

2001 New Mexico Instructions for Corporate Income and Franchise Taxes FORM CIT-EZ

READ THE INSTRUCTIONS CAREFULLY. The instructions will answer most questions, save time and could save you money. You may also want to read publication FYI-350, *Corporate Income and Corporate Franchise Tax*, which explains in more detail various aspects of the New Mexico corporate income and franchise tax program. File your return as early as possible. If you have additional questions or want a copy of FYI-350, write to:

New Mexico Taxation and Revenue Department
ATTENTION: Corporate Income and Franchise Tax
P.O. Box 25127
Santa Fe NM 87504-5127
or visit our website at:
www.state.nm.us/tax

General Instructions

CORPORATIONS REQUIRED TO FILE A NEW MEXICO CORPORATE INCOME AND FRANCHISE TAX RETURN

Every entity having income from activities or sources within New Mexico which is required to file a Federal Corporation Income Tax Return or equivalent return must file a New Mexico Corporate Income and Franchise Tax Return. These include:

- all corporations organized under the laws of the state of New Mexico whether they have New Mexico income or not;
- out-of-state corporations which derive income from any business transactions, property or employment in this state;
- corporations exempt from federal income tax under the Internal Revenue Code which have unrelated business income, and
- all other business entities that are required or elect to file a federal corporate income tax return, including partnerships and limited liability companies treated as corporations by the Internal Revenue Service.

EXCEPTION: The following companies are exempt and are not required to file a New Mexico Corporate Income and Franchise Tax Return:

- insurance companies and reciprocal or inter-insurance exchanges which

pay a premium tax to New Mexico, and

- rural electric cooperatives established under the Rural Electric Cooperative Act (Sec. 62-15-28 NMSA 1978).

CORPORATIONS REQUIRED TO PAY THE NEW MEXICO FRANCHISE TAX

All corporations engaging in business in New Mexico and every domestic or foreign corporation having or exercising its corporate franchise in this state, **whether actively engaged in business or not**, must file a New Mexico Corporate Income and Franchise Tax Return and pay the \$50 franchise tax, even if no income tax is due. This includes "disregarded" corporations doing business in New Mexico.

The only exceptions are:

- corporations exempt from federal income tax under the Internal Revenue Code which have no unrelated business income;
- insurance companies and reciprocal or inter-insurance exchanges which pay a premium tax to New Mexico, and
- rural electric cooperatives established under the Rural Electric Cooperative Act.

Limited liability companies that are not required or do not elect to file a Federal Corporation Income Tax Return are not required to pay the New Mexico Franchise Tax.

WHO MAY USE THIS FORM

A corporation may use this form if it operates only in New Mexico, files on a separate corporate entity basis and does not:

- (1) allocate or apportion income to other states, or
- (2) claim deductions from income arising from
 - (a) net operating losses;
 - (b) U.S. obligations;
 - (c) New Mexico government obligations, or
- (3) claim non-refundable credits.

In addition, corporations which owe only franchise tax to New Mexico may use the Form CIT-EZ.

WHICH RETURN TO FILE

CIT-EZ: (1) Corporations filing on a separate corporate entity basis, deriving all their income from New Mexico and who claim no credits, NOL carryforward or income from U.S. government obligations or municipal bonds, (2) corporations which have no nexus or are subject to a franchise tax only. The CIT-EZ may NOT be used to amend your New Mexico Corporate Income and Franchise Tax Return.

PTE: Corporations electing to be taxed as S corporations for federal income tax purposes, or any partnership, joint venture, common trust fund, limited association, pool or working agreement, limited liability company or any other combination of persons or interests which are required to file a federal partnership return of income must file a *New Mexico Income and Information Return for Pass-Through Entities* (PTE) if any of the entity income is from New Mexico.

CIT-1: All other corporations except those filing PTE or CIT-EZ. Amendments to previously filed CIT-1 or CIT-EZ must be filed on a CIT-1.

FISCAL-YEAR TAXPAYERS must file a 2001 return for fiscal years beginning in 2001 and ending in 2002.

NOTE: Forms, instructions and several information brochures are available on the Department's Internet home page. Our website address is: <http://www.state.nm.us/tax>. Forms and instructions can also be obtained by calling 505-827-2206 (not a toll-free number) or visiting a district office listed in this packet.

REQUIRED ATTACHMENTS TO CIT-EZ

Required Attachments. A copy of page 1 **ONLY** from federal form 1120 (or the equivalent being filed) must be attached for your return to be complete.

If applicable, an automatic or approved federal or New Mexico extension of time to file must be attached.

PAYMENT OF THE CORPORATE INCOME AND FRANCHISE TAX

Please do not mail cash to pay the corporate income and franchise taxes. Make your check or money order payable to the Taxation and Revenue Department and mail the return, attachments and payment to: **Taxation and Revenue Department, P.O. Box 25127, Santa Fe, New Mexico 87504-5127.**

To avoid misapplication of funds, write "2001 CIT-EZ" and your New Mexico CRS identification number on the check or money order.

A check that is not paid by the financial institution on which it is drawn does not constitute payment. The corporation will be assessed a minimum penalty of \$20 in addition to any other applicable penalties and interest.

DUE DATE

For corporations that file on a calendar-year basis, the 2001 New Mexico corporate income and franchise tax return is due on or before March 15, 2002, with payment of taxes.

For corporations that file on a fiscal-year basis or a short-year return, the New Mexico corporate income and franchise tax return is due on or before the 15th day of the third month following the close of the tax year, with payment of taxes.

EXTENSION OF TIME TO FILE

The Taxation and Revenue Department accepts an extension of time granted by the Internal Revenue Service if a copy of the automatic or approved federal extension accompanies the CIT-EZ at the time of filing.

If the corporation needs an extension of time to file the New Mexico corporate income and franchise tax return but has not obtained a federal extension, or if additional time to file the New Mexico return is needed beyond the federal extension date, the corporation should request an extension by letter or by filing New Mexico Form RPD-41096, *Extension of Time To File*, on or before the due date of the return.

Reminder:

To avoid misapplication of funds, write "2001 CIT-EZ" and your New Mexico CRS identification number on the check or money order.

INTEREST AND PENALTIES

If the corporation does not pay its New Mexico corporate income or franchise tax when due, the corporation is liable for interest at the rate of 15% per year, calculated at a daily rate of .041% per day on the amount of tax due.

Interest accrues even if the corporation obtains an extension of time to file a return.

In addition, if a return is not filed or tax remains unpaid when due because of negligence or disregard of rules or regulations, but without intent to defraud, the corporation is liable for a penalty of 2% per month or partial month from the date the return was due, not to exceed 10% of the amount of tax due or a minimum of \$5.00, whichever is greater. The penalty does not apply if there is an extension of time and the tax is paid by the extended due date.

ESTIMATED CORPORATE TAX PAYMENTS

Every corporation must pay estimated corporate income tax if the corporation reasonably expects its tax liability for the taxable year to be \$5,000 or more. Form CIT-8 is used for making estimated payments. See instructions for preparing the CIT-8 on page 4.

TENTATIVE PAYMENTS

Tentative payments can be made by completing a CIT-T1. Corporations not required to make estimated payments may make tentative payments on or before the 15th day of the third month following the close of the taxable year to prevent the accrual of interest on unpaid tax.

AMENDED RETURNS

Submit amended returns on a Form CIT-1 ONLY. DO NOT use the Form CIT-EZ. See the instructions in the CIT-1 package for the year being amended for additional guidelines on preparing and filing an amended return.

LINE INSTRUCTIONS FOR COMPLETING THE CORPORATE INCOME AND FRANCHISE TAX RETURN, FORM CIT-EZ

Computerized schedules will NOT be accepted in lieu of completing line items. All applicable line items on the Form CIT-EZ must be completed for the return to be processed.

Enter the following information in the appropriate areas of the Form CIT-EZ:

- Type or print the corporation's registered name, address and zip code in the space provided. Verify the accuracy of any preprinted information and correct if necessary.
- **Enter the corporation's New Mexico CRS identification number, federal employer identification number (FEIN) and New Mexico Public Regulation Commission Number.** If the corporation does not have a New Mexico CRS identification number, an application for a New Mexico CRS identification number, Form ACD-31015, *Application for Business Tax Identification Number*, must accompany the tax return when filed.
- Fiscal-year or short-year filers should enter the beginning and ending dates (month and year only) from their federal return. No entry is required for calendar-year filers.
- If the due date has been extended, **write in the extended due date.** A copy of the extension must be attached to the return.
- Enter the appropriate SIC code from the list on page 6.

NOTE: References to federal form line numbers correspond to the most recent federal forms as of the date of this printing. If the references do not correspond to the federal form, the correct line from the federal form for the item described should be used.

NOTE: Round dollar amounts to the nearest whole dollar.

Lines 1 through 5 do not need to be completed if the corporation is subject only to the franchise tax due to the protection of P.L. 86-272.

LINE 1. Corporations exempt from federal income tax which have unrelated business income: enter unrelated business taxable income from Federal Form 990-T Part II.

LINE 5. Corporate Income Tax Rates (see table below).

LINE 6. Franchise Tax. Every domestic or foreign corporation must pay a franchise tax of \$50 if it:

1. transacts business in, into or from New Mexico;
2. derives income from any property or employment within this state;
3. has or exercises its corporate franchise in New Mexico, whether engaged in active business or not, or
4. is an otherwise tax-exempt corporation with unrelated business income.

The \$50 franchise tax is due for each tax year, including short years. The franchise tax may not be prorated based on a short-year return.

Corporations which are exempt from federal income tax, such as homeowners associations and 501(c)(3) organizations, are subject to the franchise tax if the corporation has unrelated business income. Insurance companies and reciprocal or inter-insurance exchanges which pay a premium tax to New Mexico are exempt from franchise tax, as well as rural electric cooperatives established under the Rural Electric Cooperative Act.

REMINDER: It is your responsibility to comply with all additional filing requirements imposed by the Public Regulation Commission. For more information contact (505) 827-4508.

LINE 8. Enter the total amount of all tentative and estimated tax payments and amounts applied from the prior year. Check the appropriate box(es) to indicate the source of the payments.

LINE 9A. All or part of an overpayment on an original return may be applied to the 2002 liability.

LINE 11. A penalty of 2% per month or partial month, not to exceed 10% of the tax due or a minimum of \$5.00, whichever is greater, must be added if the corporation fails to file timely any required return or to pay when due any amount of tax required. Calculate this penalty by multiplying the amount on line 10, CIT-EZ, by 2% times the number of months (including any partial month as a full month) past the due date or extended due date.

LINE 12. Add interest if the amount of tax due on line 10 was not paid by the

CORPORATE INCOME TAX RATES	
Net Taxable Income	Tax
Not over \$500,000	4.8% of net taxable income
Over \$500,000 but not over \$1,000,000	\$24,000 plus 6.4% of the excess over \$500,000
Over \$1,000,000	\$56,000 plus 7.6% of the excess over \$1,000,000

original due date, **even if an extension of time to file was obtained.** Interest is calculated at the statutory rate of 15% per year. Daily interest is .041% of the unpaid tax due for each day the payment is late. The formula for calculating daily interest is:

$$\text{Tax due} \times .00041 \times \text{number of days late} = \text{interest.}$$

SIGNATURE. The return must be signed and dated by an officer of the corporation. Any person, other than an employee of the corporation, preparing the return for compensation must also sign the return on the line provided and indicate the preparer's identification number, address, telephone number and the date signed.

A preparer other than an employee of the corporation must enter the preparer's New Mexico CRS identification number or, if the preparer does not have a New Mexico CRS identification number, the preparer's social security number.

A signature stamp does not constitute a valid signature. An improperly signed or unsigned return is invalid for filing purposes, and penalty and interest may be assessed.

AFTER YOU FILE YOUR RETURN

If your return shows an overpayment and you have requested that all or a

portion of the overpayment be refunded to you, please allow at least 12 weeks for processing before contacting the Department. Processing time will vary according to when you file your return. Occasional computation errors in a tax return will delay processing or result in adjustments to your refund or the amount you owe. If you disagree with any adjustment made by the Department, you should follow the protest procedures discussed in "Taxpayer Remedies" on the back of the notice of assessment. For further details, see publication FYI-400, *Tax Audits and Protest Procedures - Your Rights as a Taxpayer.*

At any time after filing your return, the return may be subject to further review, verification or correction. The state of New Mexico, pursuant to reciprocal information exchange agreements, exchanges information with the Internal Revenue Service, certain other state agencies and taxing authorities in other states. If your tax return is adjusted or an assessment of additional tax is issued you will be provided a description of your rights as a taxpayer. Our publication FYI-400, *Tax Audits and Protest Procedures - Your Rights as a Taxpayer,* describes in detail how to dispute an adjustment or assessment made by the Department through either the claim for refund procedure or the protest procedure. Publication FYI-400 is available by contacting your local district tax office or by downloading from the De-

partment website at www.state.nm.us/tax. Click on "publications".

ESTIMATED CORPORATE INCOME TAX, FORM CIT-8

WHO MUST FILE -- Every corporation subject to the Corporate Income Tax is required to pay estimated corporate income tax if the taxpayer reasonably expects its tax liability for the taxable year to be \$5,000 or more. If the tax liability for the taxable year is less than \$5,000, estimated quarterly payments are not required. New Mexico does not allow for annualization of estimated tax payments.

NOTE: For taxable years beginning on or after January 1, 1998, taxpayers may use a third method of computing estimated tax based on four equal payments totaling 110% of the liability reported for the tax year immediately preceding the previous taxable year.

Complete the back of the Form CIT-8. Enter the corporation's name, address, city, state, zip code and CRS identification number in the areas provided.

To avoid penalty or interest for underpayment of estimated tax, you must use one of the three methods for estimating tax described in *Column Instructions for CIT-8* on page 5. Penalty at the rate of 2% per month (maximum

ESTIMATED TAXPAYMENT CHART

If your taxable year ends in:	Your estimated tax payments for this taxable year are due on the 15th of:			
	1st Period	2nd Period	3rd Period	4th Period
December	April	June	September	December
January	May	July	October	January
February	June	August	November	February
March	July	September	December	March
April	August	October	January	April
May	September	November	February	May
June	October	December	March	June
July	November	January	April	July
August	December	February	May	August
September	January	March	June	September
October	February	April	July	October
November	March	May	August	November

10%) and interest at the rate of 15% per year, calculated on a daily rate of .041% per day beginning on or after January 1, 2001, are imposed on any amount not paid when due.

- Penalty and interest will be assessed on the difference between the estimated payments and the amount of estimated tax using the lowest amount of METHOD 1, METHOD 2 or METHOD 3.

- Use the corporate income tax rates on page 3 to calculate estimated payment amounts for METHOD 1.

WHEN TO FILE: The amount of the estimated tax shall be paid in installments as follows: 25% of the estimated tax is due on or before the 15th day of the fourth, sixth, ninth and twelfth months of the taxable year. See chart on page 4.

**COLUMN INSTRUCTIONS FOR
FORM CIT-8**

Generally, for each estimated payment the lowest amount of METHOD 1, 2 or 3 may be used. Method 2 can only be used (a) if a corporate tax return was filed for the immediate prior year and (b) such prior year was a full twelve-month or a 52/53-week year. Method 3 may be used only if the taxable year immediately preceding the previous taxable year was a full twelve-month year, the amount due for the taxable year was at least \$5,000, the return for the previous

taxable year has not been filed, and the extended due date for filing that return has not occurred at the time the first installment is due.

METHOD 1 - Based on current year liability.

COLUMN A - Enter the estimated total tax due for the taxable year. The amount(s) in COLUMN A may be adjusted for each installment period.

COLUMN B - Enter 80% of COLUMN A.

COLUMN C - Compute the amount of tax due to date for the taxable year.

COLUMN D - Enter the total amount of tax paid for previous installment period(s).

METHOD 2 - Based on the previous year tax liability if tax liability is \$5,000 or greater.

COLUMN A and B - Enter the greater of \$5,000 or 100% of the tax liability for the previous taxable year for the first installment period. In subsequent periods, METHOD 1 may be used if the tax is less under that method.

COLUMN C - Compute the amount of tax due to date for the taxable year.

COLUMN D - Enter the total amount of

tax paid for previous installment period(s).

METHOD 3 - Based on the liability for the year immediately preceding the previous taxable year if tax liability is \$5,000 or greater.

COLUMN A - Enter the greater of \$5,000 or the tax liability of the year immediately preceding the previous taxable year.

COLUMN B - Enter 110% of the taxable liability of COLUMN A.

COLUMN C - Compute the amount of tax due to date for the taxable year.

COLUMN D - Enter the total amount of tax paid for previous installment period(s).

Amended Form CIT-8: If it is necessary to amend the Form CIT-8 for any installment period, do so by reproducing a Form CIT-8, indicating on it the correct period. All applicable lines on the amended form must be completed.

WHERE TO FILE -- Mail the Form CIT-8 and estimated payment(s) (check or money order) to **Taxation and Revenue Department, P.O. Box 25127, Santa Fe, New Mexico, 87504-5127.**

Please write your CRS identification number and "2002 CIT-8" on your check or money order made payable to New Mexico Taxation and Revenue Department. Please do not mail cash.

***Reminder:
Write your correct New Mexico CRS identification number on ALL forms, schedules, payments and correspondence.***

Upon request, this information is made available in various accessible forms. Please contact: Americans with Disabilities Act Coordinator, Taxation and Revenue Department, P.O. Box 630, Santa Fe, NM 87504-0630, (505) 827-0700

STANDARD INDUSTRIAL CLASSIFICATION CODES

<u>SIC CODE</u>	<u>DESCRIPTION</u>	<u>SIC CODE</u>	<u>DESCRIPTION</u>
AGRICULTURE		RETAIL TRADE	
0100	Agricultural production	5200	Building materials
0700	Agricultural services	5251	Hardware store
0800	Forestry and fisheries	5252	Farm equipment dealers
MINING		5300	General merchandise, except department stores
1000	Metal mining, except copper, uranium and molybdenum	5310	Department stores
1020	Copper	5400	Retail food stores
1069	Molybdenum	5510	Motor vehicle dealers
1094	Uranium	5540	Gasoline service stations
1200	Coal	5592	Mobile home dealers
1310	Crude petroleum, natural gas and natural gas liquids	5599	Miscellaneous vehicle and auto accessory dealers
1381	Oil and gas well drilling	5600	Apparel and accessory stores
1389	Oil and gas field services, except drilling	5700	Furniture, home furnishings and appliance stores
1400	Nonmetallic minerals, except fuels and potash	5800	Eating and drinking places
1474	Potash	5813	Liquor dispensers - by the drink
CONTRACT CONSTRUCTION		5910	Drug and proprietary stores
1500	General building contractors	5920	Package liquor stores
1610	Highway contractors	5990	Miscellaneous retailers
1620	Non-building heavy contractors except highway	FINANCE, INSURANCE AND REAL ESTATE	
1700	Special trade contractors	6000	Banks
MANUFACTURING		6100	Credit agencies other than banks and savings and loan associations
2000	Food and kindred products, except meat products	6120	Savings and loan associations
2010	Meat packing and other meat products	6200	Security and commodity brokers, dealers, exchanges and services
2300	Apparel and textile mill products	6300	Insurance agents, carriers, brokers and service
2400	Lumber, wood and paper products	6510	Real estate operators, lessors, agents brokers, dealers and title abstract companies
2700	Printing and publishing	6550	Real estate subdividers, developers
2800	Chemicals and allied products	6700	Holding and other investment companies
2900	Petroleum refining and related industries	SERVICES	
3200	Stone, clay, glass and concrete products	7000	Hotels, motels, trailer parks and other lodging
3400	Primary metal industries and fabricated metal products	7200	Personal services
3500	Machinery, except electrical	7300	Miscellaneous business services
3600	Electrical machinery, equipment and supplies	7391	Commercial Research and Development Laboratories
3670	Electronic components and accessories	7500	Automobile rental, repair and other services
3700	Transportation equipment	7600	Miscellaneous repair services
3800	Professional, scientific, optical and other precision instruments	7800	Motion picture theaters and production
3900	Miscellaneous manufacturing	7900	Amusement and recreation services
TRANSPORTATION, COMMUNICATIONS & UTILITIES		8010	Physicians, dentists and others
4000	Railroad transportation	8060	Hospitals and other health services
4100	Local and highway passenger transportation	8100	Legal services
4200	Motor freight transportation, warehousing & transportation services	8200	Educational services
4500	Air transportation	8910	Engineering and architectural services
4600	Pipeline transportation	9999	Nonclassifiable establishments
4810	Telephone and telegraph communications	GOVERNMENTS	
4830	Radio and television broadcasting	9100	Federal government - all other
4900	Electric, water and sanitary service utilities	9119	Federal government - military bases
4920	Gas utilities	9189	Federal government - military research
WHOLESALE TRADE		9200	State government - exclude education and scientific research
5010	Motor vehicles and automotive equipment	9282	State government - educational institutions
5020	Drugs, chemicals and allied products	9289	State government - scientific research
5040	Groceries and related products	9300	Local government - Counties
5060	Electrical goods and household appliances	9393	Local government - Municipalities
5070	Hardware, plumbing and heating equipment and supplies	9395	Local government - School districts
5080	Machinery, equipment and supplies	9396	Local government - Special districts and other
5090	Miscellaneous wholesalers		
5092	Petroleum and petroleum products		