Commonwealth of Massachusetts **Department of Revenue**

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2009 Massachusetts Partnership Return **Form 3**

Schedule 3K-1 and Instructions

General Instructions

This booklet contains Form 3, Schedule 3K-1, and the instructions needed for completing your Massachusetts partnership return. The Massachusetts Schedule 3K-1 parallels federal Schedule K-1, which gathers information on each partner separately.

The instructions are divided into two sections designed to lead you through the form and answer your questions along the way.

The first section — **General Instructions** — answers commonly asked questions such as, "How Is a Partnership Taxed?"

The second section — **Specific Instructions** — provides information on each part of Form 3 and Schedule 3K-1.

New Current Code Provision

As a general rule, Massachusetts will not adopt any federal tax law changes incorporated into the Code after January 1, 2005. However, certain specific provisions of the personal income tax automatically adopt the current Code. Effective for tax years on or after January 1, 2009, a new current Code provision has been adopted. See TIRs 98-8, 02-11, 07-4 and 09-21 for further details on Massachusetts' personal income tax current Code provisions.

For a full discussion of 2009 major tax changes, see the Form 1 instructions. These are available in the Form 1 booklet or online at DOR's website www.mass.gov/dor.

New Requirements for Partnerships

For tax years beginning on or after January 1, 2009, pass-through entities, including partnerships, have new filing obligations with regard to their non-resident partners or members. A partnership is required to determine which of its partners are non-residents, and to ascertain how its non-resident partners will be complying with their Massachusetts filing obligation. A partnership must withhold Massachusetts tax on the distributive share of any partner that does not certify to the partnership that the partner will be meeting its tax obligation in some other manner. For more information on how to comply with the withholding obligation, see the Guide for Pass-Through Entities.

Guaranteed Payments to Partners

Guaranteed payments made to non-resident partners are apportioned as ordinary income of the partnership.

Privacy Act Notice

Under the authority of 42 U.S.C. sec. 405(c)(2)(C)(i), and M.G.L. c. 62C, sec. 5, the Department of Revenue has the right to require an individual to furnish his or her Social Security number on a state tax return. This information is mandatory. The Department of Revenue uses Social Security numbers for taxpayer identification to assist in processing and keeping track of returns and in determining and collecting the proper amount of tax due. Under M.G.L. c. 62C, sec. 40, the taxpayer's identifying number is required to process a refund of overpaid taxes. Although tax return information is generally confidential pursuant to M.G.L. c. 62C, sec. 21, the Department of Revenue may disclose return information to other taxing authorities and those entities specified in M.G.L. c. 62C, secs. 21, 22 or 23, and as otherwise authorized by law.

When Must a Partnership File a Return?

A Massachusetts partnership return, Form 3, must be filed if the partnership meets either of the following criteria:

- has a usual place of business in Massachusetts; or
- receives federal gross income of more than $100 during the taxable year that is subject to Massachusetts taxation jurisdiction under the U.S. Constitution.

How Is a Partnership Taxed?

A partnership is not directly subject to income tax. Instead, each partner is taxed on the partner's share of the partnership income, whether distributed or not. Form 3 is a legally required informational return under Massachusetts General Laws, Ch. 62C, and subject to penalty for late filing.

How Does Schedule 3K-1 Work?

Schedule 3K-1 is designed to allow the partnership to report each partner's distributive share of partnership income separately.

How Does Each Partner Report Partnership Income?

Each partner must report the partner's distributive share of each item of partnership income during the taxable year on the partner's Massachusetts tax return. The following table shows which return should be filed by each type of partner:

Type of partner	*Form to file*
Full-year resident individual	*1*
Nonresident/part-year resident individual	*1-NR/PY*
Trust or estate	*2*
Domestic or foreign corporation	*355*
Domestic or foreign corporation (part of a Massachusetts combined report)	*355U*
Domestic or foreign S corporation	*355S*

Each **nonresident partner** must report the partner's distributive share of partnership income from any of the following categories:

- income derived from or connected with the partnership business carried on in Massachusetts;
- income from the ownership of any interest in real or tangible personal property located in Massachusetts; or
- interest, dividends, annuities and capital gains from property employed in the partnership business carried on in Massachusetts.

Note: A nonresident limited partner of a limited partnership engaged exclusively in buying, selling, dealing in or holding securities on its own behalf and not as a broker is not subject to tax on income from such partnership.

Qualified electing nonresident partners may participate in a composite tax return as defined in the Nonresident Regulation 830 CMR 62.5A.1(12)(f). A composite return is filed electronically on a Form NRCR.

What is Massachusetts Gross Income?

Massachusetts Gross Income is divided into three classes: Part B is taxed at 5.3%, Part A is taxed at 5.3% and 12% and Part C is taxed at 5.3%.

Part B income:

- Gross receipts from sales;
- Ordinary income or loss from other partnerships excluding all interest (other than interest from Massachusetts banks) and dividends;
- Ordinary income or loss from trusts and estates not subject to Massachusetts taxation;
- Royalty income or loss;
- Income from REMIC residual interest;
- Rental income or loss;
- Massachusetts bank interest; and
- Other income taxed at 5.3% (see Form 1 instructions).

Part A income:

- Interest other than from Massachusetts banks (taxed at 5.3%);
- Dividends (taxed at 5.3%);
- Short-term capital gains and losses (taxed at 12%);
- Gains and losses on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less (taxed at 12%); and
- Long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Mass. purposes (taxed at 12%).

Part C income:

- Long-term capital gains and losses excluding long-term gains on collectibles; and
- Losses on the sale, exchange or involuntary conversion of property used in a trade or business and held for more than one year.

Note: Massachusetts gross income does **not** include interest on obligations of the U.S. or Mass. and its political sub-divisions.

Are There Differences Between Massachusetts Tax Law and the Internal Revenue Code Provisions Affecting Partnerships?

Yes. There are a number of differences between Massachusetts and U.S. personal income tax law. For Massachusetts tax purposes, a partnership is allowed only those expense deductions that an individually owned business is allowed. Deductions that are itemized by an individual on Schedule A of U.S. Form 1040 are not generally allowed. The deduction for a net operating loss carryover or carryback is not allowed to the partnership nor to an individual under Massachusetts income tax law. Explanations of these differences are provided in the appropriate lines and in the Forms 1 and 1-NR/PY instructions.

Massachusetts depreciation has been decoupled from the federal "bonus" depreciation law. 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 federal income tax purposes prior to the enactment of sec. 168(k). For more information see TIR 02-11 and TIR 03-25.

Form 3 and Schedule 3K-1 isolate income and deduction items in order to produce the correct Massachusetts partnership total as well as each partner's correct Massachusetts distributive share. These amounts sometimes differ from those reported on U.S. Form 1065, Schedule K-1.

When and Where Must a Partnership Return Be Filed?

A partnership return is due on or before the 15th day of the fourth month after the close of the partnership's taxable year, calendar or fiscal. If the partnership was dissolved or reorganized during the taxable year, Form 3 must be filed to reflect partnership activity as of the date of dissolution or reorganization. Form 3 must be signed by one of the general partners.

Mail partnership return to: **Massachusetts Department of Revenue, PO Box 7017, Boston, MA 02204.**

What is the Penalty for Filing a Late Return?

A $5 per day penalty may be imposed for failure to file a partnership return on time.

Specific Instructions

Certain lines are addressed in detail. Those lines without specific instructions are considered to be self-explanatory.

The Department of Revenue and the Internal Revenue Service 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.

Schedule TDS — Inconsistent Filing Position Penalty

Fill in the oval and attach Schedule TDS, Taxpayer Disclosure Statement, if you are disclosing any inconsistent filing positions. Schedule TDS is available on our website at www.mass.gov/dor. The inconsistent filing position penalty (see TIR 06-5, section IV) applies to taxpayers that take an inconsistent position in reporting income. These taxpayers must "disclose the inconsistency" when filing their Massachusetts return. If such inconsistency is not disclosed, the taxpayer will be subject to a penalty equal to the amount of tax attributable to the inconsistency. This penalty is in addition to any other penalties that may apply.

A taxpayer is deemed to have taken an "inconsistent position" when the taxpayer pays less tax in Massachusetts based upon an interpretation of Massachusetts law that differs from the position taken by the taxpayer in another state where the taxpayer files a return and the governing law in that other state "is the same in all material respects" as the Massachusetts law. The Commissioner may waive or abate the penalty if the inconsistency or failure to disclose was attributable to reasonable cause and not willful neglect.

Member of a Lower-Tier Entity

A tiered structure is a pass-through entity that has a pass-through entity as a member. (The term "pass-through entity" refers to an entity whose income, loss, deductions and credits flow through to members for Massachusetts tax purposes, and includes all entities treated as partnerships under Massachusetts tax law. The term "member" includes a partner in a partnership and a member of a limited liability company treated as a partnership in Massachusetts.) As between two entities, the pass-through entity that is a member is the upper-tier entity, and the entity of which it is a member is the lower-tier entity. If the partnership is a member of another pass-through entity, it should answer "Yes" to this question.

Electing Large Partnerships

If a partnership is filing U.S. Form 1065-B, U.S. Return of Income for Electing Large Partnerships, enter amounts from the lines on Form 1065-B corresponding to the line references from U.S. Form 1065. If there is no equivalent U.S. Form 1065-B line reference, enter the requested amount as if it had been reported on U.S. Form 1065.

Partnership Income

If a partnership is made up entirely of **corporate partners**, the partnership need not complete Form 3, pages 2 and 3. The partnership, however, must complete Form 3, page 1 and, if applicable, page 4, and Schedule 3K-1, lines 21 through 32 (see instructions for Income Apportionment). The partnership must also attach U.S. Form 1065 and all schedules, including K-1s.

E-File Mandate

Partnerships that filed electronically last year, or those with more than $50,000 in gross income, sales or receipts or those that received $100,000 from the sale of stock must file electronically. Partnerships with 25 or more partners must also file electronically. Complete the following worksheet to determine if you meet the E-File threshold.

In addition, you must file electronically unless all of your members are resident individuals. You must also file electronically if you are withholding on a member's distributive share or if you receive distributive share upon which a lower-tier entity has paid withholding or estimated taxes.

For more information about the E-File mandate, see TIRs 04-30, 05-22 and 09-18.

Partnership E-File Mandate Worksheet

Partnerships over the thresholds explained below must submit all Forms 3 and Schedules 3K-1 to the Department by electronic means.

Note: *The heading "What is Massachusetts Gross Income" on page 4 of the instructions addresses the definition of income for tax purposes and does not refer to the electronic filing mandate.*

*Partnerships that meet **any** one of the following criteria must file electronically:*

1. *Partnership filed electronically last year;*
2. *25 or more partners;*
3. *$50,000 or more in gross income;*
4. *$50,000 or more in ordinary loss from trade or business activities;*
5. *$100,000 or more received from the sale of stock and securities; or*
6. *$100,000 or more in losses from the sale of stock and securities.*

A partnership that is below the thresholds may also choose to file electronically.

Part 1. Number of partners

1. *Enter number of partners . . . . . _____*
If 25 or greater, stop. You must file electronically. If not, continue with worksheet.

Part 2. Gross income

Note: *Enter all losses as "0."*

2. *Gross receipts or sales from U.S. Form 1065, line 1a . . . . . _____*
3. *Ordinary income from U.S. Form 1065, line 4 . . . . _____*
4. *Net farm profit from U.S. Form 1065, line 5 . . . . . _____*
5. *Other income from U.S. Form 1065, line 7. . . . . _____*
6. *Sale or exchange of property from U.S. Form 4797, line 9 . . . . . _____*
7. *Ordinary gain or loss from U.S. Form 4797, line 18b . . . . . _____*
8. *Gain from disposition of property from U.S. Form 4797, line 32 . . . . . _____*
9. *Total gross rents U.S. Form 8825, line 17 . . . . . _____*
10. *Other gross rental income (loss) from U.S. Schedule K, line 3 . . . . . _____*
11. *Interest from U.S. Schedule K, line 5 . . . . . _____*
12. *Dividends from U.S. Schedule K, line 6a . . . . . _____*
13. *Royalties from U.S. Schedule K, line 7. . . . . _____*
14. *Sale of collectibles from U.S. Schedule K, line 9b _____*
15. *Other income or loss from U.S. Schedule K, line 11 . . . . . _____*

16. *Total. Add lines 2 through 15. Enter the result here and on line 1 of Form 3. If total is $50,000 or greater, stop. You must file electronically. If total is less than $50,000, continue with worksheet* . . . . . _____

Part 3. Ordinary loss from trade or business activities

17. *Enter amount of loss from U.S. Form 1065, line 22 as a positive amount. If the amount of loss is $50,000 or greater, stop. You must file electronically. If loss is less than $50,000, continue with worksheet* . . . . . _____

Part 4. Receipts or losses from the sale of stock and securities

18. *Enter the amount from U.S. Schedule K, line 8* . . . _____
19. *Enter the amount from U.S. Schedule K, line 9a* _____
20. *Total. Add lines 18 and 19. If the receipts or losses are $100,000 or greater, stop. You must file electronically. If total is less than $100,000, partnership may file paper return* . . . . . _____

Massachusetts Ordinary Income or Loss

Line 1. Ordinary Income or Loss

Enter the total amount of ordinary income or loss from U.S. Form 1065, line 22.

Line 2. Other Income or Loss

If reporting other income or loss from U.S. Form 1065, Schedule K, line 11, attach a statement and explain. If any income or loss from U.S. Form 1065, Schedule K, line 11 is granted capital gains treatment by the federal government, omit it here and include it in lines 21 through 27, as applicable.

Line 3. State, Local and Foreign Income and Unincorporated Business Taxes or Excises

Enter total state, local and foreign income and unincorporated business taxes or excises. These taxes are deductible for U.S. tax purposes, but are not deductible in Massachusetts.

Line 5. Section 1231 Gains or Losses

Enter any gains or losses from the sale, exchange or involuntary conversion of Section 1231 property included in line 4 above. These amounts should be included in lines 23, 24 and 26 as applicable.

Line 7. Other Adjustments

Report and describe any other adjustments to Massachusetts partnership income and deductions not reported elsewhere on Form 3.

For Massachusetts tax purposes, a partnership is allowed only those expense deductions that an individually owned business is allowed. Deductions that are itemized by an individual on Schedule A of U.S. Form 1040, are not allowed. The deduction for a net operating loss carryover or carryback is not allowed to the partnership nor to an individual under Massachusetts income tax law.

Also report the deductions for 10% of the costs of renovating a qualifying abandoned building located in an Economic Opportunity Area. Attach a statement detailing the location and cost of renovating the qualifying abandoned building. The building must be designated as abandoned by the Economic Assistance Coordinating Council. For further information, contact the Massachusetts Office of Business Development, One Ashburton Place, Room 2101, Boston, MA 02108.

The partnership should also provide each partner with the amount of the partner's share of the deductible costs of renovating a qualifying abandoned building. Each partner should use this amount to complete Forms 1 or 1-NR/PY, Schedule E, line 56; or Form 2.

Line 9. Net Income or Loss from Rental Real Estate Activity(ies)

Enter the net income or loss from rental real estate activity(ies) from U.S. Form 1065, Schedule K, line 2.

Line 12. Net Income or Loss from Other Rental Activity(ies)

Enter the net income or loss from other rental activity(ies) from U.S. Form 1065, Schedule K, line 3c.

U.S. Interest, Dividend and Royalty Income

Line 15. U.S. Interest, Dividend and Royalty Income, Not Including Capital Gains

Add U.S. Form 1065, Schedule K, lines 5, 6a and 7 and enter the total in line 15.

Line 16. Interest on U.S. Debt Obligations

Enter the total amount of interest on U.S. debt obligations reported in line 15 which is taxable by the federal government, but is tax-exempt in Massachusetts.

Line 17. 5.3% Interest from Massachusetts Banks

Enter the total amount of interest from Massachusetts banks included in line 15. Report any interest from Massachusetts savings accounts, savings share accounts and NOW accounts. Also report any interest from term and time deposits. Attach a statement listing bank sources and amounts.

Line 18. Interest and Dividend Income

Enter the total amount of interest (other than interest from Massachusetts banks) and dividend income included in line 15. Do not include interest on U.S. debt obligations, which is taxable by the federal government, but is tax-exempt in Massachusetts. Attach a statement listing sources and amounts.

Line 19. Non-Massachusetts State and Municipal Bond Interest

Enter the total amount of the partnership's non-Massachusetts state and municipal bond interest. This interest is taxable in Massachusetts, but not taxed by the federal government.

Line 20. Royalty Income

Enter the total amount of royalty income included in line 15.

Massachusetts Capital Gains and Losses

If the partnership had any other income or loss that is granted capital gains treatment by the federal government, include that amount in lines 21 through 27, as applicable.

Line 21. Total Short-Term Capital Gains

Enter the total amount of short-term capital gains included in U.S. Form 1065, Schedule D, line 5.

Line 22. Total Short-Term Capital Losses

Enter the total amount of short-term capital losses included in U.S. Form 1065, Schedule D, line 5.

Line 23. Gain On the Sale, Exchange or Involuntary Conversion of Property Used in a Trade or Business and Held for One Year or Less

Enter from U.S. Form 4797 the amount of gain from the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less.

Line 24. Loss On the Sale, Exchange or Involuntary Conversion of Property Used in a Trade or Business and Held for One Year or Less

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

Line 25. Net Long-Term Capital Gain or Loss

Enter the net long-term gain or loss from U.S. Form 1065, Schedule K, line 9a.

Line 26. Long-Term Section 1231 Gains and Losses

Enter the amount of gain or loss under IRC Section 1231 from U.S. Form 1065, Schedule K, line 10 from property held more than one year. Also, include any amounts included in U.S. Form 4797, Part II treated as capital gains or losses for Massachusetts purposes.

Line 27. Long-Term Gains on Collectibles and Pre-1996 Installment Sales

Enter the amount of any long-term gain from collectibles held for more than one year and pre-1996 installment sales classified as capital gain income for Massachusetts purposes.

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

Line 28. Differences and Adjustments

Report any adjustments to Massachusetts capital gains and losses. Attach a complete statement explaining any such adjustments. For more information see Form 1, Schedule D instructions.

Income Apportionment Schedule

Part III should be completed only if **all** three of the following conditions are met: (a) there is one or more corporate or nonresident individual partners; (b) there is any income from business activity or ownership of any interest in real or tangible property in another state; (c) such business activities provide the other state the jurisdiction to levy an income or franchise tax.

The total partnership income is apportioned using the three-factor formula provided in Massachusetts General Laws Ch. 63, sec. 38(c), except that the sales factor is single-weighted. For more information regarding the apportionment of income, see Regulation 830 CMR 63.38.1 which is available on DOR's website at www.mass.gov/dor.

The partnership should provide each corporate partner or corporate trust partner with the applicable apportionment factors to be used in completing Schedule F of the applicable corporate form.

Line 1. Tangible Property

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.

1b. Property rented is valued at eight times the annual rental rate less any sub-rentals received.

Line 2. Payroll

Enter the total amount of wages, salaries, commissions or any other compensation paid to employees. An employee's compensation is apportioned 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 base of operations/place of control in Massachusetts; or
- Part of the employee's service is performed in Massachusetts and the base of operations/place of control of the service is not in a state in which some part of the service is performed, but the employee lives in Massachusetts.

Line 3. Sales

For the sales factor, enter all gross receipts of the partnership with the exception of those receipts from interest, dividends and the sale or other disposition of securities.

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; or
- The selling partnership 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 partnership 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.

3b. Sales of services, or other intangibles, are assigned to Massachusetts if the income-producing activity is performed in Massachusetts, or if the greater portion of the activity occurs in Massachusetts than in any other state based on performance cost.

3c. Rents from property located or used in Massachusetts are assigned to Massachusetts. Royalties are assigned to the state in which the property right is actually used by the lessee.

Line 5. Massachusetts Apportionment Percentage

Any apportionment factor should not necessarily be considered inapplicable if its Massachusetts total is zero. If any of the apportionment totals for "Worldwide" are less than 3.33% of taxable net income, **do not** include that factor in your Massachusetts apportionment percentage.

Divide the total apportionment percentage in line 4 by either 3, 2 or 1, depending on the number of apportionment factors which apply. For example, if only the sales and payroll factors are applicable, divide by 2 instead of 3.

Schedule 3K-1. Partner's Massachusetts Information

Type of Entity

On the Schedule 3K-1 for each partner, the partnership should indicate the entity type of the partner. The partnership should obtain this information from the partner. The partnership should select "partner-

ship or other PTE" if the partner is a partnership or another type of pass-through entity, such as a limited liability corporation treated as a partnership for Massachusetts tax purposes. The partnership should select "IRA" if the partner is a trustee of retirement funds such as Individual Retirement Accounts or other retirement funds. The partnership should select "disregarded entity" if the partner is an entity that is disregarded under Massachusetts law. The partnership should select "Exempt org." if the partner is exempt from federal income tax under Internal Revenue code section 501.

Partner's Distributive Share

A partner's distributive share of any item of income, loss, deduction or credit shall be determined by the partnership agreement. If the partnership agreement contains no special provisions with respect to the partner's distributive share of any item of income, loss, deduction or credit, such item shall be prorated in accordance with each partner's ratio of sharing income or losses of the partnership.

a. For a corporate partner skip to line 21.

b. For a nonresident partner eligible to apportion, enter in lines 1 through 8 and 10 through 20, the amount of the partner's share of each applicable distributive share item multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 5.

Income should be apportioned if:

- There is one or more nonresident individual partners **and**;
- There is any income from business activity or ownership of any interest in real or tangible property in another state **and**;
- Such business activities provide the other state the jurisdiction to levy any income or franchise tax.

c. For all other partners, enter in lines 1 through 20, the amount of the partner's share of each applicable distributive share item.

Line 1. Massachusetts Ordinary Income or Loss

Enter the amount of the partner's share of the partnership's Massachusetts ordinary income or loss from Form 3, page 2, line 8. For a nonresident partner eligible to apportion, enter the amount of the partner's share of the partnership's Massachusetts ordinary income or loss multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 5.

Line 2. Guaranteed Payments to Partners

Enter the guaranteed payments to each partner from U.S. Form 1065, Schedule K, line 4. Guaranteed payments made to non-resident partners are apportioned as ordinary income of the partnership.

Line 3. Separately Stated Deductions and Exclusions

Report and describe in line 3 any other expense that is deductible from income taxed at 5.3% and properly reportable on Massachusetts Forms 1 or 1-NR/PY, Schedule E-2; or Form 2, and that is not reported elsewhere on Schedule 3K-1. Examples of such deductions include oil and gas depletion and the expense deduction for recovery property, IRC Section 179. An estate or trust may not elect to expense recovery property. Report and describe in line 3 the partner's elective contribution to a qualified CODA retirement plan. Each partner should report this amount in Forms 1 or 1-NR/PY, Schedule E-2. A partner's distributive share of the federal deduction for any matching contribution made by the partnership is not deductible in Massachusetts. See DOR Directive 01-7.

Line 4. Total of Lines 1 Through 3

Combine the amounts in lines 1 through 3. The line 4 result includes each partner's share of the partnership's Massachusetts ordinary income and any guaranteed payments to the partner (deductible and capitalized).

The correct Massachusetts amount of the partner's share of ordinary income and guaranteed payments may differ from the comparable U.S. total reported on the partner's Forms 1 or 1-NR/PY, Schedule E-2, line 11; or Form 2. Each partner should make adjustments in Forms 1 or 1-NR/PY, Schedule E, line 55 and 56, if applicable; or Form 2, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain.

The partnership should provide each partner with the amount of the partner's share of any interest (other than interest from Massachusetts banks) and dividend income and 5.3% interest from Massachusetts banks included in line 4. Each partner should use these amounts to complete Forms 1 or 1-NR/PY, Schedule E-2, lines 9 and 10; or Form 2.

Line 5. Credits

Income Tax Paid to Other Jurisdictions

Enter the partner's share of any tax due from the partnership to any other state, territory or possession of the United States, or the Dominion of Canada or any of its provinces on income taxable to the partner in Massachusetts and otherwise allowable as a credit to the individual. The partnership should also provide each such partner with the names of each taxing jurisdiction, the amount of income and the amount taxed.

This credit is available only to resident partners and may be taken on Form 1, line 29, Form 1-NY/PY, line 34 or where applicable, on Form 2, line 41.

Note: The amount in line 5 is **not** simply the partner's share of the amount reported on Form 3, page 2, line 3, because the credit for taxes paid to other jurisdictions does not include local income taxes paid or taxes paid to nations other than Canada.

Lead Paint Credit

Enter the partner's share of any credit due to the partnership for expenses incurred by the partnership for covering or removing lead paint on residential premises in Massachusetts. The partnership must provide each partner with a copy of a "Letter of Compliance" or a "Letter of Interim Control" issued by a licensed inspector.

Economic Opportunity Area Credit

Enter the partner's share of any Economic Opportunity Area Credit for qualifying property used in a Certified Project. Enter each partner's share of the credit, according to the partner's ownership share, in line 5 of each partner's Schedule 3K-1.

This amount should then be used by each partner to complete Schedule EOA.

Full Employment Credit

Enter the partner's share of any Full Employment Credit, according to the partner's ownership share, in line 5 of each partner's Schedule 3K-1.

This amount should then be used by each partner to complete Schedule FEC.

Brownfields Credit

Enter the partner's share of any Brownfields Credit, according to the partner's ownership share, in line 5 of each partner's Schedule 3K-1. Be sure to enter the DOR-issued certificate number in the space provided.

This amount should then be used by each partner to complete Schedule BC.

Low-Income Housing Credit

Enter the partner's share of any Low-Income Housing Credit, according to the partner's ownership share, in line 5 of each partner's Schedule 3K-1. A copy of the Eligibility Statement issued by the Department of Housing and Community Development must be attached to each partner's Schedule 3K-1.

This amount should then be used by each partner to complete their return.

For further information regarding this credit, contact the Department of Housing and Community Development, Division of Private Housing.

Historic Rehabilitation Credit

Enter the partner's share of any Historic Rehabilitation Credit, according to the partner's ownership share of the credit, in line 5 of each partner's Schedule 3K-1.

Film Incentive Credit

Enter the partner's share of any Film Incentive Credit, according to the partner's ownership share of the credit, in line 5 of each partner's Schedule 3K-1. Be sure to enter the DOR-issued certificate number in the space provided.

Medical Device Credit

Enter the partner's share of any Medical Device Credit, according to the partner's ownership share of the credit, in line 5 of each partner's Schedule 3K-1. Be sure to enter the DOR-issued certificate number in the space provided

Refundable Film Credit

Enter the partner's share of any Refundable Film Credit (from Schedule RFC, line 5), according to the partner's ownership share of the credit, in line 5 of each partner's Schedule 3K-1. This amount should then be used by each partner to complete their return.

Refundable Dairy Credit

The Massachusetts dairy farmer tax credit was established to offset the cyclical downturns in milk prices paid to dairy farmers and is based on the U.S. Federal Milk Marketing Order for the applicable market. A taxpayer who holds a certificate of registration as a dairy farmer pursuant to G.L. c. 94, s. 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.

Enter the amount of refundable dairy credit from the Department of Agricultural Resources' Dairy Farmer Certified Tax Credit Statement. Also, be sure to enter the Department of Agricultural Resources-issued certificate number in the space provided on line 5k of Schedule 3K-1.

Credit Recapture

If the partnership is required to recapture any Economic Opportunity Area Credit, Brownfields Credit, Low-Income Housing Credit or Historic Rehabilitation Credit, enter the partner's share of any recapture as computed on Schedule H-2. This amount should then be used by each partner to complete their return.

Line 6. Net Income or Loss from Rental Real Estate Activity(ies)

Enter the partner's share of the partnership's net rental income or loss from real estate activity(ies) from Form 3, line 11.

The correct Massachusetts amount of the partner's share of net income or loss from rental real estate activity(ies) may differ from the comparable U.S. total reported on the partner's Forms 1 or 1-NR/PY, Schedule E-2, line 11; or Form 2. Each partner should make adjustments in Forms 1 or 1-NR/PY, Schedule E, line 55; or Form 2, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain.

Line 7. Net Income or Loss from Other Rental Activity(ies)

Enter the partner's share of the partnership's net rental income or loss from other activity(ies) from Form 3, line 14.

The correct Massachusetts amount of the partner's share of net rental income or loss from other activity(ies) may differ from the comparable U.S. total reported on the partner's Forms 1 or 1-NR/PY, Schedule E-2, line 11; or Form 2. Each partner should make adjustments in Forms 1 or 1-NR/PY, Schedule E, line 55; or Form 2, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain.

Line 8. Interest on U.S. Debt Obligations

Enter the partner's share of the partnership's interest on U.S. debt obligations from Form 3, line 16. For a nonresident partner eligible to apportion, enter the partner's share **without** apportionment. This income is taxable by the federal government, but tax-exempt in Massachusetts.

Each partner should include the line 8 total in Forms 1 or 1-NR/PY, Schedule B, line 6; or Form 2, Schedule B.

Line 9. 5.3% Interest from Massachusetts Banks

Enter the partner's share of the partnership's 5.3% interest from Massachusetts banks from Form 3, line 17. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's 5.3% interest from Massachusetts banks multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 5.

Each partner should include the line 9 total in Form 1, line 5; Form 1-NR/PY, line 7; or Form 2.

Each nonresident partner whose income is apportioned should receive from the partnership the amount of the partner's pre-apportionment share of 5.3% interest from Massachusetts banks. Each nonresident individual whose income is apportioned should include this amount in Form 1-NR/PY, Schedule B, line 5. This amount should be used instead of any amount from Form 1-NR/PY, line 7 because the partner's full distributive share of such income is included in the U.S. amount reported in Schedule B, line 1. Each nonresident trust or estate whose income is apportioned should include its pre-apportionment share of 5.3% interest from Massachusetts banks in Form 2, Schedule B, line 6, instead of any amount from Form 2, line 16.

Line 10. Interest and Dividend Income

Enter the partner's share of the partnership's interest (other than interest from Massachusetts banks) and dividend income from Form 3, line 18. For a nonresident partner eligible to apportion, enter the part-

ner's distributive share of the partnership's interest (other than interest from Massachusetts banks) and dividend income multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 5.

The correct Massachusetts amount of the partner's share of interest (other than interest from Massachusetts banks) and dividend income may differ from the comparable U.S. total reported on the partner's Forms 1, 1-NR/PY or 2, Schedule B, lines 1 and 2. Each partner should make adjustments in Form 1 and 1-NR/PY, Schedule B, line 6; or Form 2, Schedule B, line 7 to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain.

Line 11. Non-Massachusetts State and Municipal Bond Interest

Enter the partner's share of the partnership's non-Massachusetts state and municipal bond interest. For a nonresident partner eligible to apportion, enter the partner's distributive share of the partnership's non-Massachusetts state and municipal bond interest multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 5. This income is not taxed by the federal government, but **is** taxable in Massachusetts.

Each partner should include the line 11 total in Forms 1, 1-NR/PY, or 2, Schedule B, line 3.

Line 12. Royalty Income

Enter the partner's share of the partnership's royalty income.

For a nonresident partner eligible to apportion, enter the partner's distributive share of the partnership's royalty income multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 5.

The correct Massachusetts amount of the partner's share of royalty income may differ from the comparable U.S. total reported on Forms 1 or 1-NR/PY, Schedule E-1, line 24; or Form 2, Schedule E, line 1a. Each partner should make adjustments in Forms 1, 1-NR/PY, Schedule E, line 55; or Form 2, Schedule E, line 2, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain any adjustments.

Line 13. Short-Term Capital Gains

Enter the partner's share of the partnership's short-term capital gain from Form 3, line 21. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's short-term capital gain multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 5.

The correct Massachusetts amount of the partner's share of short-term capital gain may differ from the comparable U.S. total reported on your Forms 1, 1-NR/PY, or 2, Schedule B. Each partner should make adjustments in Forms 1 or 1-NR/PY, Schedule B, line 10, or Form 2, Schedule B, line 12, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain any adjustments.

Line 14. Short-Term Capital Losses

Enter the partner's share of the partnership's short-term capital loss from Form 3, line 22. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's short-term capital loss multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 5.

The correct Massachusetts amount of the partner's share of short-term capital loss may differ from the comparable U.S. total reported on your Forms 1, 1-NR/PY or 2, Schedule B. Each partner should make adjustments in Forms 1 or 1-NR/PY, Schedule B, line 16, or Form 2, Schedule B, line 18, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain any adjustments.

Line 15. Gain on the Sale, Exchange or Involuntary Conversion of Property Used in a Trade or Business and Held for One Year or Less

Enter the partner's share of the partnership's gain on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less from Form 3, line 23. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's gain on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 5.

The correct Massachusetts amount of the partner's share of gain on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less may differ from the comparable U.S. total reported on your Forms 1, 1-NR/PY or 2, Schedule B. Each partner should make adjustments in Forms 1 or 1-NR/PY, Schedule B, line 12, or Form 2, Schedule B, line 14, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain any adjustments.

Line 16. Loss on the Sale, Exchange or Involuntary Conversion of Property Used in a Trade or Business and Held for One Year or Less

Enter the partner's share of the partnership's loss on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less from Form 3, line 24. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's loss on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 5.

The correct Massachusetts amount of the partner's share of loss on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less may differ from the comparable U.S. total reported on your Forms 1, 1-NR/PY or 2, Schedule B. Each partner should make adjustments in Forms 1 or 1-NR/PY, Schedule B, line 17, or Form 2, Schedule B, line 19, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain any adjustments.

Line 17. Long-Term Capital Gain or Loss

Enter the partner's share of the partnership's long-term capital gain or loss from Form 3, line 25. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's long-term capital gain or loss multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 5.

The correct Massachusetts amount of the partner's share of long-term capital gain or loss may differ from the comparable U.S. total reported on your Forms 1, 1-NR/PY or 2, Schedule D. Each partner should make adjustments in Forms 1 or 1-NR/PY, Schedule D, line 9, or Form 2, Schedule D, line 9, to reflect the correct Massachusetts

amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain any adjustments.

Line 18. Long-Term Section 1231 Gains or Losses

Enter the partner's share of the partnership's long-term section 1231 gain or loss (not included in line 17) from Form 3, line 26. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's long-term Section 1231 gain or loss multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 5.

The correct Massachusetts amount of the partner's share of long-term Section 1231 gain or loss may differ from the comparable U.S. total reported on your Forms 1, 1-NR/PY or 2, Schedule D. Each partner should make adjustments in Forms 1 or 1-NR/PY, Schedule D, line 9, or Form 2, Schedule D, line 9, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain any adjustments.

Line 19. Long-Term Gains on Collectibles and Pre-1996 Installment Sales

Enter the partner's share of the partnership's long-term gains on collectibles and pre-1996 installment sales classified as capital gains for Massachusetts purposes from Form 3, line 27. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's long-term gains on collectibles and pre-1996 installment sales multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 5.

The correct Massachusetts amount of the partner's share of long-term gains on collectibles and pre-1996 installment sales may differ from the comparable U.S. total reported on your Forms 1, 1-NR/PY or 2, Schedule D. Each partner should make adjustments in Forms 1 or 1-NR/PY, Schedule D; or Form 2, Schedule D. Each partner should report the correct Massachusetts amount in Forms 1 or 1-NR/PY, Schedule D; or Form 2, Schedule D. Each partner should attach a statement with the partner's Massachusetts tax return and explain any adjustments.

Corporate Partner Information

For Corporate Partner Only

Complete lines 21 through 23 for corporate partners only. For **all other** partners, **skip** to line 24. Lines 21 through 23 isolate income and deduction items where there are differences between Massachusetts and federal tax treatment. The information provided in lines 21 through 23 should be used by each corporate partner to complete Schedule E of the appropriate corporate return, supplementing other information on the corporate partner that is derived from U.S. Forms 1065 and 1120.

Provide each corporate partner with the apportionment factors in Form 3, lines 26 through 28 to assist each corporate partner in completing Schedule F of the appropriate corporate return. A corporate partner's distributive share of any item of income, loss, deduction or credit is determined by the partnership agreement. If the partnership agreement contains no provision with respect to the partner's distributive share of any item of income, loss, deduction or credit, such item shall be prorated in accordance with each partner's ratio of sharing income or losses of the partnership.

Line 21. State and Municipal Bond Interest

Enter the corporate partner's share of the partnership's state and municipal bond interest. This income is not reported in U.S. net income, but **is** taxable in Massachusetts. Each corporate partner should include the line 21 total in Form 355, 355U or 355S, Schedule E.

Line 22. Foreign, State or Local Income, Franchise, Excise or Capital Stock Taxes

Enter the corporate partner's share of the partnership's foreign, state or local income, franchise, excise or capital stock taxes. These taxes are deducted from U.S. net income, but not deductible in Massachusetts. Each corporate partner should include the amount in line 22 on Form 355, 355U or 355S, Schedule E.

Line 23. Other Adjustments

Enter each corporate partner's share of any other adjustments to Massachusetts partnership income that reflect differences between Massachusetts and federal tax treatment of corporate partner income and deductions. The partnership should provide each corporation with the amount of the difference between the Massachusetts depreciation allowance and the federal "bonus" depreciation allowance. The partnership should also provide each corporate partner with the amount of the partner's share of the costs of renovating a qualifying abandoned building. Each corporate partner should use the line 23 amount in Forms 355, 355U or 355S, Schedule E.

Line 26. Net Income for the Year

Line 26 must include all income subject to taxation to resident and nonresident partners. Line 26 must include all line 25 income plus all income not subject to taxation and must reflect unallowable deductions.

Pass-Through Entity Payment and Credit Information

Note: Partnerships that answered "Yes" to line 5 of the Form 3 (i.e., publicly traded partnerships) should not complete the Pass-through Entity Payment and Credit Information section. In addition, investment partnerships, as defined in 830 CMR 62B.2.2(2), or partnerships that only invest in investment partnerships and have no other Massachusetts-source income, are exempt from the pass-through entity withholding requirements and should not complete the Pass-through Entity Payment and Credit Information section.

Declaration Election Code

Under declaration election code, the partnership should indicate how the partner will be meeting its Massachusetts tax obligation. The partnership should select the "Composite" oval if the partnership is filing a composite return on behalf of the partner, or if a lower-tier pass-through entity has filed a composite return on behalf of the partner. The partnership should select the "Member self-file" oval if the partner has indicated to the partnership on the Form PTE-EX that the partner is a resident or will be filing its own return (that is, has checked boxes 1 or 3 under Individual Certification, or boxes 2 or 3 under Organization Certification). For more information about the Form PTE-EX, see the Guide for Pass-Through Entities. The partnership should select "Exempt PTE" if the partner has indicated to the partnership, by checking box 4 under Organization Certification on the Form PTE-EX, that the partner is a pass-through entity all of whose members are exempt from withholding. The partnership should select "Insurance company" if the partner has indicated to the partnership, by checking box 6 under Organization Certification on the Form PTE-EX, that the partner is an insurance company. The partnership should select "Non-profit" if the partner has checked box 1 under Organization Certification on the Form PTE-EX. The partnership should select "Exempt corporate limited partner" if the partner has checked boxes 7 or 8 on the Form PTE-EX. If the partner has not made a declaration to the partnership that the partner is exempt from withholding, the partnership should select the "Withholding" oval.

Line 33. Withholding Amount

If the partnership has selected the “Withholding” oval under the Declaration election code, the partnership should indicate on line 33 the amount of Massachusetts tax that the partnership withheld on the partner’s distributive share and paid for the year on the partner’s behalf.

Line 34. Estimated Payments

If the partnership has selected the “Composite” oval under the Declaration election code and the partnership itself made estimated payments on behalf of the partner, the partnership should indicate on line 34 the estimated payments that the partnership made on behalf of the partner. This amount should be the partner's share of the amount entered on line 13 of the Form MA NRCR, Massachusetts Nonresident Composite Return. This amount is informational only and is not to be used by the partnership or the partner for any other purpose.

Line 35. Credit for amounts withheld by lower-tier entity(ies)

If the partnership is a member of one or more lower-tier entities, and amounts were withheld for the partnership by one or more of those entities, the partnership should indicate how much of the total amount withheld by all lower-tier entities of which the partnership is a member should be allocated to this partner.

Line 36. Estimated payments made by lower-tier entities

If the partnership is a member of one or more lower-tier entities, and composite returns with estimated payments were made on behalf of this partner by one or more of those entities, the partnership should indicate the amount of estimated payments made on behalf of this partner. This amount should be the partner's share of the amount entered on line 13 of the Form MA NRCR, Massachusetts Nonresident Composite Return. This amount is informational only and is not to be used by the partnership or the partner for any other purpose.

Where to Get Forms and Publications

Most Massachusetts tax forms and publications are available via the Internet. The address for DOR’s website is www.mass.gov/dor.

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.

For General Tax Information

Please call (617) 887-MDOR or toll-free in Mass. at 1-800-392-6089.

For help in one of the following specific areas, please call:

- Certificates of Good Standing (617) 887-6550
- Installment sales (617) 887-6950
- Small Business Workshop (617) 887-5660
- Teletype (TTY): (617) 887-6140
- Vision-impaired taxpayers are welcome to make an appointment at any DOR office listed on this page to receive assistance in preparing their tax forms.

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.