2008 Massachusetts S Corporation Excise Return **Form 355S**

If your total revenues are $100,000 or more, you **must** e-file. See TIR 05-22 for further information.

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.

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) 887-5660
- Vision-impaired taxpayers can contact any DOR office to receive assistance.
- Upon request, this publication is available in an alternative format. Please send your request to: Office of Diversity and Equal Opportunity, PO Box 9550, Boston, MA 02114-9550.

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.

Major 2008 Tax Law Changes

Certain corporations that have failed to file Massachusetts returns for past taxable periods are subject to the Department's non-filer "look-back" policy. As described in TIR 08-4, a taxpayer that complies with certain requirements will be required to file returns for a five year look-back period, commencing with tax years ending on or after January 1, 2003.

If the taxpayer does not comply with the terms of TIR 08-4, the Department will apply a look-back period that is appropriate to the circumstances and will not be bound by the general three or seven-year look-back periods that were announced in TIR 03-17. The Department is stating this policy in response to requests by taxpayers for guidance so that they may resolve their tax and financial reporting obligations.

There has been significant legislation passed in 2008 that will have major effects on the way corporations (and many other businesses) will file returns and calculate their tax obligations. Most of these changes take effect for tax years beginning on or after January 1, 2009, but some provisions take effect earlier.

Taxpayers should consult the following documents to help prepare for these changes:

TIR 08-11: An Act Relative to Tax Fairness and Business Competitiveness;

TIR 08-23, Life Sciences Tax Incentive Program under St. 2008, c. 130;

Working Draft 830 CMR 63.32B.1: Combined Reporting;

Working Draft TIR 08-15: "Check-the-Box" Conformity; Entity Classification under St. 2008, c. 173.

How Is S Corporation Income Taxed?

Entities that are S corporations for federal purposes are S corporations for Massachusetts purposes, with the exception of corporate trusts, security corporations and public utility corporations. Items of S corporation income, loss, and deduction are passed through the S corporation to the shareholders, and reported and taxed on their return. S corporations are liable for the non-income measure of the corporate excise, and for the income measure of the corporate excise on any income that is taxable to the S corporation federally. S corporations owe at least the minimum tax.

S corporations with total receipts of $6 million or more are liable for the income measure of the corporate excise at the following rates:

- 3% on net income subject to tax if total receipts are $6 million or more, but less than $9 million; or
- 4.5% on net income subject to tax if total receipts are $9 million or more.

To determine if an S corporation is liable for the income measure of the corporate excise, complete Massachusetts Schedule S, lines 1 through 17. If line 17 of Schedule S is at least $6 million, complete Massachusetts Schedule E and enclose a completed pro-forma U.S. 1120. If line 17 of Schedule S is less than $6 million, Schedule E is not required.

If an S corporation and any other entity share common ownership and are engaged in a unitary business, then the total receipts less intercompany transactions of all such entities must be combined according to the rules of Regulation 830 CMR 62.17A.1(11)(e) and (f), to determine the dollar amount of such S corporation's total receipts.

"Total receipts" means gross receipts or sales, less returns and allowances, and includes dividends, interest, royalties, capital gain net income, rental income and all other income.

Who Must File and Pay Corporate Excise?

The purpose of the corporate excise is to require payment for the right granted by the laws of the Commonwealth to exist as a corporation and for the enjoyment under the protection of the Commonwealth's laws of the powers, rights, privileges and immunities derived by reason of the corporate form of existence and operation. The corporate excise is due and payable 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.

Massachusetts S corporations must file Form 355S with Schedule S and one Schedule SK-1 for each resident and nonresident shareholder. Schedule S must be completed to report the S corporation's distributive income. The S corporation must also provide a Schedule SK-1 to each shareholder to inform the shareholder of the distributive share of items of income, loss, deduction and credit for reporting on the shareholder's Massachusetts return.

If an S corporation is a Financial Institution, it must file Form 63FI, Financial Institution Excise Return. It must enclose with Form 63FI Schedule S and Schedule SK-1 for each shareholder.

All Massachusetts S corporations organized as corporations rather than as corporate trusts continue to be liable for the property measure of the corporate excise or the minimum tax and must complete the relevant sections of Form 355S. It must also complete Schedule E of Form 355S for any income taxed at the corporate level for U.S. income tax purposes, or if total receipts are $6 million or more.

Note: Under Massachusetts law, all corporations registered 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 M.G.L. Ch. 156B, sec. 109 and Ch. 181, sec. 4 or call the Secretary of State's Corporate Information Line at (617) 727-9640.

Each shareholder should use the information provided on Schedule SK-1 to complete the shareholder's Massachusetts tax return.

Each shareholder is taxed on the shareholder's share of the S corporation's income whether distributed or not. Each shareholder must report the shareholder's distributive share of S corporation income during the taxable year on the shareholder's Massachusetts tax return. A full-year resident individual must file Form 1. Part-year resident individuals and nonresident individuals must file Form 1-NR/PY. A trust or estate must file Form 2.

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 M.G.L. 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 IRC 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.

Massachusetts and Internal Revenue Code Differences

For Massachusetts tax purposes, an S corporation is allowed only those expense deductions that an individually owned business is allowed. Deductions that are itemized by an individual on Schedule A of U.S. Form 1040 are not allowed. Neither the deduction for a net operating loss carryover or carryback is allowed to S corporations or to an individual under Massachusetts income tax law. However, S corporations with total receipts of $6 million or more are allowed a Massachusetts net operating loss for purposes of calculating their additional excise liability. If an S corporation is subject to the net income measure because its receipts are over 6 million dollars, then it must calculate its net income as if it were a C corporation.

Schedules S and SK-1 isolate income and deduction items in order to produce the correct Massachusetts S corporation total as well as each shareholder's correct Massachusetts distributive share. These amounts often differ from those reported on U.S. Form 1120S and Schedule K-1.

Can an S Corporation Own a Subsidiary?

Yes. In order to qualify for this treatment, the parent must wholly own such corporations. The parent must elect qualified S corporation treatment for its subsidiary. For federal tax purposes, the qualified S corporation subsidiary is not treated as a separate corporation. All of the subsidiary's assets, liabilities, and items of income, deduction and credit are treated as those of the S corporation parent.

How Does Massachusetts Treat Qualified S Corporation Subsidiaries (QSUB)?

A QSUB has always been subject to the corporate excise in an amount equal to the greater of the non-income measure or the minimum tax. The QSUB and parent have always been required to determine and report their taxable tangible property or taxable net worth based solely on their own separate assets and liabilities.

Effective March 5, 2003, a QSUB is subject to the entity level tax on net income if it has income that would have been taxed to it for federal income tax purposes if it had been treated federally as a separate S corporation. It is also subject to the income measure if it has total receipts of $6 million or more for the taxable year as computed under the rules for combining and aggregating total receipts. See TIR 03-20 for more information. Prior to March 5, 2003, all of a QSUB's income was treated as though earned and taxed to its parent.

The parent of Massachusetts S corporation items of income, loss, deduction, and credit, together with those of its QSUBs will continue to pass through and be taxable to its shareholders with the implementation of TIR 03-20.

In completing a QSUB's Form 355S, for purposes of determining it net income subject to tax under the corporate excise for the taxable year in which March 5, 2003 falls and thereafter, the net income and apportionment factors are to be determined as stated in TIR 03-20. Likewise, in completing the S corporation parent's Form 355 and Schedule(s) SK-1, its net income and apportionment factors for the taxable year in which March 5, 2003 falls and thereafter are to be determined as stated in TIR 03-20.

In addition to being subject to taxation at the entity level stated in the prior section, if a QSUB is owned by a corporate trust, the QSUB's income, gain, loss, deductions, and credits are treated as those of the corporate trust and reported on Form 3F.

In the case of a partnership parent, the partnership parent's items of income, loss, deduction, and credit, together with those of its QSUB, will pass through and be taxable to its partners.

If the corporate trust owns a non-Massachusetts single member Limited Liability Corporation (LLC), Massachusetts adopts the federal income tax classification as determined by the federal check the box rules. See Letter Ruling 99-17 for further information.

S Corporation Additional Excise

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 are not allowed:

- dividends received (see Schedule E-1 instructions); and
- taxes for or measured by income, franchise taxes measured by 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, but subject to restrictions. See Schedule E-2 for further information.

S corporations with total receipts of $6 million or more are liable for the income measure of the corporate excise at the following rates:

- 3% on net income subject to tax, if total receipts are $6 million or more, but less than $9 million; or
- 4.5% on net income subject to tax, if total receipts are $9 million or more.

To determine if an S corporation is liable for the income measure of the corporate excise, complete Massachusetts Schedule S. If line 17 of Schedule S is at least $6 million, complete Massachusetts Schedule E and enclose a completed pro-forma U.S. 1120.

Are There Special Tax Credits Available In Massachusetts?

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

Under M.G.L. 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, Historic Rehabilitation Credit, the Full Employment Credit, the Film Incentive Credit or the Medical Device 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. 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.

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 (ITC). To claim the ITC, Schedule H must be completed where the credit is calculated and also reconciled with your other credits. The amount of the credit is then entered on Schedule CR.

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 employer-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 the amount of the credit entered on Schedule CR.

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 used exclusively in a certified project in an EOA and must meet the same tests (4 years useful life, etc.) imposed for the 3% ITC. A certified project is a project that has been approved by the Economic Assistance Coordinating Council (EACC). If a corporation participates in a qualified project and is also eligible for the 3% ITC (see above), the corporation may claim either the ITC or the EOAC, but not both with respect to each item of qualifying property.

The 5% EOA 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 ten years.

To claim the credit, Schedule EOAC must be completed. This credit is reconciled with your other credits on Schedule H and the amount of the credit entered on Schedule CR.

Research Credit

A credit is allowed for corporations which made basic research payments and/or incurred qualified research expenses conducted in Massachusetts during the taxable year. A corporation taking the research credit is limited in the amount that can be taken against the excise in any year. The credit cannot reduce the tax to less than $456.

The amount of credit is equal to:

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

The deduction allowed to a corporation for any research expenses generating a Massachusetts Research Credit must be reduced by the amount of the credit generated. This amount is added back to income on Schedule E or E-CG, line 13.

Any corporation which is a member of a combined group may share excess research credits with other members of the combined 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 instructions for further information. To claim the Research Credit, Schedule RC must be completed and the amount of the credit entered on Schedule CR.

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 sec. 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 of the credit entered on Schedule CR.

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 of the credit entered on Schedule CR.

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 eligibility period for the Brownfields Credit has been lengthened. The environmental response action commencement cut-off date has been extended from August 5, 2005 to August 5, 2011 and the time for incurring eligible costs that qualify for the credit has been extended to January 1, 2012.

The Brownfields Credit may be transferred, sold or assigned to another taxpayer with a liability under chapter 62 or chapter 63, or to a nonprofit organization.

The Department will issue a certificate to the party receiving the Brownfields Credit reflecting the amount of the Brownfields Credit received. The party receiving the Brownfields Credit must enclose the certificate with each tax return in which the credits are being applied. Certificate application forms and additional information are available at www.mass.gov/dor.

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 and TIR 06-16 for further information. To claim the Brownfields Credit, Schedule BC must be completed and the amount of the credit entered on Schedule CR.

Low-Income Housing Credit

This credit is administered through the Massachusetts Department of Housing and Community Development (DHCD). The Low-Income Housing Credit is available to taxpayers that claim a U.S. credit for the construction or development of low-income housing. The state credit is taken over five years. The amount of credit a taxpayer may claim for a qualified Massachusetts project is allocated by the DHCD and is based on a total pool of money awarded to the Commonwealth. In order to claim the credit, a copy of the eligibility statement issued by DHCD must be available upon request.

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

To claim the Low-Income Housing Credit, supporting documentation must be enclosed with the return and the amount of the credit entered on Schedule CR.

Historic Rehabilitation Credit

Effective for years beginning on or after January 1, 2005 and ending on or before December 31, 2011, taxpayers may be eligible for the Historic Rehabilitation Credit (HRC). To claim this credit, a historic rehabilitation project must be complete and have been certified by the Massachusetts Historical Commission. Unused portions of the credit may be carried forward for a maximum of five years. This credit may be transferred or sold to another taxpayer. The HRC is not subject to the 50% limitation rule for corporate taxpayers. If the taxpayer disposes of the property generating the HRC, a portion of the credit may be subject to recapture.

For further information, see Regulation 830 CMR 63.38R.1, Massachusetts Historic Rehabilitation Tax Credit.

To claim the Historic Rehabilitation Credit, supporting documentation must be enclosed with the return and the amount of the credit entered on Schedule CR.

Film Incentive Credit

For taxable years beginning on or after January 1, 2006 and before January 1, 2023, Massachusetts allows two credits for motion picture production companies who meet certain qualification requirements. Production companies who incur at least $50,000 of production costs in Massachusetts are eligible for income and corporate excise tax credits equal to 20% of the total Massachusetts payroll for the production, excluding salaries of $1 million and higher. In addition, production companies whose Massachusetts production expenses exceed 50% of the total production cost receive an income and corporate excise tax credit of 25% of the total Massachusetts production expense. Supporting documentation must be available to the Department of Revenue upon request.

For further information on the Film Incentive Credit, see TIR 07-15. To claim the Film Incentive Credit, enter the Certificate Number issued by the Department of Revenue and the amount of the credit on Schedule CR. Certificate application forms and additional information are available at www.mass.gov/dor.

Medical Device Credit

For taxable years beginning on or after January 1, 2006, the Medical Device Credit is equal to 100% of the user fees actually paid to the United States Food and Drug Administration (USFDA) by a medical device company during the taxable year for which the tax is due for pre-market submissions (e.g., applications, supplements, or 510(k) submissions) to market new technologies or upgrades, changes, or enhancements to existing technologies, developed or manufactured in Massachusetts.

For further information on the Medical Device Credit, see TIR 06-22. To claim the Medical Device Credit, enter the Certificate Number issued by the Department of Revenue and the amount of the credit on Schedule CR. Certificate application forms and additional information are available at www.mass.gov/dor.

Refundable Film Credit

New for 2007, Schedule RFC, Refundable Film Credit, is used by motion picture production companies to elect to claim a refundable film credit if they have not transferred or carried forward a portion of the film credit for the production. Transferees of the film credit do not qualify for the refundable film credit.

If an election to refund the film credit for a production is made, the entire film credit remaining after reducing the current year tax liability will be refunded at 90%. The production company is not allowed to partially refund and partially transfer or carryover over any portion of the credit to the next tax year.

The refundable film credit is claimed on the Excise Calculation Schedule, line 18.

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 available to explain any prorating computations.

The gross receipts of a corporation must be annualized for a short period return for purposes of determining whether the corporation's gross receipts are $6 million or more. If not, there is no tax on income on the corporate level.

To compute total receipts for a taxable year consisting of less than 12 months, an S corporation

must annualize its total receipts for the taxable year by multiplying the total taxable receipts for the short taxable year by 12 and then dividing the resulting amount by the number of months in the short taxable year. The resulting difference is entered on Schedule S, line 11.

For further information, see Regulation 830 CMR 62.17A.1 sec. 11(c).

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?

Corporate 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.

Corporations with $100,000 or more in receipts or sales must submit their extension request, as well as any accompanying payment, electronically. Also, any corporation making an extension payment of $5,000 or more must make the payment using electronic means. See TIR 04-30 for further information.

Under certain circumstances, if a payment is not required to be submitted with the extension request, the requirement to file the extension may be waived. For further information, see TIR 06-21.

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 an interest charge.

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 must be available to explain amounts entered on the forms. Referencing lines to enclosures in lieu of entering amounts onto the return is not sufficient.

An exact copy of U.S. Form 1120S, including all applicable schedules and forms and any other documentation required to substantiate entries made on this return, must be made available to the Department of Revenue upon request.

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.

- 40% of the estimated tax due for the year is due on the 15th day of the 3rd month of the taxable year;
- 25% of the estimated tax due for the year is due on the 15th day of the 6th month of the taxable year;
- 25% of the estimated tax due for the year is due on the 15th day of the 9th month of the taxable year;
- 10% of the estimated tax due for the year is due on the 15th day of the 12th month of the taxable year.

Corporations with $100,000 or more in receipts or sales must submit their estimated payments electronically. See TIR 04-30 for further information.

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

To avoid a possible underpayment penalty on its taxes, a corporation should, when making its first payment, estimate its tax to be at least equal to the prior year's tax. 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 having $1 million or more of federal taxable income in any of its three preceding taxable years (as defined in IRC sec. 6655(g)) may only use its prior year tax liability to calculate its first quarterly estimated tax payment. Any reduction in the first installment payment that results from using this method must be added to its second installment payment.

For more information on corporate estimated taxes, refer to Regulation 830 CMR 63B.2.2, and M.G.L. Ch. 63B.

Registration Information

Line 2

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 M.G.L. Ch. 63, sec. 38C or a foreign manufacturing corporation under M.G.L. Ch. 63, sec. 42B, and regardless of whether the corporation is classified as a manufacturing corporation under M.G.L. Ch. 58, sec. 2 and Regulation 830 CMR 63.58.2.1.

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

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

- The corporation derives 25% or more of its receipts for the taxable year from the sale of manufactured goods that the corporation manufactures; or
- The corporation pays 25% or more of its payroll for the taxable year to employees working in manufacturing operations and derives 15% or more of its receipts for the taxable year from the sale of manufactured goods that the corporation manufactures; or
- The corporation uses 25% or more of its tangible property in manufacturing during the taxable year and derives 15% or more of its receipts for the taxable year from the sale of manufactured goods that the corporation manufactures; or
- The corporation uses 35% 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 50% 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 Regulation 830 CMR 63.38.7.

If a corporation is qualified as a section 38 manufacturer or is a mutual fund service corporation, check 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 or any Department of Revenue location.

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

Line 3

A domestic business qualifies as an R & D corporation only if: its principal activity is research and development; more than two-thirds of its total receipts for the taxable year are derived from research and development; and more than one-third 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 two-thirds of its total receipts assignable to Massachusetts (for the taxable year) are derived from research and development; and more than one-third 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.

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

A Regulated Investment Company (RIC) must file an informational return and may do so by filing Form 355 or 355SC. The Excise, Balance Due and Refund lines should be left blank and "RIC-Informational Return" must be written across the front of the return.

If the corporation is a Real Estate Investment Corporation (REIT), which is an intangible property corporation, it is required to file Schedule RNW, REIT Net Worth Calculation in place of Schedule D. See TIR 06-6 for further information.

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% of its net Massachusetts income in Massachusetts or the minimum excise tax of $456.

Line 7

If the corporation is requesting alternative apportionment under M.G.L. Ch. 63, sec. 42, answer yes in line 7 and enclose Form AA-1. The 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 M.G.L. Ch. 63, sec. 42 or Regulation 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.

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. If the federal change results in less tax due to Massachusetts than was assessed or paid, you may apply for abatement under the federal change rules within one year of the final federal determination. Answering line 14 does not relieve the corporation from this filing obligation.

Line 16

If the corporation is deducting intangible or interest expenses, answer yes. Complete Schedule ABI, Exceptions to the Add Back of Interest Expense, and/or Schedule ABIE, Exceptions to the Add Back of Intangible Expenses to claim the deduction.

Line 17

If the corporation must explain any inconsistent filing positions made on the return, answer yes and enclose Schedule TDS. See TIR 06-5 for further information.

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. Use the whole dollar method.

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 in line 1a. Enter 100% of the corporation's real estate CIP costs, less 15% of the **current year's** accumulation.

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 available upon request. See instructions for Schedule E, line 25.

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. For further information, see Department of Revenue Directive 02-11.

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 available upon request.

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.

Line 12a
Enter in line 12a the total of capital stock and equity contributions of subsidiary corporations 80% or more owned. If an amount other than "0" is entered in line 12a, Schedule A-1, Investments in Subsidiaries, must be completed.

Line 12b
Enter in line 12b 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, a complete explanation to enable a review and determination of the proper amount allowable must be available upon request.

Line 15
Enter the amount from Schedule A-2, Intercompany Receivables, line 29.

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.

Line 22
Enter the amount from Schedule A-3, Intercompany Payables, line 29.

Schedules B, C & 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. Beginning in 2004, taxpayers no longer have the option of calculating the non-income measure as a domestic or foreign corporation. To reflect this legislative change, both Schedule B and D have been reduced in length. If line 15 is 10% or greater, complete Schedule C. If line 15 is less than 10%, complete Schedule D. The maximum entry allowed on line 15 is 9.999999.

Schedule C
If Schedule B, line 15 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 15 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.

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.

Dividends received from a Regulated Investment Company (RIC) or Real Estate Investment Trust (REIT) are not eligible for the dividends received deduction, whether the dividend is paid directly by the RIC or REIT, or indirectly, as through a subsidiary or affiliate of the taxpayer.

The total dividends amount on Schedule E-1, line 1 is derived from the amount shown on U.S. Form 1120, Schedule C, line 19, less any dividends received directly or indirectly from RICs or REITs as well as any other dividends for which deduction is not allowed under Massachusetts law. The amounts excluded from line 1 are also excluded from line 8. The dividends shown on lines 2 through 6 should not be excluded from line 1, as they will be separately subtracted from line 1 in determining the amount of line 8. For further information, see TIR 04-10.

A schedule showing payers, amounts and percent of voting stock owned by class of stock must be available upon request.

Schedule E

Taxable Income
If line 17 of Schedule S is less than $6 million, Schedule E is not required.

Mutual fund service corporations eligible to apportion their income under M.G.L. Ch. 63, sec. 38 (m) must complete two separate copies of Schedule E: (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 12. 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 22.

Line 4
Enter U.S. 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 calculating U.S. Form 1120, line 13.

Line 7
Enter all interest received on state and municipal obligations not reported in U.S. 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 U.S. 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 U.S. income tax purposes prior to the enactment of sec. 168(k). For more information, see TIR 02-11 and TIR 03-25.

Line 10
A taxpayer must add back to net income any related member 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 ABIE. For further information, see TIR 03-19.

Line 11
A taxpayer must add back to net income any related member interest 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. For further information, see TIR 03-19.

Line 12
Massachusetts has decoupled from the American Jobs Creation Act of 2004, Public Law 108-357. For corporate excise purposes, the definition of net income does not include the new federal production activity deduction. See TIR 05-5 for further information.

Line 13
Enter any adjustments to income not previously reported. For example, enter in this line the amount of depreciation or amortization taken this year in computing U.S. 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 M.G.L. 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 M.G.L. Ch. 63, sec. 38(a)(2)). This adjustment should be made in line 8.

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

On Massachusetts Schedule RC, Part 1, line 21, 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 IRC sec. 280C, which requires a similar reduction of the deduction, shall not apply in determining Massachusetts net income.

Capital loss carryovers are not allowed under Massachusetts law. Any loss claimed on the U.S. return must be added back here.

If the corporation has income not subject to apportionment, the amount should be deducted here and entered on Schedule E, line 24.

If the corporation has qualified taxable income and passive income, the amount should be deducted here and entered on the Excise Calculation Schedule, line 3.

Line 15
Enter the total cost of renovating an abandoned building in an Economic Opportunity Area. Multiply this amount by 10% and enter here.

Line 16
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. Also, direct or indirect dividends received from a RIC or REIT are not deductible.

Line 20
Massachusetts allows two different loss carryover deductions. **A corporation may take only one of these deductions.**

Enter the amount of Net Operating Loss (NOL) carryover from Schedule E-2, line 8 or 13, whichever applies, using the following guidelines.

If claiming the general NOL from Schedule E-2, Part 1, line 8, enter the amount of the NOL only if the amount in line 19 is a positive number. You must enter "0" if the amount in line 19 is a loss (negative).

If using the new corporation NOL from Schedule E-2, Part 2, line 13, enter that amount regardless of the amount in line 19, positive or negative. See CMR 830 6332B.1, Combined Returns of Income, for further information.

A complete schedule of federal loss carryback and carryforward deductions must be available upon request.

Line 22
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% (1.00) should be entered in line 22.

Line 25
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 available along with a schedule itemizing the:

- cost;
- allowable U.S. 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 amount should be entered in Schedule E, line 13.

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 26
Subtract line 25 from the total of lines 23 and 24. If a corporation has a loss and has business activities that are attributable to any other state, the amount of the loss must be apportioned using Schedule F.

Corporate Disclosure Schedule

Chapter 402 of the Acts of 1992 require 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 CR. Other Corporate Credits

Schedule CR is used to calculate the total of any credits being claimed for use in the current tax year.

Schedule E-2

Loss Carryover Deduction

Massachusetts 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 IRC sec. 172.

Part 2

Massachusetts law also allows a carryover deduction for losses, as determined under IRC 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.

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 F

Income Apportionment

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. For purposes of this requirement, "taxable" has the meaning set forth in the Apportionment of Income Regulation, 830 CMR 63.38.1 sec. 5(b). This standard is not satisfied merely because the taxpayer is incorporated in such a state or files a return in such a state that relates to capital stock tax or franchise tax for the privilege of doing business.

If the corporation is requesting alternate apportionment under M.G.L. Ch 63, sec. 42, answer yes in line 7 of Form 355 and enclose Form AA-1. You must still complete and file Schedule F. A refund will be issued if alternative apportionment is granted by the Commissioner. For further information on alternative apportionment see the Massachusetts Alternate Apportionment Regulation, 830 CMR 63.42.1.

For further information about corporations that hold partnership interests and the appropriate method to use to apportion partnership income, see Regulation 830 CMR 63.38.1 sec. 4(d) and 12.

Corporations engaged in substantial manufacturing (section 38 manufacturers) are required to apportion their net income based on sales factor only.

Corporations other than section 38 manufacturers or mutual fund service corporations are required to apportion their net income as follows: sales factor equals 50%, property factor equals 25%, payroll factor equals 25%.

To determine if a corporation qualifies as a section 38 manufacturer or mutual fund service corporation, see instructions for the registration section: line 2 of Form 355, 355C or 355S.

If a corporation is a section 38 manufacturer or mutual fund service corporation, fill in the applicable oval. If a corporation is not a section 38 manufacturer or a mutual fund service corporation, fill in the oval 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. For further information on apportionment for mutual fund service corporations, see Regulation 830 CMR 63.38.7.

Corporations must complete all lines, regardless of apportionment method used. Make certain that complete information is entered for all apportionment factors. A return which is incomplete will be considered insufficient.

Line Instructions

1. Property Factor

Line 1a

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 make available a statement describing the method chosen and must use the same method consistently from year to year. For further information, including safe harbor methods, see Regulation 830 CMR 63.38.1 sec. 7(d).

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

2. Payroll Factor

Line 2a

Enter the total amount of wages, salaries, commissions, or any other compensation paid to employees. An employee's compensation is allocated 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 location in Massachusetts;
- part of the employee's service is performed in Massachusetts, and the location 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 determining the total amount of compensation paid in Massachusetts during the taxable year. For further information on how to elect the accrual method see Regulation 830 CMR 63.38.1 sec. 8(a).

3. Sales Factor

For sales factors, enter the gross receipts of the corporation with the exception of those receipts from interest, dividends and the sale or other disposition of securities. Any receipts resulting in allocable income must be excluded. For further information, see Regulation 830 CMR 63.38.1 sec. (9)(a).

Also, in the case of the sale, exchange or other disposition of a capital asset used in the taxpayer's trade or business, enter the gain from the transaction and not the gross receipts. For further information, see Regulation 830 CMR 63.38.1 sec. (9)(b).

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.

Line 3b

Sales of tangible personal property are assignable to Massachusetts if 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 item 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 3c

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 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 3d

Rents from property located or used in Massachusetts are assigned to Massachusetts. Royalties derived from the use of intangible property are assigned to the state to the extent that the property is used in the state.

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.

Note: An apportionment factor should not necessarily be considered inapplicable if its Massachusetts total (lines 1c, 2a or 3f) is zero.

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 21 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.

If any of the apportionment totals for "Worldwide" (lines 1c, 2a or 3f) are less than 3.33% of Schedule E, line 21, **do not** include that factor in your Massachusetts apportionment percentage.

Schedule H

Investment Tax Credit and Carryovers

Corporations claiming an Investment Tax Credit and corporations taking a credit carryforward from a prior year must file Schedule H. Schedule H, Parts 2 through 6, are also completed in conjunction with Schedule VP and Schedule EOAC, by corporations taking a Vanpool Credit or an Economic Opportunity Area Credit.

Part 1. Calculation of Current-Year Investment Tax Credit Generated

Lines 1a through 1d

Only R&D corporations should complete these lines. All others leave blank. R&D corporations are eligible for the credit only if two thirds of their Massachusetts receipts are derived from the provision of research and development services or from royalties or fees from licensing patents, know-how or other technology developed from research and development. See Regulation 830 CMR 64H.6.4 for further information.

Lines 2a through 2h

Enter the total cost basis of all qualified depreciable property placed in service during the tax year by Schedule A category. Qualifying property must be tangible property, including buildings but excluding motor vehicles and other property taxable under Ch. 60A, used by the corporation in Massachusetts, situated in the Commonwealth on the last day of the taxable year and depreciable under Section 167 of the IRC with a useful life of four years or more. A corporation may not claim the credit for property it leases to others as a lessor.

Line 4

If any of the property included in lines 2a through 2h is eligible for a U.S. Tax Credit, the total amount of the U.S. credit taken with respect to the qualifying property must be entered here and applied as a reduction to the basis in calculating the Massachusetts credit.

Line 6

Enter the tentative tax credit. This is 3% of the cost after any basis reduction.

Line 7

If qualifying property is placed in service and disposed of or otherwise ceases to be in qualified service before the end of the same tax year, the amount of credits available is reduced. Multiply the credit otherwise available (cost as reduced by U.S. tax credits times 3%) by a fraction, the numerator of which is the number of months remaining in the useful life of the asset when it is disposed of or otherwise ceases to qualify and denominator of which is the total number of months in the assets'

useful life. For example, an item that is depreciated over a seven-year period for U.S. tax purposes has a useful life of 84 months.

Line 8

Subtract the amount of the credit reduction in line 7 from the tentative credit in line 6.

Part 2. Recapture of Unused Credit

If property is disposed of or ceases to be in qualified use prior to the end of its useful life, the difference between the credit taken and the credit allowed for actual use must be added back in the excise calculation in the year the property is disposed of. Recapture tax is not due if the credit with respect to the property disposed were never used to offset excise, whether or not still available for use. Recapture does not apply if the property has been in qualified use for more than 12 years.

Note: Recapture provisions also apply to the Vanpool Credit and the Economic Opportunity Area Credit which are tracked on Schedule H, Parts 2 through 6.

For each item disposed of or otherwise ceasing to qualify prior to the end of its useful life, calculate the reduction in the amount of the original credit. This is the credit originally allowed times a fraction, the numerator of which is the number of months remaining in the useful life of the asset when it is disposed of and the denominator of which is the number of months in the asset's useful life, as determined for U.S. tax depreciation purposes.

Next determine whether or not the credits allowed but not earned have been used to reduce excise. The potential recapture tax for each asset is then offset, on a dollar for dollar basis, by credits of the same type generated in the same tax period that have never been used to reduce excise. Include both credits carried over from the prior year and credits which expired unused.

Example

Manufacturing Corporation begins business in year 1 and generates $30,000 in ITC. In year 2, Manufacturing Corporation generates $10,000 in ITC. It generates no credits in years 3 or 4. All property is acquired in the first month of the year and has a useful life of 10 years. In each year, Manufacturing's excise before credits is $7,000 and it uses $3,500 of ITC (a total of $14,000 in credits used) all of which is from the earliest available credit (the year 1 amount). Under the provisions of M.G.L. Ch. 63, sec. 32C, a further $3,500 in ITC becomes available for carryforward to any future period in each of the 4 tax years (a total of $14,000, all of which is also from the earliest available credit, which is the year 1 amount). At the end of year 4, the remainder of the year 1 credit ($30,000 less $14,000 used less $14,000 converted equals $2,000) expires unused.

At the beginning of January in year 5, Manufacturing sells all of its assets, triggering recapture.

The potential recapture on the year 1 assets is $30,000 × 72 ÷ 120 = $18,000. This is partially offset by the $2,000 of the expired credits. A further $14,000 is offset by reducing the unlimited carryforward generated in year 1 that is still available and unused. There is a net recapture tax of $2,000 related to the year 1 assets.

The potential recapture on the year 2 assets is $10,000 × 84 ÷ 120 = $7,000. This is offset by reducing the carryover available from year 2 by the same amount. There is no recapture tax related to the year 2 assets. Manufacturing still has $3,000 of year 2 credits available for use. They will expire at the end of the current year.

Completing the Schedule

Enter $25,000 in line 4 (the total potential ITC recapture from all years).

Enter $2,000 in line 5a (the amount of credits expired unused).

Enter $7,000 in line 5b (the amount of the reduction in year 2 credits).

Enter $14,000 in line 5e (the amount of the reduction in the unlimited carryover).

Enter $2,000 in line 6 (the total recapture tax added to excise this year).

Part 3. Calculation of Available Credits

Enter the amount of each credit available for use in the current year based on the year generated. If carryover credits were offset against potential recaptures in Part 2, the amount available should reflect the reduction by those offsets.

Part 4. Credits Used in 2008

Lines 1 through 4

Determine the maximum total amount of Vanpool, Investment Tax and Economic Area credits this corporation may use against its excise this year. M.G.L. Ch. 63, sec. 32C limits the amount of these credits that may be used in any year by prohibiting a taxpayer from taking credits that will reduce the tax below 50% of the excise due before credits. If the taxpayer has available and will be taking other credits that are also subject to the Ch. 62C limitation (e.g., the Brownfields Credit under sec. 38Q), enter that amount on line 3. Credits not subject to the limitation (e.g., Research Credit under sec. 38M) may be taken after sec. 32C credits provided they do not reduce the final excise due below $456 and should not be entered in Schedule H, Part 4. These credits should be claimed on Schedule CR.

Lines 5 through 26

Enter the total amount of credits used against the corporation's own excise for each type of credit and source year. Taxpayer's may use credits in any order desired, but within each type of credit the schedule is structured to suggest that credits expiring at the end of the current year be used first. Enter the total amount of credits used against the corporation's own excise for each type of credit first. Lines 7, 13 and 26 are used to total the credits taken by type.

Note: Massachusetts allows Economic Opportunity Area credits generated by one member of a group filing a combined return of income to be used by other members of the same group, regardless of whether they were affiliated when the credits were generated. See Regulation 830 CMR 63.38N.1for further information. Only a corporation filing form 355C and using EOA credits generated by other group members may complete Part 4, lines 14 through 26 showing more credits used than the credits available on Part 3.

Part 5. Credits Converted to Unlimited Status in 2008

Credits unused because of the 50% of excise limitation may be carried over to any future year. Taxpayers with unused credits may designate a portion of them, not to exceed 50% of the excise before credits as converted to unlimited status. As with credits used in Part 4, taxpayer's may designate credits for conversion in any order desired, but within each type of credit the schedule is structured to suggest that credits expiring at the end of the current year be converted first.

Part 6. Credits Available for Future Use

A corporation with unused credits at the end of the year will reconcile them by type and year of origin. Note that current year vanpool credits, ITC generated three years previously and EOA credits generated at ten years previously expire at the end of this year unless used or converted to unlimited carryover status.

A corporation which generated EOA credits that it shared with other members of a combined group, as described in Part 4, must reduce its Part 6 totals to reflect any EOA credits those affiliates actually used.

Part 7. Reconciliation of Massachusetts Tangible Property

Corporations claiming an ITC in Part 1 or claiming an ITC carryforward in Part 3, whether or not used in the current year, must complete Part 7 based on the book value of their capital assets located in Massachusetts.

Schedule S

Distributive Income

Note: In the following Schedule S and SK-1 instructions only certain items are addressed in detail. Lines without specific instructions are considered to be self-explanatory.

Line 1

Enter the total amount of gross receipts or sales from U.S. Form 1120S, line 1c. Returns and allowances are subtracted in reaching this amount.

Line 11

Enter the total amount of other income not included in lines 1 through 10. Include income from U.S. Form 1120S, line 5, and U.S. Form 1120S, Schedule K, lines 10. If an S corporation is a partner in a partnership, include the amount of its distributive share of the partnership's total receipts not included in lines 1 through 10. Include all tax-exempt income. Also enter any other items included in an entity's gross income under IRC sec. 61 and not included in lines 1 through 10.

Also include in line 11 any difference that results from the annualization of income for a short period return.

Line 13

Enter only those receipts from intercompany transactions that are included in lines 1 through 11. Do not include receipts from related entities included in 15 below.

Line 15

Enter here the aggregated total receipts less receipts from intercompany transactions for all entities other than the S corporation that share common ownership and are engaged in a unitary business with the S corporation according to Regulation 830 CMR 62.17A.1 (11)(e) and (f). Enclose a supporting schedule for each entity clearly stating all items of total receipts and intercompany transactions.

Line 18

Enter the amount of ordinary income or loss from U.S. 1120S, line 21. Do not include interest, dividends, and other portfolio income included in line 21. Enter such income on lines 23 through 29.

Line 19

If reporting other income or loss from U.S. Form 1120S, Schedule K, line 10, enclose a statement and explain.

Line 20

Enter total foreign, state or local income, franchise, excise or capital stock taxes deducted from U.S. income. These taxes are deductible for U.S. tax purposes, but are not deductible in Massachusetts.

Line 22

Enter in line 22 any income or loss included in lines 18 and/or 19 which is granted treatment by the U.S. government or is classified as a capital gain or loss for Massachusetts purposes.

For Massachusetts purposes capital gain or loss is the gain or loss from the sale or exchange of a capital asset. A capital asset is: (1) an asset which is a capital asset for U.S. income tax purposes or (2) property that is used in a trade or business within the meaning of IRC section 1231(b) without regard to the holding period defined in said section 1231(b).

Line 24

Report and describe any other adjustments to Massachusetts income and deductions not reported elsewhere on Schedule S.

For Massachusetts tax purposes, an S corporation is allowed only those expense deductions that an individually owned business is allowed. Deductions that are itemized by an individual on Schedule A of U.S. Form 1040, are not allowed. The deductions for a net operating loss carryover or carryback are neither allowed to the S corporation nor to an individual under Massachusetts income tax law.

If an S corporation is taxable at the federal level, and thus at the state level, on passive investment income under IRC sec. 1375, then such income passed through to the shareholder is reduced by the item's portion of the tax paid at the U.S. and state level. Reduce the S corporation's Massachusetts ordinary income by the amount of the federal and state tax paid by the S corporation. Enclose the computation of the tax shown on U.S. Form 1120S, line 22(b).

Also report the cost of renovating a qualifying abandoned building. Enclose a statement detailing the location and cost of renovating the qualifying abandoned building.

Line 28

Add U.S. Form 1120S, Schedule K, lines 4, 5a and 6 and enter the total in line 28.

Line 29

Enter the total amount of interest on U.S. debt obligations reported in line 28 which is taxable by the U.S. government, but is tax-exempt in Massachusetts.

Line 30

Enter the total amount of interest from Massachusetts banks included in line 28. Report any interest from Massachusetts savings accounts, saving share accounts and NOW accounts. Also report any interest from term and time deposits. Enclose a statement listing bank sources and amounts.

Note: This amount should not include any 5.3% interest from Massachusetts banks derived in the ordinary course of the trade or business activity of the S corporation, and properly reported in line 18.

Line 31

Enter the total amount of interest (other than from Massachusetts banks) and dividend income included in line 28. Do not include interest on U.S. debt obligations that is taxable by the U.S. government, but is tax-exempt in Massachusetts. Enclose a statement listing sources and amounts.

Line 32

Enter the total amount of the S corporation's non-Massachusetts state and municipal bond interest. This interest is taxable in Massachusetts but not taxed by the U.S. government and thus not reported on U.S. Form 1120S, Schedule K, line 4.

Line 33

Enter the total amount of royalty income included in line 28.

Note: This amount should not include any royalty income derived in the ordinary course of the trade or business activity of the S corporation and properly reported in line 18.

Line 34

Enter the total amount of other income included in line 28, less the amounts of other income included in lines 29 through 33.

Capital Gains and Losses

If the S corporation had any income or loss reported in U.S. Form 1120S, Schedule K, line 10 that is granted capital gains treatment by the U.S. government, include that amount in lines 35 through 42, as applicable.

Line 38

Enter the amount of any loss on the sale exchange or involuntary conversion of property used in a trade or business and held for one year or less (from U.S. Form 4797).

Line 41

Enter in line 41 any long-term capital gain or loss that is not included in lines 39 and/or 40 that is granted capital gains treatment by the U.S. government or is classified as a capital gain or loss for Massachusetts purposes. For Massachusetts purposes capital gain or loss is the gain or loss from the sale or exchange of a capital asset. A capital asset is: (1) an asset which is capital asset for U.S. income tax purposes or (2) property that is used in a trade or business within the meaning of IRC

sec. 1231(b) without regard to the holding period defined in said section 1231(b).

Line 42

Enter the amount of any gain from collectibles held for more than one year.

Collectibles are defined as any capital asset that is a collectible within the meaning of IRC sec. 408(m), as amended and in effect for the taxable year, including works of art, rugs, antiques, metals, gems, stamps, alcoholic beverages, certain coins, and any other items treated as collectibles for federal tax purposes.

Line 43

Report any adjustments to Massachusetts capital gain and losses. Enclose a complete statement explaining any such adjustments.

If an S corporation is taxable at the federal level, and thus the state level, on certain capital gains under IRC sec. 1374, then the amount of the capital gains passed through to the shareholder is reduced by the tax paid at the federal and state level. Reduce the S corporation's capital gain by the amount of federal and state tax paid by the S corporation and enclose the computation of the tax shown on U.S. Form 1120S, line 22(b).

Resident and Nonresident Reconciliation

Lines 44 through 47 should be completed only if all three of the following conditions are met: (a) there is one or more nonresident shareholders; (b) there is any income derived from business activities or ownership of any interest in real or tangible property in another state; (c) such business activities provide the other state the jurisdiction to levy any income or franchise tax.

When completing line 45 exclude any income from unrelated business activities prior to apportionment, see Regulation 830 CMR 63.38.1, sections (3) and (4). Enclose a statement and explain any adjustments.

Form 355S, Schedule F should be completed before completing lines 44 through 47.

Schedule SK-1

Shareholder's Massachusetts Information

The shareholder's distributive share of each item of income, loss, deduction, or credit is determined by the shareholder's percentage of ownership of stock in the S corporation computed on a daily basis during the taxable year.

◗ For a nonresident shareholder eligible to apportion, enter in lines 1 through 21 the amount of the shareholder's share of each applicable distributive share item multiplied by the apportionment percentage in Form 355S, Schedule F, line 5.

Note: For line 8, enter the amount of the nonresident shareholder's distributive share without apportionment.

◗ For all other shareholder's, enter in lines 1 through 21 the amount of the shareholder's share of each applicable distributive share item.

◗ For lines 17 through 20 the S corporation may provide each shareholder with a written breakdown of long-term capital gains and losses by the applicable holding period.

Line 1

Enter the amount of the shareholder's share of the S corporation's Massachusetts ordinary income or loss from Schedule S, line 25. For a nonresident eligible to apportion, enter the amount of the shareholder's share of the S corporation's Massachusetts ordinary income or loss multiplied by the apportionment percentage in Schedule F, line 5.

Line 2

Report and describe in line 2 any other expense that is deductible from income taxed at 5.3% and properly reportable on Massachusetts Form 1 or 1-NR/PY, Schedule E, Part II, or Form 2 and is not reported elsewhere on Schedule SK-1. Examples of such deductions include oil and gas depletion and the expense deduction for recovery property, IRC sec. 179. An estate or trust may not elect to expense recovery property.

Line 3

Combine the amounts in lines 1 and 2. The result in line 3 includes each shareholder's share of the S corporation's Massachusetts ordinary income.

The correct Massachusetts amount of the shareholder's share of ordinary income may differ from the comparable U.S. total reported on the shareholder's Form 1 or 1-NR/PY, Schedule E, Part II; or Form 2. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule E, Part II if applicable; or Form 2, to reflect the correct Massachusetts amount. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain the adjustments.

The S corporation should also provide each shareholder with the amount of any costs of renovating a qualifying abandoned building. Each shareholder should use this amount to complete Form 1 or 1-NR/PY, Schedule E, Part II; or Form 2. Enclose a statement detailing the location and cost of renovating the qualifying abandoned building.

The S corporation should provide each shareholder with the amount of the shareholder's share of any 5.3% interest from Massachusetts banks and interest (other than from Massachusetts banks) and dividend income included in line 3. Each shareholder should use these amounts to complete Form 1 or 1-NR/PY, Schedule E, Part II.

Line 4

Enter the shareholder's share of any tax due from the S corporation to any other state, territory or possession of the United States, or Canada or any of its provinces on income taxable to the shareholder in Massachusetts and otherwise allowable as a credit to individuals.

This credit is available only to resident shareholders and may be taken by using Form 1, Schedule Z, or Form 1NR/PY, Schedule Z or if applicable, on Form 2. Where the credit is available, the S corporation must also provide each resident shareholder with separately stated totals of 5.3% interest (other than from Massachusetts banks), dividends and certain capital gains taxed at 12% income and long-term capital gain taxed by other jurisdictions to enable each shareholder to calculate the amount of the credit. The S corporation should provide each shareholder with the names of each applicable jurisdiction and the amount taxed.

Enter the shareholder's proportionate share of the Lead Paint Credit, Economic Opportunity Area Credit, Full Employment Credit, Brownfields Credit, Low-Income Housing Credit, Historic Rehabilitation Credit, Home Energy Efficiency Credit, Solar Heat Credit, Film Incentive Credit and Medical Device Credit. Supporting documentation must be made available upon request.

Line 5

Enter the shareholder's share of the S corporation's net rental income or loss from real estate activities from Schedule S, line 26.

The correct Massachusetts amount of the shareholder's net income or loss from rental real estate activities may differ from the comparable U.S. total reported on the shareholder's Form 1, or 1-NR/PY, Schedule E, Part II; or Form 2, Schedule E. Each shareholder should make adjustments in Form 1, or 1-NR/PY, Schedule E, Part II; or Form 2, Schedule E, to reflect the correct Massachusetts amount. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain.

Line 6

Enter the shareholder's share of the S corporation's net rental income or loss from other activities from Schedule S, line 27.

The correct Massachusetts amount of the shareholder's share of net rental income or loss from other activities may differ from the comparable U.S. total reported on the shareholder's Form 1 or 1-NR/PY, Schedule E, Part II; or Form 2. Each shareholder should make adjustments in Form 1 or

1-NR/PY, Schedule E, Part II; or Form 2, to reflect the correct Massachusetts amount. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain.

Line 7

Enter the shareholder's share of the S corporation's interest on U.S. debt obligations from Schedule S, line 29. For a nonresident shareholder eligible to apportion, enter the shareholder's share without apportionment. This income is taxable by the U.S. government, but tax-exempt in Massachusetts.

Each shareholder should include the line 7 total in Form 1 or 1-NR/PY, Schedule B; or Form 2, Schedule B.

Line 8

Enter the shareholder's share of the S corporation's 5.3% interest from Massachusetts banks from Schedule S, line 30. For a nonresident eligible to apportion, enter the shareholder's share of the S corporation's 5.3% interest from Massachusetts banks multiplied by the apportionment percentage in Schedule F, line 5.

Each shareholder should include the line 8 total in Form 1, line 5, or 1-NR/PY, line 7; or Form 2.

Each nonresident shareholder whose income is apportioned should receive from the S corporation the amount of the shareholder's pre-apportionment share of 5.3% interest from Massachusetts banks. Each nonresident individual whose income is apportioned should include this amount in Form 1-NR/PY, Schedule B. This amount should be used instead of any amount from Form 1-NR/PY, line 7 because the shareholder's full distributive share of such income is included in the U.S. amount reported in Form 1-NR/PY, Schedule B, line 1. Each nonresident trust or estate whose income is apportioned should include its pre-apportionment share of 5.3% interest from Massachusetts banks in Form 2, Schedule B, instead of any amount from Form 2.

Line 9

Enter the shareholder's share of the S corporation's interest (other than from Massachusetts banks) and dividend income from Schedule S, line 31. For a nonresident shareholder eligible to apportion, enter the shareholder's distributive share of the (other than from Massachusetts banks) interest and dividend income from Schedule S, line 26, multiplied by the apportionment percentage in Schedule F, line 5.

The correct Massachusetts amount of the shareholder's share of (other than from Massachusetts banks) interest and dividend income may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY, or 2, Schedule B, lines 1 and 2. Each shareholder should make adjustments to reflect the correct Massachusetts amount in Form 1 and 1-NR/PY, Schedule B, line 6; or Form 2, Schedule B. Each shareholder should enclosed a statement to the shareholder's Massachusetts tax return and explain any adjustments.

Line 10

Enter the shareholder's share of the S corporation's non-Massachusetts state and municipal bond interest from Schedule S, line 32. For a nonresident shareholder eligible to apportion, enter the shareholder's distributive share of the S corporation's non-Massachusetts and municipal bond interest multiplied by the apportionment percentage in Schedule F, line 5. This income is not taxed by the U.S. government, but is taxable in Massachusetts.

Each shareholder should include the line 9 total in Form 1, 1-NR/PY, or 2, Schedule B, line 3.

Line 11

Enter the shareholder's share of the S corporation's royalty income from Schedule S, line 33. For a nonresident shareholder eligible to apportion, enter the shareholder's distributive share of the S corporation royalty income from Schedule S, line 33, multiplied by the apportionment percentage in Schedule F, line 5.

The correct Massachusetts amount of the shareholder's share of royalty income may differ from the comparable U.S. total reported on the shareholder's Form 1, or 1-NR/PY, Schedule E, Part I, line 1; or Form 2, Schedule E, line 1. Each shareholder should make adjustments to reflect the correct Massachusetts amount in Form 1, or 1-NR/PY, Schedule E, Part I, line 2; or Form 2, Schedule E. Each shareholder should enclose a statement to the shareholder's Massachusetts tax return and explain any adjustments.

Line 12

Enter the shareholder's share of the S corporation's income from Schedule S, line 34. For a nonresident shareholder eligible to apportion, enter the shareholder's distributive share of the S corporation's other income from Schedule S, line 29 multiplied by the apportionment percentage in Schedule F, line 5.

The correct Massachusetts amount of the shareholder's share of other income may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY; or 2. Each partner should make adjustments on the applicable lines of Form 1, 1-NR/PY, or 2 to reflect the correct Massachusetts amount. If any income reported to the S corporation from a Real Estate Mortgage Investment Conduit (REMIC) in which the S corporation is a residual interest holder is reported in line 12, then any such adjustment should be made on Form 1, or 1-NR/PY, Schedule E, Part I, line 2 or Form 2, Schedule E. Each shareholder should attach a statement to the shareholder's Massachusetts tax return and explain any adjustments.

Line 13

Enter the shareholder's share of the S corporation's short-term capital gain from Schedule S, line 35. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's short-term capital gain or loss multiplied by the apportionment percentage in Schedule F, line 5.

The correct Massachusetts amount of the shareholder's share of short-term capital gain may differ from the comparable U.S. total reported on the shareholder's Form 1, or 1-NR/PY, Schedule B, line 8; or Form 2, Schedule B. Each shareholder should make adjustments in Form 1, 1-NR/PY, Schedule B, line 8 or Form 2, Schedule B, to reflect the correct Massachusetts amount. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain any adjustments.

Line 14

Enter the shareholder's share of the S corporation's short-term capital losses from Schedule S, line 36. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's short-term capital losses multiplied by the apportionment percentage in Schedule F, line 5.

The correct Massachusetts amount of the shareholder's share of short-term capital losses may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY or 2, Schedule B. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule B, line 14; or Form 2, Schedule B. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain any adjustments.

Line 15

Enter the shareholder's share of the S corporation's gain on the sale exchange or involuntary conversion of property used in trade or business and held for one year or less from Schedule S, line 37. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's gain on the sale exchange or involuntary conversion of property used in trade or business and held for one year or less multiplied by the apportionment percentage in Schedule F, line 5.

The correct Massachusetts amount of the shareholder's share of gain on the sale, exchange or involuntary conversion of property used in trade or business and held for one year or less may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY; or 2, Schedule B. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule B, line 10; or Form 2, Schedule B. Each shareholder should enclose a

statement with the shareholder's Massachusetts tax return and explain any adjustments.

Line 16

Enter the shareholder's share of the S corporation's loss on the sale, exchange or involuntary conversion of property used in trade or business and held for one year or less from Schedule S, line 38. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's loss on the sale exchange or involuntary conversion of property used in trade or business and held for one year or less multiplied by the apportionment percentage in Schedule F, line 5.

The correct Massachusetts amount of the shareholder's share of loss on the sale, exchange or involuntary conversion of property used in trade or business and held for one year or less may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY; or 2, Schedule B. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule B, line 15, or Form 2, Schedule B. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain any adjustments.

Line 17

Enter the shareholder's share of the S corporation's long-term capital gain or loss from Schedule S, line 39. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the long-term capital gain or loss multiplied by the apportionment percentage in Schedule F, line 5.

The correct Massachusetts amount of the shareholder's share of long-term capital gain or loss may differ from the comparable U.S. total reported on Form 1, 1-NR/PY, or 2, Schedule D, line 1. Each shareholder should make adjustments in Form 1, 1-NR/PY, Schedule D, line 9; or Form 2, Schedule D, to reflect the correct Massachusetts amount. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain any adjustments.

Line 18

Enter the shareholder's share of the S corporation's section 1231 gain or loss from Schedule S, line 40. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's section 1231 gain or loss loss multiplied by the apportionment percentage in Schedule F, line 5.

The correct Massachusetts amount of the shareholder's share of section 1231 gain or loss may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY, or 2, Schedule D. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule D, line 9; or Form 2, Schedule D. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain any adjustments.

Line 19

Enter the shareholder's share of the S corporation's other long-term capital gains or losses from Schedule S, line 41. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's other long-term capital gains and losses multiplied by the apportionment percentage in Schedule F, line 5.

The correct Massachusetts amount of the shareholder's share of other long-term capital gains or losses may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY, or 2, Schedule D. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule D, lines 6 and/or 9, or Form 2, Schedule D, lines 6 and/or 11.

Line 20

Enter the shareholder's share of the S corporation's long-term gains on collectibles from Schedule S, line 42. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's long-term gains on collectibles multiplied by the apportionment percentage in Schedule F, line 5.

The correct Massachusetts amount of the shareholder's share of long-term gains on collectibles may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY or 2, Schedule D, line 1. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule D, line 9 or Form 2, Schedule D. Each shareholder should enter the correct Massachusetts amount in Form 1 or 1-NR/PY, Schedule D, line 11 or Form 2, Schedule D, line 13. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain any adjustments.

Shareholder's Basis Information

The information in lines 22 through 26 may be needed by the shareholder to determine the limitation of losses passed through to the shareholder, or the gain or loss from sale or other disposition of the shareholder's stock and indebtedness.

Line 23

For a calendar year S corporation, enter in line 23 the number of the shareholder's shares and the amount of the shareholder's federal basis as of December 31, 1985. If the S corporation was a fiscal year entity, enter the number of the shareholder's shares and the amount of the shareholder's federal basis as of the last day of the taxable year prior to becoming a Massachusetts S corporation.

If the S corporation became a Massachusetts S corporation after December 31, 1985, enter in line 23 the number of the shareholder's shares and the amount of the shareholder's federal basis as of the last day of the taxable year prior to becoming a Massachusetts S corporation. If reporting a federal basis other than December 31, 1985, specify the year.

Line 25

Enter the net amount of the adjustments made to the shareholder's Massachusetts basis for the taxable year. The shareholder's basis should be increased by the shareholder's distributive share of S corporation income, decreased by distributions to the shareholder, and otherwise adjusted to reflect changes that affect the basis of the stock. Make comparable entries for adjustments to the shareholder's Massachusetts indebtedness. More detailed information on Massachusetts basis adjustment is provided in Regulation 830 CMR 62.17A.1.

Line 26

Enter the net amount of the adjustments made to the shareholder's federal basis for the taxable year. Make comparable entries for adjustments to the shareholder's federal indebtedness.

Excise Calculation

The excise calculation schedule is used to calculate the various 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

S corporations in Massachusetts are taxed at 9.5% on certain capital gains taxable at the federal level under IRC sec. 1374 and on passive investment income taxable at the federal level under IRC sec. 1375. Such income earned by an S corporation must be entered in line 3 of the excise calculation but subtracted from any income amount to be entered in line 5.

The taxable Massachusetts capital gains and passive interest income is the amount of the federal gain times the Massachusetts apportionment percentage found in Schedule F, line 5.

Line 13

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.

Line 24

The following penalties may apply:

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, 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 1% of the tax due per month (or fraction thereof), up to a maximum of 25%.

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.

Privacy Act Notice

The Privacy Act Notice is available upon request or at www.mass.gov/dor.

Signature

When the form is complete, it 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 filing 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. The form should be mailed to: **Massachusetts Department of Revenue, PO Box 7025, Boston, MA 02204**.

Schedule M-1. Book to Tax Reconciliation

Schedule M-1, Book to Tax Reconciliation, must be filed by all corporations filing Form 355, Form 355C and those S corporations filing Form 355S that are required to complete Schedule E (those with annualized gross receipts of $6,000,000 or more).

Schedule M-1 reports the taxpayer's current year net income and expenses as they are or would be shown on U.S. Form 1120, lines 1 through 28, in calculating gross income under the provisions of the U.S. IRC and the deductions allowable in calculating net income under the code.

Corporations filing in Massachusetts and participating in a U.S. consolidated return must complete Schedule M-1 on a separate company basis. Corporations participating in the filing of a Massachusetts combined return must include Schedule M-1 with their separate form 355C. S corporations, if required to file Schedule M-1, must complete and file Schedule M-1 as if they were a C corporation. Corporations must file the Massachusetts Schedule M-1 even if they are not required to complete the U.S. Schedule M-1. For example, corporations that file U.S. Schedule M-3 with their U.S. return must still complete the Massachusetts Schedule M-1.

Lines 1 through 28

These lines correspond to the lines reported on Form 1120, U.S. Corporation Income Tax Return.

Entries on lines 3, 11, 27 and 28 should be calculated as follows. A separate calculation is required for each column.

Line 3

Subtract line 2 from line 1.

Line 11

Add lines 3 through 10.

Line 27

Add lines 12 through 26.

Line 28

Subtract line 27 from line 11.

Instructions by Column

Use the following column instructions for each line that does not have its own separately stated instruction (see above).

Column a

This should be the amount used in determining separate company net income under the IRC.

The amount on line 28, column a, must equal the amount on Massachusetts Schedule E or Schedule E-CG, line 4.

Column b

If the corporation participates in the filing of a U.S. consolidated income tax return, enter the total dollar amount of any intercompany elimination made with respect to each line item. For example, if this corporation made sales to a consolidated affiliate that must be eliminated from the U.S. tax return, reduce both gross sales and cost of goods sold. Enter any reductions to the amount shown in column d as negative amount. If no eliminations were made with respect to the line item, leave blank. Corporations that did not file as part of a U.S. consolidated income tax return, leave blank.

Column c

If the corporation participates in the filing of a U.S. consolidated income tax return, enter the total dollar amount of any adjustments in each line as a result of the consolidation. Enter increases to the amount shown in column d as positive amounts. Enter decreases as negative amounts. If no consolidation adjustments were made with respect to the line item, leave blank. Corporations that did not file as part of a U.S. consolidated return, leave blank.

Column d

If the corporation participates in the filing of a U.S. consolidated income tax return, combine columns a, b and c.

Line 29

This line provides additional details about the entry made in lines 1 through 28, columns b and c. Line 29 excludes the entries calculated in lines 3, 11, 27 and 28. For each adjustment made in lines 1 through 28, enter the following information.

Column a

Enter the line number to which this adjustment applies.

Column b

Enter the column letter to which this adjustment applies.

Column c

Enter the dollar amount of each adjustment. Enter increases as positive amounts. Enter decreases as a negative amount.

Column d

Enter a brief description of the adjustment (e.g. "to record tax depreciation"). If multiple adjustments were made with respect to any one line item, enter them separately.

Corporations filing Schedule M-1 and not filing their return electronically should use additional copies of the schedule if needed. The total dollar value of the entries made in line 29 for any single line and column should match the total amount entered for that line and column.

Schedule CIR

Schedule CIR, Consolidated Income Reconciliation, reconciles the net income of corporations filing in Massachusetts that are part of a U.S. consolidated return with the consolidated net income reported to the IRS.

Taxpayers must file this schedule if their income is included in a U.S. consolidated return. For corporations that are filing as members of a Massachusetts combined group, only one schedule CIR must be filed. It must be filed by the principal reporting corporation.

Schedule CIR and instructions are available at www.mass.gov/dor.

Schedule NIR

Schedule NIR, Net Income Reconciliation reconciles income reported to shareholders with the income reported on the taxpayer's consolidated U.S. tax return and is similar to U.S. Schedule M-3, Part 1.

Taxpayers must file Schedule NIR if required to file a U.S. Schedule M-3 with their U.S. return. This includes corporations that are part of a consolidated return that as a group meets the requirement to file U.S. Schedule M-3. For corporations that are filing as members of a Massachusetts combined group, only one Schedule NIR need be filed and it must be filed by the principal reporting corporation.

Schedule NIR and instructions are available at www.mass.gov/dor.