
INSTRUCTIONS FOR 2006 PIT-B SCHEDULE NEW MEXICO ALLOCATION AND APPORTIONMENT OF INCOME

DEFINITIONS

Schedule PIT-B, *Allocation and Apportionment of Income Schedule*, is for taxpayers with income from sources both inside and outside New Mexico. It is attached to and submitted with Form PIT-1.

In addition to the definitions of “resident”, “first-year resident”, “part-year resident” and “nonresident” found in *Who Must File* on page 1 of the Form PIT-1 instructions, the following definitions and line instructions help to complete Schedule PIT-B. More information on completing Schedule PIT-B appears in the specific line instructions.

Allocated Income means, for purposes of this form, *non-business* income reported on lines 1 through 8 of Schedule PIT-B. Base the allocation on either the date you received the income (e.g., wages, interest or dividends of a first-year resident) or the location of the income-earning property or activity (e.g., rent and royalty income).

Apportioned Income means, for purposes of this form, *business* and farm income you report on line 9 of Schedule PIT-B. Business and farm income includes income reported on federal Schedule C, Schedule C-EZ, Schedule F or other schedules that characterize income as business-related.

Allocation and Apportionment

From the federal return enter the net income by type of income described in each line. Each line instruction describes allocation and apportionment rules for the type of income according to the New Mexico residency status of the taxpayer. For each line item allocate and apportion the federal income based on the New Mexico residency status of the taxpayer, or taxpayer and spouse if filing a joint return, as defined on page 1 of Form PIT-1 instructions and reported in line 1, page 1, of Form PIT-1. Follow additional instructions when a married couple is filing a joint return and one spouse, but not both, is

a resident of a community property state. When both spouses are residents of community property states, or both spouses are residents of non-community property states, the allocation and apportionment rules do not require additional instructions.

About Community and Separate Income

The laws of the state of domicile generally govern whether you have community property and community income — or separate property and separate income — for federal and state tax purposes. Community property states are: New Mexico, Arizona, California, Idaho, Louisiana, Nevada, Texas, Washington and Wisconsin.

Community income is income from community property acquired by persons domiciled in a community property state during the marriage. It can be either non-business income (e.g., wages, salaries, dividends, interest, royalties, rents, etc.) or business income (e.g., Schedule C gross receipts or farm income). If you are not certain whether your, or your spouse's, income is community income or separate income, see the New Mexico publication FYI-310, *Community Property, Divorce, Separation, and Your New Mexico Income Tax*, and the Internal Revenue Service Publication 555, *Federal Tax Information on Community Property*. You can download these publications from the TRD web site, www.state.nm.us/tax, and the IRS web site, www.irs.gov.

Allocation and Apportionment of Community and Separate Income.

When one spouse, but not both, is a resident of a community property state, and is filing a joint return, half of the community income of the spouse who is a resident of a community property state is equally divided between both spouses, and 100% of the separate income is treated as if it were the income of the spouse who owns the property. For your records, create a worksheet of the income of each spouse, dividing the community income equally between each spouse and assigning 100% of separate income to the

spouse owning the separate property. Determine the New Mexico residency status of each spouse. Using the line instructions, determine the correct allocation and apportionment rules to apply to the type of income for each spouse, based on the spouse's New Mexico residency status.

Example 1. A New Mexico full-year resident and a Colorado resident (nonresident) are married and file a joint return. The New Mexico resident incurs wage income from employment in Texas. Because New Mexico is a community property state and the resident spouse is domiciled in New Mexico, the resident spouse's wage income is community property. Half the wage income from employment in Texas is the property of each spouse. The instructions for line 1, Schedule PIT-B, require that half of the New Mexico resident's wage income is allocated in full, to New Mexico, even if the income was not earned in New Mexico. The nonresident spouse's share of the community wage income is not allocated to New Mexico, because the income is not from performing services in New Mexico.

Example 1. The same facts as in example 1, except that the wage income was the separate income of the New Mexico resident spouse due to a separation agreement. All wage income is allocated to New Mexico, because the spouse entitled to the benefit of the entire amount of wage income is a resident of New Mexico. The New Mexico resident must allocate that wage income according to the line instructions for a “resident” taxpayer on line 1, Schedule PIT-B.

Example 3. The same facts as in example 1, except that wages from employment in Texas were earned by the nonresident spouse who was domiciled in Texas. Because the nonresident spouse is domiciled in a community property state, the wage income is community property. When both spouses are residents of community property states or both spouses are residents of non-community property

states, the allocation and apportionment rules do not require additional instruction. Half the community income is allocated to New Mexico based on the instructions for the resident spouse's share of the community income. The other half of the community income is not allocated to New Mexico based on the instructions for the non-resident spouse's share of the community income.

Example 4. If both spouses are residents of New Mexico, all community wage income is allocated to New Mexico.

GENERAL LINE INSTRUCTIONS

General instructions for lines 1, 2, 3 and 7. New Mexico residents must allocate in full to New Mexico all amounts on lines 1, 2, 3 and 7, column 1, on Schedule PIT-B. New Mexico residents whose income on lines 1, 2, 3 and 7 was from a source outside New Mexico may claim a non-refundable CREDIT for the tax paid to the other state on that income. See the instructions for line 16 of 2006 Form PIT-1 to calculate the credit.

A **first-year resident or part-year resident** with income on lines 1, 2, 3 and 7 received during the period in which the domicile was established in New Mexico allocate that income to New Mexico. A first-year resident or a part-year resident receiving income on lines 2, 3 and 7 while domiciled in another state allocates that income to the other state. Wages, salaries and tips, etc., (line 1, PIT-B) of a first-year resident and a part-year resident received during the portion of the year the taxpayer was a nonresident of New Mexico are allocated to New Mexico only if the income was from employment within New Mexico.

Nonresidents allocate income from line 1 to New Mexico only if the wages were earned in New Mexico.

Special instructions for line 1 apply to **non-resident military wages and salary**. See page 3B for details.

General instructions for lines 4 and 5. All taxpayers with income from sources

outside New Mexico on lines 4 and 5 use Schedule PIT-B to allocate and apportion income based on the location of the income-earning property or activity.

General instructions for line 6. Income or losses from pass-through entities and trusts is allocated and apportioned to New Mexico on line 6. The pass-through entity or trust should provide you the information necessary to complete column 2. See the instructions for line 6 for more information.

NOTE: Federal Schedule E and Schedule K-1 may include income from both business and nonbusiness sources. New Mexico does not have a form equivalent to the federal Schedule K-1. Each partnership, S corporation, estate, trust or similar pass-through entity should provide a statement or report showing the correct allocation and apportionment of income and the distribution of income to partners, shareholders or beneficiaries. The partner, shareholder or beneficiary should retain the statement in his records.

Distributions of ordinary income (losses) to partners, members or owners of partnerships, limited liability companies and Sub Chapter S corporations shall be allocated on Schedule PIT-B, line 6, based on where the business operations occur. Distributions of other non-business income shall be allocated on the remainder of Schedule PIT-B, based on the type of income and the residency status of the partners, members or owners.

General instructions for line 9. Apportion income from business and farm sources using the *Worksheet for Apportionment of Business and Farm Income* on page 2 of Schedule PIT-B. New Mexico uses an evenly weighted three-factor formula for all taxpayers except manufacturers and certain electricity-generation facilities who may elect to use a four-factor formula. See the instructions for 2006 Schedule PIT-B (page 2) for further details.

Steps for completing the PIT-B Schedule.

Please read the section *Filling in your tax return* on page 13 of the Form PIT-1 instructions for general information.

Complete your federal return and your New Mexico Form PIT-1 through line 13 before beginning Schedule PIT-B.

These general line instructions apply to virtually all taxpayer situations. If you believe your situation is not addressed in these instructions, or if the following instructions for allocation and apportionment do not fairly represent the extent of your business activity in New Mexico, you may petition — or the Department may require you — to use another method to apportion all or any part of your business income. Other methods may include:

- use of apportionment by excluding any one or more of the usual three factors, **or**
- use of apportionment, but including one or more additional factors, **or**
- use of any other method necessary to bring about a fair apportionment of business income.

You may call (505) 827-0827 for additional guidance.

STEP 1

Gather any additional forms or publications you need. See *Contacting the Department* on page 10 of the Form PIT-1 instructions.

STEP 2

Assemble any additional tax records you need to show the sources of your income items. Some taxpayers find it helpful to make a workpaper identifying the source of each income item reported for federal income tax purposes.

STEP 3

Fill in your Schedule PIT-B. Fill in your return using the line instructions that begin on the next page. Follow the instructions for residency status for line 1 of Form PIT-1. The definitions of “resident”, “first-year resident”, “part-year resident” and “nonresident” are in *Who Must File* on page 1 of the Form PIT-1 instructions.

To complete line 9 of Schedule PIT-B, go to **STEP 4** on page 6B.

LINE INSTRUCTIONS FOR SCHEDULE PIT-B

For each line item complete column 1 first. The amount for column 1 is generally taken from your federal return. The instructions tell you the amount to enter in column 2 according to your residency status. Use the correct residency status instructions.

We provide no instructions for items or lines that are self-explanatory; for example, lines requiring addition or subtraction.

References to line numbers on federal forms are only a convenience. They are based on information available to the Department at the time of printing.

NAME, SOCIAL SECURITY NUMBER AND RESIDENCY

Enter the primary taxpayer's first name, middle initial, last name and social security number exactly as they appear on your Form PIT-1.

Part-year and first-year residents enter the beginning and ending date within the tax year in which the taxpayer was a resident of New Mexico. Attach a schedule if you have more than one period of residency during the tax year.

LINE 1.

Wages, Salaries, Tips, Etc.

Column 1: Enter the amount of wages, salaries, tips, etc., from line 7 of federal Form 1040 or 1040A, or line 1 of Form 1040EZ.

Column 2: Resident. Enter the same amount you entered in column 1.

Note: Nonresident Military Wages or Salary. Exclude from line 1, columns 1 and 2, any income from military wages or salary that you earned while a nonresident of New Mexico. If you changed your domicile or residency to, or from, New Mexico during the tax year, exclude only the military salary or wages you earned while you were a nonresident of New Mexico. This is the same amount that you deducted from your New Mexico taxable income on line 16, PIT-ADJ.

First-year resident. Enter all wages, salaries, tips, etc., earned in New Mexico before establishing New Mexico residency and all wages, salaries, tips, etc. earned inside and outside New Mexico after establishing New Mexico residency.

Part-year resident. Enter all wages, salaries, tips, etc., earned inside and outside New Mexico during the part of the year that you were a resident of New Mexico *and* all wages, salaries, tips, etc., earned in New Mexico during the part of the year you were a nonresident.

Nonresident. Enter that part of column 1 amount that came from performing services in New Mexico.

Payment for annual leave, sick leave and holiday leave associated with employment or services performed in New Mexico is New Mexico income. Nonresidents who work regularly in New Mexico but who are temporarily assigned to duty outside New Mexico may use the PIT-110 Worksheet, *Adjustment to New Mexico Income*. *Note: "Temporarily assigned to duty outside New Mexico" does not include partial days.* PIT-110 Worksheet forms are available from any of the Department's offices or on the Department's web site.

If your taxable wages and other compensation include moving expenses, the compensation is taxable to New Mexico only if the move is made from another state into New Mexico.

LINE 2.

Interest & Dividends

Column 1: Enter the federal taxable dividends and interest from federal Form 1040, 1040A or 1040EZ. Include the municipal bond income by subtracting the New Mexico tax-exempt interest and dividends reported on line 5, Schedule PIT-ADJ from the amount of federal tax-exempt dividends and interest reported on line 1, Schedule PIT-ADJ. Enter the result on line 2, column 1.

Column 2: Resident. Enter the same amount you entered in column 1.

First-year resident. Enter that portion of interest and dividends you received after establishing your residence in New Mexico. You must use the date your interest and dividends were payable to determine when they were received.

Part-year resident. Enter the interest and dividends you received while a resident of New Mexico. Use the date your interest and dividends were payable to determine when you received them.

Nonresident. If you are a nonresident with no commercial domicile in New Mexico, enter zero in column 2. If you operate a business with a commercial domicile in New Mexico, allocate non-business interest and dividend income from the New Mexico operations, if any, to New Mexico.

Commercial Domicile is, for the purposes of this form, the principal place where you direct or manage a trade or business.

LINE 3.

Pensions, Annuities, Social Security and Lump-Sum Distributions

Column 1: Enter the total amount of pensions and annuities from your federal return. Include the ordinary income reported on federal Form 4972, *Tax on Lump-Sum Distributions*.

Column 2: Resident. Enter the same amount you entered in column 1.

First-year resident. Enter the portion of pensions and annuities you received after establishing residence in New Mexico. Also enter the ordinary income portion of any lump-sum distribution from federal Form 4972 you earned the right to receive while a New Mexico resident.

Part-year resident. Enter that portion of pensions and annuities you received while you were a resident of New Mexico. Also enter the federal taxable portion of any lump-sum distribution

from federal Form 4972 you earned the right to receive while a New Mexico resident.

Nonresident. Pension and annuity income of a nonresident are not allocated to New Mexico. Enter zero in column 2.

NOTE: Effective for retirement income received after December 31, 1995, federal law prohibits any state from imposing an income tax on certain retirement income (primarily pension income) of an individual unless that person is a resident of or domiciled in the state imposing the tax. For example, if you receive a pension from your former California employer, but you have established your domicile in New Mexico, California may not impose its income tax on that retirement income. If you are required to file as a resident of New Mexico, New Mexico may impose its income tax on that retirement income.

LINE 4. Rents & Royalties

All taxpayers receiving income from real property (including rents and royalties from oil and gas interests), tangible personal property, or intangibles located or used in New Mexico must allocate that income to New Mexico. "Intangibles" are copyrights, patents, franchises, trademarks and licenses. Enter that portion of federal Schedule E that constitutes rents and royalties. Income or royalties from any of these sources reported on federal Schedule C or similar business income schedules should appear on line 9 of Schedule PIT-B, and not on line 4.

Column 1: Enter the net amount of rents and royalties from your federal return (Schedule E).

Column 2: All taxpayers. Enter the net amount of rents and royalties from the following New Mexico sources:

- rents from real property located in New Mexico;
- rents from tangible personal property located or used in New Mexico;
- income from royalties and working interests in oil and gas producing properties located in New Mexico,

and

- income from patents, copyrights, franchises, trademarks and licenses used in New Mexico.

In addition to the above, **residents** allocate income from intangible and tangible personal property used in another state if the New Mexico **resident** is not subject to tax on the income in the other state. First-year residents and part-year residents allocate the income described above to New Mexico if the income was earned during a part of the year that the individual was a resident of New Mexico.

A *patent* is used in New Mexico to the extent it is employed in production, fabrication, manufacturing or other processing in New Mexico or when a patented product is produced in New Mexico.

A *copyright* is used in New Mexico when the printing or other production is accomplished in New Mexico.

Use the following calculation if you do not know the extent to which tangible personal property was used within New Mexico:

To compute the percentage of time the property was located in New Mexico during the tax year, divide the number of days the property was physically located in New Mexico during the rental or royalty period by the total number of days the property was physically located everywhere during the rental or royalty period.

EXAMPLE: An out-of-state taxpayer rents a drilling rig to a New Mexico taxpayer. The drilling rig is in New Mexico for 90 days. The rig is rented for a total of 270 days during the tax year in several states.

$$\begin{aligned} & 90 \text{ days located in N.M.} \div \\ & 270 \text{ total days everywhere} = \\ & 33.3\% \text{ percent of time in N.M.} \end{aligned}$$

Multiply the total rents and royalties received for the tax year by the calculated percentage. The result is the rent and royalty income allocable to New Mexico. Enter this amount on line 4, column 2.

If you cannot determine the location of the tangible personal property during the rental or royalty period, enter the rental or royalty income from those in New Mexico to whom property was delivered. Enter the total rental or royalty income for the tangible personal property from line 4, Column 1 on line 4, Column 2.

When the basis for earnings from intangibles used in New Mexico and elsewhere does not permit allocation to a definite state, or when the accounting procedures do not show clearly the state or states where the intangible was used, enter the total income from all intangibles if you are a resident of New Mexico or if the business deriving the income has a commercial domicile in New Mexico.

LINE 5. Gains or Losses From the Sale or Exchange of Property

Column 1: Enter the net amount of gains or losses from the sale or exchange of property from your federal Form 1040 or 1040A.

Column 2: All Taxpayers. Enter the net amount of a gain or loss from the sale or exchange of the following:

- real property located in New Mexico;
- tangible personal property located in New Mexico at the time of sale;
- tangible personal property located in another state at the time of sale if the taxpayer is a New Mexico resident or part year-resident (see the PIT-1 instructions for residency definitions);
- tangible personal property of a business located in another state at the time of sale when the taxpayer is not subject to tax in that state, the taxpayer's commercial domicile is in New Mexico, and the income is not subject to apportionment on line 9, and
- intangible personal property if the taxpayer is a New Mexico resident, part-year resident or has a commercial domicile in New Mexico, and the income is not subject to apportionment on line 9.

NOTE for taxpayers who have deferred gain on the sale of a personal residence for federal income tax purposes: if you sold your personal residence in a prior tax year and did not pay tax on the gain, pending your decision to reinvest, federal tax law requires you to amend your federal tax return for the year of the sale if you decide not to reinvest or reinvest less than the full amount of your gain in this tax year.

Most states, including New Mexico, require an amended state tax return whenever you amend a federal return.

**LINE 6.
Income or Losses From Pass-Through Entities.**

Column 1: From your federal return (Schedule E), enter your share of income or losses from such pass-through entities as partnerships, S corporations, trusts or limited liability companies.

Column 2: All Taxpayers. Enter that portion of column 1 income allocated and apportioned to New Mexico by the pass-through entity or the trust.

All income a pass-through entity or a trust allocates or apportions to New Mexico is taxable in New Mexico. Income from pass-through entities and trusts must be allocated or apportioned under the Uniform Division of Income for Tax Purposes Act. If the pass-through entity or trust does not provide the necessary New Mexico apportionment percentage(s) or information that allows calculation of a percentage, New Mexico presumes all distributive amounts from the pass-through entity or trust to be New Mexico-source income.

Distributions of ordinary income (losses) to partners, members or owners of partnerships, limited liability companies and Sub Chapter S corporations shall be allocated on Schedule PIT-B, line 6 based on where the business operations occur. Distributions of other non-business income shall be allocated on the remainder of Schedule PIT-B, based on the type of income and the residency status of the partners, members or owners.

**LINE 7.
All Other Income.**

Column 1: Enter the total of all other income shown on your federal Form 1040, 1040A or 1040EZ and not reported in another section of the Schedule PIT-B. Do not enter business and farm income to be apportioned on line 9.

Column 2: Resident. Enter the same amount you entered in column 1.

First-year Resident. Enter all other income earned from New Mexico sources before establishing New Mexico residency and all other income earned, regardless of source, after establishing New Mexico residency.

Part-Year Resident. Enter all other income earned, regardless of source, while you were a New Mexico resident, and all other income earned from New Mexico sources.

Non-Residents. Enter that portion of column 1 derived from sources within New Mexico.

Income from **gambling winnings** from a New Mexico source may not be offset by gambling losses on Schedule PIT-B.

Income from **unemployment compensation** is allocated to the recipient's state of residence at the time the payment was received, regardless of the state paying the unemployment compensation benefit.

**LINE 8.
Net Operating Loss Carry Forward.**

All net operating losses must flow through from a federal net operating loss. You cannot have a New Mexico net operating loss without first having a federal net operating loss. Do not enter as a negative amount.

Column 1: Enter the amount of New Mexico net operating loss carry forward from line 6 of the 2006 Schedule PIT-ADJ.

Column 2: All Taxpayers. Enter the portion of New Mexico net operating

loss carry forward that is applicable to New Mexico sources.

**LINE 9.
Business and Farm Income.**

Business and farm income is apportioned on line 9.

Column 1: Enter the total business income reported on your federal Schedule C(s), Schedule F(s), or other similar schedules.

Column 2: All Taxpayers. If **ALL** income in column 1 is from New Mexico sources, enter the entire amount in column 2. If **NONE** of the income in column 1 is from New Mexico sources, enter zero.

If you have income from a farm or business earned in New Mexico AND one or more other states, complete lines 1 through 5 of the worksheet on page 2 of Schedule PIT-B (Detailed instructions for completing the worksheet begin on page 6B). After completing the worksheet, multiply the amount on line 9, column 1 of Schedule PIT-B by the decimal amount on line 5 of the worksheet. Enter the result on line 9, column 2 of Schedule PIT-B.

NOTE: No business may use the separate accounting method.

**LINE 11.
Federal Adjustments to Income.**

Column 1: Enter the total federal adjustments to income from line 36 of your federal Form 1040 or line 20 of federal Form 1040A.

Column 2: All Taxpayers. The entry on line 11, column 2 is simply a mathematical calculation. Divide line 10, column 2 by line 10, column 1. The result is the percentage of total income allocated to New Mexico. Use three decimal places to determine your percentage; for example, 0.453 or 45.3%. Multiply this percentage by the amount on line 11, column 1. Enter the result on line 11, column 2. The result is your allowable New Mexico Adjustments to Income.

LINE 12.
Total Income.

For most taxpayers, total Income on line 12, column 1 must equal or exceed the amount on line 6, Form PIT-1, Federal Adjusted Gross Income. If it does not, please check your figures.

Note: If you are a nonresident member of the United States Armed Forces reporting military wages or salary, complete line 12 as instructed. Because of prior calculations for PIT-B, line 1 your total income on line 12, column 1, may be less than the federal adjusted gross income you reported on line 6 of Form PIT-1. This not an error.

LINE 13.
Computation of Percentage of New Mexico Income.

Divide the amount on line 12, column 2 by the amount on line 12, column 1.

Enter the result on line 13. Round to three decimal places. The percentage you enter on line 13 cannot be less than zero. Note: In the event the New Mexico percentage exceeds 100% because of the allocation of losses, use 100% (1.000).

LINE 14.
New Mexico Income Tax To Be Allocated.

Calculate the tax due on the New Mexico taxable income reported on line 13 of Form PIT-1. Enter that calculated tax amount on line 14 of Schedule PIT-B, plus the tax, if any, calculated on a lump-sum distribution from line 15 on Form PIT-1.

LINE 15.
Allocated New Mexico Income Tax Liability.

On Schedule PIT-B, multiply the per-

centage on line 13 by the tax on line 14. This is the allocated New Mexico income tax liability. Enter this amount on line 15 of Schedule PIT-B and line 14 of the Form PIT-1. Mark the box indicating that the tax calculation comes from Schedule PIT-B.

Now continue with STEP 4 below.

STEP 4
If you have an entry on line 9, column 1, complete the worksheet on page 2 of Schedule PIT-B unless the entry on line 9, column 2 is the same as column 1 or is zero. Line instructions for the worksheet begin in the following section.

If you do not need to complete the worksheet, go to STEP 5 on page 8B.

LINE INSTRUCTIONS FOR SCHEDULE PIT-B, PAGE 2 WORKSHEET

Apportionment of Business and Farm Income.

Complete the worksheet on page 2 of Schedule PIT-B ONLY if you have business or farm income on line 9, column 1, from both inside and outside New Mexico.

NOTE: If you have multiple businesses or farms on line 9, column 1, allocating income from both inside and outside New Mexico, perform the calculations from the Schedule PIT-B, page 2, for each business or farm on a separate worksheet and summarize the amounts allocated to New Mexico on line 9, column 2. Attach the worksheet to your Form PIT-1 and Schedule PIT-B.

New Mexico uses an evenly weighted three-factor formula for all taxpayers except certain manufacturers.

Taxpayers whose principal activity is manufacturing may choose to

use a four-factor formula (sales x 2, plus property and payroll) for tax years beginning on or after January 1, 1995, and before January 1, 2011. The manufacturer must use the four-factor method for a total of three consecutive tax years covering at least 36 calendar months.

Manufacturing means, for purposes of electing the four-factor apportionment method, combining or processing components or materials to increase their value for sale in the ordinary course of business. Manufacturing does not include construction, farming, processing of natural resources and most power generation.

A taxpayer may use this option if the business's combined property and payroll factor percentages in the state exceed the sum of the taxpayer's property and payroll factor for the first tax year beginning on or after January 1, 1991. The taxpayer must make the election to use the four-factor method in writing no later than the filing date of the first return to which the election will

apply. Statutory authority for this elective method is in Section 7-4-10(B) NMSA 1978.

Qualified manufacturers electing the four-factor formula should make the following adjustments when completing the worksheet on page 2 of Schedule PIT-B:

- Line 3, sales factor. Divide column 2 by column 1. Multiply the result by 2 for the entry on line 3b.
- Line 5, apportionment percentage. Divide the total percent on line 4 by 4. Compute to three decimal places.

In addition, if you have elected the four-factor method, enter the effective date of the election at the bottom of the worksheet form.

Eliminating factors. If you have not elected or are not eligible to use the four-factor method of apportionment, and the denominator (column 1, Total Everywhere) of one or more of the three factors (property, payroll or sales) is

zero, or is such an insignificant amount (generally less than 3% of net income) that its use unreasonably distorts apportionable income, exclude the factor or factors. When you exclude a factor, reduce the number of factors used to determine the average percent (line 5) accordingly.

LINES 1a. and 1b. Property Factor.

This factor is a percentage determined as follows:

Divide column 2: The average value (see rules below) of the real and tangible personal property owned or rented and used in New Mexico for the production of business or farm income during the tax period,

By column 1: The average value (see rules below) of all real and tangible personal property owned or rented and used everywhere for the production of business or farm income during the tax period.

NOTE: A resident using his or her home in any way in a business or farm operation has a property factor in New Mexico.

To determine the average value of real and tangible personal property, use the following rules:

- Property the taxpayer owned during the tax period shall be valued at its original cost. Original cost is the basis of the property for federal income tax purposes (prior to federal adjustments) at the time of acquisition by the taxpayer and adjusted by subsequent capital additions, improvements or partial dispositions;
- Property the taxpayer rented from others and used for business or farm purposes shall be valued at eight times the net annual rental rate. The net annual rental rate is the annual rent paid by the taxpayer, less any annual rent received by the taxpayer from subrentals of the same property;
- Determine the average value of property by adding the total value of property held by the taxpayer at the beginning of the tax period to

the total value of property held at the end of the tax period. Divide by two;

- A taxpayer may compute an average value on a monthly basis. If the Department determines that a monthly average is necessary to correctly reflect the average value of the taxpayer's property, the Department may require the taxpayer to compute an average value on a monthly basis.

LINES 2a. and 2b. Payroll Factor.

This factor is a percentage determined as follows:

Divide column 2: The total amount paid as compensation to employees in New Mexico during the tax period,

By column 1: The total amount paid as compensation to employees everywhere during the tax period.

Compensation was paid in New Mexico if any one of these conditions is present:

- the employee's service was performed entirely in New Mexico, **or**
- the employee's service was performed both inside and outside New Mexico, but service performed outside New Mexico was incidental to service performed inside New Mexico, **or**
- some of the employee's service was performed in New Mexico, and New Mexico was the base of operations or the place from which the service was directed or controlled, **or**
- some of the employee's service was performed in New Mexico, and the employee was a resident of New Mexico during the tax period. *In this instance it does not matter if some of the employee's service was performed in another state that was the base of operations or the place from which the service was directed or controlled.*

LINES 3a. and 3b. Sales Factor.

This factor is a percentage determined as follows:

Divide column 2: Your sales in New Mexico during the tax period (exclude non-business income),

By column 1: Your total sales everywhere during the tax period (exclude non-business income).

"Sales" means all gross receipts from transactions and activity in the regular course of business.

Tangible personal property is sold in New Mexico when any of the following applies:

- the property was delivered or shipped to a purchaser other than the U.S. Government within New Mexico (regardless of the F.O.B. point or other conditions of sale), **or**
- the property was shipped from an office, store, warehouse, factory or other place of storage within New Mexico, **and** (a) the purchaser was the U.S. Government, **or** (b) the taxpayer was not subject to income tax in the state where the property was sold.

Sales other than sales of tangible personal property are made in New Mexico when any of the following applies:

- the income-producing activity was performed in New Mexico, **or**
- the income-producing activity was performed both inside and outside New Mexico, but a greater proportion was performed inside New Mexico than in any other single state (the proportion shall be determined by the cost of performance in each state); **or**
- the gross receipts were from the rental, lease, licensing or any other use of either real or tangible personal property during the time the property was in New Mexico, **or**
- the gross receipts were from the performance of personal services in New Mexico.

LINE 5. Apportionment Percentage.

Divide line 4 by the number of factors used. Multiply this percentage by the amount on line 9, column 1, of Schedule PIT-B. Enter the result on line 9, column 2, of Schedule PIT-B.

STEP 5

Check the figures on your Schedule PIT-B and, if applicable, the worksheet.

Make sure the arithmetic is correct, and you have limited your calculations when required.

Remember that residents must allocate income and deductions on lines 1, 2, 3 and 7 in full to New Mexico.

Check that page 1 of the Schedule PIT-B shows your correct name and social security number, and you have answered all required questions.

STEP 6

Continue with Form PIT-1

Check that you have correctly transferred your tax liability from line 15 of Schedule PIT-B to line 14 of Form PIT-1, and that you have placed a "B" in

the Box on line 14, indicating that a PIT-B was used to compute your tax. Continue with the line instructions and remaining steps for completing your 2006 Form PIT-1.
