NYC Finance

NYC DEPARTMENT OF FINANCE

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FINANCE MEMORANDUM

Calculating Income From Investment Capital in the Alternative Tax Base

Background:

This Finance Memorandum explains how to calculate income from investment capital in the general corporation tax alternative tax base. In the alternative tax base for General Corporation Tax, for many years the Department of Finance's forms have contained an incorrect calculation favoring investment income.

That calculation has been corrected to accurately reflect the correct percentage of income from investment capital. This Memorandum provides guidance to taxpayers as to how to correctly calculate the percentage.

Calculation:

- To determine the amount of the alternative tax base, entire net income (ENI) is multiplied by a certain percentage. This percentage has been reduced each year. This means that income from investment capital enters into the income formula at a certain percentage - and not the actual dollar amount.

- Before this correction, once the investment income base was determined, the actual amount of the original investment income was subtracted. This resulted in overstating investment income in the alternative tax base. Business income was effectively converted to investment income.

- The correct calculation determines investment income at the reduced percentage, and then subtracts it out at the same reduced percentage.

- The 2009 3L form will provide for the correct calculation.

- **This change is <u>prospective</u> only, and applies to tax years beginning on or after January 1, 2009. It does not apply to any past tax years, including tax years that may be under audit.**

- The alternative tax worksheet shows the calculation as follows:

  Line 6 multiplies the base representing investment income by 18.75%

  Line 7 then uses 18.75% of the investment income amount shown on line 23b