

## 2014 Schedule U-E

### **NEW FOR 2014 - 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 assigning sales to the location of the market also 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.

### **Massachusetts Unitary or Affiliated Group Income**

The combined group's income as determined on Schedule U-CI is subject to further modification in determining the combined group's taxable income subject to apportionment for Massachusetts purposes. The combined group's taxable income is then apportioned (or attributed in cases where no apportionment is permissible) to the taxable group members using numerators calculated based on each individual member's Massachusetts attributes and denominators representing attributes of all members of the combined group.

Schedule U-E states these calculations and is divided into four parts.

Part 1 completes the calculation of the combined group's taxable income.

Part 2 details the calculation of the denominators of the property, payroll and sales factors that will be used by each member in determining its apportioned share of the combined group's taxable income.

Part 3 reports the total of the Massachusetts property, payroll and sales for all taxable members of the group as shown on separate Schedules U-MSI filed by each taxable member.

Part 4 reports the total of the income actually apportioned to all taxable members as calculated on those same Schedules U-MSI.

The combined report that is filed by the combined group must include at least one Schedule U-E. A group of corporations engaged in more than one unitary business and not making or subject to an affiliated group election must divide the group income and file separate Schedules U-E for each unitary business. If an affiliated group election has not been made, only the property, payroll and receipts of each member that relate to the unitary business that generates the combined group's taxable income are used to apportion such income.

#### **Header for Schedule U-E**

Enter the name of the principal reporting corporation, that corporation's Federal Identification number, the beginning and ending dates of the combined group's taxable year and the Principal Business Activity code applicable to the unitary business of the combined group. In the case of an affiliated group election, enter the Principal Business Activity code applicable to the primary business conducted by the combined group.

Enter the unitary business identifier. This is a numeric value (the number must be greater than zero) used to associate supporting and supplementary schedules with a specific Schedule U-E. If an affiliated group election has been made or if the group is not engaged in more than one unitary business, enter "1". If the group separately calculates and apportions income from 2 or more different unitary businesses, enter "1" on Schedule U-E for the first such business and "2" on Schedule U-E for the second such business, etc. All of the Schedules ABI and ABIE that relate to deductions taken on Schedule U-E with a unitary business identifier "1" must also have an identifier "1". All of the Schedules ABI and ABIE that relate to deductions taken on Schedule U-E with a unitary business identifier of "2" must also have an identifier of

“2”. All of the Schedules U-MSI that apportion income from the unitary business referenced on Schedule U-E with a unitary business identifier “1” must also have identifier “1”.

Check one box for the “type of group.” A financial group is a combined group engaged in a unitary business or a Massachusetts affiliated group all of whose members, including members not taxable on their income in Massachusetts, are entities that qualify as financial institutions under the definition in M.G.L. c. 63, § 1. A non-financial group is a group none of whose members, including non-taxable members, are financial institutions. A mixed group is any group that includes at least one member that is a financial institution and at least one member that is not a financial institution. If the combined group includes two or more Schedules U-E, representing multiple unitary businesses, only those members participating in the unitary business that is to be referenced on the U-E in question should be considered in determining which box to check.

Check one box to indicate whether any member of the combined group is taxable on its income in another state. In any case where the combined group has not made an affiliated group election, check “yes” only if a member of the combined group is taxable in another state with respect to the operation of the combined group’s unitary business. Note that if no member of the combined group is taxable in another state (i.e., the box to be checked is “no”), combined reporting is still required but special income attribution rules will apply. See 830 CMR 63.32B.2 (7) (k).

If the combined group includes at least one financial institution (i.e., it is a group consisting only of financial institutions or is a “mixed group”), check one box to indicate the method to be used by the group to allocate income from investment assets and trading assets. If the combined group does not include a financial institution, do not check either option. If this section applies, see c. 63, s. 2A (d) (xii) for an explanation of the referenced income allocation methods.

#### **Line Instructions for Schedule U-E**

##### **Part 1**

**Taxable Income Lines 1 – 13.** Report the income and expenses of the unitary business engaged in by the combined group, or in the case of a combined group subject to an affiliated group election, report all of the income and expenses of the combined group. Note that line 8 may be a negative number and that the total in line 11 will reflect that negative amount, if applicable. If only one Schedule U-E is being filed, the amounts on lines 1 through 11 must match the amounts on Schedule U-CI, lines 1 through 11.

**Line 14.** Enter the total of all interest received on state and municipal obligations not reported in U.S. net income but includible in the combined group’s taxable income.

**Line 15.** Massachusetts does not allow a deduction for state, local and foreign income, franchise, excise or capital stock taxes. Any such taxes that have been deducted from U.S. net income should be entered here and added back into the combined group’s taxable income.

**Line 16.** For Massachusetts purposes, for taxable years ending after September 10, 2001, depreciation is to be claimed on all assets, regardless of when they are placed in service, using the method used for U.S. income tax purposes prior to the enactment of IRC § 168(k). For more information, see TIR 02-11 and TIR 03-25. Enter the difference between the amount deducted for U.S. income tax purposes and the amount deductible for Massachusetts purposes. If the depreciation calculated for Massachusetts purposes exceeds the amount deducted for U.S. income tax purposes, this will be a negative amount.

**Line 17.** A taxpayer must add back to net income any related member intangible expenses and costs, including losses incurred in connection with factoring or discounting transactions. See 830 CMR 63.31.1.

This rule also applies to any amortization deductions claimed under IRC § 179 when the deduction derives from the acquisition of intangible property from a related member. See DD 07-9.

To the extent that the combined group's deductions as reported on this schedule include such expenses, enter the amount on this line. Note that expenses between members of the same combined group that relate to the unitary business are eliminated and should not be deductions included in the calculation of the combined group's taxable income. See 830 CMR 63.32B.2 (13). If one or more taxable members of the combined group qualify for an exception to the add back requirement, complete Schedule ABIE for each such taxpayer. Such exceptions are to be referenced on line 26.

**Line 18.** A taxpayer must add back to net income any related member interest expenses and costs, including losses incurred in connection with factoring or discounting transactions. See 830 CMR 63.31.1. To the extent that the combined group's deductions as reported on this schedule include such expenses, enter the amount on this line. Note that expenses as between members of the same combined group that related to the unitary business are eliminated and should not be deductions included in the calculation of the combined group's taxable income. If one or more individual taxable members of the combined group qualify for an exception to the add back requirement, complete Schedule ABI for each such taxpayer. See 830 CMR 63.32B.2 (13). Such exceptions are to be referenced on line 27.

**Line 19.** Massachusetts has decoupled from the American Jobs Creating Act of 2004, Public Law 108-357. Therefore, the Massachusetts definition of corporate net income does not take into consideration the federal production activity deduction. Enter the amount of any federal deduction taken on this line. See TIR 05-5 for further information.

**Line 20.** The deduction allowed to a corporation for any expenses that qualify for the Massachusetts research credit must be reduced by the Massachusetts research credit determined for the current taxable year. Enter the amount of the Massachusetts research credit that was generated during the current taxable year under either M.G.L. Ch. 63, sec. 38M or 38W on this line.

**Line 22.** This line is no longer used, all taxpayers enter zero. In prior years, it was used to show the elimination of dividends from one member of the group to another. Those dividends, to the extent they qualify for elimination as provided in 830 CMR 63.32B.2(6)(c) 4., are now shown on the schedule U-M eliminations schedule and the amount of dividends referenced on schedule U-E, line 4 should be the amount after such eliminations.

**Line 23.** Massachusetts allows a deduction of 10% of the total cost of renovating an abandoned building in an economic opportunity area. Enter the amount of the deduction on this line.

**Line 24.** Reserved. Enter zero.

**Line 25.** A financial institution or business corporation that receives a dividend from another corporation in which it owns at least 15% of the voting stock is allowed a 95% deduction for any dividends not eliminated under the rules stated in 830 CMR 63.32B.2(6)(c) 4.

The amount of this deduction may not exceed the amount referenced on line 4.

**Line 26.** If one or more members of the combined group has intangible expenses and costs paid or accrued to any related party and qualifies to deduct these expenses under c. 63 § 31I and 31K, enter the amount of the deduction claimed here and complete Schedule ABIE. No deduction is allowed for any amount not added back into income and referenced on line 17. Note that each Schedule ABIE must have the same unitary business identifier as the Schedule U-E to which it relates. The total amount of the deduction claimed must match the total on line 5 of all Schedules ABIE with the same unitary business identifier and may not exceed the amount added back on line 17.

**Line 27.** If one or more members of the combined group has interest expenses and costs paid or accrued to any related party and qualifies to deduct these expenses under c. 63 § 31J and 31K, enter the amount of the deduction claimed here and complete Schedule ABI. No deduction is allowed for any amount not added back into income and referenced on line 18. Note that each Schedule ABI must have the same unitary business identifier as the Schedule U-E to which it relates. The total amount of the deduction claimed must match the total on line 4 of all Schedules ABI with the same unitary business identifier and may not exceed the amount added back on line 18.

**Line 28.** Enter any allowable U.S. wage credit used in calculating U.S. Form 1120, line 13.

**Line 29.** The adjustments to be referenced on this line include basis adjustments and other state-federal tax differences that were not previously taken into account.

Charitable contributions that are considered in the calculation of the combined group's taxable income are limited as provided in section 170 of the Internal Revenue Code but the limitation is determined by reference to the combined group's taxable income. See 830 CMR 63.32B.2(6)(c) 6. Where the total of the group's contributions that would otherwise be deductible exceeds the amount allowable, the contributions of the individual members are allowed on a pro-rata basis and the disallowed amounts are deductible against the other income of the individual member that made the charitable contribution in question, subject to a separately calculated limitation with respect to that other income. Amounts disallowed as a deduction that cannot be deducted from the separate income of the member are carried forward to future years.

This line may also be used to reflect other differences in limitations that are to be applied to Massachusetts tax calculations, such as deductions that are to be based on a percentage of income as determined under the Internal Revenue Code. See 830 CMR 63.32B.2(6)(c) 10.

Enter amounts reducing Massachusetts net income as positive amounts.

**Line 30.** Subtract the total of lines 22 through 29 from the amount on line 21.

**Line 31.** Enter the amount of capital gain or loss (including capital gains and losses of both taxable and non-taxable members) included in line 30. To the extent that adjustments on Schedule U-E represent adjustments to capital gain or loss as reported on a member's U.S. tax return, the amount of capital gain or loss on this line must also be adjusted.

**Line 32.** Enter the amount of section 1231 gain or loss (including section 1231 gains and losses of both taxable and non-taxable members) included in line 30. To the extent that adjustments on Schedule U-E represent adjustments to these gains or losses as reported on a member's federal tax return, the amount of section 1231 gain or (loss) must also be adjusted.

**Line 33.** Subtract the total of lines 31 and 32 from line 30.

**Line 34.** Enter the amount of the combined group's net capital loss (if any) that is not deductible in determining whether or not apportionment factors are inapplicable under 830 CMR 5

63.38.1(11). If the amount on line 31 (the combined group's capital gain or loss to be apportioned) is greater than or equal to zero, enter "0".

If the amount on line 31 is a loss and the amount on line 32 (the combined group's s. 1231 gain or loss) is also a loss (or zero), enter, as a positive adjustment, the amount of the loss on line 31.

If line 31 is a loss and line 32 is a gain, combine those amounts; if the total is greater than zero, enter "0" on line 34, otherwise, enter a positive adjustment, equal to the excess of the loss on line 31 over the gain on line 32.

**Line 35.** Combine the amounts on line 30 and line 34.

**Line 36.** Enter 10% of 1/3 of the amount on line 35.

## **Part 2: Apportionment Denominators**

The denominators to be used to apportion the income of the combined group are determined by adding the separately determined denominators for all members of the combined group but disregarding inter-company transactions that relate to the unitary business (or, in the case of an affiliated group election, all inter-company transactions). Each member, including any non-taxable member, is to determine its denominators under the terms of the statutory apportionment provisions that apply to that member under M.G.L. c. 63, except that if the combined group includes one or more financial institutions, each member of the group is to include in its receipts for sales factor purposes interest and other receipts as described in M.G.L. c. 63, § 2A(d)(i) through (d)(xi) in both the numerator and the denominator of its apportionment calculation.

If the combined group has not made an affiliated group election, only property, payroll and receipts of each member that relate to the unitary business generating the income to be apportioned are to be used to apportion the combined group's taxable income. If one or more members of the group have property, payroll and sales that are not used in, or are not part of, the unitary business, that property, payroll and sales must be excluded from both the numerator and the denominator of the apportionment calculations used to apportion the combined group's taxable income.

If the combined group includes one or members which are not U.S. corporations and a worldwide election has not been made, the denominator of each factor must include only the property, payroll and receipts of such non-U.S. corporations that relate to the income they include in the combined report. See 830 CMR 63.32B.2 (7) (f). See also 830 CMR 63.32B.2 (5) (b) 3, as it pertains to non-U.S. corporations that are included in the combined group only with respect to certain inter-affiliate income.

A group of corporations engaged in more than one unitary business that is not subject to an affiliated group election must divide the collective income of the different businesses and file separate Schedules U-E for each unitary business.

In such cases, the group of corporations that is engaged in more than one unitary business must divide the group's property, payroll and sales between the different unitary businesses to which they relate. For the rules that govern the apportionment of income in the context of a combined group, see 830 CMR 63.32B.2 (7).

**Line 37.** All combined group members that are financial institutions within the meaning of M.G.L. c. 63, § 1, whether or not taxable on their income in Massachusetts, must determine the average value of their loans and combine the totals. Loans from one member of the unitary group to another (or as between combined group members in the case where the group is subject to an affiliated group election) are eliminated from the calculation. Loans and other financial institution property owned by members that are not financial institutions are not included in this calculation.

**Line 38.** All members that are financial institutions taxable within the meaning of M.G.L. c. 63, § 1 must determine the average value of their credit card receivables or other financial institution property and

combine the totals. Loans from one member of the unitary group to another (or as between combined group members in the case where the group is subject to an affiliated group election) are to be eliminated from the calculation. Loans and other financial institution property owned by members that are not financial institutions are not included in this calculation.

**Line 40.** If the combined group whose income is being apportioned includes at least one member which is not a financial institution, enter 20% of the amount shown in line 39. If the group is composed solely of financial institutions, enter 100% of line 39.

**Line 41.** Enter the average total value of tangible property owned by all members of the combined group.

**Line 42.** Tangible property rented by each member is valued at eight times the annual net rental rate paid less any sub-rentals received.

**Lines 45 - 58.** These lines total the members' worldwide receipts from various sources applicable for apportioning income of groups containing financial institutions. If the combined group includes at least one financial institution, whether or not that member is a taxable member, all members of the group must determine and include in their sales factor calculations their receipts from loans and other financial instruments as defined in M.G.L. c. 63, § 2A(d).

Enter the total of all members' receipts on the appropriate lines. If no member of the group is a financial institution, enter zero on each line.

**Line 59 - 62.** These lines total the members' worldwide receipts from sources applicable for apportioning income from corporations generally.

Enter the member's total receipts from the sale of tangible property, sales of services, rents and royalties or from other sources, to the extent not already reported in lines 45 through 58, above.

**NEW FOR 2014 – Certain amounts are subject to the rules of exclusion from the sales factor, as set forth in 830 CMR 63.38.1(9)(d)1.f.** For example, in the case of a service or license of intangible property where the taxpayer is not taxable in the state to which the sale is to be assigned, the sale amount should be excluded from the sales factor calculation.

### **Part 3: Total of Massachusetts Numerators**

Each taxable member of the combined group is to separately report the elements of its numerators for apportionment purposes on Schedule U-MSI, where the member's share of group income apportioned to Massachusetts is determined. Part 3 of Schedule U-E reports the total of each of those elements for all taxable members of the group

If the group is submitting two or more Schedules U-E, the totals shown in this part for the schedule with unitary business identifier "1" must match the totals shown on the corresponding line of all Schedules U-MSI with unitary business identifier "1".

**Line 64.** Enter the total of all members' Schedules U-MSI, line 4.

**Line 65.** Enter the total of all members' Schedules U-MSI, line 5.

**Line 66.** Enter the total of all members' Schedules U-MSI, line 6.

**Line 67.** Enter the total of all members' Schedules U-MSI, line 7.

**Line 68.** Enter the total of all members' Schedules U-MSI, line 8.

**Line 69.** Enter the total of all members' Schedules U-MSI, line 11.

**Line 70.** Enter the total of all members' Schedules U-MSI, line 14.

**Line 71.** Enter the total of all members' Schedules U-MSI, line 15.

**Line 72.** Enter the total of all members' Schedules U-MSI, line 16.

**Line 73.** Enter the total of all members' Schedules U-MSI, line 17.

**Line 74.** Enter the total of all members' Schedules U-MSI, line 18.



**Line 75.** Enter the total of all members' Schedules U-MSI, line 19.

**Line 76.** Enter the total of all members' Schedules U-MSI, line 20 (see 830 CMR 63.32B.2(7)(b)).

**Line 77.** Enter the total of all members' Schedules U-MSI, line 21.

**Part 4: Massachusetts Apportioned Income**

Part 4 of Schedule U-E reports the total of each respective category of income referenced (actually apportioned) to all taxable members of the combined group. If the group is submitting two or more Schedules U-E, the totals shown in this part for the schedule with unitary business identifier "1" must match the totals shown on Schedules U-MSI with unitary business identifier "1".

**Line 78.** Enter the total of all members' Schedules U-MSI, line 29.

**Line 79.** Enter the totals of all members' Schedules U-MSI, line 31.

**Line 80.** Enter the totals of all members' Schedules U-MSI, line 33.