Commonwealth of Massachusetts **Department of Revenue**

General Information	2
Filing Requirements	4
Instructions	5
Table of Contents	7

2003 Massachusetts Security Corporation Excise Return **355SC**

Schedules and Instructions

General Information

Who May File Form 355SC?

Any foreign or domestic corporation organized or doing business in Massachusetts and which is classified and operating as a valid security corporation under Massachusetts law may file Form 355SC. Under Massachusetts General Laws (MGL) Ch. 63, sec. 38B, a security corporation is any corporation:

- engaged **exclusively** in buying, selling, dealing in or holding securities on its own behalf and not as a broker; **and**
- classified as a security corporation by the Commissioner of Revenue. Depending on the nature of its business, a corporation may be classified as either a Class 1 or Class 2 security corporation.

Corporations which do not meet the above qualifications **may not** file Form 355SC. Nonqualifying corporations doing business in Massachusetts must file Form 355. Nonqualifying corporations which file Form 355SC are subject to penalties.

For further information regarding the taxation of security corporations, please refer to DOR Directive 86-33.

What Is a Class 1 Security Corporation?

Under MGL Ch. 63, sec. 38B(b), a Class 1 security corporation is any foreign or domestic corporation which is engaged **exclusively** in buying, selling, dealing in or holding securities on its own behalf and **not** as a broker and is a bank holding company as defined under sec. 1103 of the IRC.

Class 1 security corporations pay an excise of .33% of Massachusetts gross income or the minimum excise of $456, whichever is greater.

What Is a Class 2 Security Corporation?

Under MGL Ch. 63, sec. 38B(a), a Class 2 security corporation is any foreign or domestic corporation which is engaged **exclusively** in buying, selling, dealing in or holding securities on its own behalf and **not** as a broker, and is not a bank holding company as defined under the IRC.

Class 2 security corporations pay an excise of 1.32% of Massachusetts gross income or the minimum excise of $456, whichever is greater.

What Are the Differences Between the Security Corporation Excise and the Business Corporation Excise?

Unlike business corporations, security corporations pay an excise based exclusively on gross income. Gross income for security corporations is equal to U.S. gross income **plus** tax-exempt interest from state and local obligations, including Massachusetts. In addition, security corporation gross income may include a deduction for capital losses sustained during the taxable year to the extent they are allowable for federal tax purposes. This deduction may not be used to offset dividend or interest income, nor be carried over to other taxable years. It may only be applied to reduce capital gains realized in the year during which the capital losses are sustained. Also, security corporations may not:

- participate in the filing of a Massachusetts combined return under MGL Ch. 63, sec. 32B;
- apportion or allocate income to other states or jurisdictions; or
- take any investment research or Economic Opportunity Area tax credits against the security corporation excise.

How Does a Corporation Apply for Security Corporation Classification?

Any corporation wishing to apply for security corporation classification must submit a written application to the Commissioner of Revenue before the end of the corporation's taxable year. **Applications received by DOR after the close of the corporation's taxable year are invalid.** Applications must contain the following information:

- The name, legal address and Federal Identification number of the corporation;
- The taxable year for which classification is being sought;
- A balance sheet as of the first day of the corporation's taxable year;
- A balance sheet as of (or as near to as possible) the date of application. **Note:** General balance sheet accounts, such as "Investments," "Accounts Receivable" or "Marketable Securities," **must** be accompanied by a detailed schedule listing the type of assets held by the corporation;
- An income statement for the period from the first day of the taxable year to the date of application;
- A statement that the corporation's income for the rest of the taxable year will be exclusively from the buying, selling, dealing in or holding of securities on its own behalf and not as a broker;
- A statement that the corporation has (or has not) qualified as a bank holding company under the IRC; and
- The name and telephone number of the corporate officer or representative who may be contacted if additional information is needed. If applying on behalf of the appropriate corporate officer submit a completed Form M-2848, Power of Attorney.

Applications should be sent to:

Massachusetts Department of Revenue
200 Arlington Street
Attn: BODA — Security Corporation Unit
Room 4300
Chelsea, MA 02150

For further information on applying for security corporation classification, please call the Security Corporation Unit at (617) 887-6990.

How Often Must a Security Corporation Obtain Classification?

Once a corporation has received security corporation classification from the Commissioner of Revenue, it is not required to be classified again unless:

- it has been notified by the Commissioner that its classification has been revoked; or
- it is reapplying for security corporation status after electing to have its classification withdrawn.

How May a Security Corporation Elect to Have Its Classification Withdrawn?

A corporation which has been classified as a security corporation may elect to have its classification withdrawn by notifying the Commissioner of Revenue of its election in writing. This election may be made even if the corporation is still engaged exclusively in buying, selling, dealing in or holding securities on its own behalf and not as a broker. The notice must be on corporate letterhead and signed by the president, vice-president or clerk of the corporation. The notice of withdrawal must be filed and received by DOR before the end of the corporation's taxable year. This election should be sent to the Security Corporation Unit address listed in the "How Does a Corporation Apply for Security Corporation Classification?" section.

For further information on electing to withdraw your security corporation classification refer to DOR Directive 86-36.

What If the Corporation Changes Activities During the Year?

A security corporation which has a material change in its activities (e.g., merger with another corporation) during the year must notify the Commissioner of Revenue in writing of the change before the end of the taxable year in which the change occurs. Any classified security corporation engaging in disallowed activities during the taxable year will have its security classification revoked and any additional amounts due under the Massachusetts corporation excise for the year will be assessed.

For further information on a security corporation's responsibilities when changing activities, refer to DOR Directive 86-37.

Filing Requirements

When Is Form 355SC Due?

Form 355SC, 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 corporation's taxable year.

Note: Under Massachusetts corporate law, all corporations 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. The annual report filing fee is $125. A late fee of $25 will be assessed to any report which is filed late. 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.

Can a Security Corporation Get an Extension of Time to File?

Yes. An extension of time will be granted for reasonable cause upon request. To request an extension, a corporation must file Form 355-7004, Extension of Time to File Massachusetts Corporate Excise Return, 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 $456, whichever is greater, through estimated payments or with Form 355-7004.

What Are the Penalties for Late Returns?

Security corporation returns which are not filed on or before the due date are subject to interest and penalty charges. 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.

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

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

Should the Corporation Be Making Estimated Tax Payments?

All corporations which reasonably estimate their corporate excise tax 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 installments according to the following schedule. Corporations making estimated payments must use the Form 355-ES booklet to make their payments. Four vouchers, one for each installment payment, are included in the Form 355-ES booklet.

Special Optical Character Readable payment vouchers are mailed to all corporations who have made estimated payments or should be making estimated payments. These special forms are easier to fill out and facilitate processing. Blank estimated tax vouchers are also available from DOR.

Participation in Electronic Funds Transfer (EFT) of estimated tax payments is required for all security, business and manufacturing corporation excise tax filers whose annual corporate excise tax liability exceeds $250,000. For further information, please call the Department's Automated Processing Bureau at (617) 887-5020.

Corporate estimated tax installments are paid as follows:

Installment no.	Pct. of estimated tax due	Due date from start of taxable year
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

Note: New corporations in their first full taxable year with less than 10 employees have different estimated payment percentages for each installment — 30%, 25%, 25% and 20% respectively.

To avoid a possible underpayment penalty on its taxes, a corporation should, when filing its first voucher on Form 355-ES, estimate its tax to be at least equal to the prior year's tax. Corporations are required to pay the lesser of 100% of the corporation's prior year tax, 90% of the current year's tax or 90% of the current year's tax using the prior year's apportionment percentage. If the prior year's tax was the minimum tax, the corporation should make a payment or payments equal to the minimum tax to safeguard against a possible underpayment penalty.

Note: Any corporation with $1 million or more of federal taxable income in any of its three preceding taxable years ("large corporations") may not use the prior year's tax except in calculating their first installment payment. Any reduction in a large corporation's first installment caused by using the prior year's tax must be added to the corporation's second installment.

For more information on corporate estimated taxes, refer to the Code of Massachusetts Regulations 830 CMR 63B.2.2.

What Is a Valid Return?

A valid return is a return upon which all required amounts have been entered in all appropriate lines on the return. To be valid, **an exact, signed copy** of U.S. Form 1120, 1120-A or 1120RIC as filed must be attached to Form 355SC. Copies of all applicable schedules, forms and supplemental statements must also be attached. Any return filed without copies of such information attached is considered an incomplete return and is subject to a penalty.

Supplements attached to the return to substantiate or support lines must be standard business size, 8½ × 11. A separate page need not be attached for each supporting document and several supplements may be typed on one page as space permits. The attachments should be firmly fastened to the back of the return and references to all supplements should be clearly marked at the appropriate place on the return.

Failure to meet any of the requirements in this section may result in a penalty for filing an insufficient return. Such penalty may be assessed at double the amount of tax due.

Line Instructions

Registration Information

Enter the corporation's business activity code and federal identification number above the name and address of the corporation. The following business activity code numbers apply to security corporations:

6060 Bank holding companies
6742 Regulated investment companies
6749 Holding and other investment companies except bank holding companies

Regulated Investment Companies (RIC). Check the box to the right of the Federal Identification Number box if the corporation is a RIC. Complete all applicable lines. Leave the Excise, Refund and Balance Due lines blank and write "RIC-Informational Return" across the front of the return.

Line 3

Check if the corporation is a Class 1 or Class 2 security corporation as classified by the Commissioner of Revenue. For an explanation of the differences between Class 1 and Class 2 security corporations, please refer to the General Information section of the instructions.

Line 8

If your corporation has undergone a federal audit for some prior year, you must report any changes to the Department of Revenue on Form CA-6, Application for Abatement/Amended Return. You must report any audit changes within three months after the final determination of the correct taxable income by the IRS. Failure to report these changes will result in a penalty. Answering yes to line 8 does not relieve the corporation from this filing obligation.

Line 11

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 12

If there have been significant changes in your corporation's activities during the taxable year, attach a statement explaining these changes. Security corporations **must** notify the Commissioner of Revenue of any change in their activities before the end of their taxable year.

Computation of Excise

The Computation of Excise section is used to calculate either the Class 1 or Class 2 security corporation excise. The respective excise rates are:

- Class 1 security corporation: .33% of Massachusetts gross income; and
- Class 2 security corporation: 1.32% of Massachusetts gross income.

Massachusetts law also provides for a minimum security corporation excise of $456.

Line 1

Enter the corporation's U.S. total income from the appropriate U.S. form.

Line 2

Enter all interest received on state and municipal bond obligations not reported in line 1.

Line 3

Massachusetts law does not allow security corporations to take deductions for ordinary losses in the course of business or for capital losses carried over from other taxable years. Consequently, any of the following lines which have been deducted from total U.S. income must be entered in line 3 and added back into income:

- any losses from U.S. Form 4797, lines 7 and 17, column g; and
- any capital losses carried over from other taxable years, and deducted on U.S. Schedule D.

Any amount required to be added to income in line 3 must be accompanied by an explanatory schedule.

Lines 8 and 9

Any foreign or domestic security corporation which purchases or leases shuttle vans as part of an employer-sponsored ridesharing program is eligible for the Massachusetts Vanpool Credit. The credit is equal to 30% of the total purchase or lease costs for qualifying vans used in the Commonwealth. To take the Vanpool Credit, complete Schedule VP, Vanpool Credit. For further information on this credit, refer to Schedule VP or Massachusetts General Laws, Ch. 63, sec. 31E.

Line 10

A qualified employer participating in the Full Employment Program may claim a credit of $100 per month of eligible employment per employee. The maximum amount of credit that may be applied in all taxable years with respect to each employee is $1,200. Enter the amount of Full Employment Credit claimed this year from Schedule FEC, line 23. Attach Schedule FEC to this return. For more information, contact the Department of Transitional Assistance, 600 Washington Street, Boston, MA 02111.

Line 13

The minimum excise for a security corporation is $456. The minimum excise **cannot** be prorated under **any** circumstance, as Massachusetts law makes no provision for the proration of the minimum tax.

Line 15

All security corporations that wish to contribute to Endangered Wildlife Conservation may do so on their corporation excise return. This amount is added to the excise due. It increases the amount of the corporation's payment or reduces the amount of their refund.

The Natural Heritage and Endangered Species Fund is administered by the Massachusetts Department of Fisheries, Wildlife and Environmental Law Enforcement to provide for conservation programs for rare, endangered and nongame wildlife and plants in the Commonwealth.

Refunds

If the total of lines 17 through 19 exceed line 16, enter the amount overpaid in line 20.

The overpayment may be applied in part or in full to 2004 estimated taxes by entering in line 21 the amount to be credited to 2004 estimated taxes. Enter in line 22 the amount of the overpayment to be refunded.

Balance Due

If line 16 exceeds the total of lines 17 through 19, the balance due should be entered in line 23. Payment is due on or before the 15th day of the third month after the close of the corporation's taxable year.

Lines 24 and 25

The following penalties apply:

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.

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 underpayment of estimated tax: An additional charge 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, is used to compute any underpayment penalty.

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

Line 26

Enter the total payment due. Checks for this amount should be made payable to the Commonwealth of Massachusetts. Checks should have the corporation's Federal Identification number written in the lower left corner.

Signature

When Form 355SC is complete, it must be signed by the treasurer or assistant treasurer or, in their absence or incapacity, by any other principal corporate officer. If you are signing as an authorized delegate of the appropriate corporate officer, check the box below the signature line on Form 355SC and attach Form M-2848, Power of Attorney. The form must also be signed by any paid preparer of the form. The form should be mailed to:

Massachusetts Department of Revenue
PO Box 7067
Boston, MA 02204

Schedule A. Balance Sheet

Enter the beginning and end-of-year balance sheet amounts for the taxable year covered by this return. All values entered on Schedule A must be in accordance with values on U.S. Form 1120 or 1120RIC; or 1120-A, Part III. All corporations are required to complete both columns A and B. All items in Schedule A should be accompanied by a separate schedule if an explanation is required.

Ownership Information

Line 1

If your corporation owned 50% or more of the voting stock of another corporation **or** if any single entity, e.g., corporation, individual, trust, partnership or estate, owned 50% or more of your corporation's voting stock, attach a schedule showing name, address, Federal Identification or Social Security number, and percentage of ownership amount.

Line 2

Include the highest amount **owed to** your corporation during the taxable year and/or the highest amount **owed by** your corporation during the taxable year, whichever is applicable.

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.

Department of Revenue Resources

Contents

General Information	2
Who May File Form 355SC?	2
What is a Class 1 Security Corporation?	2
What is a Class 2 Security Corporation?	2
What Are the Differences Between the Security Corporation Excise and the Business Corporation Excise?	2
How Does a Corporation Apply for Security Corporation Classification?	2
How Often Must a Security Corporation Obtain Classification?	2
How May a Security Corporation Elect to Have Its Classification Withdrawn?	3
What if the Corporation Changes Activities During the Year?	3
Filing Requirements	4
When is Form 355SC Due?	4
Can a Security Corporation Get an Extension of Time to FIle?	4
What Are the Penalties for Late Returns?	4
Should the Corporation Be Making Estimated Tax Payments?	4
What is a Valid Return?	4
Form 355SC Line Instructions	5
Registration Information	5
Computation of Excise	5
Schedule A. Balance Sheet	6
Ownership Information	6
Corporate Disclosure Schedule	6
Resources	inside back cover

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 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.

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
- Installment sales (617) 887-6950
- Small Business Workshop (617) 887-6400
- 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.

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.

Massachusetts
Department of
Revenue
PO Box 7011
Boston, MA 02204

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Dear Taxpayer,

The Massachusetts Department of Revenue's website, www.mass.gov/dor is a comprehensive resource, providing businesses with the information needed to meet their tax obligations and other business requirements, 24 hours a day, seven days a week.

At www.mass.gov/dor, business owners can register as employers or vendors (or update their records with DOR), report newly hired employees, file meals and room occupancy taxes and make corporate quarterly income tax payments online. Businesses will also find fill-in tax forms where information can be entered online and then printed out for filing, and free software for filing and paying withholding, sales and use taxes via personal computer. Also available are Massachusetts tax forms, helpful publications, and links to unemployment insurance, workers' compensation, and other business-related information.

Another major initiative is to boost electronic filing by business taxpayers across the Commonwealth. I encourage you to visit our website to learn more about our WebFile for Business application, the fast and convenient method for filing and paying business tax obligations. If you haven't tried WebFile for Business, go to our website, www.mass.gov/dor and take a tour. We continue to add functions and hope to have full electronic capability for corporate taxpayers in the future. We will let you know when this new technology is available for your use.

For more information or assistance, please visit our website or call us at (617) 887-MDOR or, toll-free in Massachusetts, at (800) 392-6089.

Sincerely,

Alan LeBovidge
Commissioner