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Commonwealth of Massachusetts

Department of Revenue

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# 2003 Massachusetts Combined Corporation Excise Return **Form 355C**

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Schedules and Instructions

# Completing Your Form 355C

Please read this page carefully as it explains the correct method of completing your return.

**Form 355C Combined Corporation Excise Return 2003**

Calendar year filers enter 01-01-2003 and 12-31-2003 below. Fiscal year filers enter appropriate dates.  
 Tax year beginning (month-day-year) 01 01 2003 Tax year ending (month-day-year) 12 31 2003

**Form 355C Combined Corporation Excise Return 2003**

CORPORATION NAME: A B C C O R P O R A T I O N  
 FEDERAL IDENTIFICATION NUMBER (FID): 0 1 2 3 4 5 6 7 8  
 PRINCIPAL BUSINESS ADDRESS: 1 2 3 E V E R Y S T R E E T CITY/TOWN/POST OFFICE: E V E R Y T O W N STATE: MA ZIP + 4: 0 2 1 7 1 6 3 4 1

Ovals must be filled in completely. Example:

- Type of corporation (select one; see instructions)  Domestic  Foreign
- Type of corporation (select one, if applicable; enclose Form F-2)  Section 38 manufacturer  Mutual fund service
- Type of corporation (select one, if applicable)  R&D  Classified manufacturing  RIC
- Is the corporation filing a U.S. consolidated return?  Yes  No
- Does the corporation have a new Massachusetts address?  Yes  No
- Is the corporation an insurance mutual fund holding corporation?  Yes  No
- Is the corporation requesting alternate apportionment (enclose Form AA-1)?  Yes  No
- Is this a final Massachusetts return?  Yes  No
- Principal business code (from U.S. return) 8 7 6 5 4 3
- FID of parent corporation, if filing a consolidated federal return 10
- Average number of employees in Massachusetts 11 5 6 7
- Average number of employees worldwide 12 6 7 8
- Year of charter or first year of business in Massachusetts 13 1 9 5 4
- Last year audited by IRS 14
- Have adjustments been reported to Massachusetts?  Yes  No

An exact copy of U.S. Form 1120 must be enclosed with this return with applicable schedules and forms required to substantiate the Massachusetts excise. Any changes or amendments to any U.S. amount must be explained in detail. Any return filed without such information enclosed is an incomplete return and is subject to assessment penalties. Mutual fund service corporations, see instructions.

**SIGN HERE. Under penalties of perjury, I declare that to the best of my knowledge and belief this return and enclosures are true, correct and complete.**

Signature of appropriate officer (see instructions) Michael Murray	Date 2 / 1 / 04	Print paid preparer's name Preparer's SSN or PTIN	
Title President	Paid preparer's phone ( )	Paid preparer's EIN	
Are you signing as an authorized delegate of the appropriate corporate officer? <input type="radio"/> Yes (enclose Form M-2848)	Paid preparer's signature	Date	<input type="checkbox"/> Fill in if self-employed

Mail to: Massachusetts Department of Revenue, PO Box 7067, Boston, MA 02204.

**BE SURE TO COMPLETE ALL EIGHT PAGES OF FORM 355C. USE WHOLE DOLLAR METHOD.**

## Corporate Tax Year

Enter the beginning and ending dates of the corporation's tax year. Calendar year filers, enter 01-01-2003 and 12-31-2003. Fiscal filers, enter the appropriate dates.

## Federal Identification Number

Enter the Federal Identification number of the corporation filing the return in the space provided.

## Name and Address

Print in **black ink**. Enter the full name and address of the corporation as they appear on the federal return.

## Filling in the Ovals

Make sure all ovals applicable to your filing situation are filled in completely, as shown:

## Whole-Dollar Method

The whole-dollar method must be used. Round off, to the nearest dollar, all amounts on the return and on any schedules. When entering amounts, do not enter cents. For example, \$100,000 should be entered as:

100,000

## Filling in Dollar Amounts/Reporting Losses

When entering amounts on Form 355C and schedules, print your numbers in **black ink** as shown. Be sure there is only one number per box. Numbers must be written completely within the boxes and should not touch them.

If you are reporting a loss in any line, mark over the "X" in the far left box for that line. Failure to do so will result in the loss being machine-read as a gain. Also, be sure to mark over the "X" boxes in the supporting schedules. **Do not** use parentheses or minus signs to indicate losses.

▼ If showing a loss, mark over X in box at left

X 1 2 3 4 5 6 7 8

## Mailing Checks and Enclosing Forms

If you are making a payment, complete Form 355C-PV, Payment Voucher, found on the bottom of this page. Staple your check or money order to the front of Form 355C-PV and enclose with your return. Do not staple supporting schedules to the Form 355C as this will delay the processing of your return.

DETACH HERE

# Form 355C-PV Massachusetts Corporate Tax Payment Voucher

2003

Corporation name	Federal Identification number	Payment for the year ending:
Street address	State	MONTH / DAY / YEAR
City/Town	Zip	Check appropriate box: <input type="checkbox"/> Domestic corporation (0167) <input type="checkbox"/> Foreign corporation (0168)
		Amount enclosed \$

STAPLE CHECK HERE

DETACH HERE



Mail to: Massachusetts Department of Revenue, PO Box 7067, Boston MA 02204

Make check payable to: Commonwealth of Massachusetts. Write your Federal Identification number on your check or money order. Be sure to staple check to the front of Form 355C-PV and enclose Form 355C-PV with your return.

# General Information

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This booklet contains Form 355C and most schedules needed to complete your Massachusetts corporation excise return. This booklet also includes an Application for Extension of Time to File, Form 355-7004.

General information regarding combined returns may be obtained in Massachusetts Regulation 830 CMR 63.32B.1.

## Major Tax Law Changes for 2003

Massachusetts law has been amended to require that a taxpayer add back to net income certain interest or intangible expenses and costs, including losses incurred in connection with factoring or discounting transactions. This add back is mandatory, with certain exceptions based generally upon showing by clear and convincing evidence that a particular add back would be unreasonable. These changes take effect for taxable years beginning on or after January 1, 2002. To claim an exception for this new requirement, file Schedule ABI, Exceptions to the Add Back of Interest Expenses and/or Schedule ABIE, Exceptions to the Add Back of Intangible Expenses. For more information, see TIR 03-19.

Recent legislation has clarified existing statutes with respect to the taxation of REIT distributions that are made to shareholders subject to the corporate excise and financial institution excise. The legislation affirms that REIT income is treated generally the same under Massachusetts law as under federal law, with most income subject to single level taxation at the recipient level. In addition, the legislation changes, effective July 1, 2003, the definition of security corporation to exclude those entities that have an ownership interest in a related entity that is a REIT. For more information, see TIR 03-9.

Massachusetts law was also amended to subject most qualified subchapter S subsidiaries (QSUBs) to the net income measure of the corporate excise tax. QSUBs continue to remain liable for the greater of the non-income measure or the minimum corporate excise. For more information, see TIR 03-20.

The 3 percent investment tax credit has been extended for five years, but will revert to 1 percent for taxable years beginning on or after January 1, 2009. Also, a corporation is not eligible for the investment tax credit for more than 19 taxable years (under prior law, 14 years).

Massachusetts law has been amended to permit the formation of single-member Massachusetts limited liability companies (LLCs). Any LLC, foreign LLC, or other entity that makes a federal election to be disregarded as an entity separate from its sole member and has, as its sole member, an S corporation for federal income tax purposes, will be separately taxed as an S corporation, domestic or foreign. The effective date of this provision is July 1, 2003.

## Who Must File as a Member of a Combined Group?

Two or more corporations, domestic or foreign, which participate in the filing of a consolidated return of income to the U.S. Government, may elect to file a combined return for the purpose of reporting their net income in Massachusetts. After the election to file a Massachusetts combined return is made, a combined return must be filed for each subsequent year, unless and until the members receive written approval from the Commissioner to file separate re-

turns. This approval will be granted only for a valid business purpose other than the reduction of tax.

Each member subject to the Massachusetts corporate excise must be included in the combined return. A corporation is subject to the Massachusetts excise when any of the following conditions are met:

- the corporation actually does business within the Commonwealth;
- the corporation exercises its charter within the Commonwealth;
- the corporation owns or uses any part of its capital, plant or other property in the Commonwealth; or
- the corporation owns and/or rents real or tangible personal property as a lessor in Massachusetts even without having a usual place of business here.

Corporations which must file and pay corporate excise include any corporation which:

- is organized under, or subject to, Chapters 156, 156A, 156B or 180 of Massachusetts General Laws (MGL); or
- has privileges, powers, rights or immunities not possessed by individuals or partnerships.

The following corporations are not obligated to file:

- corporations organized under the provision of section 10 of Chapter 157; or
- corporations exempt from taxation under the provisions of Section 501 of the federal IRC.

## How Does a Corporation Elect to Be a Member of a Combined Group?

Each corporation makes the election to be a member of a combined group by filing Form 355C. The election to be a member of a combined group is made by the responsible corporate officer when signing the return. The election must be made by the due date of the corporate excise return or by the extended due date, if applicable.

## What Are the Filing Requirements?

- Corporations in an affiliated group electing to file a combined return should file their returns together. If an extension of time is required for one or more of the corporations, the extension should be filed for the entire combined group.
- Each corporation must fill out Form 355C. Corporations must follow the guidelines in Technical Information Release (TIR) 95-8 if filing reproductions of tax forms and schedules.
- The affiliated group must designate a principal reporting corporation for Massachusetts tax purposes.

**Note:** Under Massachusetts law, all businesses registered as corporations to do business in the Commonwealth are required to file an Annual Report form with the Secretary of State on or before the 15th day of the third month after the close of their fiscal year. Annual Report forms can be obtained by calling (617) 727-9440. For further information on this requirement, refer to MGL Ch. 156B, sec. 109 and Ch. 181, sec. 4 or call the Secretary of State's Corporate Information Line at (617) 727-9640.

## What Is the Principal Reporting Corporation?

The principal reporting corporation is the corporation upon whose return the income of a combined group is reported. For processing reasons, the combined group is encouraged to use the same principal reporting corporation each year. In most cases this will be the parent corporation of the federal consolidated group. However, in cases where the parent does not have taxable nexus in Massachusetts, another affiliate or subsidiary should be designated as the principal reporting corporation.

## What Are the Responsibilities of the Principal Reporting Corporation?

The principal reporting corporation must complete Form 355C, including Schedules A, B, C or D, CG and any other pertinent schedules. Each corporation must also complete Schedule E, and, if applicable, Schedule F. Enclose additional copies of Schedule CG, Schedule E, and Schedule F if necessary. Enclosures which do not meet the form reproduction guidelines of TIR 95-8 are not sufficient.

An exact copy of all pages of U.S. Form 1120, as filed, must also be enclosed with all applicable schedules and forms required to substantiate the Massachusetts excise. Form 1120 should be enclosed with the Massachusetts return.

## How Does a Principal Reporting Corporation Compute the Corporate Excise?

Taxable income must be determined and apportioned separately for each affiliated corporation to arrive at the group's net income subject to tax. The principal reporting corporation computes its excise on the combined group's net income subject to tax, along with its own net worth or tangible property measure of the excise.

## What Are the Responsibilities of the Affiliate or Subsidiary Corporations?

Each affiliate or subsidiary corporation must:

- File a Massachusetts Form 355C, completely filling out Schedules A, B, C or D, E and any other pertinent schedules. Enclosures which do not meet the form reproduction guidelines of TIR 95-8 are not sufficient; and
- Enclose a copy of the principal reporting corporation's Schedule CG to the front of the return.

## How Does an Affiliate or Subsidiary Compute Its Corporate Excise?

Affiliates or subsidiaries should enter no amount in line 3 of the excise calculation of Form 355C. Each affiliate or subsidiary must calculate its individual tangible property or net worth measure of the excise. The income measure of the excise for the combined group is calculated and reported by the principal reporting corporation only. For further information, refer to the excise calculation instructions in this booklet.

Under no circumstance may an affiliate or subsidiary corporation pay less than the minimum excise of \$456.

## What Is Nexus for Massachusetts Corporate Excise Purposes?

A corporation that owns or uses any part of its capital or other property, exercises or continues its charter or is qualified to, or is actually doing business in Massachusetts has nexus with the Commonwealth and must pay a corporate excise. The term "doing business" as defined in MGL Ch. 63, sec. 39 includes:

- the maintenance of a place of business;
- the employment of labor;
- the buying, selling or procuring of services or property;
- the execution of contracts;
- the exercise or enforcement of contract rights; and
- each and every act, power, right, privilege, or immunity exercised or enjoyed in the Commonwealth, as an incident to or by virtue of the powers and privileges acquired by the nature of such organizations, as well as, the buying, selling or procuring of services or property.

Public Law (PL) 86-272 excludes from state net income-based taxation those interstate activities constituting mere solicitation of orders for sales of tangible personal property filled by shipment or delivery from a point outside Massachusetts after orders are sent outside the state for approval or rejection (15 USC sec. 381(a)).

The following are activities that ordinarily fall within the scope of "solicitation" under PL 86-272:

- activities including advertising related to generating retail demand for the products of a manufacturer or distributor by promoting the products to retailers who order the products from a wholesaler or other middleman;
- carrying samples only for display or for distribution without charge or other consideration;
- owning or furnishing automobiles to sales representatives, provided that the vehicles are used exclusively for solicitation purposes;
- passing inquiries and complaints on to the home office;
- incidental and minor advertising;
- checking customers' inventories for reorder only;
- maintaining a sample or display area for an aggregate of fourteen calendar days or less during the tax year, provided that no sales or other activities inconsistent with solicitation take place;
- soliciting of sales by an in-state resident representative who maintains no in-state sales office or place of business; and
- training or holding periodic meetings of sales representatives.

For further information on corporate nexus, refer to Regulation 830 CMR 63.39.1.

## What Are the Differences Between the Massachusetts Corporate Excise and the Federal Internal Revenue Code (IRC)?

Gross income for corporate excise purposes is the same as that defined under the U.S. IRC, as amended and in effect for the taxable year, with the following additions:

- interest from the bonds, notes and evidences of indebtedness of any state, including Massachusetts.

Net income is gross income less the deductions, but not the credits, allowable under the U.S. IRC. The following deductions, however, are not allowed:

- dividends received (See Schedule E-1 instructions); and
- taxes on or measured by income, franchise taxes measured by net income, franchise taxes for the privilege of doing business and capital stock taxes imposed by any state or U.S. territory.

The deduction for losses sustained in other taxable years is allowed subject to certain restrictions. See Schedule E-2 for further information.

Modifications to each corporation's separate taxable income, generally including the eliminations and deferrals listed in Treasury Reg. Sec. 1.1502, are not recognized in Massachusetts. The net income amount for each corporation should, if necessary, be adjusted to reverse any such modifications. (See Schedule E instructions.)

If the corporation is the parent of a wholly-owned DISC, the federal net income of the parent shall be reported to Massachusetts with no allocation of income, deductions, assets or liabilities made to the DISC. The DISC income, which must be included in the parent's return, must be for the same taxable year or the taxable year immediately following the close of the parent's taxable year. DISCs which are not wholly-owned, either directly or indirectly, are taxable as regular business corporations.

Massachusetts generally adopts the IRC treatment of transactions between FSCs and shareholder corporations. For additional information see 830 CMR 63.38G.2.

## Are There Special Tax Credits Available in Massachusetts?

Yes. Massachusetts offers several special credits and deductions to corporations.

Under MGL Ch. 63, sec. 32C, a corporation's credits may not offset more than 50% of its excise. Any credits not utilized as a result of this provision may be carried over for an unlimited number of years. This provision does not apply to the Research Credit, the Harbor Maintenance Tax Credit, Low-Income Housing Credit and the Full Employment Credit.

### Investment Tax Credit

Manufacturing corporations and corporations engaged primarily in research and development, agriculture or commercial fishing are allowed a credit of 3% of the cost of depreciable real and tangible property. Such property must have a useful life of four years or more or a recovery period of three years or more. The property must be used and located in Massachusetts on the last day of the taxable year. A corporation cannot take the credit on property which it leases to another. A corporation can take the credit on property which it leases from another (for property leased and placed in service on or after July 1, 1994). Generally, eligible corporate lessees making qualifying leasehold improvements may claim the credit. The credit may be claimed by completing Schedule H.

**Note:** Motor vehicles and trailers acquired on or after January 1, 1988 and subject to the motor vehicle excise do not qualify for the Investment Tax Credit.

A corporation may carry over to the **next succeeding three years** any unused portion of its Investment Tax Credit. This carryover may be taken by completing Schedule H.

### Vanpool Credit

Foreign and domestic corporations are allowed a credit of 30% of the cost incurred during the taxable year for the purchase or lease of company shuttle vans used in the Commonwealth as part of an em-

ployer-sponsored ridesharing program. The shuttle vans must be used for transporting employees and students from their homes, or public transportation facilities, to their places of employment or study.

To claim the Vanpool Credit, Schedule VP must be completed. This credit is reconciled with your other credits on Schedule H and claimed in line 8 of the excise calculation.

### Solar or Wind Power Deduction

A deduction is allowed for expenditures paid or incurred during the year for solar or wind power climate control or water heating units. Expenditures for ancillary units are not allowed. The equipment must be certified by the Office of Facilities Management, Division of Capital Planning, (617) 727-4030.

This deduction should be taken in line 20 of Schedule E.

### Economic Opportunity Area Credit

A credit of 5% of the cost of qualifying property purchased for business use within an Economic Opportunity Area (EOA) is available to businesses. To qualify for the EOA credit, the property must be eligible for the 3% ITC and used exclusively in a certified project in an EOA. However, a 3% ITC and 5% EOA credit cannot be claimed with respect to the same property. A certified project is a project that has been approved by the Economic Assistance Coordinating Council (EACC). Any business that participates in a certified project located in an EOA, is eligible to take the credit for purchases of qualifying property.

The 5% EOA credit cannot offset more than 50% of the excise due nor reduce the excise below the minimum excise tax. Any unused credit may be carried forward for ten years. Corporations filing a combined return may share any excess 5% credit among other group members to the extent that other members can use the credit.

To claim the credit, Schedule EOAC must be completed. This credit is reconciled with your other credits on Schedule H and claimed in line 6 of the excise calculation.

### Research Tax Credit

A deduction is allowed for corporations which have incurred basic research payments and/or qualified research expenses for research conducted in Massachusetts during the taxable year. A corporation taking the research credit is allowed to deduct from excise:

- 100% of the first \$25,000 of excise; and
- 75% of any amount of excise remaining after the first \$25,000.

Unused credits may be carried over to subsequent years.

The deduction allowed to a corporation for any expenses which qualify for the credit must be reduced by the amount of the credit determined for the taxable year.

Any corporation which is a member of a combined group may share research credits with other members of the controlled group. Corporations which are members of a controlled group or which are under common control with any trade or business (whether or not incorporated) are treated as a single taxpayer for purposes of determining the allowable Research Credit.

See Schedule RC or Schedule RC-A instructions for further information. To claim the Research Credit, Schedule RC or Schedule RC-A must be completed and the amount entered in line 10 of the excise calculation.

### Harbor Maintenance Tax Credit

Corporations are allowed a credit against the corporate excise for certain harbor maintenance taxes paid to the U.S. Customs Service pursuant to IRC Section 4461. A corporation is eligible for the credit if the tax paid is attributable to the shipment of break-bulk or containerized cargo by sea- and ocean-going vessels through a Massachusetts harbor facility.

The credit is not subject to the 50% limitation, however it may not reduce the tax to less than the minimum excise of \$456. A taxpayer may carryover any excess credit to any of the next succeeding five taxable years.

See Schedule HM instructions for further information. To claim the Harbor Maintenance Tax Credit, Schedule HM must be completed and the amount entered in line 11 of the excise calculation.

### Full Employment Credit

Corporations who participate in the Full Employment Program and continue to employ a participant for at least one full month after any Full employment Program subsidy has expired may claim the Full Employment Credit. A qualified employer may claim a credit equal to \$100 per month of eligible employment per participant with a maximum credit of \$1,200 per participant. Qualified participants and employers are those who participate in the Full Employment Program under the rules of the Department of Transitional Assistance.

The credit is not subject to the 50% limitation, however it may not reduce the tax to less than the minimum excise of \$456. A taxpayer may carryover any excess credit to any of the next succeeding five taxable years.

See Schedule FEC instructions for further information. To claim the Full Employment Credit, Schedule FEC must be completed and the amount entered in line 12 of the excise calculation.

### Brownfields Tax Credit

Taxpayers are allowed a credit for amounts expended to rehabilitate contaminated property owned or leased for business purposes and located within an economically distressed area.

The Brownfields credit cannot offset more than 50% of the excise due nor reduce the excise below the minimum tax. Any unused credit may be carried forward for five years.

See Schedule BC instructions for further information. To claim the Brownfields Credit, Schedule BC must be completed. The amount of the credit is entered in line 13 of the excise calculation.

### Low-Income Housing Credit

To claim the Low-Income Housing Credit, the Eligibility Statement issued by the Department of Housing and Community Development must be completed and enclosed with the return. This credit is claimed in line 14 of the return.

For further information regarding this credit, contact the Department of Housing and Community Development, Division of Private Housing, at (617) 727-7824.

### What if a Corporation's Taxable Year Is Less Than 12 Months?

Corporations whose taxable year is less than twelve calendar months may determine their excise by prorating calendar months for the non-income measure of the excise only. Schedules should be enclosed to explain any prorating computations.

A corporation may never pay less than the \$456 minimum excise on a return, and this amount can never be prorated as Massachusetts law makes no provision for the proration of the minimum excise.

### When Are Returns Due?

Corporation excise returns, together with payment in full of any tax due, must be filed on or before the 15th day of the third month after the close of the taxable year, calendar or fiscal.

An extension of time for filing returns will be granted for reasonable cause upon request. In order to request an extension, a corporation must file Form 355-7004 on or before the normal due date of the return and pay in full the estimated tax due.

**Note:** An extension of time to file is not valid if the corporation fails to pay at least 50% of the total tax liability or the minimum tax of \$456, whichever is greater, through estimated payments or with Form 355-7004.

Any tax not paid on or before the due date — without regard to the extension — shall be subject to interest charges.

### What is a Proper Return?

A proper return is a return upon which all required amounts have been entered in all appropriate lines on all forms. Data sheets, account forms or other schedules may be enclosed to explain amounts entered on the forms. However, referencing lines to enclosures in lieu of properly entering all amounts onto the return is not sufficient. Corporations who file computer-generated facsimile forms, can find specific requirements for filing such returns and schedules in TIR 95-8.

A properly filed return of a principal reporting corporation (if foreign) must also include exact and complete copies of all four pages of the corporation's U.S. Form 1120. Copies of all accompanying schedules and supplemental statements must be enclosed.

Supplements enclosed with the return to substantiate or support items must be standard business size, 8½" wide by 11" long. A separate page need not be enclosed for each supporting document and several supplements may be typed on one page as space permits. References to all supplements should be clearly marked.

Failure to meet any of the requirements detailed in this section may result in a penalty for filing an insufficient return.

### Should the Corporation Be Making Estimated Tax Payments?

All corporations which reasonably estimate their corporate excise to be in excess of \$1,000 for the taxable year are required to make estimated tax payments to the Commonwealth. Estimated taxes may be paid in full on or before the 15th day of the third month of the corporation's taxable year or in four installment payments according to the schedule below. Corporations making estimated payments must use Form 355-ES to make their payments.

Corporate estimated tax installments are paid as follows:

<u>Installment no.</u>	<u>Pct. of estimated tax due</u>	<u>Due date from start of taxable year</u>
1	40%	15th day of 3rd month
2	25%	15th day of 6th month
3	25%	15th day of 9th month
4	10%	15th day of 12th month

For more information on corporate estimated taxes, refer to 830 CMR 63B.2.2 and MGL Chapter 63B.



# Schedule Instructions

## Registration Information

### Line 1

Select "Domestic" if the corporation is incorporated in Massachusetts. Select "Foreign" if incorporated in a state other than Massachusetts or a foreign country.

### Line 2

The apportionment factor for corporations engaged in substantial manufacturing (section 38 manufacturers) is 100% of sales.

A corporation is a section 38 manufacturer for any taxable year if it is engaged in manufacturing during the taxable year and its manufacturing activity during the taxable year is substantial. This applies whether the corporation is a domestic manufacturing corporation under MGL Ch. 63, sec. 38C or a foreign manufacturing corporation under MGL Ch. 63, sec. 42B, and regardless of whether the corporation is classified as a manufacturing corporation under MGL Ch. 58, sec. 2 and Massachusetts Regulation 830 CMR 63.58.2.1.

A corporation's manufacturing activity is substantial for any taxable year if the corporation meets any of the following tests:

- The corporation derives twenty-five percent or more of its receipts for the taxable year from the sale of manufactured goods that the corporation manufactures; or
- The corporation pays twenty-five percent or more of its payroll for the taxable year to employees working in manufacturing operations and derives fifteen percent or more of its receipts for the taxable year from the sale of manufactured goods that the corporation manufactures; or
- The corporation uses twenty-five percent or more of its tangible property in manufacturing during the taxable year and derives fifteen percent or more of its receipts for the taxable year from the sale of manufactured goods that the corporation manufactures; or
- The corporation uses thirty-five percent or more of its tangible property in manufacturing during the taxable year.

Effective January 1, 1997, mutual fund service corporations are required to attribute their mutual fund sales to Massachusetts based on the domicile of the shareholders in the fund. Effective July 1, 1997 mutual fund service corporations are allowed to apportion their net income from mutual fund sales based solely on their sales factor. However, in order to use the single sales factor apportionment method a mutual fund service corporation must increase its workforce in Massachusetts by 5% a year for five years based on the 1996 employment level unless adverse economic conditions exist. Taxable net income not derived from mutual fund sales is apportioned according to the statutory three factor method.

A corporation is a mutual fund service corporation if it derives more than fifty percent of its gross income from providing, directly or indirectly, management, distribution or administration services to or on behalf of a regulated investment company, and from trustees, sponsors and participants of employee benefit plans which have accounts in a regulated investment company.

The Department has issued further guidance on apportionment for mutual fund service corporations; see Massachusetts Regulation 830 CMR 63.38.7.

If a corporation is qualified as a section 38 manufacturer or is a mutual fund service corporation, select the applicable box and complete Schedule F, Income Apportionment, accordingly. Section 38 manufacturers and mutual fund service corporations must also complete and enclose Form F-2. Form F-2 is available at [www.mass.gov/dor](http://www.mass.gov/dor).

The Department has issued further guidance on apportionment; see Massachusetts Regulation 830 CMR 63.38.1.

### Line 3

If you are a classified manufacturer, you must have filed Form 355Q and had your manufacturing status approved by the Commissioner.

A domestic business qualifies as an R & D corporation only if: its principal activity is research and development; more than  $\frac{2}{3}$  of its total receipts for the taxable year are derived from research and development; and more than  $\frac{1}{3}$  of its receipts for the taxable year are derived from the research and development of tangible personal property capable of being manufactured in the Commonwealth.

A foreign business qualifies as an R & D corporation only if: its principal activity is research and development; more than  $\frac{2}{3}$  of its total receipts assignable to Massachusetts (for the taxable year) are derived from research and development; and more than  $\frac{1}{3}$  of its receipts assignable to Massachusetts (for the taxable year) are derived from the research and development of tangible personal property capable of being manufactured in Massachusetts.

### Line 6

Domestic and foreign insurance mutual holding companies are subject to the corporate excise as business corporations but are not required to pay the portion of tax based on the value of their tangible property or net worth (i.e., the non-income measure of the excise). The corporate excise tax for an insurance mutual holding company is the greater of 9.5 percent of its net Massachusetts income in Massachusetts, or the minimum excise tax of \$456.

### Line 7

If the corporation is requesting alternative apportionment under MGL Ch. 63, sec. 42, select the box in line 7 and enclose Form AA-1. Both this return and Schedule F must be completed and the tax must be paid according to the statutory three-factor formula. However, alternative treatment may be requested and a refund will be issued if such treatment is granted by the Commissioner of Revenue. For further information on alternative apportionment see MGL Ch. 63, sec. 42 or 830 CMR 63.42.1.

### Line 8

Any corporation undergoing a voluntary dissolution should notify the DOR within 30 days of the vote to dissolve by writing to: Massachusetts Department of Revenue, Customer Service Bureau, PO Box 7010, Boston, MA 02204 or by calling (617) 887-MDOR.

### Line 14

If your corporation has undergone a federal audit for some prior year, you must report any changes to Massachusetts on Form CA-6, Application for Abatement/Amended Return. You must report any federal audit changes within three months after the final determination of the correct taxable income by the IRS. Otherwise, you will be

subject to a penalty. Answering line 14 does not relieve the corporation from this filing obligation.

## Excise Calculation

In order to complete the excise calculation, all appropriate schedules must be filled out first. Therefore, schedule instructions precede the instructions for the excise calculation section.

## Schedule A. Balance Sheet

Enter the closing amounts for the taxable year covered by this return. Once the corporation's balance sheet is completed, it will be easier to complete subsequent schedules.

### Line 1a

Enter here the book value of all buildings. A portion of the cost attributable to buildings under construction and reported on the corporation's books as construction in progress (CIP) is considered real estate for purposes of the property measure of the corporate excise and must be reported on line 1a. Enter 100% of the corporation's real estate CIP costs, less 15% of the **current year's** accumulation. This 15% is considered tangible property and must be reported on line 1k.

### Line 1j

The value of any certified solar/wind units for which a deduction is claimed this year should be entered here. Amounts of certified industrial waste and/or air pollution treatment facilities and certified solar/wind deductions claimed in any prior year should be included. In order to be eligible for this deduction, property must be certified by the appropriate state agencies and copies of such certificates must be enclosed with this return. See instructions for Schedule E, line 20.

### Line 1k

Enter here the value of all tangible property reported on the corporation's books as CIP. In addition, enter here 15% of the **current year's** real estate CIP accumulation.

### Line 2b

Enter here the value of inventory that is exempt from the tangible property measure of the excise. An example of exempt inventory is merchandise of foreign origin imported and immediately placed in a federally bonded warehouse. Merchandise of domestic origin is not exempt from the tangible property measure of the excise. A schedule listing the components of any entry in line 2b must be enclosed.

### Line 12

In order to be a subsidiary, the parent must own at least 80% or more of the voting stock of a corporation in accordance with IRC sec. 1504. Include investments in capital stock. Advances should include payments in the nature of capital contributions. Do not include loans or other receivables. Enclose a schedule for each applicable line listing the name, percentage of ownership, and amount of investments. Indicate whether the corporation is domestic or foreign. For line 12c, if the investment is in an entity other than a corporation, such as a partnership, list the type of entity.

### Line 12a

Enter in line 12a the total of capital stock and equity contributions of foreign subsidiary corporations 80% or more owned not doing business in Massachusetts.

### Line 12b

Enter in line 12b the total of capital stock and equity contributions of any subsidiary 80% or more owned not included in 12a.

### Line 12c

Enter in line 12c the value of capital stock investments with less than 80% ownership and also any other investment entity such as a partnership.

### Line 14

If the reserve for bad debt exceeds 2% of accounts receivable, enclose a complete explanation to enable a review and determination of the proper amount allowable.

### Line 17

Enter here the value of any assets not included in lines 1 through 16. Examples include, but are not limited to, goodwill and company patents.

### Line 19a

Enter the value of mortgages on Massachusetts real estate, motor vehicles, machinery owned by a corporation which is not classified as a manufacturing corporation, and other tangible personal property located in Massachusetts and subject to local taxation. Mortgages do not include conditional sales, pledges or other types of security interest.

All lines in Schedule A should be accompanied by a separate schedule if an explanation is required.

## Schedules B, C and D. Tangible or Intangible Classification and Calculation of Non-Income Measure

Schedules B, C and D are used to calculate the non-income measure of the Massachusetts corporate excise. Schedule B is used to determine whether a corporation is a tangible or intangible property corporation. Once determined, tangible property corporations must complete Schedule C (and omit Schedule D) and intangible property corporations must complete Schedule D (and omit Schedule C). Net book values should be used in completing all schedules.

### Schedule B

Schedule B is used to calculate whether a corporation is a tangible or intangible property corporation. The calculations done on lines 1 through 13 determine the property percentage as if the corporation is a domestic corporation. Completing the schedule through line 18 determines the property percentage as if it were a foreign corporation. The corporation is then allowed to choose the percentage from either line 13 or line 18. One of these two is entered on line 19. If line 19 is 10% or greater, complete Schedule C. If line 19 is less than 10%, complete Schedule D. The corporation may annually elect to calculate its non-income measure as a domestic or foreign taxpayer.

For line 14, enter the amount from Schedule A, line 12a plus from Schedule A, line 12b the total of any investments in foreign corporations not doing business in or registered in Massachusetts.

### Schedule C

If a corporation's ratio, the "tangible property percent" is 10% or greater, the corporation must complete Schedule C using net book values to determine the non-income measure of the excise. Omit Schedule D.

### Schedule D

Schedule D is used by a corporation to calculate its non-income measure excise on the basis of net worth. If line 19 of Schedule B is less than 10%, complete this schedule. Corporations are allowed to deduct the value of investments in, and advances to, Massachusetts



and foreign subsidiaries. To be a subsidiary, the parent must own 80% or more of the voting stock of the corporation in accordance with IRC sec. 1504.

The corporation is allowed to annually change this election. The calculation as a domestic corporation is done on lines 1 through 10. To calculate net worth as a foreign corporation, continue through line 21. Enter the smaller of lines 10 or 20 on line 21.

## Schedule E-1. Dividends Deduction

Massachusetts corporate excise law does not allow the dividends received deduction allowed under the IRC. However, a deduction is allowed for 95% of the value of all dividends received except:

- dividends from ownership of shares in a corporate trust engaged in business in the Commonwealth;
- dividends resulting from deemed or actual distributions (except actual distributions of previously taxed income) from a DISC which is not wholly-owned; or
- dividends from any class of stock if the corporation owns less than 15% of the voting stock of the payer corporation.

A schedule showing payers, amounts and percent of voting stock owned by class of stock must accompany Schedule E-1.

## Corporate Disclosure Schedule

Chapter 402 of the Acts of 1992 requires the Department of Revenue to conduct an annual analysis of corporate tax liability. To provide the Department with information necessary to complete this analysis, corporations are required to report amounts taken federally for charitable contributions, research expenses and certain types of depreciation. All corporations must complete the Corporate Disclosure Schedule on their return or the return will be considered insufficient and will be subject to applicable penalties and interest.

## Schedule CG. Combined Group Schedule

Schedule CG must be completed and enclosed with the return of the principal reporting corporation. This schedule identifies each corporation that participates in the filing of the Massachusetts combined return and identifies payments made by each corporation.

Start with the Principal Reporting Corporation section. Enter all applicable information regarding the parent corporation's payments. Then complete the first subsidiary corporation section, the second corporation section, and continue until a payment summary has been completed for each member corporation. Actual payments are payments that were made using that member's corporation's FID. Enclose additional copies of Schedule CG if the group has more than 4 members.

When the payment summary of each corporation is complete, add the amount from each line and enter the combined total of all members of the group in the "Total Tax Due and Payments" section.

## Schedule E-2. Loss Carryover Deduction

Massachusetts law allows two different loss carryover deductions. **A corporation may take only one of these deductions.** If the corporation qualifies to take either deduction, the choice between the deductions is left to the corporation's discretion.

### Part 1

Massachusetts law allows a loss carryover deduction for all corporations, regardless of how long the corporation has been in existence.

Corporations will be allowed to carryover for no more than five years (but not carry back) net operating losses (NOL) as defined in I.R.C. sec. 172.

### Part 2

Massachusetts law also allows a carryover deduction for losses, as determined under I.R.C. sec. 172, incurred during the first five years of a corporation's existence. The following limitations are placed upon this deduction:

- Carryover losses are not allowed to corporations where 50% or more of the voting stock is owned by another corporation (whether or not the owning corporation is taxable in Massachusetts);
- Losses of a foreign corporation incurred before becoming subject to Massachusetts corporate excise liability are not allowed; and
- The deduction can be taken only within the initial five-year period.

Combined filers. Members of a combined group may share excess New Corporation NOL carryover, after apportionment, with other members who have positive net income in proportion to the amount of income that each member contributes to the combined group. Members who are sharing their excess losses with other group members should deduct the loss amount given to other members in column b. See the Net Operating Loss Deductions and Carryovers Regulation, 830 CMR 63.30.2(10) and the Combined Returns of Income Regulation, 830 CMR 63.32B.1(9) for further information.

**Note:** A corporation may switch between the two NOL deductions from one taxable year to another. If the corporation switches from the General NOL to the New Corporation NOL, any unexpired General NOL carryover may be added to the available loss for the New Corporation NOL. See the Net Operating Loss Deductions and Carryovers Regulation, 830 CMR 63.30.2(3)(c) for further information.

## Schedule E. Taxable Income

Each member of the combined group must complete its own Schedule E. After each member has completed its Schedule E, add the amount from each Schedule E, line 21. Enter the result in the principal reporting corporation's excise calculation, line 3.,

Mutual fund service corporations eligible to apportion their income under MGL Ch. 63, sec. 38 (m) must complete two separate Schedule Es: (1) for income derived from mutual fund sales; and (2) for non-mutual fund sales income, if any. Taxable net income from mutual fund sales is gross income from mutual fund sales less: (1) any deductions directly traceable to its mutual fund sales; and (2) a portion of other allowable deductions. Other allowable deductions consist of deductions not directly traceable to mutual fund sales or non-mutual fund sales. To determine the deductible amount of its other allowable deductions a mutual fund service corporation must multiply the total amount of its other allowable deductions by a fraction, the numerator of which is the mutual fund service corporation's gross income derived from mutual fund sales for the taxable year and the denominator of which is the mutual fund service corporation's total gross income for the taxable year. Taxable net income from non-mutual fund sales consists of any taxable net income not derived from mutual fund sales.

If a corporation is not a mutual fund service corporation, 100% of sales, profits, and income should be entered in lines 1 through 11. If the corporation has income from business activities which is taxable both in Massachusetts and any other state, Schedule F should be completed and the apportionment percentage entered in line 18.

**Line 4**

Enter federal taxable income before deducting net operating loss or other special deductions. If the corporation is the parent of a DISC, income should be reported with no allocation to the DISC.

**Line 5**

Enter any allowable U.S. Wage Credit used in computing U.S. Form 1120, line 13.

**Line 7**

Enter all interest received on state and municipal obligations not reported in federal net income.

**Line 8**

Massachusetts does not allow a deduction for state, local and foreign income, franchise, excise or capital stock taxes. Any such taxes which have been deducted from federal net income should be entered in line 8 and added back into income.

**Line 9**

For Massachusetts purposes, for taxable years ending after September 10, 2001, depreciation is to be claimed on all assets, regardless of when they are placed in service, using the method used for federal income tax purposes prior to the enactment of sec. 168(k). For more information, see TIR 02-11.

**Line 10**

Enter any adjustments to income not previously reported and enclose a schedule explaining them. For example, enter in this line the amount of depreciation or amortization taken this year in computing federal net income for the following:

- certified industrial waste and/or pollution treatment facilities of prior years; or
- certified solar/wind units of current or prior years, if said facilities were sold during the year. (See MGL Ch. 63, sec. 38D(d) and sec. 38H(e) for further explanation.)

Capital gains on installment sales of intangible property made prior to 1963 may also be deducted from income. These gains fall under the provisions of prior Massachusetts law when such income was not taxable (see MGL Ch. 63, sec. 38(a)(2)). This adjustment should be made in line 8.

Deduct the full federal research credit generated provided that the full federal research credit was taken. If a reduced federal research credit was taken, no adjustments are necessary.

In the "Total tentative research credit" line of Schedule RC-A, add back the full Massachusetts research credit generated.

The deduction allowed to a corporation for any expense which qualifies for the Massachusetts Research Credit must be reduced by the Massachusetts Research Credit determined in the current taxable year. In addition, subsection (c) of Section 280C of the IRC, which requires a similar reduction of the deduction, shall not apply in determining Massachusetts net income.

A taxpayer must add back to net income related member interest and intangible expenses and costs, including losses incurred in connection with factoring or discounting transactions. If you qualify for an exception to the add back requirement, complete Schedule ABI and/or Schedule ABIE. For further information, see TIR 03-19

**Line 12**

Enter the total cost of renovating an abandoned building in an Economic Opportunity Area. Multiply this amount by 10% and enter the result in line 12.

**Line 13**

Refer to Schedule E-1 for the allowable deductions for dividends. Dividends from a Massachusetts corporate trust, a non-wholly-owned DISC or a corporation of which less than 15% of the voting stock is owned are not deductible.

**Line 14**

See the "Major Tax Law Changes for 2003" section on page 3 for further information.

**Line 15**

If a loss, skip to line 21 and enter the result.

**Line 16**

Members of a combined group may share excess new corporation Net Operating Loss (NOL) carryover, after apportionment, with other members who have positive net income in proportion to the amount of income that each member contributes to the combined group. See Schedule E-2 instructions for further information.

Massachusetts allows two different loss carryover deductions. A **corporation may take only one of these deductions.** A complete schedule of federal loss carryback and carryforward computations should be enclosed.

Refer to Schedule E-2 for the allowable amount of loss which may be entered in this item.

**Line 18**

If the corporation conducts business activities in another state sufficient to give that state the jurisdiction to tax the corporation, Schedule F should be completed in order to determine the apportionment percentage. If all business is conducted in Massachusetts, 100% should be entered in line 18.

**Line 20**

A deduction is allowed for expenditures paid or incurred during the taxable year for the installation of any solar or wind powered climate control or water heating unit. Ancillary units do not qualify.

In order to be eligible for this deduction, the property must be certified by the Office of Facilities Management. A copy of such certification must be submitted along with a schedule itemizing the cost, allowable federal depreciation, date of installation, and place of installation. If these amounts are prorated, the computation should be explained.

If eligible units do not continue in qualified use for ten years, the deductions previously allowed must be added back to taxable income. The computation of any such additional income should be explained in an enclosed schedule and the amount should be entered in Schedule E, line 10.

**Note:** The special deduction for the construction of certified industrial waste and/or air pollution treatment facilities does not apply to expenditures paid or incurred on or after January 1, 1980.

**Line 21**

Subtract line 20 from line 19 and enter the result or enter the amount from line 15 if the amount in line 15 is a loss, whichever applies.

## Allowable Credits

Lines 22 through 26 are designed to work in conjunction with Schedule H and Schedule RC-A to help calculate each corporation's allowable credits. These lines provide the information necessary to ensure that each member of the combined group applies the Schedule H and RC-A limitations to its credits. These lines need not be completed for corporations without any credits.

### Line 22

In order to calculate the income excise of each corporation to determine allowable credits, the combined group's income excise must be multiplied by the ratio of each company's Massachusetts taxable income to the combined group's taxable income excluding losses.

**Note:** If the combined group's taxable income from the principal reporting corporation's return, excise calculation, line 3 is zero or less, do not complete line 22. Instead, skip to line 23.

Make this calculation by taking the following steps:

**Step 1.** Enter the combined group's taxable income from form 355C, Excise Calculation, line 3.

**Step 2.** Multiply the total amount in step 1 by .095.

**Step 3.** Calculate the combined group's taxable income, excluding losses, by totaling the Massachusetts taxable income of each company with positive income in Schedule E, line 21

**Step 4.** For each company with positive Massachusetts taxable income, divide the company's Massachusetts taxable income reported in Schedule E, line 21 by the total from step 3.

**Step 5.** For each company with positive Massachusetts taxable income, multiply the amount from step 4 by the step 2 total. Enter this result in each company's Schedule E, line 22. For companies with no Massachusetts taxable income or with a net loss, enter "0" in the company's column in Schedule E, line 22.

### Line 23

Enter the non-income excise for each corporation from the corporation's excise calculation, lines 1 or 2.

### Line 25

Add lines 22 through 24. Enter the total for each corporation in line 25 and on the corporation's Schedule H, line 9, and Schedule RC-A, line 19c.

### Line 26

Enter the total credits used by each corporation from the corporation's Schedule H, lines 11 through 26, item b, and Schedule RC-A, line 30a or 30b.

The credits used by each corporation should be reported on its own excise calculation and/or on the principal reporting corporation's excise calculation. A corporation, however, may not utilize credits (other than Research Credits, the Harbor Maintenance Tax Credit and the Full Employment Credit) in excess of its total on Schedule H, line 11 through 27, item b. It cannot lower its excise due to an amount below the minimum excise of \$456. Credits used amounts that would lower an affiliate or subsidiary corporation's non-income excise below the minimum excise of \$456 should be reported on the principal reporting corporation's excise calculation.

**Note:** Each corporation must first apply its research credits against its individual excise. However, a member corporation with an excess research credit may apply its excess credit against the excise of another group member to the extent such other member can use additional credits under the research credit limitations.

## Schedule F. Income Apportionment

Each member of the combined group must file its own Schedule F. Corporations must complete all lines, regardless of apportionment method used. For further information on income apportionment, see the Massachusetts Regulation, 830 CMR 63.38.1.

Mutual fund service corporations should complete a Schedule F for income from mutual fund sales if they made mutual fund sales to RIC's with shareholders domiciled outside of Massachusetts. Schedule F should be completed by all other corporations (including mutual fund service corporations reporting non-mutual fund sales) which have income from business activities which is taxable both in Massachusetts and in any other state. Income is considered taxable if the other state has the jurisdiction, whether exercised or not, to subject the corporation to a corporate, franchise, privilege, or net income tax. See Massachusetts regulation 830 CMR 63.38.1.

For further information about corporations that hold partnership interests and the appropriate method to use to apportion partnership income see, 830 CMR 63.38.1 sections 4(d) and 11.

**Note:** If alternative apportionment is being requested under MGL Ch. 63, sec. 42, you must still complete and file Schedule F. select the box in line 6 of the Registration section on Form 355C. Enclose form AA-1. A refund will be issued if alternative apportionment is granted by the Commissioner. For further information see the Massachusetts Regulation 830 CMR 63.42.1.

Corporations engaged in substantial manufacturing (section 38 manufacturers) are required to apportion their net income using a sales factor of 100%. Corporations other than section 38 manufacturers or mutual fund service corporations are required to apportion their net income as follows: sales factor — 50%, property — factor 25%, payroll factor — 25%.

To determine if a corporation qualifies as a section 38 manufacturer or mutual fund service corporation, see the registration section, line 2 instructions. If a corporation is a section 38 manufacturer or mutual fund service corporation, select the applicable box. If a corporation is not a defense corporation electing single sales factor apportionment or a Section 38 manufacturer or a mutual fund service corporation, select the box for "Other."

Mutual fund service corporations must complete a Schedule F based on mutual fund sales and a separate Schedule F based on non-mutual fund sales if any. The Department has issued guidance on apportionment for mutual fund service corporations; see Massachusetts Regulation 830 CMR 63.38.7.

### Property Factor

#### Lines 1a and 2a

For tax purposes, average value is based on original cost and is determined by averaging the property values at the beginning and end of the taxable year. If substantial changes occur during the taxable year, the Commissioner may require monthly averaging to properly reflect the average value of the property.

For purposes of the property factor, a taxpayer may elect to use any reasonable method for attributing its mobile property to Massachusetts. The election is made by filing a return that employs the chosen method for the first tax year ending on or after August 11, 1995, in which the taxpayer owns or rents mobile property and apportions income to Massachusetts. The taxpayer must enclose a statement to its return describing the method chosen and must use the same method consistently from year to year. For further information, including safe harbor methods, see 830 CMR 63.38.1 sec. 7 (d).

Construction in progress is generally excluded from the property factor, see 830 CMR 63.38.1 sec. 7(a). For purposes of the property factor, inventory in transit is deemed to be at its destination, see 830 CMR 63.38.1 sec 7(c).

### **Line 1b**

Property rented by the corporation is valued at eight times the annual net rental rate paid less any sub-rentals received.

## **Payroll Factor**

### **Line 2**

Enter the total amount of wages, salaries, commissions, or any other compensation paid to employees. An employee's compensation is apportioned to Massachusetts if **any** of the following apply:

- the employee's service is performed within Massachusetts;
- the employee's service is performed both in Massachusetts and in other state(s), but the non-Massachusetts service is secondary to the Massachusetts service;
- part of the employee's service is performed in Massachusetts, and the service is controlled from a base of operations/place of control in Massachusetts; or
- part of the employee's service is performed in Massachusetts and the base of operations/place of control of the service is not in a state in which some part of the service is performed, but the employee lives in Massachusetts.

The total amount paid for compensation is computed on the cash basis, as reported for unemployment purposes. A taxpayer that uses the accrual method of accounting in computing its taxable net income may elect to use the accrual method in Massachusetts during the taxable year. For further information on how to elect the accrual method see 830 CMR 63.38.1 sec. 8(a).

## **Sales Factor**

For sales factors, enter all gross receipts of the corporation with the exception of those receipts from interest, dividends and the sale or other disposition of securities.

### **Line 3a**

Sales of tangible personal property are assignable to Massachusetts if:

- the property is delivered or shipped to any buyer, including the U.S. Government, in Massachusetts; or
- the selling corporation is not taxable in the state of the buyer and the property is not sold by an agent or agencies chiefly situated at, connected with, or sent out from premises for the transaction of business owned or rented by the corporation outside Massachusetts. A buyer for this line includes the U.S. Government.

Sales of tangible personal property are **not** assignable to Massachusetts if:

- the property is shipped or delivered to a buyer in a foreign country;
- or the property is sold to any branch or instrumentality of the U.S. Government for resale to a foreign government.

### **Line 3b**

Sales of services other than mutual fund sales, or other intangibles, are assigned to Massachusetts if the income producing activity is performed in Massachusetts, or if a greater portion of the activity, based on performance cost, occurs in Massachusetts more than in any other state.

Mutual fund sales are assigned to Massachusetts as follows:

- mutual fund sales are determined separately for each RIC from which the mutual fund service corporation receives fees for mutual fund services;
- the mutual fund sales for each RIC are multiplied by a fraction, the numerator of which is the average number of shares owned by the RIC's shareholders domiciled in Massachusetts at the beginning and end of the RIC's taxable year that ends within the mutual fund service corporation's taxable year, and the denominator of which is the average number of shares owned by all of the RIC's shareholders for the same period; and
- the resulting amounts are totaled for all RICs.

### **Line 3c**

Rents from property located or used in Massachusetts are assigned to Massachusetts. Royalties are assigned to the state in which the property right is actually used by the lessee.

If using a three-factor apportionment formula, and one or more factors are inapplicable, the following shall apply:

- In cases where only two of the three apportionment factors (property, payroll, sales) are applicable, the taxable net income is apportioned by a fraction, the numerator of which is the remaining two factors with their respective weights and the denominator of which is the number of times that such factors are used in the numerator.
- In cases where only one of the three apportionment factors (property, payroll, sales) is applicable, the taxable net income is apportioned solely by that factor with its respective weight, and the denominator is the number of times the factor is used in the numerator.

If you are claiming an exception on Schedule ABI or ABIE, do the following to see if a factor applies. Complete Schedule E through line 17 without reference to the add back exception but less the amount of deductible and intangible expense stated in line 1 of the respective Schedule ABI or ABIE.

An apportionment factor should not necessarily be considered inapplicable if its Massachusetts total is zero. If any of the apportionment totals for "Everywhere" lines 2c, 5 or 8e are less than 3.33% of Schedule E, line 14, **do not** include that factor in your Massachusetts apportionment percentage.

### **Line 5**

Mutual fund service corporations should enter the amount from line 5 computed on mutual fund sales only, in line 18 of the Schedule E being completed using mutual fund sales only. All other corporations including mutual fund service corporations reporting non-mutual fund sales, should enter the amount from line 5 in line 18, of Schedule E (for mutual fund service corporations, the Schedule E being completed for non-mutual fund sales).

## **Schedule H. Investment Tax Credit and Carryovers**

The Investment Tax Credit equals 3% of the cost or other federal basis of qualifying property less any U.S. Investment Tax Credit taken on such property (including any amount of federal credit on the property which is carried to another year, see TIR 87-2). To qualify for the credit, the property must be tangible personal property, buildings or structural components of buildings; and it must have been acquired, constructed, reconstructed, or erected during the taxable year. The property must also (a) be depreciable, (b) have been acquired by purchase pursuant to Section 179(d) of the U.S. Internal

Revenue Code, (c) have a useful life of four years or more or a recovery period of three years or more, (d) be used in Massachusetts, and (e) be situated in Massachusetts on the last day of the taxable year. A corporation cannot take the credit on property which it leases to another. A corporation can take the credit on property which it leases from another (for property leased and placed in service on or after July 1, 1994). Generally, eligible corporate lessees making qualifying leasehold improvements may claim the credit.

### Line 1

To be eligible for the credit, a corporation must be (a) engaged in manufacturing during the taxable year, or primarily engaged in (b) agriculture, (c) commercial fishing, or (d) research and development. A corporation qualifies under (d) only if its principal activity is research and development and more than  $\frac{2}{3}$  of its total receipts for the taxable year (or  $\frac{2}{3}$  of receipts assignable to Massachusetts if a foreign corporation) are derived from research and development, and more than  $\frac{1}{3}$  of its receipts for the taxable year (or  $\frac{1}{3}$  of receipts assignable to Massachusetts if a foreign corporation) are derived from the research and development of tangible personal property capable of being manufactured in Massachusetts.

### Lines 2 through 8

Useful life of property is the same for Massachusetts purposes as for federal tax purposes.

For leased property the credit is based on the lessor's adjusted basis in the leased property (determined at the beginning of the lease term) multiplied by a fraction, the numerator of which is the number of days of the taxable year during which the lessor leases the property and the denominator of which is the number of days in the useful life of the property. Useful life is the period over which the lessor depreciates the leased property for federal tax purposes.

If property qualifying for the Investment Tax Credit is disposed of or ceases to be in qualified use during the year of purchase, the credit allowed is 3% of the federal basis of the property (less any U.S. Investment Tax Credit taken) multiplied by this formula:

$$\frac{\text{Months of qualified use}}{\text{Total months of useful life}}$$

**Note:** Corporations are required to submit a separate statement explaining the job opportunities created by the Investment Tax Credit. The statement must include both the number of new jobs created and/or existing jobs protected by the new investment. Include on the statement any other information considered to be pertinent to employment in Massachusetts.

### Lines 9 through 28

Use this section to calculate (a) the number of credits available in the current year, (b) the total number of credits which may be used in the current year to offset the excise — including the order in which the various types of credits are to be used, and (c) the number and status (limited or unlimited life) of credits that may be carried to subsequent years.

When completing lines 11 through 28, complete all line a entries first. Next, complete all line b entries, followed by line c entries, line d entries, and line e entries, where applicable.

### Line a

In lines 11a through 27a, enter in each line a the amount of available credit from the appropriate supporting schedule. In line 28a, enter the total of all line a entries from lines 11a through 27a. This is the total

amount of credits available for current year use which are subject to the 50% limitation of excise rule. If not used in 2003, unused credits can be carried forward for future use.

### Line b

In lines 11b through 27b, enter in each line b the amount being used as a credit to offset the 2003 excise. Credits should be used in the order listed to prevent unnecessary lapsing of credits. Schedule H is designed to give priority to credits which expire first.

Starting with line 11a, complete all line a entries until line 27a, is reached. Transfer any amount (or part of) each line a entry which is being used to reduce the 2003 excise into line b. Continue until all available credits are used or until the total amount transferred into line b equals the amount in line 10, whichever occurs first.

Enter the amount from line 11b in line 8 of the excise calculation.

Enter the amount from line 15b in line 7 of the excise calculation.

Enter the amount from line 25b in line 6 of the excise calculation.

Add lines 12b, 13b, 14b, 16b through 25b, and 27b. Enter the result in line 9 of the excise calculation.

### Line c

Complete line c of lines 11 through 28 only if the amount in 28a is greater than the amount in line 10. Subtract the amount in line b from line a, lines 11 through 27, and enter the differences, if any, in line c.

### Line d

Starting with line 11c, work downward until line 27c is reached. Transfer any amount (or part of) line c to line d of each line until all unused credits have been transferred, or the amount in line d equals the amount in line 29. Then transfer the amount in line 27c to 27d.

### Line e

Enter in lines 13 through 15, line e, any investment tax credit from the appropriate year, subject to the 3 year limitations.

Enter in lines 17 through 26, line e, any Economic Opportunity Area credit from the appropriate year, subject to 10-year limitations.

## Excise Calculation

The excise calculation schedule of Form 355C is used to calculate the two measures of the Massachusetts corporation excise. These are:

- a tax of \$2.60 per \$1,000 on taxable Massachusetts tangible property or taxable net worth, whichever applies. If the return is for a short taxable year, the tangible property or taxable net worth should be prorated; and
- a tax of 9.5% on income attributable to Massachusetts.

The law also provides for a minimum excise of \$456.

### Line 3

Line 3 must be completed by the principal reporting corporation only.

### Lines 6 through 14

The credits used by each corporation should be reported on its own excise and/or on the principal reporting corporation's excise calculation. A corporation, however, may not utilize credits in excess of its total from Schedule H, lines 13 through 28, item b, nor lower its excise due below the minimum excise of \$456.

**Line 15**

The maximum amount of credit which may be used in any one taxable year shall not exceed 50% of the excise imposed. This limitation applies to credits listed in lines 6 through 9 and line 13. A corporation may carry over and apply to any subsequent taxable years any remaining credits not allowed because of the 50% limitation. Schedule H should be completed to determine the amount of the carryovers.

**Line 19**

Any corporation that wishes to contribute any amount to the Natural Heritage and Endangered Species Fund may do so on this form. This amount is added to the excise due. It increases the amount of the corporation's payment or reduces the amount of its refund.

**Lines 21, 22, 23 and 30**

The amounts entered in lines 21, 22, 23 and 30 should reflect the final allocation of payments, without reference to which member of the combined group made the payment originally. For the subsidiary or affiliated corporation, these amounts would include any portion of its non-income measure or minimum excise paid by the principal reporting corporation.

**Lines 28 and 29**

The following penalties apply:

**Penalty for underpayment of estimated tax.** An additional charge for the period of any underpayment may be imposed on corporations which underpay their estimated taxes or fail to pay estimated taxes. Form M-2220, Underpayment of Massachusetts Estimated Tax by Corporations, should be used to compute any underpayment penalty.

**Penalty for failure to file.** The penalty for failure to file a tax return by the due date is 1% of the tax due per month (or fraction thereof), up to a maximum of 25%.

**Penalty for late payment.** The penalty for failure to pay the total payment due with this form is ½% of the tax due per month (or fraction thereof), up to a maximum of 25%. A late payment penalty does not apply to amended returns when the amount shown on the original return was paid.

Any corporation which fails to pay its tax when due, will be subject to interest charges.

**Privacy Act Notice**

Under the authority of 42 U.S.C. sec. 405(c)(2)(c)(i) and M.G.L. c.62C, sec.5, the Department of Revenue has the right to require an individual to furnish his or her Social Security number on a state tax return. This information is mandatory. The Department of Revenue uses Social Security numbers for taxpayer identification to assist in the processing and keeping track of returns and in determining and collecting the proper amount of tax due. Under M.G.L. c.62, sec. 40, the taxpayer's identifying number is required to process a refund of overpaid taxes. Although tax return information is generally confidential pursuant to M.G.L. c.62, sec. 21, the Department of Revenue may disclose return information to other taxing authorities and those entities specified in M.G.L. c 62, secs. 21, 22 or 23, and as otherwise authorized by law.

**Signature**

The form must be signed by the treasurer or assistant treasurer or, in their absence or incapacity, by any other principal corporate officer. The social security number of the signing officer should be entered next to the date the return was signed. If you are signing as an authorized delegate of the appropriate corporate officer, check the box in the signature section and enclose a copy of Massachusetts Form M-2848, Power of Attorney. The form must also be signed by any paid preparer of the form. Mail to:

**Massachusetts Department of Revenue  
PO Box 7067  
Boston, MA 02204**

# Department of Revenue Resources

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## What kind of help is available

The instructions in the Department of Revenue's tax forms should provide answers to most taxpayer questions. If you have questions about completing your Massachusetts tax form, you can call us at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089 Monday through Friday, between 8:45 a.m. and 5:00 p.m. DOR's website at [www.mass.gov/dor](http://www.mass.gov/dor) is also a valuable resource for tax information 24 hours a day. Thousands of taxpayers use DOR's website to e-mail and receive prompt answers to their general tax inquiries. Interactive applications that allow taxpayers to check the status of their refunds and review their quarterly estimated tax payment histories are available through our website or by calling our main information lines listed above.

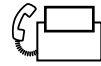
## Where to get forms and publications



To obtain Massachusetts forms and publications by phone, call the Department's main information lines at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089. Please note that many forms and publications are available 24 hours a day by calling the Department's automated forms request system at the numbers listed above.



Many Massachusetts tax forms and publications are available via the DOR website. The address for the Department's website is [www.mass.gov/dor](http://www.mass.gov/dor).



Certain forms and publications can be obtained through DOR's Fax on Demand system. For a complete Fax on Demand menu, please call (617) 887-1900 using the handset and the keypad on your fax machine.

## For general tax information

**Please call (617) 887-MDOR or toll-free in Massachusetts 1-800-392-6089. These main information lines can provide assistance with the following:**

- ▶ abatements
- ▶ bills and payments
- ▶ business registration
- ▶ business taxes
- ▶ corporate excise
- ▶ corporate trusts
- ▶ estate taxes
- ▶ estimated taxes
- ▶ fiduciary taxes
- ▶ nonresident information
- ▶ partnerships
- ▶ personal income taxes
- ▶ refunds
- ▶ withholding

## For help in one of the following specific areas

**Please call the number listed below.**

- ▶ Certificates of Good Standing (617) 887-6550
- ▶ Teletype (TTY) (617) 887-6140
- ▶ Vision-impaired taxpayers can contact any DOR office listed on this page to receive assistance.
- ▶ Upon request, this publication is available in an alternative format. Please send your request to: Office of Affirmative Action, PO Box 9550, Boston, MA 02114-9550 or call (617) 626-3410.
- ▶ Installment sales (617) 887-6950
- ▶ Small Business Workshop (617) 887-6400

To report allegations of suspected misconduct or impropriety involving Department of Revenue employees, please call the Inspectional Services Division's Integrity Hot Line at 1-800-568-0085 or write to PO Box 9568, Boston, MA 02114-9568.