Combined Reporting Instructions

2013 Schedule U-M Instructions

Member's Income and Expenses

Schedule U-M is the starting point for the determination of the combined group's taxable income. The members of the combined group are to report their unadjusted income as determined for federal income tax purposes in column (a) of this schedule, with further adjustments as required by Massachusetts law to be reflected in columns (b) through (e), and a final statement of the member's Massachusetts combined group income or expense to be tallied in column (f). Each member of the combined group, whether it is subject to taxation in Massachusetts or not, is to file a Schedule U-M; no member is to submit more than one Schedule U-M. Any member that is the owner of a QSUB or any other entity that is disregarded as a separate entity from its owner for federal tax purposes must similarly include all income, assets and activities of the entity in filing its Massachusetts return. Any member that takes a treaty based return position must file Schedule TTP identifying the treaty based position.

If there are eliminations as to transactions between combined group members required under Massachusetts law, these eliminations are to be referenced on a separate Schedule U-M (the "eliminations schedule"), to be filed by the principal reporting corporation with the totals to be reported in column (f). See below. The totals from column (f) for every Schedule U-M, including the eliminations schedule, if any, are to be reported on Schedule U-CI.

Header for Schedule U-M

For each Schedule U-M filed, enter the name of the member (as shown on its federal income tax return, if filed), its Federal Identification number and the beginning and ending dates of the combined group's taxable year. If the member is a non-U.S. corporation that does not have a Federal Identification number, enter "Foreign" in the space provided for the FIN. Note that if the non-U.S. corporation is taxable on its income in Massachusetts, the member will require a FIN to complete other schedules required as part of the combined report.

For each Schedule U-M, indicate whether or not the member is a non-U.S. corporation.

For each Schedule U-M, indicate whether or not the member is claiming a treaty based income exclusion. Non-U.S. corporations that are members of water's edge group may exclude from a Massachusetts combined return those items of income that are exempt from federal income tax due to a federal tax treaty but must also submit Schedule TTP disclosing the position taken on Schedule TTP. See Rules for Non-U.S. Corporations in a Water's Edge Combined Group (below).

For each Schedule U-M, indicate whether the member is a financial institution, a utility corporation or a business corporation. Note that S corporations taxable under M.G.L. Ch 63, sec. 2B are considered financial institutions and S corporations taxable under M.G.L. Ch 63, sec 32D are considered business corporations. Corporations that are not taxable in Massachusetts but are included in the combined report should check the box for the tax type that would apply if the member were taxable in this Commonwealth.

For each Schedule U-M, indicate whether or not the member is a taxable member, a non-taxable member or a member that is subject to a non-income measure of excise (only). The latter category applies where a business corporation is subject to taxation under M.G.L. c. 63 §39 but which is exempt from the income measure of that excise pursuant federal Public Law 86-272 or which would be exempt except for tangible public property stored in a licensed public warehouse as described in §39; such corporations remain subject to the non-income measure of excise. A member must consider the activities of any QSUB or disregarded entity in determining whether or not it is taxable under § 39.

A taxable member or a non-income measure only member must also complete and file Schedule U-ST as part of Form 355U. A taxable member or a non-income measure only member that includes in its return the income, assets and activities of a QSUB or other disregarded entity must submit Schedule DRE for each such disregarded entity. A non-taxable member does not submit Schedule U-ST and, although it must include the income, assets and activities of disregarded entities when completing Schedule U-M, a non-taxable member does not submit Schedule DRE.

For each Schedule U-M, identify the name of the combined group's principal reporting corporation and the Federal Identification number of the principal reporting corporation and whether the group is filing pursuant to an affiliated group election, a worldwide election or neither.

Filing Box to be Checked and Source of Federal Tax Information to be Reported:

For each Schedule U-M check the box that indicates from where the amounts referenced on lines 1-28, column (a) are derived.

Column (a)

Column (a) reports the unadjusted amounts of income and expense of each member filing a Schedule U-M as included in a federal income tax return as filed or on a pro-forma basis if the taxpayer filed a federal income tax return other than a U.S. Form 1120. How an individual member determines the amounts to report in column (a) depends upon how, or whether, the member of the group is to report its income federally, as follows.

Pre-consolidation separate company: If the member is filing its federal return as part of a consolidated group, each member of the federal consolidated group that is also part of the Massachusetts combined group must file a separate Schedule U-M and report in Schedule U-M, column (a) the separate amounts referenced for the member on the consolidation schedule filed with the federal consolidated tax return before any eliminations or consolidation adjustments. In these cases, each member of the federal consolidated group must check the "pre-consolidated separate company" box.

Separate U.S. 1120 as filed: If the member is filing U.S. Form 1120 on a separate company basis it must check the box "separate U.S. 1120 as filed" and report in Schedule U-M, column (a) the amounts referenced on its federal income tax return.

Pro-forma, U.S. 1120S filed: If the member is filing U.S. Form 1120S it must report, in column (a) the member's pro-forma federal totals including the gross income and expenses of a qualified subchapter S subsidiary, if any, but without taking into account subchapter S of the Internal Revenue Code (I.R.C.). Each S corporation filing Schedule U-M must check the box "*pro-forma, U.S. 1120S filed*."

Pro-forma, other U.S. return filed: If the member is filing any U.S. income tax return other than from 1120 or 1120S (e.g. Form 1120F or 1120-REIT), it must report in column (a) the income and deductions referenced on that return. Amounts not included on the federal return (e.g. any U.S. source income of non-U.S. corporations that was not reported on U.S. form 1120F), will be reported in column (c). Each such member will check the box "pro-forma, other U.S. return filed."

Pro-forma, no U.S. return filed: If the member is not filing a U.S. Income tax return for any reason, it must check the box "pro-forma, no U.S. return filed" and leave column (a) blank. All income and deductions of such corporations is reported in column (c). See below for more information on filing Schedule U-M where the combined group member is a non-U.S. corporation, including the situation where the combined group has made and is subject to a worldwide election.

Eliminations: If the members of the combined group have engaged in one or more transactions as between one another that require inter-company elimination as to such transactions for Massachusetts purposes, the principal reporting corporation shall check the eliminations box and file a separate Schedule U-M as an "eliminations schedule" for the combined group. The additional "group" Schedule U-M, i.e., the eliminations schedule, shall be in addition to the other Schedule U-M's to be filed by the members of the combined group. Entries on the elimination schedule are to be made in columns (a) and (f). See below for further details on filing the eliminations schedule.

Members with Different Fiscal Years and "Fiscalization":

Column (b)

Massachusetts requires all members of a combined group to determine their taxable share of the combined group's taxable income based on a common tax year, i.e., the combined group's taxable year. If the taxable year of one member of a combined group does not begin or end on the same date or dates as the combined group's taxable year, that member's accounting periods must be adjusted in order to properly calculate both group income and the member's apportioned share of that income. In such cases, the member reports in column (a) the amounts from its most recently completed federal income tax return and reports in column (b) adjustments to those amounts to reflect income and expense for the combined group's taxable year.

This "fiscalization" may be done by an interim closing of the books or, provided it does not materially distort income apportioned to Massachusetts, by a pro-rata method that includes appropriate shares of income from more than one of the member's tax years (e.g., if the combined group's taxable year is a calendar year and the member's federal tax year ends on March 31st such that the group's taxable year overlaps two of the member's tax years, that member would include 9/12ths of its income from one year and 3/12ths of its income from the other year in the combined group's taxable income). See 830 CMR 63.32B.2 (12) (b). Any fiscalization adjustments are to be made in Schedule U-M, column (b).

Combined Reporting Adjustments:

Column (c)

Column (c) is used to report certain additions or modifications to the income and deductions reported in columns (a) or (b) that are required to calculate the combined group's taxable income under Massachusetts law. Note that adjustments that reduce an item of income or expense to be included in the determination of the combined group's taxable income are to be reported as negative amounts in the respective line item of income or expense.

Examples of these adjustments may include but are not necessarily limited to: Reporting of certain income and deductions by a non-U.S. corporation that is a member of the combined group where such income or deductions are not reported for federal income tax purposes, but are to be reported for Massachusetts purposes (e.g., items of non-effectively connected income on which the federal income tax may be collected through withholding imposed upon the payers of such items). See the discussion below with respect to reporting on column (c), in the case of a non-U.S. corporation.

Adding to a member's income the dividend to such member from another group member where the dividend is eliminated in a federal consolidated return to the extent they are not included in column (a),

line 4. In the case of dividends that are subject to elimination under 830 CMR 63.32B.2(6) or are eligible for a dividends received deduction under c. 63, the elimination or deduction will be reported on Schedule U-E.

Reducing the amount of any dividends paid deduction claimed for federal income tax purposes by a REIT or a RIC that is a member of the combined group to the extent that such distribution is made to one or more other group members and is eliminated under 830 CMR 63.32B.2(6)(c)4. See Directive 10-5.

Reversing the application of federal limitations and the use of federal carryovers in computing the federal charitable contributions deduction shown on lines 19(a) or 19(b) as necessary to compute a charitable contributions deduction for Massachusetts purposes, including (1) reversing any reduction in the federal amounts required by a percentage of income limitation; (2) eliminating any contributions included in the federal totals that represent contributions made in prior tax years and carried forward to the current tax year for federal income tax purposes; and (3) increasing the contributions by any amount disallowed in calculating net income for a Massachusetts return in the prior tax year based on the percentage of income limitation. See 830 CMR 63.32B.2 (6) (c) 6.

Reversing federal adjustments made in the context of offsetting capital gains and losses and I.R.C. § 1231 gains and losses for federal income tax purposes so that this offset can be done for Massachusetts income tax purposes, including (1) reversing the elimination of a net capital loss made in computing the amount shown as taxable income on lines 8(a) or 8(b); (2) reversing the deduction of a capital loss carryforward reflected in computing capital gain or loss as shown in lines 8(a) or 8(b), as such capital loss carry forward is not permitted for Massachusetts purposes; and (3) reversing the reclassification and offsetting of § 1231 gains against capital losses to the extent such adjustments are reflected in computing taxable income as shown in column (a) or (b). See 830 CMR 63.32B.2 (8) and Directive 10-05.

Income from Sources other than the Unitary Business:

Columns (d) and (e) (note: not applicable in the case of an affiliated group election)

Columns (d) and (e) only apply in cases in which the combined group has not made and is therefore not subject to an affiliated group election. In these cases, a member of a combined group (including a non-taxable member of such group) may have income or loss that derives from sources other than the combined group's unitary business. Columns (d) and (e) of Schedule U-M report this income of the group member, which can include allocable income that is not taxable in Massachusetts, to be reported in column (d), and allocable or apportionable income that is taxable in Massachusetts, to be reported in column (e). A member with a taxable year that is different than the combined group's taxable year should also use column (d) to exclude any income that it has from sources other than the combined group's unitary business that is to be reported on the member's separate Massachusetts tax return (i.e.,

Form 355 or 355S or other applicable return) filed for the member's different taxable year. (Note that in these latter cases, with respect to this member, the Massachusetts rules concerning the timing for the offset or sharing of losses, including capital and I.R.C. § 1231 losses, and the use of NOL carry forwards, may be impacted by the fact that the member is making filings for different tax years).

The income to be reported in column (e), allocable or apportionable income that is taxable in Massachusetts, is further accounted for on Schedule U-MTI. Gains and losses incurred within the same tax year, including those to be reported on column (e), may be offset (to the extent allowed by the I.R.C. and Massachusetts law) in the calculation of the member's overall taxable Massachusetts income the combined group is subject to a Massachusetts affiliated group election, all of the members' income or loss, irrespective as to whether it derives from a unitary business, is treated as the apportionable income of the combined group. In such cases, columns (d) and (e) of Schedule U-M have no application and no entries in these columns are permitted.

Adjusted Total:

Column (f)

Column (f) is used to report the adjusted income and deductions for each member's Schedule U-M. The figures are a mathematical calculation, subtracting the amounts in columns (d) and (e) from the total of the amounts in columns (a), (b) and (c).

Line 11 must match the total of lines 3 through 10. Line 28 must match line 11 minus line 27.

The amounts in lines 1-28, column (f) for all Schedules U-M completed for all members of the group and the eliminations schedule are to be totaled on lines 1-28 of Schedule UCI.

Rules for Non-U.S. Corporations in a Water's Edge Combined Group

Each non-U.S. corporation that is not treated as a U.S. corporation for federal income tax purposes that is included in a "water's edge" combined report (i.e., where no worldwide election is in effect) must complete schedule 355U-M on a pro-forma basis, checking the box "Pro-forma, other U.S. return filed" if the member filed US 1120F and checking "Pro-forma, no U.S. return filed" in all other cases.

Where the non-U.S. corporation is included in a combined group because it otherwise meets the requirements for inclusion and the corporation is either subject to tax under M.G.L. c. 63 or the average of the corporation's U.S. apportionment factors exceed 20%, see 830 CMR 63.32B.2 (5) (b), the corporation must include in the combined group's taxable income all of its income that is includible in its federal gross income. This income includes all of the corporation's gross income that is effectively connected with the conduct of a trade or business within the U.S. and gross income from sources within the U.S. that is not effectively connected income. The gross income of a non-U.S. corporation includes,

among other things, items of non-effectively connected income on which the federal income tax may be collected through withholding imposed upon the payers of such items. See 830 CMR 63.32B.2 (6) (c) 2.1.a (referencing I.R.C. § 882(b), as well as I.R.C. §§ 881(a), 882(a)).

An item of income of a corporation that is organized outside of the United States shall not be included in the combined group's taxable income to the extent that such item is exempt from federal income tax by virtue of a federal income tax treaty. See M.G.L. c. 63, § 32B(c) 3(iv). In any case in which such a treaty merely reduces the federal rate of tax to be applied to an item of federal gross income, this income is to be included in the combined group's taxable income without any reduction.

Where a combined group member's federal gross income taken into account in determining taxable net income is limited under the Code (or pursuant to Massachusetts adjustments), any deductions in determining taxable net income are also limited to those permitted to be taken under the Code (and any such Massachusetts adjustments) with respect to the items of gross income taken into account. See 830 CMR 63.32B.2 (6) (c) 2.

In addition to the above, a non-U.S. corporation shall also be included in a water's edge combined report in cases not referenced above where it earns 20% or more of its gross income, directly or indirectly, from intangible property or service-related activities, the costs of which generally are deductible for federal income tax purposes, whether currently or over a period of time, against the business income of other members of the group. In these cases, the non-U.S. corporation shall only be included to the extent of such income (and the apportionment factors that relate thereto). In determining whether the 20% income threshold has been exceeded, the items of gross income in the numerator and denominator of the corporation's calculation shall not be limited to items of federal gross income. However, where a corporation's calculation meets the 20% threshold, the income of the corporation to be included in the combined group's taxable income shall be limited to items of federal gross income as reduced by the deduction of expenses of the member that are reasonably related and not disproportionate to such federal gross income, as determined pursuant to such guidance as may be issued by the Commissioner, provided that in no event in these cases shall the corporation's gross income to be included in the combined group's taxable income be reduced below zero. The rules referenced above with respect to the impact of any applicable U.S. tax treaties also apply in these cases. The regulatory rules that explain the concepts discussed in this paragraph are generally set forth at 830 CMR 63.32B.2 (5) (b) 1.c and 830 CMR 63.32B.2 (5) (b) 3 and 4.

In those cases where a non-U.S. corporation included in a water's edge combined group files Form 1120F, the member must report in column (a) all of the member's effectively connected income and the deductions allowable with respect to that income under the Code as reported on its Form 1120F. Further, any such corporation must report in column (c) any additional items of federal gross income that are required to be included in the combined report but that is not reported on a U.S. Form 1120F

and any deductions from such additional federal gross income that are allowed for purposes of determining the combined group's taxable income. In the case of a corporation that is includible only as provided in the preceding paragraph (pursuant to 830 CMR 63.32B.2 (5) (b) 1.c.), the income inclusion to be reported in column (c) is limited to the gross income received from the other combined group members for certain intangible property or services, see above, and the deductions to be offset against this income shall not exceed the total of gross income reported by the member on line 11(c).

Where a non-U.S. corporation is included as a member of a water's edge combined report but has no items of federal gross income or only has items of federal gross income that are treated as excluded from the combined group's taxable income by reason of the application of a federal income tax treaty, a Schedule U-M must be filed to indicate the fact of the non-U.S. corporation's inclusion, though there will be no items of income or deductions to report as being part of the combined group's taxable income. In any case where a member excludes any amount from gross income by virtue of a federal treaty, the member must also complete and file Schedule TTP identifying the treaty position taken and the income being excluded from the return. In any case where such filing is not made, the commissioner may, inter alia, deny expenses paid by group members to such non-U.S. member.

Column (b) adjustments (fiscalization) may be required for a non-U.S. corporation that is included in a water's edge combined group if the amounts reported by the member in column (a) are for a period other than the combined group's taxable year. Further, columns (d) and (e) adjustments may also apply to a non-U.S. corporation if the member has income or deductions reported in columns (a), (b) or (c) that are from sources other than the unitary business and the combined group is not subject to an affiliated group election. See above discussion of columns (d) and (e). Only amounts included in the member's income as reported in columns (a), (b) or (c) may be excluded in columns (d) and (e).

Rules for Non-U.S. Corporations where a Worldwide Election is in Effect

In any case in which the combined group has made and is subject to a worldwide election, a non-U.S. corporation that is not treated as a U.S. corporation for federal income tax purposes and that is a member of such combined group is to include in the combined group's taxable income all of its income from the unitary business, wherever derived. Such income is not limited to items of federal gross income under the Code. See 830 CMR 63.32B.2 (6) (c) 2.b.

Each such non-U.S. corporation that is included in a "worldwide" combined report must complete Schedule U-M on a pro-forma basis, checking the box "Pro-forma, other U.S. return filed" if the member filed US 1120F and checking "Pro-forma, no U.S. return filed" in all other cases. In those cases where the non-U.S. corporation included in a worldwide combined group files U.S. Form 1120F, the member must report in column (a) all of the member's effectively connected income and the deductions allowable with respect to that income under the Code as reported on its Form 1120F.

Further, the non-U.S. corporation must also report in column (c) any additional gross income of the non-U.S. corporation that is not effectively connected income and any additional income of the member (that is, assuming that the income to be reported in column (c) is from the combined group's unitary business). The corporation must also report in column (c) any deductions from such additional income. Columns (b), (d) and (e) may also apply to the non-U.S. corporation that is included in a worldwide combined group. The non-U.S. corporation that is included in such group and which has income from sources other than the combined group's unitary business must follow the same procedures to exclude such income as would a U.S. corporation (see above discussion of columns (d) and (e)). Only amounts included in the member's income as reported in columns (a), (b) or (c) may be excluded in columns (d) and (e).

Instructions for the Eliminations Schedule (a separately filed "group" Schedule U-M)

Enter the name and other identifying information of the principal reporting corporation in the first line of the header section, then check the box indicating that this is an eliminations schedule (i.e., check the last of the six boxes referenced at the top of Schedule U-M). In completing line 2 of the header, check the tax type that corresponds to the tax type of the principal reporting corporation and respond "No" to the remaining questions.

Unless otherwise provided for under Massachusetts law, income from inter-company transactions between members of the same combined group that relates to the unitary business of the group (or, where the combined group is subject to an affiliated group election, without regard to any unitary determination) is generally deferred in a manner similar to that in U.S. Treas. Reg. § 1.1502-13 (see 830 CMR 63.32B.2 (6) (c) 9).

Dividends paid by one group member to another combined group member are subject to elimination if they are paid out of earnings and profits of the unitary business, included in the combined report from the current or earlier year. Where the member paying such a dividend is a REIT or a RIC, the payer must reduce its dividends paid deduction as described in the instructions for column c above. See CMR 63.32B2.(6)(c)4 and DD 10-5.

To the extent that such transactions are reflected in the income or expenses referenced on the Schedules U-M filed by the various group members, enter a single set of Schedule U-M totals reflecting eliminations and any other adjustments required by the combined group filing. When the tax items at issue are recognized in a later tax year, those items will be accounted for at such time, most likely on Schedule U-M (in column (a) if the item is recognized at the same time for Massachusetts and federal tax purposes or in column (c) if the deferral terminates for Massachusetts purposes at a different time than it terminates federally).

Enter the amounts reducing income (or expenses) as negative amounts on lines 1-28 in both column (a) and column (f).

Do not offset on this schedule any net I.R.C. § 1231 gains or losses of group members with any net capital gains/losses of group members or eliminate any net capital loss. These items, if any, are to be separately stated for a member in determining the member's overall taxable income. The member will report these adjustments, if any, on Schedule U-ST.

Do not make any adjustments on this schedule for federal/state basis differences or limitations on deductions based on taxable net income as determined under the I.R.C. These adjustments, if any, are to be made on Schedule U-E.