**Combined Reporting Instructions**

**2010 Schedule U-MSI Instructions**

**Member's Apportioned Share of Group Income**

Each taxable member of the group must file Schedule U-MSI to determine its Massachusetts apportioned share of the combined group's taxable income. The members of a combined group jointly determine the combined group's taxable income but the individual taxable members separately determine their Massachusetts apportioned share of that income. Each taxable member is to use the apportionment provisions that apply to that member pursuant to M.G.L. Ch. 63 with any further modifications as required under 830 CMR 63.32B.2(7).

Each taxable member calculates the numerator of its property, payroll and sales factors based on its own activities but calculate the denominators of these factors on a group basis considering the activities of all members of the combined group. The group denominators are determined on Schedule U-E. The factors are then combined as appropriate for an individual taxable member using the formula that applies to that member under Ch. 63 (e.g., a 3-factor formula consisting of property, payroll and sales, a single weighted 100% sales factor, or a 3-factor formula but with double weighted sales) to determine the member's apportionment percentage and that percentage is multiplied by the combined group's taxable income to determine the member's Massachusetts apportioned share of group income. This income is then combined, on Schedule U-ST, with any other taxable Massachusetts income that the member may have (e.g., allocable income from non-business activities) to determine the member's total Massachusetts taxable income and its income measure excise.

If the combined group is not subject to an affiliated group election, only property, payroll and sales/receipts of each member that relate to the unitary business of the combined group are used to apportion the combined group's taxable income.

A mutual fund service corporation is to determine its share of a combined group's taxable income as if it was two separate members of such group. For apportionment purposes, a mutual fund service corporation is to divide its Massachusetts property, payroll and sales between its mutual fund sales business and its other business, and file two Schedules U-MSI, one for each of the two businesses. The first Schedule U-MSI reports the property, payroll and sales of the corporation's mutual fund sales business and applies a 100% sales factor to the combined group's taxable income to determine the apportioned Massachusetts income that derives from the corporation's mutual fund sales business. The second Schedule U-MSI reports the remainder of the corporation's property, payroll and sales and applies the traditional 3-factor formula but with

double weighted sales to the combined group's taxable income to determine the apportioned Massachusetts income that derives from the corporation's non-mutual fund sales business. The two amounts will be combined on Schedule U-ST.

### HEADER FOR SCHEDULE U-MSI

For each Schedule U-MSI filed, enter the name of the taxable member (as shown on the federal income tax return, if filed), its Federal Identification number and the beginning and ending dates of the combined group's taxable year.

Check one box to indicate whether the financial institution excise, the utility corporation excise or the business corporation excise applies. S corporations taxable under M.G.L. Ch. 63, sec. 2B are considered financial institutions. S corporations taxable under M.G.L. Ch. 63, sec. 32D are considered business corporations.

Check one box to indicate the group type. A financial group is a combined group all of whose members, including members not taxable on their income in Massachusetts, are entities that are financial institutions under the definition set forth in M.G.L. Ch. 63, sec. 1. A non-financial group is a combined group none of whose members, including non-taxable members, are financial institutions. A mixed group is any combined group that includes at least one member that is a financial institution and at least one member that is not a financial institution.

Enter the name and Federal Identification number of the principal reporting corporation. Also enter the unitary business identifier corresponding to the specific Schedule U-E that reports the income to be apportioned (if the group is not separately apportioning income from 2 or more different unitary businesses, this number is "1").

### GENERAL INFORMATION

**Question 1.** Is any member of the group taxable in any other state on this income?

Check "yes" if, in the case where no affiliated group election has been made, a member of the combined group is taxable with respect to the activities of the unitary business in another state, or, in the case where an affiliated group election has been made, one member of the group is taxable in another state.

If no member of the group is taxable on the combined group's income in another state as noted, combined reporting is still required but special attribution rules apply to determine each member's share of the combined group's taxable income. In particular, if the income referenced on Schedule U-E is not taxable in another state, this income is to be attributed among group members using the average of each member's respective share of the unitary business' property and payroll (or the property and payroll of the combined group where an affiliated group election has been made). In such a case, the property and payroll figures

shown on this Schedule U-MSI must reflect the member's property and payroll included in the group denominator, even though some of that property and payroll may not be within Massachusetts. For the rules that apply when no member of the combined group is taxable in another state, see 830 CMR 63.32B.2 (7) (k).

**Question 2.** If the corporation has special status for apportionment, check the appropriate box.

Check no more than one box. If no box is applicable, leave blank.

A corporation is a "section 38 manufacturer" for any taxable year if it is engaged in manufacturing and its manufacturing activities during such taxable year are substantial. See M.G.L. Ch. 63 sec. 38. This rule applies regardless of whether the corporation, based solely on its activities within Massachusetts, is also classified as a manufacturing corporation under M.G.L. Ch. 63 sec. 42B. A section 38 manufacturer is to use 100% of its sales factor as its apportionment percentage.

A corporation's manufacturing activity is substantial if the corporation meets any of the following tests, regardless of whether any of the manufacturing activity occurs within Massachusetts:

- 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.

In some cases, a member of a combined group purchasing goods manufactured by another member of the group may be considered to be a section 38 manufacturer for the purpose of determining its Massachusetts apportioned share of the combined group's taxable income based upon the manufacturing activity of such other member. See 830 CMR 63.32B.2 (7) (g) (2).

A corporation is a "mutual fund service corporation" if it derives 50% or more of its gross income from providing, directly or indirectly, management, distribution or administrative services to or on behalf of a regulated investment company, and from trustees, sponsors and participants of employee benefit plans that have accounts in a regulated investment company. A mutual fund service corporation must divide its Massachusetts property, payroll and sales between those attributes as related to its mutual fund sales activities, on the one hand, and all

other activities, on the other, and must file 2 Schedules U-MSI to determine its share of the combined group's taxable income.

**Question 3.** Is the corporation his requesting alternative apportionment?

Check no more than one box. A member requesting alternative apportionment must submit Form AA-1 under separate cover (currently Form AA-1 cannot be filed electronically).

Despite this request, such member must nonetheless complete Schedule U-MSI by applying the statutory rules that apply to such taxpayer pursuant to M.G.L. Ch. 63, making any adjustments as required by 830 CMR 63.32B.2(7). If the member's proposed alternate method is later accepted, a refund of any overpayment will be made.

## LINE INSTRUCTIONS FOR SCHEDULE U-MSI

**Member's Property Factor:**

Each member separately determines its property factor numerator. In making this determination, intercompany transactions that relate to the combined group's unitary business (or business activities in general in the case where the group is subject to an affiliated group election) are generally disregarded, except as provided in 830 CMR 63.32B.2 (7) (g) (4), and also property leased from non-group members is attributed to the group member that makes actual use of the leased property. If the group includes at least 1 financial institution, taxable members that are financial institutions (but not other members of the group) must determine and include their financial institution intangible property (loans, etc.) that are sourced to Massachusetts in determining their property factor.

**Line 4.** Massachusetts financial institution intangible property owned.

Financial institutions, as defined in M.G.L. Ch. 63, sec.1, must determine the average value of any loans or other financial institution property that are sourced to Massachusetts under the provisions of M.G.L. Ch. 63, sec. 2A. Loans that are excluded from the combined group's denominator (e.g., in any case where the group is not subject to an affiliated group election, loans between group members that relate to the group's unitary business) are similarly excluded from the numerator of the member(s) that made the loans. If the member is not a financial institution, enter "0."

**Line 5.** Massachusetts financial institution intangible property for apportionment.

If the combined group whose income is being apportioned includes at least 1 member that is not a financial institution, enter 20% of the amount reported on line 4. If the group does not include at least 1 member that is not a financial institution enter 100% of line 4.

**Line 6.** Massachusetts tangible property owned for apportioning combined income.

Enter the average value of tangible property owned by the member in Massachusetts. Construction in progress is generally excluded from the property factor. See 830 CMR 63.38.1 (7) (a). For purposes of the property factor, inventory in transit is deemed to be sourced to its destination. See 830 CMR 63.38.1(7) (c).

**Line 7.** Massachusetts tangible property rented for apportioning combined income.

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

**Line 9.** Total worldwide property for the combined group.

Enter the combined group's total property for apportionment purposes from Schedule U-E, line 43.

**Member's Payroll Factor:**

Each member separately determines its payroll/wage factor numerator. In making this determination, intercompany leases of employees that relate to the combined group's unitary business (or business activities in general in the case where the group is subject to an affiliated group election) are generally disregarded, and wages paid are attributed to the group member for whom the employee is providing actual services. If an employee is performing actual services for more than one combined group member, the group shall reasonably allocate the wages among such members.

**Line 11.** Member's Massachusetts wages for apportioning combined income.

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 employee's base of operations is in Massachusetts.
- Part of the employee's service is performed in Massachusetts, there is no base of operations and the service is directed or controlled from a location in Massachusetts.
- Part of the employee's service is performed in Massachusetts, and the employee's base of operations and the place from which the employee's

service is directed or controlled are not in any state in which some part of the service is performed, but the employee lives in Massachusetts.

**Line 12.** Total worldwide wages for the combined group.

Enter the combined group's total wages for apportionment purposes from Schedule U-E, line 44.

**Member's Sales Factor:**

Each member separately determines its sales factor numerator. In making this determination, intercompany transactions that relate to the combined group's unitary business (or business activities in general in the case where the group is subject to an affiliated group election) are generally disregarded. In the case of sales other than sales of tangible property, when determining the location of the sale, the activities all group members participating in the transaction shall be considered jointly for purposes of defining the nature of the income producing activity and associated costs of performance (e.g. if a member has receipts from the sale of services, including services subcontracted to another member of the group, the activities of both members are considered when the member making the sale determines whether or not the sale is in Massachusetts. See 830 CMR 63.32B (7) (g) 2.)

**Line 14.** Massachusetts receipts from loans and other financial instruments.

If the combined group whose income is being apportioned includes at least 1 financial institution, all members must determine, and include in their sales factor calculations, their receipts of interest and other receipts as described in M.G.L. Ch. 63, sec. 2A(d)(i) through (d)(xi). To the extent that these receipts are sourced to Massachusetts under those provisions, enter the amount here, whether or not the member is, itself, a financial institution. If the group does not include at least 1 financial institution, enter "0."

**Line 15.** Massachusetts destination tangible sales.

Enter the member's total receipts from the sale of tangible property delivered or shipped to any buyer, including the U.S. government, in Massachusetts.

**Line 16.** Massachusetts throwback sales.

Enter the member's total receipts from the sale of tangible property attributed to Massachusetts under the throwback provision of M.G.L. Ch. 63, sec. 38. See 830 CMR 63.38.1 (9). Sales made by a member of a combined group are not subject to throwback if any member of the group is subject to tax on the combined group's unitary business income (or the income of the group in general in any case where the group is subject to an affiliated group election) in the state to which the property is shipped. See 830 CMR 63.32B.2 (7) (c).

**Line 17.** Massachusetts sales of services.

Enter the member's total receipts from the sale of services in Massachusetts. Sales of services, other than mutual fund sales or royalties derived from the use of 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. See 830 CMR 63.38.1(9) (d).

**Line 18.** Massachusetts Rents and Royalties.

Enter the member's total receipts from rents and royalties in Massachusetts. Rents from property located or used in Massachusetts are assigned to Massachusetts. Royalties derived from the use of intangible property are assigned to Massachusetts to the extent that the property is used in this state. See 830 CMR 63.38.1(9) (d).

**Line 19.** Massachusetts other sales.

Enter the member's total receipts in Massachusetts from other sales.

**Line 20.** Massachusetts receipts assigned to this corporation under Finnigan rule.

If a non-taxable member of the combined group has receipts from sales of the unitary business (or in the case where the group is subject to an affiliated group election, such non-taxable member has any sales) which constitute Massachusetts sales (e.g., sales of tangible property delivered or shipped to Massachusetts), such sales are to be assigned to the taxable members of the group in proportion to each taxable member's own Massachusetts sales. See 830 CMR 63.32B.2 (7) (b).

**Line 22.** Total worldwide sales for the combined group.

Enter the combined group's total sales for apportionment purposes from Schedule U-E, line 63.

**Lines 24 and 25.** Property Factor Weight and Payroll Factor Weight.

Enter "1" if the factor is applicable for apportioning the combined group income (where at least one member of the group is taxable on this income in another state) or for attributing income (where no member of the group is taxable in another state). Enter "0" if the factor is inapplicable.

The property and payroll factors are inapplicable if the denominator of the factor is "0." These factors are also inapplicable in apportioning income if the member is

a mutual fund sales corporation determining its apportioned share of income attributable to mutual fund sales activities, (b) if the member is a section 38 manufacturer determining its apportioned share of income or (c) if the member is a business corporation or a utility corporation apportioning its income and the denominator of the factor is less than 1/3 of ten percent of combined group's taxable net income to be apportioned as calculated on Schedule U-E, line 36.

**Line 26.** Sales factor weight.

Enter "1" or "2" if the sales factor is applicable for apportioning the combined group income.

The sales factor is inapplicable if the denominator is "0" or if no member of the group is taxable on this income in another state (See 830 CMR 63.32B.2 (7) (k)). The sales factor is also inapplicable if the member is a business corporation or a utility corporation and the denominator is less than 1/3 of 10 percent of the combined group's taxable net income to be apportioned as calculated on Schedule U-E, line 36. Enter "0" if the factor is inapplicable.

The sales factor weight is "1" if the member is a financial institution or a utility corporation. The sales factor weight is also "1" if the member is a mutual fund sales corporation determining its apportioned share of income attributable to mutual fund sales activities or a section 38 manufacturer. The sales factor weight is "2" for all other business corporations, including a mutual fund sales corporation determining its apportioned share of income for its non-mutual fund sales activities.

**Line 27.** Massachusetts apportionment or allocation percentage for combined income.

Calculate the member's percentage share of the combined group's taxable income. In each case, carry the result to six decimal places.

- If no member of the group is taxable on the group's unitary business income (or business income in general in the case where the group is subject to an affiliated group election) in another state (as indicated in the response on line 1), each taxable member must determine its share of such income by adding together its percentage share of the group's owned and rented property and its percentage share of the group's payroll and dividing the result by 2. The total of the income thus attributed to the taxable members must equal 100% of the combined group's taxable income.

In any case where the combined group's taxable income is subject to apportionment, the apportionment formula for each taxable member is determined by the Ch. 63 rules that apply to such member, including any special provisions which may apply based on the nature of the taxpayer's business as noted in the response on line 2.

- If the member is taxed as a financial institution or a utility corporation, its share of Massachusetts apportioned income is determined by adding the

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- member's receipts factor, property factor and payroll factor together and dividing the result by 3.
- If the member is a business corporation that is also a section 38 manufacturer or the member is a mutual fund sales corporation determining its share of the combined income attributable to its mutual fund sales activities (in both cases as noted on line 2), its share of such Massachusetts apportioned income is determined by applying the member's sales factor only (i.e., line 27 must equal line 23).
- If the member is a mutual fund sales corporation determining its share of the combined income attributable to its *non*-mutual fund sales activities (also as noted on line 2), its share of such Massachusetts apportioned income is determined by adding its property factor, payroll factor and twice its sales factor, as determined with respect to the member's non-mutual fund sales business, and dividing the result by 4.
- If the member is any other business corporation (i.e., the member is not taxed as a financial institution or a utility corporation, and no box is checked on line 2), its share of Massachusetts apportioned income is determined by adding the member's property factor, payroll factor and twice its sales factor and dividing the result by 4.

If a factor is inapplicable (as shown in items 24 through 26 above) that factor should be ignored in the apportionment calculation (i.e., average the remaining factors, double-weighting the sales factor if appropriate). See 830 CMR 63.38.1 (11).

**Member's Share of Income Allocated or Apportioned to Massachusetts:**

**Line 28.** Combined group income or (loss), excluding sec. 1231 and capital gains or (loss).
Enter the total for the group from Schedule U-E, line 33.

**Line 29.** Member's share of group income or (loss), excluding capital gains or (loss).
Multiply line 27 by line 28. Round to the nearest whole dollar amount.

**Line 30.** Combined group capital gains or (loss).
Enter the total for the group from Schedule U-E, line 31.

**Line 31**. Member's share of group capital gains or (loss).
Multiply line 27 by line 30. Round to the nearest whole dollar amount.

**Line 32.** Combined group sec. 1231 gains or (loss).
Enter the total for the group from Schedule U-E, line 32

**Line 33.** Member's share of sec. 1231 capital gains or (loss).
Multiply line 27 by line 32. Round to the nearest whole dollar amount.