning this property, see

TSB-M-99(1)I. This TSB-M is available on the Tax Department Web site at www.tax.state.ny.us.

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 167 depreciation;

then complete **Part I of Form IT-399** to figure the New York depreciation to include on line 11.

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 11.

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 11.

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 11. 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 3).

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 11. 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 3).

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 10 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 11.

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 10 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 11.

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 10 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 11.

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 11.

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 11 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 11.

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 section 611 of the IRC without any reference to either section 613 or 613A of that code; and
- include that amount on line 11.

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 11.

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 11:

- 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 Amount that was included in federal income because the IRC 168(f)(8) election was made

(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 11.

S-16 Amount that could have been excluded from federal income had the IRC 168(f)(8) election not been made

(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 11.

S-17 Accelerated cost recovery property; 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 II of Form IT-399 to figure the amount, if any, to be included on line 11.

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 11 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 that is 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 11.

Lines 12 and 13 — 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 10 and 11. Attach a statement identifying by item number any of the following modifications that relate to partnership items of the partner's federal itemized deductions.

Line 12 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 11.
- 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 11.
- 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 11.

Line 13 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 14 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 15 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.

Part II - 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 16 through 39 — Enter the total credits and taxes on early dispositions, 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-601.1, IT-602, IT-603, or IT-605, Empire Zone (EZ) Credits
- Form IT-604, *Claim for QEZE Credit for Real Property Taxes and QEZE Tax Reduction 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-630, *Claim for Green Building Credit*
- Form IT-212, *Investment 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*
- Form IT-254, *Claim for Residential Fuel Oil Storage Tank 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 1999 or 2000 and the partnership converted part or all of its qualified agricultural property to nonqualified use in 2001, the partners may have to recapture all or part of the 1999 or 2000 credit. For more information, see the instructions for Schedule B, Part II, and Publication 51, *Questions and Answers on New York State's Farmers' School Tax 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-1, *Instructions for Form IT-212-ATT, Claim for Historic Barn Rehabilitation Credit and Employment Incentive Credit*.

Line 40 — If the partnership owned qualified agricultural property during the tax year, enter the total acres of qualified property owned on line 40. 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, or 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 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 40 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 2001. 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 2001, 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 41 — *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 42 — If the partnership paid eligible taxes on qualified agricultural property during the tax year, enter the total amount paid on line 42. 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 42 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 42 school taxes paid on property converted to nonqualified use during the year. (See *Conversion to nonqualified use* on page 9.)

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 43 — If the partnership owned qualified agricultural property during tax year 2000, and all or part of that property was converted to nonqualified use during tax year 2001, enter the number of acres of qualified agricultural property converted to nonqualified use. For the definition of conversion to nonqualified use, see page 9.

Part III - 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 III. You must complete Part III 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-3, CT-3-ATT and CT-4*.

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 III 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 III 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 at line 8, Part II of Schedule A, 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 under the *Allocated New York amounts* (Part III) 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 on Form IT-203-ATT, *Income Allocation and Itemized Deduction, Schedule C*, lines 1 through 14 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 Schedule B 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 III.

Line 53 — Is used to report the total itemized deductions. If itemized deductions are reported on line 53, they must be reported at 100%. Attach a detailed schedule of these deductions.

Lines 54 and 55 — 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 56 — See federal Form 1065 or 1065-B, Schedule K for the amount of investment interest expense to be included on line 56. 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. Check the applicable residency status box(es) in column (D). Check the box in column (E) to indicate the entity type of each partner, if any.

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

Check the appropriate box in column E. The following definitions have been provided to help you determine which box to check, 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.

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* on page 3. The number of partners on Form IT-204-ATT may not necessarily agree with the number of partners listed at question F on the front of Form IT-204.

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 the Registration and Data Services Bureau, NYS Tax Department, Building 8, Room 338, W A Harriman Campus, Albany NY 12227; telephone 1 800 225-5829. From areas outside the United States and Canada, call (518) 485-6800.