

2014 Instructions for Massachusetts Financial Institution Excise Tax Return Form **63 FI**

General Information

All financial institutions subject to Massachusetts General Laws (MGL) Ch. 63, sections 1 through 2B and which do any or all of their business in Massachusetts and which is not part of combined group required to file Form 355U must complete and file Massachusetts Form 63FI.

Financial institutions that are members of a combined group engaged in a unitary business are required to file a combined return under M.G.L. c. 63, s. 32B. See 830 CMR 63.32B.2 for additional information. A financial institution that is a member of such a combined group files Form 355U instead of Form 63FI. Financial institutions that are not members of such a group are not allowed participation in the filing of combined returns.

Major 2013 Tax Law Changes

Market Based Sourcing

The most significant change for tax years beginning on or after January 1, 2014 is that in determining the sales factor of the corporate apportionment formula sales other than sales of tangible personal property are in Massachusetts if the corporation's market for the sale is in the Commonwealth. A corporation's market for the sale of a service is in Massachusetts if and to the extent the service is delivered to a location in Massachusetts. The rule governs the sale and license of intangible property, and applies to several other types of transactions.

This change is the result of a statutory change, at G.L. c. 63, § 38. The Department has re-promulgated the Apportionment of Income regulation, 830 CMR 63.38.1 (in particular section (9)(d) of the regulation), with specific rules for implementing these statutory changes.

Technical Conforming Changes to G.L. c. 62C, Tax Administration (Applicable to Corporations Subject to Combined Reporting)

There are several statutory technical corrections that have been enacted with respect to corporations that are required to file corporate excise returns as members of a combined group. The amendments make clear that the Department may treat the principal reporting corporation as the agent of the members and all corporations included in the return of a combined group for all aspects of the individual group members' corporate excise liability, including the income measure, the non-income measure, and the minimum excise, as applicable to each taxpayer. The principal reporting corporation is the agent with respect to all notices, waivers and other actions authorized or required. However, the Department is not precluded from taking separate procedural actions or directing notices to any individual member(s) of the combined group that file or are required to file a combined report. By contrast, a combined report does not constitute a filing of a return for any business corporation that is part of a combined report but also files or is required to file its own return. The amendments can be found in St. 2014, c. 165, §§ 96 104. See also TIR 14-11.

Utility Corporations

The public utility excise, formerly G.L. c. 63, sec. 52A, has been repealed, and corporations that were formerly subject to that excise now file under the general corporate excise provisions of G.L. c. 63. Because utility corporations were not allowed to carry forward net operating losses under G.L. c. 63, § 52, such corporations cannot deduct any NOL for tax years beginning before January 1, 2014. However, a former utility corporation that becomes taxable as a business corporation under G.L. c. 63, § 39 will be allowed to carry forward a post-2013 NOL that it has incurred, subject to applicable limitations on business corporation loss carryovers.

Community Investment Tax Credit

A Community Investment Tax Credit is allowed for tax years beginning on or after January 1, 2014 for qualified investments (certain cash contributions made to a community development corporation, community support organization, or a community partnership fund) made on or after January 1, 2014. The Community Investment Tax Credit is equal to 50% of the total qualified investment made by the taxpayer for the taxable year. No credit is allowed to a taxpayer that makes a qualified investment of less than $1,000. In any one taxable year, the total amount of the credit that may be claimed by a taxpayer that makes qualified investments cannot exceed $1,000,000. The credit is refundable, or, alternatively, may be carried forward five years. The credit is set to expire December 31, 2019.

S Corporation Financial Institutions

Financial institutions that are S corporations for federal purposes are now taxed as financial institution S corporations. Items of S corporation income, loss and deduction are passed through the S corporation to the shareholders, and reported and taxed on their return. For taxable years beginning on or after January 1, 2009, financial institution S corporations with income that is taxed to the S corporation for federal income tax purposes is still taxable on such income at the regular financial institution rate of 9% but all other income of the S corporation is taxable at a lower rate and is not subject to tax at the corporate level if receipts are less than $6 million.

Financial institution S corporations with receipts of $9 million or more pay an income measure of excise at a rate of 3.8% on income allocated or apportioned to Massachusetts. S corporations with receipts of at least $6 million but less than $9 million pay tax at a rate of 2.53%. S corporations with receipts of less than $6 million are not subject to the income measure of excise. Financial institution S corporations must calculate the tax using the correct rate.

To determine if an S corporation is liable for the income measure of the corporate excise, complete Massachusetts Schedule S, lines 1 through 17. If line 17 of Schedule S is at least $6 million, an income measure of corporation excise will be due. If line 17 of Schedule S is less than $6 million, Schedule E is not required. If an S corporation and any other entity share common ownership and are engaged in a unitary business, then the total receipts less inter-company transactions of all such entities must be combined according to the rules of Regulation 830 CMR 62.17A.1(11)(e) and (f), to determine the dollar amount of such S corporation's total receipts. "Total receipts" means gross receipts or sales, less returns and allowances, and includes dividends, interest, royalties, capital gain net income, rental income and all other income.

If an S corporation that is liable for the income measure is not part of a combined group (see below), it must complete Massachusetts Schedule A with Form 63FI and must complete a pro-forma U.S. Form 1120 which must be available upon request. A financial institution S corporation that is not liable for an income measure of excise must still file Form 63FI but must enter "0" on line 1 of the tax calculation and is not required to complete Schedules A, B or D. A financial institution S corporation must always complete Schedule S and submit Schedules SK-1 and is liable for the minimum excise of $456.

Requirement for Financial Institution S Corporations to File a Combined Report

An S corporation that is doing business in the state is subject to combined reporting within the meaning of Ch. 63, sec.32B, when it is engaged in a unitary business with one or more other corporations, including one or more S corporations. In such cases, if the S corporation is liable for an income measure of excise, it is required to be included in a combined report, and is to compute its net income subject to tax and its income measure along with the other members of the group on Form 355U.

Further, even where an S corporation is not itself liable for an income measure of excise, it is required to include its income in a combined report if any member of the combined group is a C corporation that is subject to Massachusetts tax. Where one or more S corporations that are taxable in Massachusetts are members of a combined group that is composed entirely of S corporations and the S corporations are not liable for the income measure of excise, the S corporations are not required to file Form 355U. Further, where one or more S corporations that are taxable in Massachusetts are members of a combined group that is composed entirely of one or S corporations and one or more C corporations and the S corporations are not liable for the income measure of the excise and each of the C corporations is not taxable in Massachusetts, the S corporations are not required to file Form 355U. (Note that in the latter cases, Form 355U would be required irrespective as to whether the S corporations were liable for the income measure of the excise if one or more of the C corporations were subject to Massachusetts tax).

In any case where one or more S corporations that are members of a combined group are not required to file Form 355U, such members are also not required to complete Form 63FI, Schedule A.

A financial institution S corporation that is a member of a combined group filing form 355U must also file Form 63FI for the purpose of submitting Schedules S and SK-1. Such a corporation completes Schedule E (apportionment), if required to determine shareholder income derived from sources within the commonwealth, without regard to the combined reporting apportionment rules. An S corporation subject to this requirement does not report on Schedule A any income included in the combined report.

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 Massachusetts General Laws (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, line 1. 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 Massachu-

setts 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, line 2e. 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. 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 Regulation 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 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. Payments must be made in quarterly installments of 40%, 25%, 25% and 10% of the estimated annual tax liability.

Note: New corporations in their first full taxable year with less than 10 employees have different estimated payment percentages — 30%, 25%, 25% and 20% respectively.

Any corporation having $1 million or more of federal taxable income in any of its three preceding taxable years (as defined in Section 6655(g) of the IRC) may only use its prior year's tax liability to calculate its first quarterly estimated tax payment. Any reduction in the first installment payment that results from using this method must be added to the second installment payment

A company that claims the exception to the underpayment penalty of equaling the prior year's tax liability must provide federal tax returns (front page only) for the three preceding taxable years to verify that federal taxable income is less than $1 million.

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

Credit Recapture

If the corporation is required to recapture any amount of previously claimed EOA Credit, Historic Rehabilitation Credit, Brownfields Credit, Life Science Credit or Low-Income Housing Credit, complete Schedule H-2 and enter the result in line 6 of the return. Current year credits can then be used to offset the total excise due which will include the recapture amount.

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 EOAC or contact the Massachusetts Office of Business Development, One Ashburton Place, Room 2101, Boston, MA 02108.

Refundable Economic Development Incentive Credit

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

Low-Income Housing Credit

This credit is administered through the Massachusetts Department of Housing and Community Development (DHCD). The low-income housing credit is available to taxpayers that claim a federal credit for the construction or development of low-income housing. The state credit is taken over five years, and the amount of credit a taxpayer may claim for a qualified Massachusetts project is allocated by the DHCD and is based on a total pool of money awarded to the Commonwealth. In order to claim the credit, documentation must be enclosed with the return.

For further information regarding this credit, contact the Department of Housing and Community Development, Division of Private Housing, at (617) 727-7824.

Historic Rehabilitation Credit

Effective for tax years beginning on or after January 1, 2005 and ending on or before December 31, 2017, taxpayers may be eligible for the Historic Rehabilitation Credit (HRC). To claim this credit, a historic rehabilitation project must be complete and have been certified by the Massachusetts Historical Commission. Unused portions of the credit may be carried forward for a maximum of five years. This credit may be transferred or sold to another taxpayer. The HRC is not subject to the 50% limitation rule for corporate taxpayers. If the taxpayer disposes of the property generating the HRC, a portion of the credit may be subject to recapture. For further information, see Regulation 830 CMR 63.38R.1: Massachusetts Historic Rehabilitation Tax Credit.

Film Incentive Credit

For tax years beginning on or after January 1, 2006 and before January 1, 2023, motion picture companies may claim a credit equal to 20% of the total qualifying aggregate payroll for employing persons within the Commonwealth in connection with the filming and production of a motion picture, and a credit equal to 25% of their Massachusetts productions expenses. The credits are transferable. For further information, see TIR 06-1.

Medical Device Credit

For tax years beginning on or after January 1, 2006, medical device companies that develop or manufacture medical devices in Massachusetts can claim a credit equal to 100% of the user fees paid to the U. S. Food and Drug Administration. The credit is transferable. For more information, see TIR 06-22.

Brownfields Credit

Recent legislation extends the Brownsfield credit to nonprofit organizations, extends the time frame for eligibility for the credit, and permits the credit to be bought, sold or assigned. Under prior law, net response and removal costs incurred by a taxpayer between August 1, 1998 and August 5, 2005, were eligible for the credit provided that the taxpayer commenced and diligently pursued an environmental response action before August 5, 2005. As a result of the recent legislation, the environmental response action commencement cutoff date is changed from August 5, 2013 to August 5, 2018, and the time for incurring eligible costs that qualify for the credit is extended to January 1, 2019. For further information, see TIR 06-16.

Life Science Company Investment Tax Credit

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

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

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

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

If a life sciences ITC exceeds the tax otherwise due as applicable, 90% of the balance of such credit may, at the option of the taxpayer and to the extent authorized pursuant to the Life Sciences Tax Incentive Program, be refundable to the taxpayer for the tax year in which the qualified property giving rise to such credit is placed in service. If such refund is elected by the taxpayer, then the carryover provisions for this credit that would otherwise apply shall not be available. For further information, see TIR 08-23.

Life Science Company FDA User Fees Credit

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

This credit, which is available to certified life sciences companies only to the extent authorized pursuant to the Life Sciences Tax Incentive Program, is equal to 100% of the user fees actually paid by the taxpayer, as specified in the certification, and may be claimed in the taxable year in which the application for licensure of an establishment to manufacture the drug is approved by the USFDA.

To be eligible for the credit, more than 50% of the research and development costs for the drug must have been incurred in Massachusetts. Taxpayers may use the FDA user fees credit to reduce their tax to zero. To the extent authorized pursuant to the Life Sciences Tax Incentive Program, 90% of the balance of credit remaining is refundable. The deduction otherwise allowable for user fees qualifying for the credit is disallowed. For further information, see TIR 08-23.

Life Sciences Company Research Credit

For taxable years beginning on or after January 1, 2009, a new credit may be available for certified life sciences companies pursuant to the Life Sciences Tax Incentive Program, to provide qualifying companies

with a means to obtain a research credit for certain expenditures not qualifying for the existing research credit under c. 63, § 38M. St. 2008, c. 130, §§ 30 and 53, codified at G.L. c. 63, § 38W. Under this new provision, the credit is generally calculated in the same manner as the research credit under section 38M. However, the qualified research expenditures which form the basis for the calculation in new section 38W differ from those of section 38M in that they can qualify when the activities are performed both inside and outside of the Commonwealth, to the extent they relate to legally mandated clinical trial activities. The new life sciences research credit is not refundable. For further information, see TIR 08-23.

Refundable Life Science Jobs Credit

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

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

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

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

Refundable Dairy Credit

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

Refundable Life Science Credit

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

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

A taxpayer may apply for a refund of 90% of the unused FDA User Fee Credit granted under M.G.L. Ch. 63, sec. 38M, including credits carried over from prior years. Schedule RLC, Refundable Life Science credit, is used by taxpayers to claim the refund.

Conservation Land Tax Credit

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

Employer Wellness Program Tax Credit

Effective for tax years beginning on or after January1, 2013, a Massachusetts business that employs 200 or fewer workers may qualify for a tax credit for up to 25% of the cost of implementing a “certified wellness program” for its employees. A taxpayer seeking to claim the credit must apply to the Department of Public Health (DPH) for certification of its wellness program. DPH will approve a dollar amount of credit for a qualifying taxpayer and issue a certificate number to be provided in connection with filing a tax return in order to claim the credit.

The amount of the credit that may be claimed by a taxpayer cannot exceed $10,000 in any tax year. DPH has promulgated a regulation, 105 CMR 216.000, entitled Massachusetts Wellness Tax Credit Incentive, which sets forth criteria for authorizing and certifying the credit. The credit is set to expire on December 31, 2017.

Certified Housing Development Credit

Effective for tax years beginning on or after January 1, 2011, taxpayers may receive a tax credit of up to ten percent of the costs of qualified substantial rehabilitation expenditures, as defined in G.L. c 40V sec. 1, of the market rate units within certified housing development projects. The credit is administered by the Massachusetts Department of Housing and Community Development. See TIR 10-14 for further information.

Refundable Community Investment Credit

A Community Investment Tax Credit is allowed for tax years beginning on or after January 1, 2014 for qualified investments (certain cash contributions made to a community development corporation, community support organization, or a community partnership fund) made on or after January 1, 2014. The Community Investment Tax Credit is equal to 50% of the total qualified investment made by the taxpayer for the taxable year. No credit is allowed to a taxpayer that makes a qualified investment of less than $1,000. In any one taxable year, the total amount of the credit that may be claimed by a taxpayer that makes qualified investments cannot exceed $1,000,000. The credit is refundable, or, alternatively, may be carried forward five years. The credit is set to expire December 31, 2019.

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 enclosures 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, 1120S, 1120-REIT or other federal return as filed. Copies of all accompanying schedules and supplemental statements to the federal return must be enclosed.

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.

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

File the 2014 return for calendar year 2014 and fiscal years that began in 2014 and ended in 2015. For a fiscal year return, fill in the tax year space at the top of page 1. Short year filers should file using the tax form for the calendar year within which the short year falls. If the short year spans more than one calendar year, the filer should file use the tax form for the calendar year in which the short year began. If the current form is not available at the time the short year filer must file, the filer should follow the rules explained in TIR 11-12.

Schedule S

Distributive Income

In the following Schedule S and SK-1 instructions only certain items are addressed in detail. Lines without specific instructions are considered to be self-explanatory.

Line 1

Enter the total amount of gross receipts or sales from U.S. Form 1120S, line 1c. Returns and allowances are subtracted in reaching this amount.

Line 11

Enter the total amount of other income not included in lines 1 through 10. Include income U.S. Form 1120S, line 5, and U.S. Form 1120S, Schedule K, lines 10. If an S corporation is a partner in a partnership, include the amount of its distributive share of the partnership's total receipts not included in lines 1 through 10. Include all tax exempt income. Also enter any other items included in an entity's gross income under IRC sec. 61 and not included in lines 1 through 10. Also include in line 11 any difference that results from the annualization of income for a short period return.

Line 13

Enter only those receipts from intercompany transactions that are included in lines 1 through 11. Do not include receipts from related entities included in 15 below.

Line 15

Enter here the aggregated total receipts less receipts from intercompany transactions for all entities other than the S corporation that share common ownership and are engaged in a unitary business with the S corporation according to Regulation 830 CMR 62.17A.1 (11)(e) and (f).

Enclose a supporting schedule for each entity clearly stating all items of total receipts and intercompany transactions.

Line 18

Enter the amount of ordinary income or loss from U.S. 1120S, line 21. Do not include interest, dividends, and other portfolio income included in line 21. Enter such income on lines 23 through 29.

Line 19

If reporting other income or loss from U.S. Form 1120S, Schedule K, line 10, enclose a statement and explain.

Line 20

Enter total foreign, state or local income, franchise, excise or capital stock taxes deducted from U.S. income. These taxes are deductible for U.S. tax purposes, but are not deductible in Massachusetts.

Line 22

Enter in line 22 any income or loss included in lines 18 and/or 19 which is granted treatment by the U.S. government or is classified as a capital gain or loss for Massachusetts purposes. For Massachusetts purposes capital gain or loss is the gain or loss from the sale or exchange of a capital asset.

A capital asset is: (1) an asset which is a capital asset for U.S. income tax purposes or (2) property that is used in a trade or business within the meaning of IRC section 1231(b) without regard to the holding period defined in said section 1231(b).

Line 24

Report and describe any other adjustments to Massachusetts income and deductions not reported elsewhere on Schedule S. For Massachusetts tax purposes, an S corporation 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 deductions for a net operating loss carryover or carryback are neither allowed to the S corporation nor to an individual under Massachusetts income tax law.

If an S corporation is taxable at the federal level, and thus at the state level, on passive investment income under IRC sec. 1375, then such income passed through to the shareholder is reduced by the item's portion of the tax paid at the U.S. and state level. Reduce the S corporation's Massachusetts ordinary income by the amount of the federal and state tax paid by the S corporation. Enclose the computation of the tax shown on U.S. Form 1120S, line 22(b).

Also report the cost of renovating a qualifying abandoned building. Enclose a statement detailing the location and cost of renovating the qualifying abandoned building.

Line 28

Add U.S. Form 1120S, Schedule K, lines 4, 5a and 6 and enter the total in line 28.

Line 29

Enter the total amount of interest on U.S. debt obligations reported in line 28 which is taxable by the U.S. government, but is tax-exempt in Massachusetts.

Line 30

Enter the total amount of interest from Massachusetts banks included in line 28. Report any interest from Massachusetts savings accounts, saving share accounts and NOW accounts. Also report any interest from term and time deposits. Enclose a statement listing bank sources and amounts.

Note: This amount should not include any 5.2% interest from Massachusetts banks derived in the ordinary course of the trade or business activity of the S corporation, and properly reported in line 18.

Line 31

Enter the total amount of interest (other than from Massachusetts banks) and dividend income included in line 28. Do not include interest on U.S. debt obligations that is taxable by the U.S. govern-

ment, but is tax-exempt in Massachusetts. Enclose a statement listing sources and amounts.

Line 32

Enter the total amount of the S corporation's non-Massachusetts state and municipal bond interest. This interest is taxable in Massachusetts but not taxed by the U.S. government and thus not reported on U.S. Form 1120S, Schedule K, line 4.

Line 33

Enter the total amount of royalty income included in line 28.

Note: This amount should not include any royalty income derived in the ordinary course of the trade or business activity of the S corporation and properly reported in line 18.

Line 34

Enter the total amount of other income included in line 28, less the amounts of other income included in lines 29 through 33.

Capital Gains and Losses

If the S corporation had any income or loss reported in U.S. Form 1120S, Schedule K, line 10 that is granted capital gains treatment by the U.S. government, include that amount in lines 35 through 42, as applicable.

Line 38

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

Line 41

Enter in line 41 any long-term capital gain or loss that is not included in lines 39 and/or 40 that is granted capital gains treatment by the U.S. government or is classified as a capital gain or loss for Massachusetts purposes.

For Massachusetts purposes capital gain or loss is the gain or loss from the sale or exchange of a capital asset. A capital asset is: (1) an asset which is capital asset for U.S. income tax purposes or (2) property that is used in a trade or business within the meaning of IRC sec. 1231(b) without regard to the holding period defined in said section 1231(b).

Line 42

Enter the amount of any gain from collectibles held for more than one year. Collectibles are defined as any capital asset that is a collectible within the meaning of IRC sec. 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 43

Report any adjustments to Massachusetts capital gain and losses. Enclose a complete statement explaining any such adjustments. If an S corporation is taxable at the federal level, and thus the state level, on certain capital gains under IRC sec. 1374, then the amount of the capital gains passed through to the shareholder is reduced by the tax paid at the federal and state level. Reduce the S corporation's capital gain by the amount of federal and state tax paid by the S corporation and enclose the computation of the tax shown on U.S. Form 1120S, line 22(b).

Resident and Nonresident Reconciliation

Lines 44 through 47 should be completed only if all three of the following conditions are met: (a) there is one or more nonresident shareholders; (b) there is any income derived from business activities 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 any income or franchise tax.

When completing line 45 exclude any income from unrelated business activities prior to apportionment, see Regulation 830 CMR 63.38.1, sections (3) and (4). Enclose a statement and explain any adjustments.

Form 63FI, Schedule E should be completed before completing lines 44 through 47.

Schedule SK-1

On the Schedule SK-1 for each shareholder, the S corporation should indicate the entity type of the shareholder. The S corporation should obtain this information from the shareholder. The S corporation should select "Bank" if the shareholder is an IRA or a Roth IRA and the S corporation is a bank or depository institution holding company. The S corporation should select "Exempt organization" if the shareholder is exempt from federal income tax under IRC sec. 501.

S corporations that have indicated on the SK-1 that they are reporting transactions under M.G.L. Ch. 62C, 32A, identified as IRC section 453A or 453(l)(2)(B) transactions, must separately communicate information to the partner/shareholder that will enable the shareholder to calculate the addition to tax.

For 453A transactions, the shareholder must inform the shareholder of the shareholder's share of the aggregate face amount of installment sales transactions arising in and outstanding as of the close of the taxable year, and any other information the shareholder may need to calculate the addition to tax. The $150,000/$5 million thresholds apply at the level of the individual shareholder. The S corporation must therefore communicate to the shareholder all 453A installment sale transactions exceeding $150,000. The "applicable percentage" is the ratio of the aggregate face amount of installment sale obligations arising in and outstanding as of the close of the taxable year in excess of $5 million to the aggregate face amount of such obligations arising in and outstanding at the close of the taxable year. The "applicable percentage" will be determined by each shareholder.

For 453(l) (2)(B) transactions, the S corporation must inform the shareholder of the shareholder's share of gain on installment transactions, the date of the transactions, and any other information the shareholder may need to calculate the addition to tax.

Shareholder's Massachusetts Information

The shareholder's distributive share of each item of income, loss, deduction, or credit is determined by the shareholder's percentage of ownership of stock in the S corporation computed on a daily basis during the taxable year.

Note: If the shareholder is a single member of a Limited Liability Company (LLC), the taxpayer identification number is the shareholder's Social Security number, not the Federal Identification number of the LLC.

For a nonresident shareholder eligible to apportion, enter in lines 1 through 21 the amount of the shareholder's share of each applicable distributive share item multiplied by the apportionment percentage in Form 63FI, Schedule E, line 5.

For all other shareholders, enter in lines 1 through 21 the amount of the shareholder's share of each applicable distributive share item.

For lines 17 through 20 the S corporation may provide each shareholder with a written breakdown of long-term capital gains and losses by the applicable holding period.

Line 1

Enter the amount of the shareholder's share of the S corporation's Massachusetts ordinary income or loss from Schedule S, line 25. For a nonresident eligible to apportion, enter the amount of the shareholder's share of the S corporation's Massachusetts ordinary income or loss multiplied by the apportionment percentage in Schedule E, line 5.

Line 2

Report and describe in line 2 any other expense that is deductible from income taxed at 5.2% and properly reportable on Massachusetts Form 1 or 1-NR/PY, Schedule E, Part II, or Form 2 and is not reported elsewhere on Schedule SK-1. Examples of such deductions include oil and gas depletion and the expense deduction for recovery property, IRC sec. 179. An estate or trust may not elect to expense recovery property.

Line 3

Combine the amounts in lines 1 and 2. The result in line 3 includes each shareholder's share of the S corporation's Massachusetts ordinary income. The correct Massachusetts amount of the shareholder's share of ordinary income may differ from the comparable U.S. total reported on the shareholder's Form 1 or 1-NR/PY, Schedule E, Part II; or Form 2. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule E, Part II if applicable; or Form 2, to reflect the correct Massachusetts amount. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain the adjustments.

The S corporation should also provide each shareholder with the amount of any costs of renovating a qualifying abandoned building. Each shareholder should use this amount to complete Form 1 or 1-NR/PY, Schedule E, Part II; or Form 2. Enclose a statement detailing the location and cost of renovating the qualifying abandoned building.

The S corporation should provide each shareholder with the amount of the shareholder's share of any 5.2% interest from Massachusetts banks and interest (other than from Massachusetts banks) and dividend income included in line 3. Each shareholder should use these amounts to complete Form 1 or 1-NR/PY, Schedule E, Part II.

Line 4

Enter the shareholder's share of any tax due from the S corporation to any other state, territory or possession of the United States, or Canada or any of its provinces on income taxable to the shareholder in Massachusetts and otherwise allowable as a credit to individuals. This credit is available only to resident shareholders and may be taken by using Form 1, Schedule Z, or Form 1NR/PY, Schedule Z or if applicable, on Form 2.

Where the credit is available, the S corporation must also provide each resident shareholder with separately stated totals of 5.2% interest (other than from Massachusetts banks), dividends and certain capital gains taxed at 12% income and long-term capital gain taxed by other jurisdictions to enable each shareholder to calculate the amount of the credit. The S corporation should provide each shareholder with the names of each applicable jurisdiction and the amount taxed.

Enter the shareholder's proportionate share of the Lead Paint Credit, Economic Opportunity Area Credit, Full Employment Credit, Brownfields Credit, Low-Income Housing Credit, Historic Rehabilitation Credit, Home Energy Efficiency Credit, Solar Heat Credit, Film Incentive Credit, Medical Device Credit or other applicable credit. Supporting documentation must be made available upon request.

Line 5

Enter the shareholder's share of the S corporation's net rental income or loss from real estate activities from Schedule S, line 26. The correct Massachusetts amount of the shareholder's net income or loss from rental real estate activities may differ from the comparable U.S. total reported on the shareholder's Form 1, or 1-NR/PY, Schedule E, Part II; or Form 2, Schedule E. Each shareholder should make adjustments in Form 1, or 1-NR/PY, Schedule E, Part II; or Form 2, Schedule E, to reflect the correct Massachusetts amount. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain.

Line 6

Enter the shareholder's share of the S corporation's net rental income or loss from other activities from Schedule S, line 27.

The correct Massachusetts amount of the shareholder's share of net rental income or loss from other activities may differ from the comparable U.S. total reported on the shareholder's Form 1 or 1-NR/PY, Schedule E, Part II; or Form 2. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule E, Part II; or Form 2, to reflect the correct Massachusetts amount. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain.

Line 7

Enter the shareholder's share of the S corporation's interest on U.S. debt obligations from Schedule S, line 29. For a nonresident shareholder eligible to apportion, enter the shareholder's share without apportionment. This income is taxable by the U.S. government, but tax-exempt in Massachusetts. Each shareholder should include the line 7 total in Form 1 or 1-NR/PY, Schedule B; or Form 2, Schedule B.

Line 8

Enter the shareholder's share of the S corporation's 5.2% interest from Massachusetts banks from Schedule S, line 30. For a nonresident eligible to apportion, enter the shareholder's share of the S corporation's 5.2% interest from Massachusetts banks multiplied by the apportionment percentage in Schedule E, line 5.

Each shareholder should include the line 8 total in Form 1, line 5, or 1-NR/PY, line 7; or Form 2.

Each nonresident shareholder whose income is apportioned should also receive from the S corporation the amount of the shareholder's pre-apportionment share of 5.2% interest from Massachusetts banks.

Each nonresident individual whose income is apportioned should include this amount in Form 1-NR/PY, Schedule B. This amount should be used instead of any amount from Form 1-NR/PY, line 7 because the shareholder's full distributive share of such income is included in the U.S. amount reported in Form 1-NR/PY, Schedule B, line 1. Each nonresident trust or estate whose income is apportioned should also receive from the S corporation the amount of shareholders pre-apportionment share of 5.2% interest from Massachusetts banks and should include its pre-apportionment share of 5.2% interest from Massachusetts banks in Form 2, Schedule B, instead of any amount from Form 2, line 5.

Line 9

Enter the shareholder's share of the S corporation's interest (other than from Massachusetts banks) and dividend income from Schedule S, line 31. For a nonresident shareholder eligible to apportion, enter the shareholder's distributive share of the (other than from Massachusetts banks) interest and dividend income from Schedule

S, line 26, multiplied by the apportionment percentage in Schedule E, line 5.

The correct Massachusetts amount of the shareholder's share of (other than from Massachusetts banks) interest and dividend income may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY, or 2, Schedule B, lines 1 and 2.

Each shareholder should make adjustments to reflect the correct Massachusetts amount in Form 1 and 1-NR/PY, Schedule B, line 6; or Form 2, Schedule B. Each shareholder should enclose a statement to the shareholder's Massachusetts tax return and explain any adjustments.

Line 10

Enter the shareholder's share of the S corporation's non-Massachusetts state and municipal bond interest from Schedule S, line 32. For a nonresident shareholder eligible to apportion, enter the shareholder's distributive share of the S corporation's non-Massachusetts and municipal bond interest multiplied by the apportionment percentage in Schedule E, line 5. This income is not taxed by the U.S. government, but is taxable in Massachusetts.

Each shareholder should include the line 9 total in Form 1, 1-NR/PY, or 2, Schedule B, line 3.

Line 11

Enter the shareholder's share of the S corporation's royalty income from Schedule S, line 33. For a nonresident shareholder eligible to apportion, enter the shareholder's distributive share of the S corporation royalty income from Schedule S, line 33, multiplied by the apportionment percentage in Schedule E, line 5.

The correct Massachusetts amount of the shareholder's share of royalty income may differ from the comparable U.S. total reported on the shareholder's Form 1, or 1-NR/PY, Schedule E, Part I, line 1; or Form 2, Schedule E, line 1.

Each shareholder should make adjustments to reflect the correct Massachusetts amount in Form 1, or 1-NR/PY, Schedule E, Part I, line 2; or Form 2, Schedule E.

Each shareholder should enclose a statement to the shareholder's Massachusetts tax return and explain any adjustments.

Line 12

Enter the shareholder's share of the S corporation's income from Schedule S, line 34. For a nonresident shareholder eligible to apportion, enter the shareholder's distributive share of the S corporation's other income from Schedule S, line 29 multiplied by the apportionment percentage in Schedule E, line 5.

The correct Massachusetts amount of the shareholder's share of other income may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY; or 2. Each partner should make adjustments on the applicable lines of Form 1, 1-NR/PY, or 2 to reflect the correct Massachusetts amount. If any income reported to the S corporation from a Real Estate Mortgage Investment Conduit (REMIC) in which the S corporation is a residual interest holder is reported in line 12, then any such adjustment should be made on Form 1, or 1-NR/PY, Schedule E, Part I, line 2 or Form 2, Schedule E.

Each shareholder should attach a statement to the shareholder's Massachusetts tax return and explain any adjustments.

Line 13

Enter the shareholder's share of the S corporation's short-term capital gain from Schedule S, line 35.

For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's short-term capital gain or loss multiplied by the apportionment percentage in Schedule E, line 5.

The correct Massachusetts amount of the shareholder's share of short-term capital gain may differ from the comparable U.S. total reported on the shareholder's Form 1, or 1-NR/PY, Schedule B, line 8; or Form 2, Schedule B.

Each shareholder should make adjustments in Form 1, 1-NR/PY, Schedule B, line 8 or Form 2, Schedule B, to reflect the correct Massachusetts amount. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain any adjustments.

Line 14

Enter the shareholder's share of the S corporation's short-term capital losses from Schedule S, line 36. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's short-term capital losses multiplied by the apportionment percentage in Schedule E, line 5.

The correct Massachusetts amount of the shareholder's share of short-term capital losses may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY or 2, Schedule B. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule B, line 14; or Form 2, Schedule B.

Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain any adjustments.

Line 15

Enter the shareholder's share of the S corporation's gain on the sale exchange or involuntary conversion of property used in trade or business and held for one year or less from Schedule S, line 37.

For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's gain on the sale exchange or involuntary conversion of property used in trade or business and held for one year or less multiplied by the apportionment percentage in Schedule E, line 5.

The correct Massachusetts amount of the shareholder's share of gain on the sale, exchange or involuntary conversion of property used in trade or business and held for one year or less may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY; or 2, Schedule B.

Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule B, line 10; or Form 2, Schedule B. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain any adjustments.

Line 16

Enter the shareholder's share of the S corporation's loss on the sale, exchange or involuntary conversion of property used in trade or business and held for one year or less from Schedule S, line 38.

For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's loss on the sale exchange or involuntary conversion of property used in trade or business and held for one year or less multiplied by the apportionment percentage in Schedule E, line 5.

The correct Massachusetts amount of the shareholder's share of loss on the sale, exchange or involuntary conversion of property used in trade or business and held for one year or less may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY; or 2, Schedule B.

Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule B, line 15, or Form 2, Schedule B. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain any adjustments.

Line 17

Enter the shareholder's share of the S corporation's long-term capital gain or loss from Schedule S, line 39. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the long-term capital gain or loss multiplied by the apportionment percentage in Schedule E, line 5.

The correct Massachusetts amount of the shareholder's share of long-term capital gain or loss may differ from the comparable U.S. total reported on Form 1, 1-NR/PY, or 2, Schedule D, line 1.

Each shareholder should make adjustments in Form 1, 1-NR/PY, Schedule D, line 9; or Form 2, Schedule D, to reflect the correct Massachusetts amount. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain any adjustments.

Line 18

Enter the shareholder's share of the S corporation's section 1231 gain or loss from Schedule S, line 40.

For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's section 1231 gain or loss multiplied by the apportionment percentage in Schedule E, line 5.

The correct Massachusetts amount of the shareholder's share of section 1231 gain or loss may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY, or 2, Schedule D.

Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule D, line 9; or Form 2, Schedule D. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain any adjustments.

Line 19

Enter the shareholder's share of the S corporation's other long-term capital gains or losses from Schedule S, line 41. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's other long-term capital gains and losses multiplied by the apportionment percentage in Schedule E, line 5.

The correct Massachusetts amount of the shareholder's share of other long-term capital gains or losses may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY, or 2, Schedule D. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule D, lines 6 and/or 9, or Form 2, Schedule D, lines 6 and/or 11.

Line 20

Enter the shareholder's share of the S corporation's long-term gains on collectibles from Schedule S, line 42. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's long-term gains on collectibles multiplied by the apportionment percentage in Schedule E, line 5.

The correct Massachusetts amount of the shareholder's share of long-term gains on collectibles may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY or 2, Schedule D, line 1.

Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule D, line 9 or Form 2, Schedule D. Each shareholder should enter the correct Massachusetts amount in Form 1 or 1-NR/PY, Schedule D, line 11 or Form 2, Schedule D, line 13. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain any adjustments.

Shareholder's Basis Information

The information in lines 22 through 26 may be needed by the shareholder to determine the limitation of losses passed through to the shareholder, or the gain or loss from sale or other disposition of the shareholder's stock and indebtedness.

Line 23

For a calendar year S corporation, enter in line 23 the number of the shareholder's shares and the amount of the shareholder's federal basis as of December 31, 1985. If the S corporation was a fiscal year entity, enter the number of the shareholder's shares and the amount of the shareholder's federal basis as of the last day of the taxable year prior to becoming a Massachusetts S corporation.

If the S corporation became a Massachusetts S corporation after December 31, 1985, enter in line 23 the number of the shareholder's shares and the amount of the shareholder's federal basis as of the last day of the taxable year prior to becoming a Massachusetts S corporation. If reporting a federal basis other than December 31, 1985, specify the year.

Line 25

Enter the net amount of the adjustments made share of S corporation income, decreased by distributions to the shareholder, and otherwise adjusted to reflect changes that affect the basis of the stock. Make comparable entries for adjustments to the shareholder's Massachusetts indebtedness.

More detailed information on Massachusetts basis adjustment is provided in Regulation 830 CMR 62.17A.1.

Line 26

Enter the net amount of the adjustments made to the shareholder's federal basis for the taxable year.

Make comparable entries for adjustments to the shareholder's federal indebtedness.

Declaration Election Code

Under declaration election code, the S corporation should indicate how the shareholder will be meeting its Massachusetts tax obligation.

The S corporation should select the "Composite" oval if it is filing a composite return on behalf of the shareholder, or if a lower-tier pass-through entity has filed a composite return on behalf of the shareholder.

The S corporation should select the "Member self-file" oval if the shareholder has indicated to the S corporation on the Form PTE-EX that the shareholder will be filing its own return (i.e., has checked box 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 S corporation should select "Exempt PTE" if the shareholder has indicated to the S corporation, by checking box 4 under Organization Certification on the Form PTE-EX, that the shareholder is a pass-through entity all of whose members are exempt from withholding.

The S corporation should select "Non-profit" if the shareholder has checked box 1 under Organization Certification on the form PTE-EX.

If the shareholder has not made a declaration to the S corporation that the shareholder is exempt from withholding, the S corporation should select the “Withholding” oval.

If the S corporation has selected the “Composite” oval under the Declaration election code and the S corporation itself made estimated payments on behalf of the shareholder, the S corporation should indicate on line 34 the estimated payments that the S corporation made on behalf of the shareholder.

This number should be the shareholder’s share of the amount entered on line 13 of the Form MA NRCR, the composite return. This number is informational only, and is not to be used by the partnership or the partner for any other purpose.

Line 28

If the S corporation has selected the “Withholding” oval under the declaration election code, the S corporation should indicate on line 28 the amount of Massachusetts tax that the S corporation withheld on the shareholder’s distributive share and paid for the year on the shareholder’s behalf.

Line 29

If the S corporation has selected the “Composite” oval under the Declaration election code and the S corporation itself made estimated payments on behalf of the shareholder, the S corporation should indicate on line 29 the estimated payments that the S corporation made on behalf of the shareholder.

This number should be shareholder’s share of the amount entered on line 13 of the Form MA NRCR, the composite return. This number is informational only, and is not to be used by the partnership or the partner for any other purpose.

Line 30

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

Line 31

If the S corporation is a member of one or more lower-tier entities, and composite returns with estimated payments were made on behalf of this shareholder by one or more of those entities, the S corporation should indicate the amount of estimated payments made on behalf of this shareholder. This number should be the shareholder’s share of the amount entered on line 13 of the Form MA NRCR, the composite return. This number is informational only, and is not to be used by the S corporation or the shareholder for any other purpose.