



STATE OF NEW YORK  
DEPARTMENT OF TAXATION AND FINANCE  
OFFICE OF TAX POLICY ANALYSIS  
W. A. HARRIMAN CAMPUS  
ALBANY, N.Y. 12227

February 2010

## **Corporate Tax Reform**

### **Broad Principles**

#### ***Equity***

In the context of business taxes, the central concern is for horizontal equity, that is, that similarly situated taxpayers receive equivalent tax treatment. This principle is often described in shorthand as providing “a level playing field.”

#### ***Economic Efficiency***

Efficiency in a tax system requires that the distortion of economic behavior and decision making inherent in any tax or subsidy be kept at a minimum. Generally, this dictates that taxes be imposed upon a broad base at the lowest rates possible consistent with revenue needs.

#### ***Simplicity***

Simplicity furthers a variety of the other features of a sound tax system. Simplicity makes compliance and administration easier, helps minimize economic distortion, and promotes both fairness and public perceptions of fairness.

#### ***Ease of Compliance and Administration***

Ease of compliance reduces the filing burdens on taxpayers and improves voluntary compliance. Ease of administration allows both taxpayers and the revenue agency to maximize the efficient use of their resources in carrying out their functions.

#### ***Reliability/Stability***

The tax system should provide sufficient revenue to fund the functions of government in a stable and predictable manner.

#### ***Economic Competitiveness***

The tax system (coupled with the governmental services provided) should provide a favorable foundation for sustained economic growth.

# Corporate Tax Reform

---

## **Specific Components**

### ***Unification of Articles 9-A and 32 [Bill §1]***

- Article 32 would be merged into Article 9-A.

### ***Corporations Subject to Tax [Bill §8]***

- The following corporations would be subject to tax:
  - existing Article 9-A taxpayers; and
  - existing Article 32 taxpayers.
- Jurisdiction to tax would be asserted over corporations without a physical presence in New York where economic nexus is present.
  - The statute would contain a de minimis economic nexus standard based on receipts from customers located in New York.
  - The rule excluding the use by an out-of-state corporation of a fulfillment service located in New York as a factor in determining whether the corporation is subject to tax under Article 9-A would be repealed.

### ***Net Income Base and Rate [Bill §7 unless noted]***

- The entire net income starting point would continue to be federal taxable income with most of the current Article 9-A modifications. Entire net income minus net investment income would result in business income. Allocated business income is the amount that would be subject to tax.
  - For alien corporations with a permanent establishment in the United States, the starting point would also be the taxpayer's federal taxable income, whether computed pursuant to Internal Revenue Code (I.R.C.) §882 (effectively connected income) or pursuant to a tax treaty.
  - For alien corporations without a permanent establishment in the United States, the starting point would be the taxpayer's federal taxable income computed pursuant to I.R.C. §882 (effectively connected income).
  - Modifications that are obsolete would be eliminated.
- The exemption for income from subsidiary capital would be eliminated.
  - As a result, dividends and gains and losses from stock that is currently subsidiary capital would be investment income if the stock meets the definition of investment capital. That is, the stock is held for more than six months and the subsidiary is not unitary. Otherwise, the dividends, and gains and losses would be business income.
  - Interest income and gains and losses from debt that is currently subsidiary capital would be business income.
  - Dividends when mentioned in this outline also include Subpart F income.
- Investment income would include income from stocks held in non-unitary corporations for more than six months.
- Investment income would also include income that cannot be included in apportionable business income under the constitution.

## Corporate Tax Reform

---

- Investment income would include income from partnership interests that meet the following criteria:
  - The partnership is not unitary with the corporate partner;
  - The partnership interest is held for more than six months by the corporate partner;
  - The corporate partner is not a general partner in the partnership or a managing member of a limited liability company that is treated as a partnership for federal purposes;
  - The corporate partner has a distributive share of less than five percent of the partnership's income, gain, loss, deductions, or credit; and
  - The partnership constitutes fifty percent or less of the corporate partner's total assets.
- Only stocks considered equity under the I.R.C. could qualify as investment income.
- The six month holding period for stocks would be measured across tax years.
  - In instances where the holding period is split across tax years, a taxpayer would be allowed to classify income from stock as investment income in the first year if it intends to hold the stock for more than six months. If the stock is not held for more than six months, the dividends and gains and losses from the stock generated in year one and year two would be required to be included in the year two return as business income.
- Investment income would be exempt from tax and actual interest expenses attributable to the income would be disallowed. If actual expense attribution exceeds income, the excess would still be disallowed. In lieu of computing actual interest expenses, taxpayers could elect to instead claim a 60 percent deduction for investment income with no interest expense disallowance.
  - The actual attribution would be based upon the current Article 9-A methodology for investment income.
    - The Department intends to continue discussions with industry to determine if modifications to the current formula are necessary to properly attribute expenses.
  - If taxpayers elect to not perform actual expense attribution, they must use the elected method for all of their exempt income and the election would apply to all members of a combined group.
- Business income would not be defined but would include the following:
  - Interest income and gains and losses from debt instruments would be presumed to be business income unless the income cannot be included in apportionable business income under the constitution.
  - Dividends and gains and losses from stock of a unitary corporation would be business income.
  - Dividends and gains and losses from stock held in a non-unitary corporation for six months or less would be business income.
  - Gains and losses from the sale of a partnership interest would be business income if the partnership interest does not meet the definition of investment capital.
- Dividends from unitary corporations not included in the combined group would be exempt from tax and actual interest expenses attributable to the income would be disallowed. If actual expense attribution exceeds income, the excess would still be disallowed. In lieu of determining actual interest expenses, taxpayers could elect to instead claim a 60 percent deduction for investment income with no interest expense disallowance.

## Corporate Tax Reform

---

- The actual attribution would be based upon the current Article 9-A methodology for investment income.
  - The Department intends to continue discussions with industry to determine if modifications to the current formula are necessary to properly attribute expenses.
- If taxpayers elect to not perform actual expense attribution, they must use the elected method for all of their exempt income and the election would apply to all members of the combined group.
- The election to treat income from cash as business income or investment income would be eliminated.
  - Income from cash would be business income.
- The current approach to partnership items of receipts, income, gain, loss, and deduction that flow through a partnership to a corporate partner (i.e., the current regulations) would be retained for partnership interests that do not meet the definition of investment capital.
- For purposes of the classification of income, corporations less than 20 percent directly or indirectly owned would be presumed to be non-unitary.
  - Only stocks that entitle the holders to vote for the election of directors or trustees would be considered in determining whether a corporation is 20 percent directly or indirectly owned by another corporation.
- There would be a single tax rate for all corporations subject to tax. *[Bill §13]*

### ***Special Provisions***

- Eliminate many special provisions, including: *[Bill §1]*
  - Special Article 32 international banking facilities provisions;
  - The Article 32 deductions for interest income from government obligations and income and net gains from subsidiary capital; and
  - The Article 32 special deductions for bad debts.
    - New York would instead re-couple with the federal bad debt deduction.
    - There would be no re-capture of the New York bad debt reserve.
- In an effort to encourage residential and small business lending in New York, the Department would allow small community banks and thrift institutions to choose either an alternative modification for holding a significant amount of residential mortgages or an alternative modification for holding a significant amount of small business loans. *[Bill §7]*
- Generally, credits would not be addressed as part of corporate tax reform except to clarify how they would work in the case of the combined report. *[Bill §15]*
  - No changes to existing credits would be contemplated with the possible exception of an expansion of the Financial Services Investment Tax Credit to apply to certain investment management activities.
  - Any amounts of credit carry forwards that existed in pre-reform years would continue to be carried forward into post-reform years.
    - The carry forward of the minimum taxable income credit would be eliminated.

## Corporate Tax Reform

---

### *Net Operating Losses (NOLs) [Bill§13 unless noted]*

- NOLs could not be carried back and New York would conform to the federal carryforward period.
- The New York net operating loss deduction (NOLD) would no longer be limited by the federal NOLD source year or amount.
- New York would continue its policy that a NOLD is not allowed for an NOL sustained during any year in which the corporation was not subject to tax in New York.
- A taxpayer's NOLD would be used to reduce the current year's allocated business income. However, a taxpayer would only have to use the NOLD to reduce its allocated business income down to the higher of the tax measured by capital or the fixed dollar minimum.
- A taxpayer's NOLD would be the sum of allocated business losses that were incurred in tax years beginning on or after 2011.
- The current separate return limitation year (SRLY) rules used when corporations enter or leave a combined group would continue. *[Bill§ 16]*
- NOLs that were incurred before the 2011 tax year would be converted into a credit to stabilize their value for financial accounting purposes. *[Bill §15]*
  - The credit would be computed by applying the taxpayer's (or combined group's) 2010 business allocation percentage and tax rate to the 2010 pre-apportionment New York NOL carryforward.
  - The credit could be used only in a year when the taxpayer's tax is measured by business income and could reduce the taxpayer's tax to the higher of the tax measured by capital or the fixed dollar minimum.
    - Most taxpayers could only use 1/15 of the total amount of credit in each year for the next 20 years. However, small business taxpayers would not be limited to the amount of credit allowed in a given year.
    - If taxpayers cannot use the credit in one year they may carry the portion forward into future years and the year the credit cannot be used will count in determining the 20 year period.
  - Where two or more taxpayers and/or groups that existed in tax year 2010 constitute one group in 2011, each taxpayer and/or group would compute its NOL credit for 2010 separately; in 2011, the group's total NOL credit would be the sum of the credits of each of its constituent taxpayers and/or groups.

# Corporate Tax Reform

---

## *Apportionment of Business Income [Bill §14]*

- Business income would be apportioned based on a single receipts factor using customer sourcing rules.
- The new sourcing rules for apportioning business income would distinguish between income from financial instruments that are marked to market under I.R.C. §475, other than loans secured by real property and physical commodities, (“qualifying financial instruments”) and income from financial instruments that are not marked to market under I.R.C. §475, as well as loans secured by real property and physical commodities that are marked to market under I.R.C. §475 (“non-qualifying financial instruments”).
  - For income from qualifying financial instruments, taxpayers would be required to use customer-based sourcing for each income stream that does not constitute exempt income or elect to treat all income from qualifying financial instruments as taxable business income and then apportion eight percent of the net income (dividend income, interest income, and net gains), not less than zero, from qualifying financial instruments to New York.
    - The election to apportion eight percent of the net income from the financial instruments is irrevocable, must be made on an annual basis, and applies to all members of a combined group.
    - The eight percent is based on New York’s approximate contribution to gross domestic product, it would be fixed in statute and not subject to periodic revision.
  - For income from non-qualifying financial instruments, taxpayers would be required to use customer-based sourcing. The election to apportion eight percent of net income to New York would not apply.
  - Appendixes A-1 and A-2 outline the new sourcing rules in more detail.
- Receipts from digital products would generally be sourced to New York if the product is used in the State.
  - These rules were proposed as a part of the 2009-10 Executive Budget (Part CC of S.60/A.160) but were not enacted.
- Receipts from services would generally be sourced to New York if the customer is located in the State.
- Receipts would be sourced based on rules derived from current sourcing rules for:
  - interest, fees, penalties, service charges, merchant discounts, and fees from credit cards;
  - broker/dealer activities, except as described above;
  - services provided to a RIC;
  - sales of tangible personal property;
  - railroad and trucking activity;
  - air freight forwarding activity;
  - rentals of real and tangible personal property;
  - royalties from the use of patents, copyrights, and other intangibles;
  - transportation of gas through pipes;
  - aviation services (other than air freight forwarders); and
  - advertising in newspapers, periodicals, TV, and radio.
    - Receipts from internet advertising would be sourced to New York if the potential customers are located in the State.

# Corporate Tax Reform

---

## *Combined Reporting [Bill §16]*

- The requirements to be combined would be:
  - unitary business test; and
  - more than fifty percent stock ownership test.
    - One corporation directly or indirectly owns another (based on voting power) or corporations are controlled by a common interest or by related parties.
- Cross article combination would continue to be prohibited.
- New York would adopt a full unitary water's-edge method for combined reporting.
  - The substantial intercorporate transactions test would be eliminated.
- The New York combined group must include all domestic corporations, alien corporations deemed domestic corporations under the I.R.C (contiguous, stapled, and inverted corporations), and alien corporations with federal taxable income.
- The group could make a commonly owned group election for a period of seven years.
  - Under the commonly owned group election, the group must include all non-unitary corporations that could be taxed under Article 9-A and are more than 50 percent directly or indirectly owned by any member of the New York unitary combined group.
  - The irrevocable election must be made at the time the original return is filed.
  - In the event that the group makes the commonly owned group election, each corporation in the group is deemed to have agreed to treat the income from the non-unitary businesses as if it were from the group's unitary business and any corporation conducting a non-unitary business that is acquired during that period that could be taxed under Article 9-A would also be included in the combined group for the remainder of the election period.
  - As an administrative convenience, the election would automatically be renewed for another seven years upon the expiration of the original election unless the group affirmatively notifies the Department of its intention not to elect to include non-unitary corporations.
- The unitary business would be treated as if it were a single entity. Each taxpayer member of the combined group would be liable for the group's whole tax, not just its pro rata share of the combined group's tax. The combined group would designate one taxpayer member to be the agent for administrative purposes (e.g., filings, assessments, payments, and waivers).
  - The combined group's whole tax would be the greater of the tax on business income, the tax on business capital, or the fixed dollar minimum tax of the agent, plus the fixed dollar minimum tax for each other taxpayer member of the combined group.
  - Generally, combined net income would be computed using the federal intercorporate deferral rules.
- Credits, NOLs, and capital losses could be used by the unitary business, not just the corporation that incurred the credit, NOL, or capital loss and applied in computing the combined tax.

## Corporate Tax Reform

---

- The current captive REIT/RIC combination requirements would be incorporated without the special exclusion for affiliated groups whose members own assets that do not exceed eight billion dollars in average value.
- The combined reporting requirements for overcapitalized captive insurance companies would be continued.
- Since all corporations would apportion business income using a single receipts factor, all Article 9-A corporations would be eligible to be included in a combined group, including aviation, railroad, and trucking companies.

### *Alternative Tax Bases [Bill §13 unless noted]*

- The current Article 9-A fixed dollar minimum tax for C corporations would be amended for taxpayers with New York receipts over \$50 million. The complete structure would be as follows:

New York Receipts	C Corp Fixed Dollar Minimum
Not more than \$100,000	\$25
\$100,001 - \$250,000	\$75
\$250,001 - \$500,000	\$175
\$500,001 - \$1,000,000	\$500
\$1,000,001 - \$5,000,000	\$1,500
\$5,000,001 - \$25,000,000	\$3,500
\$25,000,001 - \$50,000,000	\$5,000
\$50,000,001 - \$100,000,000	\$10,000
\$100,000,001 - \$250,000,000	\$20,000
\$250,000,001 - \$500,000,000	\$50,000
\$500,000,001 - \$1,000,000,000	\$100,000
Over \$1 billion	\$200,000

- The current Article 9-A capital base would be retained.
  - The tax rate would remain at 0.15 percent.
  - The tax would be capped at ten million dollars for all taxpayers and combined groups.
- The Article 9-A minimum taxable income base, the Article 32 alternative entire net income base, the Article 32 taxable assets base, and the Article 32 fixed dollar minimum tax would be eliminated. *[Bill §§1, 13]*
- The tax liability under the fixed dollar minimum could not be reduced by most credits. *[Bill §15]*

### *MTA Surcharge [Bill §§10, 11, 12]*

- The MTA base and apportionment rules would conform to the State base and apportionment rules as applied to the MTA region while maintaining revenue neutrality for the MTA.

# Corporate Tax Reform

---

## ***Other Business Taxes and Fees***

- The following taxes and fees would be repealed:
  - organization tax and tax on changes of capital under §180 of the Tax Law; *[Bill §2]*
  - license fees on foreign corporations imposed by §181.1 of the Tax Law; and *[Bill §5]*
  - tax on subsidiary capital. *[Bill §13]*
- The annual maintenance fee imposed on foreign corporations would be reduced to \$25. *[Bill §6]*
- To prevent the overcapitalization of insurance corporations under the new regime, the Commissioner would be provided with discretionary powers to make a “deemed distribution” of non-premium income from overcapitalized Article 33 corporations to the affiliated Article 9-A corporations to properly reflect the activities of the unitary business. *[Bill §17]*

## ***Rate Reduction [Bill §13]***

- Base broadening and new sourcing rules would be coupled with a rate reduction to maintain revenue neutrality.
  - The revenue neutral tax rate for this draft would be 6.5 percent. However, substantive changes to the draft might necessitate a change to that rate.

## ***New York State/New York City Conformity***

- Continue to work with New York City to conform the City and State tax structures.

## ***Effective Date [Bill §20]***

- The proposal would be effective for tax years beginning on or after January 1, 2011.
- The Gramm-Leach-Bliley transitional provisions would be continued for taxable years beginning before January 1, 2011 as part of the legislation enacting these provisions. *[This is contained in Part Y of the proposed Executive Budget S.6610-A/A.9710-A]*

## Appendix A-1

### Classification of Income from Qualifying Financial Instruments (QFIs) and the Rules for Allocating Income from QFIs

*Qualifying Financial Instruments* (QFIs) are instruments that are marked to market under Internal Revenue Code §475, other than loans secured by real property and physical commodities.

For income from QFIs, taxpayers must either use customer based sourcing for each income stream that does not constitute exempt income or elect to treat all income from QFIs as taxable business income and then allocate 8% of the net income (interest income, dividend income, and net gains), not less than zero, from QFIs to New York (referred to as the “8% method”). The election is an annual irrevocable election for all income from all QFIs and applies to all members of the combined group.

<b>Income from Stocks of Non-unitary Corporations Not Included in the Combined Group that are Held for More than Six Months</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Dividends (Including Subpart F income )	<i>Customer Sourcing Method:</i> Exempt investment income  <i>8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	<i>Customer Sourcing Method:</i> Since the dividend income would be exempt from taxation, taxpayers would be required to disallow interest expenses directly and indirectly attributable to the income. In lieu of performing an actual interest expense attribution, taxpayers could elect to instead claim a deduction for 60 percent of the dividend income with no interest expense attribution.*
Net gains and net losses	<i>Customer Sourcing Method:</i> Exempt investment income  <i>8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	<i>Customer Sourcing Method:</i> Since the net gains and net losses would be exempt from taxation, taxpayers would be required to disallow interest expenses directly and indirectly attributable to the net gains and net losses. In lieu of performing an actual interest expense attribution, taxpayers could elect to instead claim a deduction for 60 percent of the net income with no interest expense attribution.*

\* The election to use the 60 percent deduction method is an annual election that must be made for all exempt income and the election applies to all members of the combined group.

<b>Income from Stocks of Non-unitary Corporations Not Included in the Combined Group that are Held for Six Months or Less</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Dividends (Including Subpart F income)	<i>Customer Sourcing and 8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Allocate 100% of the dividend income to the commercial domicile of the payor.  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing Method:</i> Include 100% of the dividend income.  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Net gains and net losses	<i>Customer Sourcing and 8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Allocate the net gains (not less than zero) by applying a fraction of New York gross proceeds from all QFIs subject to this rule to total gross proceeds from all QFIs subject to this rule. In determining New York gross proceeds, if the transaction is executed through a registered broker-dealer or through a licensed exchange include 8% of the gross proceeds amount as New York gross proceeds.  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing Method:</i> Include 100% of the net gains (not less than zero).  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	

## Appendix A-1

### Classification of Income from Qualifying Financial Instruments (QFIs) and the Rules for Allocating Income from QFIs

*Qualifying Financial Instruments* (QFIs) are instruments that are marked to market under Internal Revenue Code §475, other than loans secured by real property and physical commodities.

For income from QFIs, taxpayers must either use customer based sourcing for each income stream that does not constitute exempt income or elect to treat all income from QFIs as taxable business income and then allocate 8% of the net income (interest income, dividend income, and net gains), not less than zero, from QFIs to New York (referred to as the “8% method”). The election is an annual irrevocable election for all income from all QFIs and applies to all members of the combined group.

<b>Income from Stocks of Unitary Corporations Not Included in the Combined Group, Regardless of How Long the Stocks are Held (Includes income from stocks of unitary corporations: taxable under another Article, less than 50% directly or indirectly owned, and that are alien corporations with no effectively connected income)</b>				
Dividends (Including Subpart F income)	<i>Customer Sourcing Method:</i> Exempt business income  <i>8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	<i>Customer Sourcing Method:</i> Since the dividend income would be exempt from taxation, taxpayers would be required to disallow interest expenses directly and indirectly attributable to the income. In lieu of performing an actual interest expense attribution, taxpayers could elect to instead claim a deduction for 60 percent of the dividend income with no interest expense attribution.*
Net gains and net losses	<i>Customer Sourcing and 8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	<i>Customer Sourcing Method:</i> This would be an extraordinary event so there would be no factor representation. However, a discretionary adjustment may be made if factor representation is needed to accurately reflect the income.

\* The election to use the 60 percent deduction method is an annual election that must be made for all exempt income and the election applies to all members of the combined group.

<b>Income from Stocks of Unitary and Non-unitary Corporations Included in the Combined Group, Regardless of How Long the Stocks are Held</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Dividends (Including Subpart F income)	<i>Customer Sourcing and 8% Method:</i> Eliminated intercorporate	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Not included	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Not included	
Net gains and net losses	<i>Customer Sourcing and 8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Not included	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Not included	This would be an extraordinary event so there would be no factor representation. However, a discretionary adjustment may be made if factor representation is needed to accurately reflect the income.

## Appendix A-1

### Classification of Income from Qualifying Financial Instruments (QFIs) and the Rules for Allocating Income from QFIs

*Qualifying Financial Instruments* (QFIs) are instruments that are marked to market under Internal Revenue Code §475, other than loans secured by real property and physical commodities.

For income from QFIs, taxpayers must either use customer based sourcing for each income stream that does not constitute exempt income or elect to treat all income from QFIs as taxable business income and then allocate 8% of the net income (interest income, dividend income, and net gains), not less than zero, from QFIs to New York (referred to as the “8% method”). The election is an annual irrevocable election for all income from all QFIs and applies to all members of the combined group.

<b>Income from the Sale of Interests in Partnerships that are Treated as Corporations Under the I.R.C.</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Net gains and net losses from the sale of a non-unitary partnership interest that meets the definition of investment capital	<i>Customer Sourcing Method:</i> Exempt investment income  <i>8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	<i>Customer Sourcing Method:</i> Since the net gains and net losses would be exempt from taxation, taxpayers would be required to disallow interest expenses directly and indirectly attributable to the net gains and net losses. In lieu of performing an actual interest expense attribution, taxpayers could elect to instead claim a deduction for 60 percent of the net income with no interest expense attribution.*
Net gains and net losses from the sale of a non-unitary partnership interest that does not meet the definition of investment capital	<i>Customer Sourcing and 8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Allocate the net gains (not less than zero) by applying a fraction of New York gross proceeds from all QFIs subject to this rule to total gross proceeds from all QFIs subject to this rule. In determining New York gross proceeds, if the transaction is executed through a registered broker-dealer or through a licensed exchange include 8% of the gross proceeds amount as New York gross proceeds.  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing Method:</i> Include 100% of the net gains (not less than zero).  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Net gains and net losses from the sale of a unitary partnership interest regardless of how long the interest is held	<i>Customer Sourcing and 8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	<i>Customer Sourcing:</i> This would be an extraordinary event so there would be no factor representation. However, a discretionary adjustment may be made if factor representation is needed to accurately reflect the income.

\* The election to use the 60 percent deduction method is an annual election that must be made for all exempt income and the election applies to all members of the combined group.

## Appendix A-1

### Classification of Income from Qualifying Financial Instruments (QFIs) and the Rules for Allocating Income from QFIs

*Qualifying Financial Instruments* (QFIs) are instruments that are marked to market under Internal Revenue Code §475, other than loans secured by real property and physical commodities.

For income from QFIs, taxpayers must either use customer based sourcing for each income stream that does not constitute exempt income or elect to treat all income from QFIs as taxable business income and then allocate 8% of the net income (interest income, dividend income, and net gains), not less than zero, from QFIs to New York (referred to as the “8% method”). The election is an annual irrevocable election for all income from all QFIs and applies to all members of the combined group.

<b>Income from Debt Securities</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Interest income from treasuries	<i>Customer Sourcing and 8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of interest income.  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Net gains and net losses from treasuries	<i>Customer Sourcing and 8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of net gains (not below zero).  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Interest income from the direct ownership of New York State and municipal debt	<i>Customer Sourcing and 8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of interest income.  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Net gains and net losses from the direct ownership of New York State and municipal debt	<i>Customer Sourcing and 8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of net gains (not less than zero).  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Interest income from the direct ownership of other state and municipal debt	<i>Customer Sourcing and 8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 50% of interest income.  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Net gains and net losses from the direct ownership of other state and municipal debt	<i>Customer Sourcing and 8% Method:</i> Taxable business income	<i>Customer Sourcing Method:</i> Not included  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 50% of net gains (not less than zero).  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	

## Appendix A-1

### Classification of Income from Qualifying Financial Instruments (QFIs) and the Rules for Allocating Income from QFIs

*Qualifying Financial Instruments* (QFIs) are instruments that are marked to market under Internal Revenue Code §475, other than loans secured by real property and physical commodities.

For income from QFIs, taxpayers must either use customer based sourcing for each income stream that does not constitute exempt income or elect to treat all income from QFIs as taxable business income and then allocate 8% of the net income (interest income, dividend income, and net gains), not less than zero, from QFIs to New York (referred to as the “8% method”). The election is an annual irrevocable election for all income from all QFIs and applies to all members of the combined group.

<b>Income from Debt Securities</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Interest income from the direct ownership of government agency debt (includes GNMA, FNMA, FHLMC mortgage backed securities)	<i>Customer Sourcing and 8% Method</i> Taxable business income	<i>Customer Sourcing Method:</i> Allocate 8% of interest income from government agency debt to New York.  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of interest income.  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Net gains and net losses from the direct ownership of government agency debt (includes GNMA, FNMA, FHLMC mortgage backed securities)	<i>Customer Sourcing and 8% Method</i> Taxable business income	<i>Customer Sourcing Method:</i> Allocate 8% of the net gains (not less than zero) of government agency debt to New York.  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of net gains (not less than zero).  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Interest income from loans not secured by real property	<i>Customer Sourcing and 8% Method</i> Taxable business income	<i>Customer Sourcing Method:</i> Allocate 100% of the interest income to the obligor’s commercial domicile (obligor’s address in the case of an individual).  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of interest income.  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Net gains and net losses from loans not secured by real property	<i>Customer Sourcing and 8% Method</i> Taxable business income	<i>Customer Sourcing Method:</i> Apportion the net gains (not less than zero) by applying a fraction of New York gross proceeds from all QFIs subject to this rule to total gross proceeds from all QFIs subject to this rule. In determining New York gross proceeds, if the transaction is executed through a registered broker-dealer or through a licensed exchange include 8% of the gross proceeds amount as New York gross proceeds. If a government agency purchases the loan include 8% of the gross proceeds amount as New York gross proceeds.  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of net gains (not less than zero).  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Interest income from corporate bonds	<i>Customer Sourcing and 8% Method</i> Taxable business income	<i>Customer Sourcing Method:</i> Allocate 100% of the interest income to the issuing corporation’s commercial domicile.  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of interest income.  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	

## Appendix A-1

### Classification of Income from Qualifying Financial Instruments (QFIs) and the Rules for Allocating Income from QFIs

*Qualifying Financial Instruments* (QFIs) are instruments that are marked to market under Internal Revenue Code §475, other than loans secured by real property and physical commodities.

For income from QFIs, taxpayers must either use customer based sourcing for each income stream that does not constitute exempt income or elect to treat all income from QFIs as taxable business income and then allocate 8% of the net income (interest income, dividend income, and net gains), not less than zero, from QFIs to New York (referred to as the “8% method”). The election is an annual irrevocable election for all income from all QFIs and applies to all members of the combined group.

<b>Income from Debt Securities</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Net gains and net losses from corporate bonds	<i>Customer Sourcing and 8% Method</i> Taxable business income	<i>Customer Sourcing Method:</i> Apportion the net gains (not less than zero) by applying a fraction of New York gross proceeds from all QFIs subject to this rule to total gross proceeds from all QFIs subject to this rule. In determining New York gross proceeds, if the transaction is executed through a registered broker-dealer or through a licensed exchange include 8% of the gross proceeds amount as New York gross proceeds.  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of net gains (not less than zero).  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Interest income from asset backed securities	<i>Customer Sourcing and 8% Method</i> Taxable business income	<i>Customer Sourcing Method:</i> Allocate 8% of the interest income from asset backed securities to New York.  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing Method:</i> Include 100% of the interest income.  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Net gains and net losses from asset backed securities	<i>Customer Sourcing and 8% Method</i> Taxable business income	<i>Customer Sourcing Method:</i> Apportion the net gains (not less than zero) by applying a fraction of New York gross proceeds from all QFIs subject to this rule to total gross proceeds from all QFIs subject to this rule. In determining New York gross proceeds, if the transaction is executed through a registered broker-dealer or through a licensed exchange include 8% of the gross proceeds amount as New York gross proceeds.  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of net gains (not less than zero).  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Net income from reverse repos and stock borrows (income from reverse repos less repos and stock borrows less stock lends)	<i>Customer Sourcing and 8% Method</i> Taxable business income	<i>Customer Sourcing Method:</i> Apportion the net income (not less than zero) by applying a fraction of New York gross proceeds from New York counterparties to total gross proceeds. In determining New York gross proceeds, if the transaction is executed through a registered broker-dealer or through a licensed exchange include 8% of the gross proceeds in the New York gross proceeds amount.  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of net income (not below zero).  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	

## Appendix A-1

### Classification of Income from Qualifying Financial Instruments (QFIs) and the Rules for Allocating Income from QFIs

*Qualifying Financial Instruments* (QFIs) are instruments that are marked to market under Internal Revenue Code §475, other than loans secured by real property and physical commodities.

For income from QFIs, taxpayers must either use customer based sourcing for each income stream that does not constitute exempt income or elect to treat all income from QFIs as taxable business income and then allocate 8% of the net income (interest income, dividend income, and net gains), not less than zero, from QFIs to New York (referred to as the “8% method”). The election is an annual irrevocable election for all income from all QFIs and applies to all members of the combined group.

<b>Income from Debt Securities</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Net income from federal funds (Interest income less interest expense from federal funds)	<i>Customer Sourcing and 8% Method</i> Taxable business income	<i>Customer Sourcing Method:</i> Allocate 8% of net income from federal funds to New York.  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of net income (not less than zero).  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Interest income from other financial instruments	<i>Customer Sourcing and 8% Method</i> Taxable business income	<i>Customer Sourcing Method:</i> Allocate 100% of the interest income to the payor’s commercial domicile (payor’s address if an individual).  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of interest income.  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Net gains and net losses from other financial instruments	<i>Customer Sourcing and 8% Method</i> Taxable business income	<i>Customer Sourcing Method:</i> Allocate the net gains (not less than zero) to the location of the counterparty. If the counterparty is a registered broker-dealer or a licensed exchange, then allocate 8% of the net gains (not less than zero) to New York.  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of net gains (not less than zero).  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	
Other income from other financial instruments	<i>Customer Sourcing and 8% Method</i> Taxable business income	<i>Customer Sourcing Method:</i> Allocate the other income (not less than zero) to the location of the counterparty. If the counterparty is a registered broker-dealer or a licensed exchange, then allocate 8% of the other income to New York.  <i>8% Method:</i> Allocate 8% of all net income (not less than zero) from all QFIs to New York.	<i>Customer Sourcing:</i> Include 100% of other income (not less than zero).  <i>8% Method:</i> Include 100% of all net income (not less than zero) from all QFIs.	

## Appendix A-2

### Classification of Income from Non-Qualifying Financial Instruments (Non-QFIs) and the Rules for Allocating Income from Non-QFIs

*Non-Qualifying Financial Instruments* are instruments that are not marked to market under Internal Revenue Code (I.R.C.) §475 as well as loans secured by real property and physical commodities that are marked to market under I.R.C. §475.

<b>Income from Stocks of Non-unitary Corporations Not Included in the Combined Group that are Held for More than Six Months</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Dividends (Including Subpart F income)	Exempt investment income	Not included	Not included	Since the dividend income would be exempt from taxation, taxpayers would be required to disallow interest expenses directly and indirectly attributable to the income. In lieu of performing an actual interest expense attribution, taxpayers could elect to instead claim a deduction for 60 percent of the dividend income with no interest expense attribution.*
Net gains and net losses	Exempt investment income	Not included	Not included	Since the net gains and net losses income would be exempt from taxation, taxpayers would be required to disallow interest expenses directly and indirectly attributable to the net gains and net losses. In lieu of performing an actual interest expense attribution, taxpayers could elect to instead claim a deduction for 60 percent of the net income with no interest expense attribution.*

\* The election to use the 60 percent deduction method is an annual election that must be made for all exempt income and the election applies to all members of the combined group.

<b>Income from Stocks of Non-unitary Corporations Not Included in the Combined Group that are Held for Six Months or Less</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Dividends (Including Subpart F income)	Taxable business income	Not included	Not included	A discretionary adjustment may be made if factor representation is needed to accurately reflect the income.
Net gains and net losses	Taxable business income	Not included	Not included	This would be an extraordinary event so there would be no factor representation. However, a discretionary adjustment may be made if factor representation is needed to accurately reflect the income.

## Appendix A-2

### Classification of Income from Non-Qualifying Financial Instruments (Non-QFIs) and the Rules for Allocating Income from Non-QFIs

*Non-Qualifying Financial Instruments* are instruments that are not marked to market under Internal Revenue Code (I.R.C.) §475 as well as loans secured by real property and physical commodities that are marked to market under I.R.C. §475.

<b>Income from Stocks of Unitary Corporations Not Included in the Combined Group, Regardless of How Long the Stocks are Held (Includes income from stocks of unitary corporations: taxable under another Article, less than 50% directly or indirectly owned, and that are alien corporations with no effectively connected income)</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Dividends (Including Subpart F income)	Exempt business income	Not included	Not included	Since the dividend income would be exempt from taxation, taxpayers would be required to disallow interest expenses directly and indirectly attributable to the income. In lieu of performing an actual interest expense attribution, taxpayers could elect to instead claim a deduction for 60 percent of the dividend income with no interest expense attribution.*
Net gains and net losses	Taxable business income	Not included	Not included	This would be an extraordinary event so there would be no factor representation. However, a discretionary adjustment may be made if factor representation is needed to accurately reflect the income.

\* The election to use the 60 percent deduction method is an annual election that must be made for all exempt income and the election applies to all members of the combined group.

<b>Income from Stocks of Unitary and Non-unitary Corporations Included in the Combined Group, Regardless of How Long the Stocks are Held</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Dividends (Including Subpart F income )	Eliminated intercorporate	Not included	Not included	
Net gains and net losses	Taxable business income	Not included	Not included	This would be an extraordinary event so there would be no factor representation. However, a discretionary adjustment may be made if factor representation is needed to accurately reflect the income.

## Appendix A-2

### Classification of Income from Non-Qualifying Financial Instruments (Non-QFIs) and the Rules for Allocating Income from Non-QFIs

*Non-Qualifying Financial Instruments* are instruments that are not marked to market under Internal Revenue Code (I.R.C.) §475 as well as loans secured by real property and physical commodities that are marked to market under I.R.C. §475.

<b>Income from the Sale of Partnership Interests</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Net gains and net losses from the sale of a non-unitary partnership interest that does meet the definition of investment capital	Exempt investment income	Not included	Not included	Since the net gains and net losses income would be exempt from taxation, taxpayers would be required to disallow interest expenses directly and indirectly attributable to the net gains and net losses. In lieu of performing an actual interest expense attribution, taxpayers could elect to instead claim a deduction for 60 percent of the net income with no interest expense attribution.*
Net gains and net losses from the sale of a non-unitary partnership interest that does not meet the definition of investment capital	Taxable business income	Not included	Not included	This would be an extraordinary event so there would be no factor representation. However, a discretionary adjustment may be made if factor representation is needed to accurately reflect the income.
Net gains and net losses from the sale of a unitary partnership interest regardless of how long the interest is held	Taxable business income	Not included	Not included	This would be an extraordinary event so there would be no factor representation. However, a discretionary adjustment may be made if factor representation is needed to accurately reflect the income.

\* The election to use the 60 percent deduction method is an annual election that must be made for all exempt income and the election applies to all members of the combined group.

## Appendix A-2

### Classification of Income from Non-Qualifying Financial Instruments (Non-QFIs) and the Rules for Allocating Income from Non-QFIs

*Non-Qualifying Financial Instruments* are instruments that are not marked to market under Internal Revenue Code (I.R.C.) §475 as well as loans secured by real property and physical commodities that are marked to market under I.R.C. §475.

<b>Income from Debt Securities</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Interest income from treasuries	Taxable business income	Not included	Include 100% of interest income.	
Net gains and net losses from treasuries	Taxable business income	Not included	Include 100% of net gains (not less than zero).	
Interest income from the direct ownership of New York State and municipal debt	Taxable business income	Not included	Include 100% of interest income.	
Net gains and net losses from the direct ownership of New York State and municipal debt	Taxable business income	Not included	Include 100% of net gains (not less than zero).	
Interest income from the direct ownership of other state and municipal debt	Taxable business income	Not included	Include 50% of interest income.	
Net gains and net losses from the direct ownership of other state and municipal debt	Taxable business income	Not included	Include 50% of net gains (not less than zero).	

## Appendix A-2

### Classification of Income from Non-Qualifying Financial Instruments (Non-QFIs) and the Rules for Allocating Income from Non-QFIs

*Non-Qualifying Financial Instruments* are instruments that are not marked to market under Internal Revenue Code (I.R.C.) §475 as well as loans secured by real property and physical commodities that are marked to market under I.R.C. §475.

<b>Income from Debt Securities</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Interest income from the direct ownership of government agency debt (includes GNMA, FNMA, FHLMC mortgage backed securities)	Taxable business income	Allocate 8% of the interest income to New York.	Include 100% of interest income.	
Net gains and net losses from the direct ownership of government agency debt (includes GNMA, FNMA, FHLMC mortgage backed securities)	Taxable business income	Allocate 8% of the net gains (not less than zero) to New York.	Include 100% of net gains (not less than zero).	
Interest income from loans secured by real property	Taxable business income	Allocate 100% of the interest income to the location of the property.	Include 100% of interest income.	
Net gains and net losses from loans secured by real property	Taxable business income	Allocate 100% of the net gains (not less than zero) to the location of the property.	Include 100% of net gains (not less than zero).	
Interest income from loans not secured by real property	Taxable business income	Allocate 100% of the interest income to the obligor's commercial domicile (obligor's address in the case of an individual).	Include 100% of interest income.	
Net gains and net losses from loans not secured by real property	Taxable business income	Allocate 100% of the net gains (not less than zero) to the purchaser's commercial domicile (purchaser's address in the case of an individual). If the transaction is done through a registered broker-dealer or through a licensed exchange, allocate 8% of the net gains (not less than zero) to New York. If a government agency purchases the loan, then allocate 8% of the net gains (not less than zero) to New York.	Include 100% of net gains (not less than zero).	
Interest income from corporate bonds	Taxable business income	Allocate 100% of the interest income to the issuing corporation's commercial domicile.	Include 100% of interest income.	

## Appendix A-2

### Classification of Income from Non-Qualifying Financial Instruments (Non-QFIs) and the Rules for Allocating Income from Non-QFIs

*Non-Qualifying Financial Instruments* are instruments that are not marked to market under Internal Revenue Code (I.R.C.) §475 as well as loans secured by real property and physical commodities that are marked to market under I.R.C. §475.

<b>Income from Debt Securities</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Net gains and net losses from corporate bonds	Taxable business income	Allocate 100% of the net gains (not less than zero) to the purchaser's commercial domicile (purchaser's address in the case of an individual). If the transaction is done through a registered broker-dealer or through a licensed exchange, allocate 8% of the net gains (not less than zero) to New York.	Include 100% of net gains (not less than zero).	
Interest income from asset backed securities	Taxable business income	Allocate 8% of the interest income to New York.	Include 100% of interest income.	
Net gains and net losses from asset backed securities	Taxable business income	Allocate 100% of the net gains (not less than zero) to the purchaser's commercial domicile (purchaser's address in the case of an individual). If the transaction is done through a registered broker-dealer or through a licensed exchange, allocate 8% of the net gains (not less than zero) to New York.	Include 100% of net gains (not less than zero).	
Net income from reverse repos and stock borrows (income from reverse repos less repos and stock borrows less stock lends)	Taxable business income	Allocate 8% of the net income (not less than zero) to New York.	Include 100% of net income (not less than zero).	

## Appendix A-2

### Classification of Income from Non-Qualifying Financial Instruments (Non-QFIs) and the Rules for Allocating Income from Non-QFIs

*Non-Qualifying Financial Instruments* are instruments that are not marked to market under Internal Revenue Code (I.R.C.) §475 as well as loans secured by real property and physical commodities that are marked to market under I.R.C. §475.

<b>Income from Debt Securities</b>				
<b>Type of Income</b>	<b>Classification of Income</b>	<b>Rule for Inclusion in the Numerator of the Receipts Factor</b>	<b>Rule for Inclusion in the Denominator of the Receipts Factor</b>	<b>Additional Notes</b>
Net income from federal funds (interest income less interest expense from federal funds)	Taxable business income	Allocate 8% of the net income (not less than zero) to New York.	Include 100% of net income (not less than zero).	
Interest income from other financial instruments	Taxable business income	Allocate 100% of the interest income to the payor's commercial domicile (payor's address in the case of an individual).	Include 100% of interest income.	
Net gains and net losses from other financial instruments	Taxable business income	Allocate 100% of the net gains (not less than zero) to the location of the counterparty. If the counterparty is a registered broker-dealer or a licensed exchange, then allocate 8% of the net gains (not less than zero) to New York.	Include 100% of net gains (not less than zero).	
Other income from other financial instruments	Taxable business income	Allocate 100% of the other income (not less than zero) to the location of the counterparty. If the counterparty is a registered broker-dealer or a licensed exchange, then allocate 8% of the other income to New York.	Include 100% of other income (not less than zero).	