2000 Massachusetts Financial Institution Excise Tax Return Form **63 FI**

Schedules and Instructions

General Information

This booklet contains Form 63 FI and schedules needed to complete the Massachusetts Financial Institution Excise Return.

Legislation enacted in 1995 changes the taxation of financial institutions doing business in Massachusetts effective for tax years beginning on or after January 1, 1995. These provisions are contained in secs. 1, 2 and 2A of Ch. 63 of the Massachusetts General Laws (MGL), as amended. It may be necessary to refer to these detailed statutory provisions to properly complete Form 63 FI and schedules.

Prior to the statutory change, the excise under MGL Ch. 63, secs. 1 and 2 generally applied to banks and similar entities existing by authority of Massachusetts or federal laws or the laws of a foreign country, but not banks organized under the laws of another state. The new provisions apply to a broader range of financial institutions.

Forms and instructions pertaining to the repealed bank excise imposed under former MGL Ch. 63, secs. 1 & 2, have no force and effect for tax years beginning on or after January 1, 1995.

Who Must File and Pay the Financial Institution Excise?

The Massachusetts financial institution excise applies to banks, trust companies and federal or state savings and loan associations existing by authority of the United States, or any state or a foreign country. It also applies to bank holding companies and subsidiaries of bank holding companies, savings and loan holding companies, corporations subject to supervision by the Massachusetts Division of Banks or other corporations in substantial competition with financial institutions in Massachusetts which derive more than 50% of gross income from loan origination, lending activities or credit card activities. Credit unions are not subject to the excise. See Technical Information Release (TIR) 95-6.

Corporations included in the new definition of financial institution which were taxed under MGL Ch. 62 (income tax on individuals, trusts, corporate trusts, partnerships and S corporations) or MGL Ch. 63, secs. 30 to 42, inclusive (corporate excise), are now taxed under MGL Ch. 63, sections 1 through 2A inclusive and must now file a Form 63FI, Financial Institution Excise Return for tax years beginning on or after January 1, 1999.

The minimum excise for a financial institution is $456. The minimum excise cannot be prorated.

What is Nexus for Purposes of the Massachusetts Financial Institution Excise?

The financial institution excise applies to any financial institution engaged in business in Massachusetts. The term “engaged in business” as defined in MGL Ch. 63, sec. 1 includes:

a) having a business location in Massachusetts;

b) having employees, representatives or independent contractors conducting business activities on its behalf in Massachusetts;

c) maintaining, renting or owning any tangible or real property in Massachusetts;

d) regularly performing services in Massachusetts;

e) regularly engaging in transactions with customers in Massachusetts that involve intangible property and result in income flowing to the taxpayer from residents of Massachusetts;

f) regularly receiving interest income from loans secured by tangible personal property or real property located in Massachusetts; or

g) regularly soliciting and receiving deposits from customers in Massachusetts.

With respect to the activities described in (d) through (g) inclusive, activities are presumed, subject to rebuttal, to be conducted on a regular basis within Massachusetts if any of such activities are conducted with 100 or more residents of Massachusetts during any taxable year or if the taxpayer has $10,000,000 or more of assets attributable to sources within Massachusetts or if the taxpayer has in excess of $500,000 in receipts attributable to sources within Massachusetts.

Apportionment

For tax years beginning on or after January 1, 1995, Massachusetts has adopted a three-factor apportionment formula based on receipts, property and payroll. Apportionment applies to financial institutions with income from business activity which is taxable both in Massachusetts and in any other state. See MGL Ch. 63, sec. 2A. The apportionment calculations are reported in Schedule E. **It may be necessary to refer to the detailed provisions of MGL Ch. 63, sec. 2A in order to complete Schedule E.**

Elections Relating to Apportionment

Financial institutions subject to the excise under MGL Ch. 63, secs. 1, 2 and 2A and filing Form 63 FI may make certain elections. Two elections may be made by the taxpayer without prior approval from the Department and two elections require prior approval from the Department. Once making an election to use an alternative method of valuation, the taxpayer will generally be required to use the alternative method on subsequent returns. However, a request for an alternative method of apportionment of income must be made for each taxable period.

Elections Not Requiring Prior Approval from the Department

Receipts Factor. Valuation of Investment and/or Trading Assets and Activities by Average Value or Gross Income Method, Schedule E, Part 1(l). Interest, dividends, net gains (but not less than zero) and other income from investment and/or trading assets and activities are generally included in the numerator of the receipts factor by multiplying all income from such assets and activities by a fraction, the numerator of which is the **average value** of such assets which are properly assigned to a regular place of business of the taxpayer in Massachusetts and the denominator of which is the **average value** of all such assets. In lieu of using this method, the taxpayer may elect to determine the income from investment and/or trading assets and activities that is included in the numerator of the receipts factor by multiplying all such income by a fraction, the numerator of which is the **gross income** from such assets which are properly assigned to a regular place of business of the taxpayer in Massachusetts and the denominator of which is the **gross income** from all such assets and activities.

If the taxpayer elects or is required by the Department to use the gross income method, the taxpayer must use this method on subsequent returns unless the taxpayer receives permission or the Department requires a different method.

Property Factor. Valuation of All Property Owned, Schedule E, Part 2(e). The average value of property owned by the taxpayer is

computed on an annual basis by adding the value of the property on the first day of the taxable year and the value of the property on the last day of the taxable year and dividing the sum by two. If averaging on this basis does not properly reflect average value, the taxpayer may elect or the Department may require averaging on a more frequent basis.

A taxpayer electing to average on a more frequent basis must use the same method of valuation consistently with respect to property inside and outside of Massachusetts and on all subsequent returns unless the taxpayer receives permission or the Department requires a different method of determining average value.

Elections Requiring Prior Approval from the Department

Property Factor. Valuation of Rental Property, Schedule E, Part 2(a)iv. The average value of rented property (real or tangible) is generally determined annually by multiplying the gross rents payable during the taxable year by eight. A financial institution which believes that this general method results in inaccurate valuations of rented property may apply to use any other method which properly reflects the value. The taxpayer should make this request by submitting Form AA-1. A taxpayer that has been unable to obtain prior approval of an alternative method of valuation of rental property should use the statutory method of valuing rental property on its return and submit Form AA-1 describing the proposed alternative method. If the alternative method is approved by the Department, a refund of any overpayment, with interest, if due, will be made.

If an alternative method of valuing rented property is approved, that method must be used on all subsequent returns unless the taxpayer receives prior approval or the Department requires a different method.

Alternative Apportionment. A financial institution which believes that the statutory provisions contained in MGL Ch. 63, sec. 2A are not reasonably adapted to approximate its net income derived from business carried on within Massachusetts may apply to the Department to use an alternative method by filing Form AA-1 with its duly filed return. (The Department may also require use of an alternative method of apportionment without the taxpayer's application.) The taxpayer should use the statutory method of apportionment in calculating the excise due on Form 63 FI. If an alternative method of apportionment of net income is approved by the Department, a refund of any overpayment, with interest, if due, will be made. In processing taxpayer requests for alternative apportionment, the Department will generally follow the procedures in 830 CMR 63.42.1 to the extent that they are not inconsistent with other provisions of MGL Ch. 63, as amended, pertaining to financial institutions. **Note:** Be sure to check the box in line 4 of the registration section if requesting alternative apportionment.

A request for an alternative method of apportionment must be made for each taxable period.

When Are Returns Due?

Financial institution 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. To request an extension, file Form 355-7004 Misc., on or before the normal due date of the return and pay in full the estimated tax due.

Note: An extension of time to file is not valid if the financial institution fails to pay at least the minimum tax of $456, or 50% of the total tax liability, whichever is greater, through estimated payments or with Form 355-7004 Misc.

Any tax not paid on or before the due date, without regard to the extension, will be subject to an interest charge.

Should the Financial Institution Be Making Estimated Tax Payments?

All financial institutions which reasonably estimate their 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 of the third month of the corporation's taxable year or in four installment payments according to the following schedule. Financial institutions making payments must use Form 355-ES to make their payments.

Financial institution estimated tax installments are paid as follows:

Installment no.	Pct. of estimated tax due	Due date from start of taxable year
1	40%	15th day of 3rd month
2	25%	15th day of 6th month
3	25%	15th day of 9th month
4	10%	15th day of 12th month

Financial institutions which underpay or fail to pay their estimated taxes may incur an additional charge on the amount of the underpayment for the period of the underpayment at the rate established under MGL Ch. 62C, sec. 32 (which is the rate the Department uses to calculate interest on underpayments and overpayments). Form M-2220, Underpayment of Massachusetts Estimated Tax by Corporations, is used to compute the additional charge.

See 830 CMR 63B.2.2 for additional information about estimated payments.

Economic Opportunity Area Credit and Abandoned Building Renovation Deduction

Financial institutions may qualify for the Economic Opportunity Area Credit or the Abandoned Building Renovation Deduction. For further information, see Schedule EOA or contact the Massachusetts Office of Business Development, One Ashburton Place, Room 2101, Boston, MA 02108.

Full Employment Program Credit

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

What is a Proper Return?

A proper return is a return upon which all required amounts have been entered in all appropriate items on all forms. Data sheets, account forms or other schedules may be attached to explain amounts entered on the forms. A subchapter S corporation should include Schedule S and Schedule SK-1. Referencing items to attachments in lieu of entering amounts onto the return is not sufficient.

A properly filed return must also include exact and complete copies of the financial institution's U.S. Form 1120, 1120-A or 1120S. Copies of all accompanying schedules and supplemental statements to the federal return must be attached.

Disclosure Schedule

Form 63 FI requires the taxpayer to enter certain information from its federal return. The Department has been mandated by statute to collect and annually report aggregate information about financial institution filers to the legislature.