



Important Notice

May, 2003

Important Information for Partnerships and New York S Corporations Filing Group Personal Income Tax Returns for Nonresident Partners and Shareholders

Partnerships and New York S corporations that file group personal income tax returns on behalf of their electing nonresident partners and shareholders are required to compute the New York State personal income tax due for each partner or shareholder based on the highest effective rate of tax. Recent tax law changes have increased the highest effective rate of tax from 6.85% to 7.7% for tax year 2003. Accordingly, a partnership or New York S corporation that files group estimated tax payments on behalf of its partners or shareholders may need to increase the amount of estimated tax it pays.

In order to avoid the penalty for underpayment of estimated tax, the total amount of estimated tax paid on behalf of each partner or shareholder must be:

- at least 90% (66 ²/₃% for farmers and fishermen) of the amount of income tax due as shown on the partner's or shareholder's return for 2003 (or 90% of the tax due if no return was filed); **or**
- 100% of the tax shown on the partner's or shareholder's return for 2002 (110% of that amount if the partner or shareholder is not a farmer or a fisherman and the New York adjusted gross income shown on that return is more than \$150,000). To qualify for this provision, the partner or shareholder must have filed a return for 2002, and it must have been for a full 12-month year.

Under the new law, in determining whether 100% (or 110%, if applicable) of the tax shown on the 2002 return was paid, the partner's or shareholder's 2002 tax must be recomputed using the 2003 tax rates and rules.

The new law provides that a penalty will not be charged for any shortage in the partner's or shareholder's April 15, 2003, payment that is attributable to the changes discussed in this notice. However, future payments must be adjusted to take into account these changes. To determine the amount of estimated tax that must be paid on behalf of each partner or shareholder by June 15, 2003, September 16, 2003, and January 15, 2004, use revised Form IT-2105-I, *Instructions for Form IT-2105, Estimated Income Tax Payment Voucher for Individuals*, or revised Form IT-2105-I-F, *Instructions for Form IT-2105-I-F, Estimated Income Tax Payment Voucher for Estates and Trusts*.