Schedule
ND-1CS

North Dakota Office of State Tax Commissioner

Calculation of tax on proceeds from sale of income tax credit

2013

Attach to Form ND-1

Please type or print in black or blue ink.

Your name (First, MI, Last name)	Your social security number

- **Before completing this schedule, complete Form ND-1, lines 1 through 19.**
- **If using either Schedule ND-1FA or Schedule ND-1NR, see "How to complete this form."**

1. **North Dakota taxable income -** Enter the amount from Form ND-1, line 19. However, if using Schedule ND-1FA, enter the amount from line 3 of that schedule. ***If less than zero, enter 0.*** **(C1) 1** _____

2. **Gross proceeds -** Enter the gross proceeds from the sale of the credit _____ **(C2) 2** _____

3. Were the gross proceeds (on line 2) included in federal taxable income? _____ **(C3) 3** ○ **Yes** ○ **No**

4. If line 3 is **Yes**, enter the amount from line 1. If line 3 is **No**, add lines 1 and 2 and enter the result on this line, and then enter -0- on line 7c and go to line 8 _____ **(C4) 4** _____

5. Were the gross proceeds (on line 2) reported as a long-term capital gain on the federal return? **(C5) 5** ○ **Yes** ○ **No**

- ▶ If line 5 is **Yes**, go to line 6.
- ▶ If line 5 is **No**, enter -0- on line 7c, and go to line 8.

6. Was a long-term capital gain exclusion claimed on Form ND-1, line 8? _____ **(C6) 6** ○ **Yes** ○ **No**

- ▶ If line 6 is **Yes**, go to line 7a
- ▶ If line 6 is **No**, enter -0- on line 7c, and go to line 8.

7. **a.** Enter the amount from Form ND-1, line 8 _____ **7a** _____

b. Multiply line 2 by 30% (.30) _____ **7b** _____

c. Enter smaller of line 7a or 7b _____ **(C7) 7c** _____

8. Add lines 4 and 7c _____ **8** _____

9. Subtract line 2 from line 8. ***If less than zero, enter -0-*** _____ **9** _____

10. **Tax on North Dakota taxable income without proceeds -** If using Schedule ND-1FA, see the instructions. Otherwise, figure the tax on the amount on **line 9** using the 2013 Tax Table on page 20 of the instructions for Form ND-1 _____ **(C10) 10** _____

11. Enter **larger** of line 2 or line 8 _____ **11** _____

12. **Tax on North Dakota taxable income with proceeds -** If using Schedule ND-1FA, see the instructions. Otherwise, figure the tax on the amount on **line 11** using the 2013 Tax Table on page 20 of the Form ND-1 instructions _____ **(C12) 12** _____

- ▶ **Full-year resident -** If the taxpayer (and taxpayer's spouse, if filing jointly) are full-year residents, skip lines 13 through 18, and go to line 19.
- ▶ **Full-year nonresident** or **part-year resident -** If the taxpayer (or taxpayer's spouse, if filing jointly) is filing as a full-year nonresident or part-year resident, go to line 13.

13. **a.** If Line 3 is **Yes**, enter amount from Schedule ND-1NR, line 16; otherwise, skip lines 13 and 14, and go to line 15 _____ **13a** _____

b. Subtract line 2 from line 13a _____ **(C13) 13b** _____

14. **a.** Enter amount from Schedule ND-1NR, line 17 _____ **14a** _____

b. Subtract line 2 from line 14a _____ **(C14) 14b** _____

15. If required to complete lines 13 and 14, divide line 13b by line 14b (round to nearest four decimal places); otherwise, enter the ratio from Schedule ND-1NR, line 18 _____ **(C15) 15** _____

16. Multiply line 10 by line 15 _____ **16** _____

17. Subtract line 10 from line 12 _____ **(C17) 17** _____

18. Add lines 16 and 17 _____ **18** _____

19. **Tax -** If the taxpayer (and taxpayer's spouse, if filing jointly) are full-year residents, enter amount from line 12. If the taxpayer (or taxpayer's spouse, if filing jointly) is a full-year nonresident or part-year resident, enter amount from line 18. Enter the amount from this line on Form ND-1, line 20. _____ **(C19) 19** _____

2013 Schedule ND-1CS instructions

Purpose of form

If a taxpayer sells an unused research and experimental expenditure tax credit (under N.D.C.C. § 57-38-30.5) to another taxpayer for value, the gross sales proceeds from the sale are assignable to North Dakota and are subject to North Dakota income tax. No part of the proceeds may be apportioned or allocated outside North Dakota, and the gross proceeds may not be reduced by any loss or deduction allowed for North Dakota income tax purposes. If the taxpayer is an individual, this schedule must be used to calculate the individual's income tax for the tax year.

Note: *There are conditions and procedures that must be satisfied before the credit may be transferred to another taxpayer. For more information, see Form CTS, Credit Transfer Statement, which can be obtained at www.nd.gov/tax.*

Who must complete

An individual must complete this schedule if either (or both) of the following apply:

- The individual sold an unused research and experimental expenditure tax credit to another taxpayer for value.

  Note: *The individual (seller) and the buyer were required to jointly file Form CTS with the Office of State Tax Commissioner at the time of the sale.*

- The individual held an interest in a passthrough entity that sold a research and experimental expenditure tax credit to another taxpayer for value.

  A "passthrough entity" means a partnership, S corporation, or a limited liability company treated like a partnership or S corporation.

  "Partnership" includes all forms of partnerships, such as a limited partnership, limited liability limited partnership, etc.

  Note: *The passthrough entity (seller) and the buyer were required to jointly file Form CTS with the Office of State Tax Commissioner at the time of the sale. In addition, the passthrough entity (seller) was required to provide a specially-prescribed notice to each of its owners showing the owner's share of the total gross proceeds and instructing the owner how to report the proceeds on the owner's North Dakota income tax return. See Form CTS for more information.*

How to complete this form

Before completing this schedule:

1. Complete Form ND-1, lines 1 through line 19.
2. If Schedule ND-1FA (3-year averaging for farm income) is going to be used to calculate the tax for the tax year, complete that schedule first. Information from Schedule ND-1FA will be needed to complete Schedule ND-1CS. ***Do not enter the tax calculated on Schedule ND-1FA on Form ND-1 or Schedule ND-1NR.***
3. If the individual (or the individual's spouse, if filing jointly) was a nonresident of North Dakota for part or all of the tax year, complete Schedule ND-1NR. Information from that schedule will be needed to complete Schedule ND-1CS. ***Do not enter the tax calculated on Schedule ND-1NR on Form ND-1.***

Credit transfer statement. If the individual completing Schedule ND-1CS is the taxpayer who sold the credit, have on hand a copy of the Form CTS, Credit Transfer Statement, that was required to be filed with the Office of State Tax Commissioner at the time of the sale. It shows the amount of the gross proceeds received from the buyer.

Passthrough entity member notice. If the individual completing Schedule ND-1CS is doing so because the individual owned an interest in a passthrough entity that sold the credit, have on hand a copy of the Passthrough Entity Member Notice that the passthrough entity was required to provide to each of its owners at the time of the sale. It shows the owner's share of the gross proceeds.

Specific line instrucitons

Line 2 - Gross proceeds
Enter the amount of gross proceeds from Form CTS, Credit Transfer Statement, or from the Passthrough Entity Member Notice, whichever is applicable.

Line 3 - Inclusion of proceeds in federal taxable income
In general, the transfer of a state income tax credit for value is a taxable sale of property and the gross proceeds are includable in gross income for federal income tax purposes - see Temple, George H., 136 TC No. 15 (2011) and IRS Chief Counsel Advice (CCA) 201147024. Fill in the applicable circle to indicate whether or not the gross proceeds (on line 2) were included in federal taxable income.

Line 4 - North Dakota taxable income with proceeds
The entire gross proceeds from the sale of the credit are assignable to, and taxable by, North Dakota. If the gross proceeds (on line 2) were included in federal taxable income, enter the North Dakota taxable income amount from line 1 on line 4. If the gross proceeds were not included in federal taxable income, add the gross proceeds (on line 2) to the North Dakota taxable income (on line 1) and enter the result on line 4.

Lines 5 through 7 - Long-term capital gain exclusion adjustment
The gross proceeds from the sale of the credit may not be reduced by any loss or deduction allowed for North Dakota income tax purposes. If the gross proceeds (on line 2) were reported as a long-term capital gain for federal income tax purposes and a long-term capital gain exclusion was claimed on Form ND-1, line 8, the portion of the exclusion amount attributable to the gross proceeds must be added back into North Dakota taxable income. Complete lines 5 through 7 to calculate the amount of the exclusion that must be added back. If this does not apply, enter zero on line 7c and go to line 8.

Line 10 - Tax on North Dakota taxable income without proceeds
If Schedule ND-1FA is going to be used to compute the tax for the year, and if the gross proceeds (on Schedule ND-1CS, line 2) were **included** in federal taxable income, the tax on Schedule ND-1FA must be recomputed by completing a second Schedule ND-1FA. Write "Recomputation of tax for Schedule ND-1CS, line 10" at the top of the second Schedule ND-1FA. Complete the second Schedule ND-1FA using the same figures from the original Schedule ND-1FA ***except that the amount on Schedule ND-1CS, line 9, must be entered as the starting figure on line 1 of the second Schedule ND-1FA.*** Enter the recomputed tax from line 23 of the second Schedule ND-1FA on Schedule ND-1CS, line 10.

If the gross proceeds (on Schedule ND-1CS, line 2) were **not included** in federal taxable income, enter the amount from Schedule ND-1FA, line 23, on this line.

Line 12 - Tax on North Dakota taxable income with proceeds
If Schedule ND-1FA is going to be used to compute the tax for the year, and if the gross proceeds (on Schedule ND-1CS, line 2) were **included** in federal taxable income, enter the amount from Schedule ND-1FA, line 23 on this line.

If the gross proceeds (on Schedule ND-1CS, line 2) were **not included** in federal taxable income, the tax on Schedule ND-1FA must be recomputed by completing a second Schedule ND-1FA. Write "Recomputation of tax for Schedule ND-1CS, line 12" at the top of the second Schedule ND-1FA. Complete the second Schedule ND-1FA using the same figures from the original Schedule ND-1FA ***except that the amount on Schedule ND-1CS, line 11, must be entered as the starting figure on line 1 of the second Schedule ND-1FA.*** Enter the recomputed tax from line 23 of the second Schedule ND-1FA on Schedule ND-1CS, line 12.

If the taxpayer (and the taxpayer's spouse, if filing jointly) are filing as full-year residents, enter the amount from Schedule ND-1CS, line 12, on Form ND-1, line 19. ***Do not complete lines 13 through 18 of Schedule ND-1CS.***

If the taxpayer (or the taxpayer's spouse, if filing jointly) is filing as a full-year nonresident or a part-year resident, complete lines 13 through 18.

Lines 13 and 14 - North Dakota income ratio

If the answer to the question on line 3 is **Yes**, lines 13 and 14 must be completed to recompute the North Dakota income ratio on Schedule ND-1NR.

If the answer to the question on line 3 is **No**, skip lines 13 and 14, and enter the North Dakota income ratio from Schedule ND-1NR, line 18, on Schedule ND-1CS, line 15.