



Commonwealth of Massachusetts

Department of Revenue

2012 Massachusetts Corporation Excise Return **Form 355**

Massachusetts has an electronic filing requirement for this form. See TIRs 05-22 and 09-18 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. 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
- ▶ estate taxes
- ▶ estimated taxes
- ▶ fiduciary taxes
- ▶ nonresident information
- ▶ partnerships
- ▶ personal income taxes
- ▶ refunds
- ▶ withholding

For help in one of the following specific areas. Please call the number listed below.

- ▶ Certificates of Good Standing (617) 887-6550
- ▶ Teletype (TTY) (617) 887-6140
- ▶ Vision-impaired taxpayers can contact any DOR office 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 9557, Boston, MA 02114-9557.
- ▶ Installment sales (617) 887-6950
- ▶ Small Business Workshop (617) 887-5660

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 2012 Tax Law Changes

The income tax rate for income attributable to Massachusetts has been reduced from 8.25% to 8.00%.

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.

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

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

The following corporations are not obligated to file:

- ▶ corporations organized under the provision of M.G.L. Ch. 157, sec. 10.

Which Form Should Be Filed?

Businesses which are incorporated under the laws of the Commonwealth or businesses doing business in Massachusetts but incorporated elsewhere should file Form 355.

A corporation organized in Massachusetts is eligible to use the simpler Form SBC if it met all of the following conditions during the taxable year:

- ▶ had gross receipts or sales, and total income under \$100,000;
- ▶ had 100% of its net income taxable in Massachusetts and was not subject to corporate tax in another state;
- ▶ was not a DISC, an S corporation or a security corporation;
- ▶ is not claiming any credits, special deductions or adjustments against its Massachusetts corporate excise; and
- ▶ does not own 50% or more of the voting stock of another corporation and did not have 50% or more of its voting stock owned by another corporation.

The Department of Revenue also has the following tax forms to meet the unique filing needs of combined filers, security corporations and S corporations.

Corporations which are participating in a combined report of their net income to Massachusetts must file Form 355U. Beginning in 2011, most combined report filers will also pay the non-income measure of excise when filing the 355U; combined report filers are not required to also file a Form 355 unless their taxable year ends at a different time than the taxable year of the combined report. See the instructions for the Registration Section, question number 5 for further information.

Corporations engaged exclusively in buying, selling, dealing in or holding securities on their own behalf and not as brokers must file Form 355SC.

S corporations which are incorporated under the laws of the Commonwealth or S corporations doing business in Massachusetts but incorporated elsewhere should file Form 355S.

If a corporation files Form 355, 355U, 355S or 355SC, the return must be submitted electronically provided that gross revenues from all sources are \$100,000 or greater. Failure to submit the return electronically may result in a penalty of \$100. For further information on electronic filing requirements, see TIRs 04-30 and 05-22.

Corporations amending an originally filed corporation excise return with respect to federal net income should file Form CA-6, Application for Abatement/Amended Return.

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, call

the Secretary of State's Corporate Information Line at (617) 727-9640.

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.

What Are the Differences Between the Massachusetts Corporate Excise and the IRC?

Gross income for corporate excise purposes is the same as that defined under the Internal Revenue Code (IRC), as amended and in effect for the taxable year, with the following additions:

- ▶ interest from the bonds, notes and evidences of indebtedness of any state, including Massachusetts.
- Net income is gross income less the deductions, but not the credits, allowable under the U.S. IRC. The following deductions, however, are not allowed:
- ▶ dividends received, except as permitted under Massachusetts law (See Schedule E-1 instructions); and
 - ▶ taxes on or measured by income, franchise taxes measured by net income, franchise taxes for the privilege of doing business and capital stock taxes imposed by any state or U.S. territory.

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

DOR and the IRS maintain an extensive exchange program, routinely sharing computer tapes and audit results. Discrepancies between income and deductions reported federally and on this return, except those allowed under state law, will be identified and may result in a state audit or further investigation.

If the corporation is the parent of a wholly-owned DISC, the U.S. net income of the parent shall be reported to Massachusetts with no allocation of income, deductions, assets or liabilities made to the DISC. The DISC income, which must be included in the parent's return, must be for the same taxable year or the taxable year immediately following

the close of the parent's taxable year. DISCs which are not wholly-owned, either directly or indirectly, are taxable as regular business corporations.

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

Are There Special Tax Credits Available In Massachusetts?

Yes. Massachusetts offers several special credits 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 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. The amount of the credit is then entered on Schedule CR.

Vanpool Credit

Business 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 shut-

tle 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. The amount of the credit is then 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 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, 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.

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, 2013 and the time for incurring eligible costs that qualify for the credit has been extended to January 1, 2014.

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.

The LIHC is not subject to the 50% limitation rule for corporate taxpayers. If the taxpayer disposes of the property generating the LIHC, a portion of the credit may be subject to recapture.

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, 2017, 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 and TIR 10-11.

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

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.

Life Science Company Investment Tax Credit

For taxable years beginning on or after January 1, 2009, a new Investment Tax Credit (ITC) may be available corporate excise taxpayers.

This credit, which is available to certified life sciences companies only to the extent authorized pursuant to the Life Sciences Tax Incentive Program, is equal to 10% of the cost of qualifying property acquired, constructed or erected during the taxable year and used exclusively in the Commonwealth.

The refundable ITC can apply to purchases made on or after January 1, 2009 even if a construction project started before that date. The scope of qualifying property for purposes of the new credit is the same as that provided by the existing ITC under M.G.L. Ch. 63, sec. 31A.

Life sciences companies or persons also qualifying for the Economic Opportunity Area Credit (EOAC) for the same property may only take such EOAC to the extent of an additional 2% of the cost of the qualifying property. Corporations taking these credits are not allowed to take the ITC under M.G.L. Ch. 63, sec. 31A or the Low-Income Hous-

ing Credit under M.G.L. Ch. 63, sec. 31H for the same qualifying property.

If a life sciences ITC exceeds the tax otherwise due under the corporate excise, as applicable, 90% of the balance of such credit may, at the option of the taxpayer and to the extent authorized pursuant to the Life Sciences Tax Incentive Program, be refundable to the taxpayer for the tax year in which the qualified property giving rise to such credit is placed in service. If such refund is elected by the taxpayer, then the carryover provisions for this credit that would otherwise apply shall not be available.

For further information, see TIR 08-23. The amount of this credit must be entered on Schedule CR.

Life Science Company FDA User Fees Credit

For taxable years beginning on or after January 1, 2009, a new credit may be available to corporate excise tax payers for user fees paid on or after June 16, 2008 to the U. S. Food and Drug Administration (U.S.F.D.A.) upon submission of an application to manufacture a human drug in the Commonwealth.

This credit, which is available to certified life sciences companies only to the extent authorized pursuant to the Life Sciences Tax Incentive Program, is equal to 100% of the user fees actually paid by the taxpayer, as specified in the certification, and may be claimed in the taxable year in which the application for licensure of an establishment to manufacture the drug is approved by the U.S.F.D.A. To be eligible for the credit, more than 50% of the research and development costs for the drug must have been incurred in Massachusetts.

Taxpayers may use the FDA user fees credit to their tax to zero. To the extent authorized pursuant to the Life Sciences Tax Incentive Program, 90% of the balance of credit remaining is refundable. The deduction otherwise allowable for user fees qualifying for the credit is disallowed.

For further information, see TIR 08-23. The amount of this credit must be entered on Schedule CR.

Life Sciences Company Research Credit

For taxable years beginning on or after January 1, 2009, a new credit may be available for certified life sciences companies pursuant to the Life Sciences Tax Incentive Program, to provide qualifying companies with a means to obtain a research credit for certain expenditures not qualifying for the existing research credit under c. 63, § 38M. St. 2008, c. 130, §§ 30 and 53, codified at G.L. c. 63, § 38W. Under this new provision, the credit is

generally calculated in the same manner as the research credit under section 38M. However, the qualified research expenditures which form the basis for the calculation in new section 38W differ from those of section 38M in that they can qualify when the activities are performed both inside and outside of the Commonwealth, to the extent they relate to legally mandated clinical trial activities.

The credit can reduce the corporate excise to the minimum excise of \$456 and may be carried forward for 15 years. Unlike the regular research credit, as amended by the new subsection (j) of section 38M, described above, the new life sciences research credit under M.G.L. Ch. 63, sec. 38W is not refundable.

For further information, see TIR 08-23. The amount of this credit must be entered on Schedule CR.

Refundable Film Credit

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.

Refundable Dairy Credit

A taxpayer who holds a certificate of registration as a dairy farmer pursuant to M.G.L. Ch. 94, sec. 16A is allowed a refundable tax credit based on the amount of milk produced and sold. The dairy farmer tax credit as originally enacted was 90% refundable. Under recent legislation, the dairy farmer tax credit is now 100% refundable.

Refundable Life Science Credit

There are different credits which the Massachusetts Life Sciences Center, with the approval of the Secretary of Administration and Finance, may authorize a taxpayer to have refunded in lieu of carrying forward such credit to a future year.

A taxpayer may apply for a refund of 90% of the unused Investment Tax Credit granted under M.G.L. Ch. 63, sec. 38U or the additional credit on the same property that may be granted under M.G.L. Ch. 63, sec. 38N if property for which the 38U credit is granted is used in a certified project.

A taxpayer may apply for a refund of 90% of the unused FDA User Fee Credit granted under M.G.L. Ch. 63, sec. 38M, including credits carried over from

prior years. Schedule RLC, Refundable Life Science Credit, is used by taxpayers to claim the refund.

Refundable Life Science Jobs Credit

Effective for tax years beginning on or after January 1, 2011, a new tax incentive has been added to the Life Sciences Tax Incentive Program in the form of a refundable jobs credit. A taxpayer, to the extent authorized by the Life Sciences Tax Incentive Program, may be allowed a refundable jobs credit against the tax liability imposed under G.L. c. 62, the personal income tax, or G.L. c. 63, the corporate excise. A taxpayer claiming a life sciences refundable jobs credit must commit to the creation of a minimum of 50 net new permanent full-time positions in Massachusetts.

The amount of life sciences jobs credit allowed to a taxpayer will be determined by the Massachusetts Life Sciences Center in consultation with the Department of Revenue.

If a life sciences jobs credit claimed by a taxpayer exceeds the tax otherwise due under the personal income tax or the corporate excise, as applicable, 90 percent of the balance of such credit may, to the extent authorized by the life sciences tax incentive program, be refundable to the taxpayer. Excess credit amounts shall not be carried forward to subsequent taxable years.

The refundable jobs credit is subject to all the requirements of G.L. c. 23I, including the requirements set out in TIR 08-23. The total dollar amount of the various life sciences tax incentives, including the refundable jobs credits, for qualifying life sciences companies is subject to an annual cap of \$25 million.

Refundable Economic Development Incentive Credit

Under the provisions of the Economic Development Incentive Program (EDIP) established pursuant to M.G.L. Ch. 23A, the Economic Assistance Coordination Council (EACC) may authorize taxpayers participating in certified projects to claim tax credits under M.G.L. Ch. 62 sec. 6(g) and M.G.L. Ch. 63 sec. 38N. Taxpayers authorized by the EACC to claim tax credits for projects certified on or after January 1, 2010 must use Form EDIP, Refundable Economic Development Incentive Program Credit, to claim such credits. Taxpayers seeking to claim credits for projects certified prior to January 1, 2010 must use Schedule EOAC. See TIR 10-01 for further information.

Conservation Land Tax Credit

Effective for tax years beginning on or after January 1, 2011, a credit is allowed for qualified donations of certified land to a public or private conservation agency. The credit is equal to 50% of the fair market value of the qualified donation. The amount of the credit that may be claimed by a taxpayer for each qualified donation cannot exceed \$50,000. The credit is refundable but not transferable. The certification process is conducted by the Executive Office of Energy and Environmental Affairs (EEA). EEA has promulgated a regulation, 301 CMR 14.00, entitled Conservation Land Tax Credit, which sets forth criteria for authorizing and certifying the credit. See also, 830 CMR 62.6.4, entitled Conservation Land Tax Credit, promulgated by DOR to explain the calculation of the allowable credit.

Are Combined Reports Sometimes Required?

Yes. If two or more corporations under common control are engaged in a unitary business, any such corporations that are taxed on their income in Massachusetts must determine their income measure of excise by filing a combined report, Form 355U. This requirement applies regardless of whether or not the corporations file a consolidated federal return. See 830 CMR 63.32B.2.

The non-income measure of excise for members of a combined group is still determined on a separate company basis but for tax years beginning on or after January 1, 2011 this is calculated on schedules attached to the Form 355U. A separate return (Form 355 or Form 355S, as appropriate) is only required if the corporation's federal taxable year ends at a different time than the taxable year of the combined report.

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.

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.

What if the Taxpayer Is a Fiscal or Short Year Filer?

File the 2011 return for calendar year 2011 and fiscal years that began in 2011 and ended in 2012. For a fiscal year return, fill in the tax year space at the top of page 1. Short year filers should file using the tax form for the calendar year within which the short year falls. If the short year spans more than one calendar year, the filer should file use the tax form for the calendar year in which the short year began. If the current form is not available at the time the short year filer must file, the filer should follow the rules explained in TIR 11-12.

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 1120, including all applicable schedules 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 min-

8 Line by Line Information

imum 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 U.S. 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.

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

Line 3

An R&D corporation is a business corporation whose principal business activity in Massachusetts is research and development and which (a) derives more than two thirds of its gross receipts attributable to Massachusetts from that activity or (b) incurs more than two thirds of its expenditures in that activity. Research and Development corporations may be eligible for certain tax benefits. See 830 CMR 64H.6.4.

A classified manufacturing corporation is a business corporation engaged in manufacturing in Massachusetts, whose manufacturing activities in Massachusetts are substantial and which has filed Form 355Q and had its manufacturing status approved by the Commissioner. A corporation may be a section 38 manufacturer based on its worldwide manufacturing activities but not be a classified manufacturer if those manufacturing activities occur outside of Massachusetts. Classified manufacturing corporations may be eligible for certain tax benefits. See 830 CMR 63.58.2.1.

A Regulated Investment Company (RIC) must file an informational return and may do so by filing

Form 355. 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 4

If line 4 is "Yes" you are still be required to file Form 355 if this corporation has a taxable year that ends at a different time than the taxable year for which the combined report is being filed.

When two or more corporations are required to file a combined report, the taxable members' apportioned shares of the combined income are based the combined group's taxable year. If not all the members have the same taxable year, the combined group's taxable year is determined under 830 CMR 63.32B.2 (11) (b).

Form 355U is used by the combined group to calculate and pay the income excise due from the taxable members of a combined group. Form 355U and payment of the income measure of excise is due on 15th day of the 3rd month following the close of the combined group's taxable year. Members of such a group that are subject to a non-income measure of excise under the provisions of M.G.L. Ch. 63, sec. 39 (including those S corporations that are not taxed as financial institutions under M.G.L. Ch. 63 sec. 2D) are required to determine and pay the non-income measure of excise on the 15th day of the 3rd month following the close of their separate taxable year. If a member's non-income measure of excise is due on the same day as the combined report (if the member's taxable year ends at the same time as the combined group's taxable year), the member will pay such non-income measure with the combined report and should not also submit form 355 for the same taxable year.

If a member has a separate taxable year that ends at a different time than the combined group's taxable year, that member must file a separate return to pay the non-income portion of the excise. These members will file Form 355 or Form 355S (as appropriate) indicating on the face of such return that they are subject to combined reporting for their income measure of excise and exclude from that separate return the income that is reported on the group's Form 355U.

The separate non-income measure return, if required, must include Schedules A, B, C, D and Schedule CD along with any supporting schedules required for some entries as referenced on Schedule A. A corporation that would be eligible

to apportion its income based on its own separate activities (i.e., the corporation is taxable on its income in another state without regard to the activities of its other combined group members) must also complete Schedule F without regard to the combined reporting provisions in order to determine its non-income measure. If a corporation would not be allowed to apportion its income based on its own separate activities, no Schedule F is required and the corporation will use an apportionment percentage of 100% in determining the non-income measure. Such corporations include all of their property, payroll and sales, including those attributes used to apportion income for purposes of a combined report, in completing their stand alone Schedule F for this purpose. Corporations required to file Schedule F-2 (i.e., section 38 manufacturers with more than 25 employees and mutual fund sales corporations) must submit schedule F-2 with their Form 355 or 355S.

Schedule E is not required unless the taxpayer has income from a source other than a unitary business that is to be reported on a separate company basis and also has a tax year that is different than the combined group's tax year. In such cases, the corporation is to report on Form 355 or 355S, Schedule E only the income that is not included in the combined report and is to allocate or apportion such income without regard to the combined reporting provisions.

Corporations taking part in a combined report do not complete Schedule CR. The total of credits taken by such corporations against the non-income measure of excise is entered directly on line 7 of the tax calculation. The amount of credit allowable to the taxpayer and the allocation of credits between the income and non-income measures is calculated on schedules attached to the combined report. Schedules that are required to calculate individual credits should be submitted with the combined report if the credit is calculated on an aggregated basis.

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 8.00% 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.

Line 18

Corporations that are doing business in Massachusetts but are exempt from the income measure of excise pursuant to federal Public Law 86-272 claim the exemption here by checking "Yes."

These corporations remain subject to the non-income measure of excise or the minimum excise, whichever is greater. Such corporations are not required to submit Schedule E but must complete Schedule F for the purpose of determining their non-income measure of excise.

Excise Calculation

In order to complete the excise calculation, all appropriate schedules must be filled out first. There-

fore, 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 24.

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 and D. Tangible or Intangible Classification and Calculation of Non-Income Measure

Schedules B, C and D are used to calculate the non-income measure of the Massachusetts corporate excise. Schedule B is used to determine whether a corporation is a tangible or intangible property corporation. Once determined, tangible

property corporations must complete Schedule C (and omit Schedule D) and intangible property corporations must complete Schedule D (and omit Schedule C). Net book values should be used in completing all schedules.

Schedule B

Schedule B is used to calculate whether a corporation is a tangible or intangible property corporation. Beginning in 2004, taxpayers no longer have the option of calculating the non-income measure as a business 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 generally allowed for 95% of the value of 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

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 13. 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.

From 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 22.

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 24

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

Enter the amount of the corporation's loss carryover deduction from Schedule E-2, line 8.

Line 27

Subtract the amount on line 26 from the amount on line 25. Enter this amount in the excise calculation section, line 3.

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.

Corporations which are members of a combined group required to file Form 355U that must pay an excise with this return (corporations with a fiscal year ending at a different time than the taxable year for which the combined report is being filed) should report on Schedule CR only the type and amount of credit(s) being claimed against the excise shown on this return.

Schedule E-2. Loss Carryover Deduction

Massachusetts allows two different loss carryover deductions, a deduction available only to corporations during the first five years of the corporation's existence and a deduction generally available to all business corporations. A corporation may take only one of these deductions in a taxable year. If the corporation qualifies to take either deduction, the choice between the deductions is left to the corporation's discretion. Note that a corporation electing the "new corporation" NOL must reduce its net operating loss for amounts carried back for purposes of determining the federal net operating loss deduction. See 830 CMR 63.30.2(3).

Lines 1 through 5

For each of lines 1 through 5, enter the appropriate amounts for each of the items listed if the (a) the corporation sustained a Massachusetts net operating loss in the relevant year and (b) the corporation was taxable on its income in Massachusetts. If the corporation was organized after the year in question, was not taxable in Massachusetts or did not sustain a Massachusetts net operating loss, leave all fields for that year blank.

Row a

Enter the amount of any pre-apportionment net operating loss shown on the corporation's Massachusetts return.

Row b

Enter the amount of any pre-apportionment net operating loss used in a prior year.

Row c

Subtract the amount used from the original loss.

Row d

Enter the apportionment factor shown on the corporation's Massachusetts corporate excise tax return for the loss year. If the corporation was not taxable in any other state, enter 1.000000.

Row e

Multiply row (c) by row (d).

Row f

Enter the amount if the corporation used a post-apportionment net operating loss in a prior year. Caution, prior to January 1, 2010 only corporations subject to combined reporting and filing form 355U deducted a net operating loss on a post-apportionment basis.

Row g

Subtract row (f) from row (e).

Line 3

These are special instructions for corporations that filed Form 355U in 2009. A corporation that filed as a member of a combined group for a taxable year beginning on or after January 1, 2009 may have a net operating loss determined on a post-apportionment basis. Such corporations (only) enter that post-apportionment NOL on item 3(e), leaving the amounts on 3(a) through 3(d) blank.

Line 4

All corporations leave the amounts on lines 4(a) through 4(d) blank. Enter the corporation's post-apportionment on line 4(e).

Line 5

All corporations leave the amounts on lines 5(a) through 5(d) blank. Enter the corporation's post-apportionment on line 5(e).

Line 6

Combine the amounts from all row (g) items, lines 1 through 5.

Line 7

If the amount on Schedule E, line 25 is greater than "0," enter that amount. Otherwise, enter "0."

Line 8

Enter the smaller of line 6 or line 7. Also enter this amount on Schedule E, line 26.

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 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 apports 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, in-

cluding 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 sub-rentals 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 19 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 19, **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.

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 of were never used to offset excise, whether or not the credits are still available for use. Recapture does not apply if the property has been in qualified use for more than 12 years.

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 $\$30,000 \times 72 \div 120 = \$18,000$. 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 $\$10,000 \times 84 \div 120 = \$7,000$. 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 1 (the total potential ITC recapture from all years).

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

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

Enter \$14,000 in line 2e (the amount of the reduction in the unlimited carryover).

Enter \$2,000 in line 3 (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.

Lines 1 through 5

Enter in column a the amount of credit available for use in the current year. Credits available which are subject to the 3-year carryover limitation are entered on the line appropriate for the tax year in which the credit was generated. Credits no longer subject to the 3-year time limit are shown on line 5. If carryover credits were offset against potential recaptures in Part 2, the amount actually available should reflect the reduction by those offsets.

Enter in, column b, the amount of credits originating in each tax year being used in the current 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 section 32C limitation (e.g. the Brownfields Credit under sec 38Q) the maximum amount of investment tax credit allowed is reduced by the amount of such other credits taken. Taxpayers may choose which credits to use but the total of all such credits subject to the section 32C limitation may not exceed 50% of the excise before credits. Credits may also not reduce a corporation's tax below the \$456 minimum excise.

Enter in column c, the amount of credits originating in each tax year converted to unlimited carryover status. Credits that could have been used except for the 50% limitation in M.G.L. Ch. 63, sec 32C may be used in any subsequent year, without regard to the normal 3 year time limit provided in Ch.63, sec. 31A. The taxpayer may choose which credits to treat as converted to unlimited status, but the total of all such credits designated for unlimited carryover may not exceed 50% of the current year excise before credits.

Enter in lines 2 through 4, column d the amount of credits originating in each tax year and still subject to the 3-year time limit which are carried over to future years. Note that any credits on line 1(a) not used or converted expire at the end of the current year.

Part 4. 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 4 based on the book value of their capital assets located in Massachusetts.

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, which ever applies. If the return is for a short taxable year, the tangible property or taxable net worth should be prorated; and

▶ a tax of 8.00% on income attributable to Massachusetts.

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

Line 3

Enter the amount from Schedule E, line 27, if you had taxable income (a positive number). If the amount in Schedule E, line 27 is a loss, enter "0."

Line 5

An addition to tax applies for taxpayers who have deferred the gain, and the tax associated with that gain, on certain installment sales. This addition to tax is measured by an interest charge on the tax that has been deferred.

Include in line 5 an additional tax amount representing an interest charge on the deferred tax on gain from certain installment sales with a sales price over \$150,000 if you are not a dealer and the aggregate face amount of installment obligations arising during the tax year and outstanding as of the close of the tax year exceeds \$5 million. For more information see G.L. c. 62C, sec. 32A (a) and I.R.C. sec. 453A (a)–(c).

Also include in line 8 an additional tax amount representing an interest charge on the deferred gain from the installment sale of time shares and residential lots, if the sale meets one of the following criteria: 1) the sale is of a timeshare right for 6 weeks or less; 2) the sale is for the recreational use of specified campgrounds; or 3) the sale is for a residential lot and neither the dealer nor someone related to the dealer is obligated to make any improvements on the lot. For more information see G.L. c. 62C, sec. 32A (b) and I.R.C. sec. 453(l)(2)(B).

If you are a partner in a partnership or a shareholder in an S corporation, the entity is required to send you the information you need to calculate the addition to tax under this provision.

To the extent practicable, Massachusetts follows federal income tax rules in determining the deferred gain from installment sales subject to the interest-charge addition to tax. For more information, visit DOR's website at www.mass.gov/dor and Internal Revenue Service Publication 537.

Line 6

Corporations which are not members of a combined group filing a combined report enter the amount from Schedule CR, line 15 and enclose any

required schedules showing the calculation of the individual credits taken on Form 355.

Line 9

If the corporation is a member of a combined group filing a combined report, its income measure of excise is paid with Form 355U. Enter the amount from Schedule U-ST, line 41. Corporations which are not members of a combined group enter zero.

Line 10

Corporations taxable under M.G.L. Ch. 63, sec. 32D and 39 are subject to a minimum excise of \$456. If the corporation is a member of a combined group, it must file a combined report and its income measure of excise is determined on Schedule U-ST, line 41 and not on Form 355 or 355S. If the member's own income measure of excise from Schedule U-ST, line 41 (as referenced on line 9 above) is greater than or equal to \$456, enter zero on line 10. Otherwise, subtract the amount on line 9 from \$456 and enter the result on line 10. If the corporation is not part of a combined group, enter \$456 on line 10.

Line 12

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 17

Enter the amount of any withholding tax from pass-through entities. This is the amount of withholding from all Schedules 3K-1, lines 33 and 35 that the corporation has received.

Line 18

If the corporation is claiming a refundable credit, enter the amount from Schedule RF, line 6.

Lines 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%.

Line 25

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

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 7005, Boston, MA 02204.**

Schedule M-1. Federal Reconciliation

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 reporting their income on Form 355U as part of a combined group file Schedule U-M with that combined report and are not required to file Schedule M-1. All other corporations filing Form 355 or 355S and subject to the income measure of excise must complete Schedule M-1. (S corporations with receipts of less than \$6 million on an annualized basis, and therefore not required to complete Schedule E, do not complete Schedule M-1.)

Part 1. Income and Expenses

Corporations filing U.S. Form 1120 on a separate company basis enter on lines 1 through 28 the amounts from their U.S. return. S Corporations, and any other corporations not filing U.S. Form 1120, if required to file Schedule M-1, must complete lines 1 through 28 on a pro-forma basis as a C corporation. Corporations filing in Massachusetts and participating in a U.S. consolidated return must complete Schedule M-1 on a separate company basis.

Part 2. Corporate Ownership

Line 1

If any corporation or other listed entity owned directly or indirectly more than 50% of the total voting power of all of the corporation's stock entitled to vote, identify the owner here. In making this determination if a partnership, estate, trust or corporation owns, directly or indirectly, more than 50% of the voting control of a corporation, it shall be considered to own all the stock or other ownership or control interests in such corporation as provided in 830 CMR 63.32B.2(2). Where, because of a chain of ownership, more than one corporation meets this criteria (e.g. A owns 60% of B which owns 60% of C, so that both A and B are considered to own more than 50% of C), the entire ownership chain must be reported with the exception of subsidiary corporations in federal tax consolidated groups and disregarded entities.

Line 2

If the corporation filing Schedule M-1 owns, directly or indirectly, 50% or more of the total voting power of any other business corporation, identify all such corporations.

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.