

## Instructions for Schedule NIR

**Draft as of November 7, 2007**  
**Subject to Change**

### **What Is the Purpose of Schedule Net Income Reconciliation (NIR)?**

Schedule Net Income Reconciliation (NIR) 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.

### **Who Must File Schedule NIR?**

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.

### **Line by Line Instructions**

#### **Registration Section**

Enter the name and Federal Identification number of the entity submitting Schedule NIR on the top line. On the 2<sup>nd</sup> line, enter the name and Federal Identification number as it appears on U.S. Schedule M-3 as filed (this may be a corporation that does not have a requirement to file a return in Massachusetts). **If applicable, enter the same information which was entered in line 1 of Schedule NIR. Do not leave line 2 blank.**

**Lines 1 through 3.** Complete lines 1 through 3 using information from U.S. Schedule M-3, Part 1.

**Line 4.** Enter in line 4 the consolidated worldwide income exactly as shown on U.S. Schedule M-3, Part 1, line 4.

**Lines 5 through 7.** List individually the different entities, included or excluded in converting the consolidated worldwide income on line 4 to the net income per income statement figure reported on U.S. Schedule M-3, Part 1, line 11. Each entity must be identified by name, federal tax identification number (if applicable), and entity type using the following table:

#### **Entity Type Codes for column (b)**

- 01:** Corporations exempt from taxation under section 501 and not included in a U.S. consolidated income tax return.
- 02:** Insurance companies subject to tax under section 801 and not included in a U.S. consolidated income tax return.
- 03:** Foreign corporations not included in a U.S. consolidated income tax return.
- 04:** Corporations with respect to which an election under section 936 (relating to possession tax credit) is in effect for the taxable year.

- 05:** Regulated Investment Company subject to tax under subchapter M
- 06:** Real Estate Investment Trust subject to tax under subchapter M
- 07:** A DISC as defined in section 992(a) (1)).
- 21:** A U.S. domestic corporation, whether included or excluded in the U.S. return, where code numbers 01 through 07 do not apply.
- 22:** A U.S. domestic limited liability company, whether included or excluded in the U.S. return, where code numbers 01 through 07 do not apply.
- 23:** A U.S. domestic entity which is not a corporation or a limited liability company, whether included or excluded in the U.S. return, where code numbers 01 through 07 do not apply.
- 31:** A foreign entity, whether included or excluded in the U.S. return, where code numbers 01 through 07 do not apply.

**Line 5.** Enter individually the name of each separate **foreign entity** whose income is included in the worldwide income shown on line 4 but not included on the U.S. tax return. These will be the same entities identified in the required schedules reconciling the entries on U.S. Schedule M-3, Part 1, lines 5a and 5b.

**Line 5a.** Enter the entity's Federal Identification number. If the entity does not have one, enter zeros.

**Line 5b.** Enter the code corresponding to the type of entity for U.S. tax purposes using the entity type chart.

**Line 5c.** If the entity files an income tax return of any kind in Massachusetts, for "yes", enter "Y" If no return is filed in Massachusetts, enter "N."

**Line 5d.** Enter "1" if this is a non-includible foreign entity with net income greater than zero. Enter "2" if this is a non-includible foreign entity with net income of zero or less than zero.

**Line 5e.** Enter, as a **negative amount**, the amount of income excluded from the U.S. return due to the exclusion of this entity. Losses excluded from the U.S. return are entered as positive amounts. The total of all entries on Schedule NIR line 5e should equal the total of the U.S. Schedule M-3, part 1, lines 5a and 5b.

**Line 6.** Enter individually the name of each separate **domestic entity** whose income is included in the worldwide income shown on line 4 but not included on the federal tax return. These will be the same entities identified in the required schedules reconciling the entries on U.S. Schedule M-3, part 1, lines 6a and 6b.

**Line 6a.** Enter the entity's Federal Identification number. If the entity does not have one, enter zeros.

**Line 6b.** Enter the code corresponding to the type of entity for federal tax purposes. Use the same entity type codes provided for line 5b.

**Line 6c.** If the entity files a return in Massachusetts, enter “Y.” If not, enter “N.”

**Line 6d.** Enter “3” if this is a non-includible domestic entity with net income greater than zero. Enter “4” if this is a non-includible domestic entity with net income of zero or less than zero.

**Line 6e.** Enter, as a **negative amount**, the amount of income excluded from the U.S. return due to the exclusion of this entity. Losses excluded from the U.S. return are entered as positive amounts. The total of all entries on Schedule NIR line 6e should equal the total of the U.S. Schedule M-3, Part 1, lines 6a and 6b.

**Line 7.** Enter individually the names of each separate entity whose income or loss is not included in the worldwide income shown on line 4 but which is included on the federal tax return. These will be the same entities identified in the required schedules reconciling the entries on U.S. Schedule M-3, Part 1, lines 7a and 7b.

**Line 7a.** Enter the entity’s Federal Identification number. If the entity does not have one, enter zeros.

**Line 7b.** Enter the code corresponding to the type of entity for U.S. tax purposes. Use the same entity type codes provided above.

**Line 7c.** No entries should be entered in this column.

**Line 7d.** Enter “5” if this is an “other includible entity” with net income greater than zero. Enter “6” if this is an “other includible entity” with net income of zero or less than zero.

**Line 7e.** Enter, as a **positive amount**, the amount of income attributable to the entity being added to worldwide consolidated income for the tax return. Enter all losses as negative numbers. This differs from the federal instructions.

**Line 8.** Enter the total amount of the adjustment to eliminations of transactions between includible entities and non-includible entities. This is the amount shown on U.S. Schedule M-3, Part 1, line 8.

**Line 9.** Enter the total amount of any adjustment to reconcile the income statement period to the tax year. This is the amount shown on U.S. Schedule M-3, Part 1, line 9.

**Line 10.** Enter the total amount of any intercompany dividend adjustments required to reconcile worldwide income as shown in line 4 to line 13. This is the amount shown on U.S. Schedule M-3, Part 1, line 10a.

**Line 11.** Enter the total amount of any statutory accounting adjustments required to reconcile worldwide income as shown in line 4 to line 13. This is the amount shown on U.S. Schedule M-3, Part 1, line 10b.

**Line 12.** Enter the total amount of any other adjustments to reconcile worldwide income as shown in line 4 to line 13. This is the amount shown on U.S. Schedule M-3, Part 1, line 10c.

**Line 13.** Enter the net income or loss per income statement of includible corporations. Combine lines 4 through 12 (use column e amounts for lines 5, 6 and 7). The total must match final result of schedule M-3, Part 1 as filed with the U.S. income tax return for the year (Schedule M-3, Part 1, line 11 for corporations filing form 1120).