



---

Commonwealth of Massachusetts

Department of Revenue

---

# 2018 Instructions for Massachusetts Partnership Return **Form 3**

Includes Schedule 3K-1 instructions

## What kind of help is available

The instructions in the Department of Revenue's tax forms should provide answers to most taxpayer questions. If you have questions about completing your Massachusetts tax form, you can call us at (617) 887-6367 or toll-free in Massachusetts at 1-800-392-6089 Monday through Friday. DOR's website at [mass.gov/dor](http://mass.gov/dor) is also a valuable resource for tax information 24 hours a day. Thousands of taxpayers use DOR's website to e-mail and receive prompt answers to their general tax inquiries. Interactive applications that allow taxpayers to check the status of their refunds and review their quarterly estimated tax payment histories are available through our website or by calling our main information lines listed above.

## Where to get forms and publications

Many Massachusetts tax forms and publications are available via the DOR website. The address for the Department's website is [mass.gov/dor](http://mass.gov/dor).

## For general tax information. Please call (617) 887-6367 or toll-free in Massachusetts 1-800-392-6089. These main information lines can provide assistance with the following:

- |                         |                                |                           |                         |
|-------------------------|--------------------------------|---------------------------|-------------------------|
| ▶ abatements            | ▶ corporate excise             | ▶ fiduciary taxes         | ▶ personal income taxes |
| ▶ bills and payments    | ▶ estate taxes                 | ▶ nonresident information | ▶ refunds               |
| ▶ business registration | ▶ estimated taxes              | ▶ partnerships            | ▶ withholding           |
| ▶ business taxes        | ▶ certificate of good standing |                           |                         |

## For help in one of the following specific areas. Please call the number listed below.

- ▶ Installment sales (617) 887-6950
- ▶ Teletype (TTY) (617) 887-6140
- ▶ Small Business Workshop (617) 887-5660
- ▶ Vision-impaired taxpayers can contact any DOR office to receive assistance.
- ▶ Upon request, this publication is available in an alternative format. Please send your request to: Office of Diversity and Equal Opportunity, PO Box 9557, Boston, MA 02114-9557.

To report allegations of suspected misconduct or impropriety involving Department of Revenue employees, please call the Office of Ethics and Employee Responsibility Hot Line at 1-800-565-0085 or write to PO Box 9567, Boston, MA 02114.

# Major 2018 Tax Changes

## Filing Due Date

Massachusetts law was changed to conform the due dates for filing a Massachusetts partnership tax return to the due date for filing a federal partnership return, beginning with tax returns due on or after January 1, 2018. MGL ch 62C, § 7 has been amended to require partnerships to file their tax returns on or before the 15th day of the third month following the close of each taxable year (March 15 in the case of partnerships filing on a calendar year basis). This change affects all returns due on or after January 1, 2018, irrespective of a partnership's fiscal year end. See Technical Information Release (TIR) 17-5.

## Changes Related to Federal Tax Reform

On December 22, 2017, Public Law 115-97 (commonly known as the Tax Cuts and Jobs Act (TCJA)) was signed into law. The TCJA provides for federal changes to a variety of provisions of the Internal Revenue Code that affect business entities subject to the corporate and financial institution excise. In response to the TCJA, DOR has issued written guidance addressing the impact of the TCJA in Massachusetts. This guidance is available on DOR's website. See Draft TIR 19-XX: Massachusetts Implications of Selected International Provisions of the Federal Tax Cuts and Jobs Act.

For information on changes related to the TCJA for personal income taxpayers see Draft TIR 18-XX, Impact of Selected Provisions of the Federal Tax Cuts and Jobs Act on Massachusetts Personal Income Tax under Chapter 62.

## New: Massachusetts Schedule FCI, Foreign Corporation Income

Certain eligible businesses and individuals will be required to complete and file a new Massachusetts Schedule FCI, Foreign Corporation Income, with their tax return to report their pro rata share of foreign corporation income that must be reported federally under the TCJA.

Business taxpayer reporting is required on an entity-level basis. C corporations and Pass-Through Entities (S corporations, partnerships or trusts) (PTEs) are required to complete Schedule FCI at the entity level only. Individual pass-through members of a PTE (i.e., individual S corporation shareholders, partners, or trust beneficiaries who are eligible pass-through income recipients) are not required to complete and submit a Schedule FCI with their tax returns.

**Note:** A pass-through member of a PTE that is a business entity (non-individual) with a Massachu-

setts tax return filing requirement must also complete and submit Schedule FCI with its tax return if it is an eligible taxpayer or U.S. shareholder.

Detailed instructions for completing Schedule FCI are available on DOR's website. See 2018 Schedule FCI and Instructions.

For further discussion of 2018 major tax changes, see the Form 1 or Form 355 instructions.

## Current Code Provision

As a general rule, Massachusetts will not adopt any federal tax law changes incorporated into the Internal Revenue Code (Code, or IRC) after January 1, 2005 for personal income taxpayers. However, certain specific provisions of the personal income tax automatically adopt the current Code.

For a full discussion of current code provisions, see the Form 1 instructions.

For purposes of the corporate excise tax, Massachusetts generally automatically adopts the current code.

## Withholding Requirements for Partnerships

Pass-through entities, including partnerships, have withholding obligations with regard to their non-resident partners or members. A partnership is required to determine which of its partners are non-residents, and to ascertain how its non-resident partners will be complying with their Massachusetts filing obligation. A partnership must withhold Massachusetts tax on the distributive share of any partner that does not certify to the partnership that the partner will be meeting its tax obligation in some other manner. For more information on how to comply with the withholding obligation, see the Guide for Pass-Through Entities, and 830 CMR 62B.2.2, Pass-Through Entity Withholding.

## Privacy Act Notice

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

## When Must a Partnership File a Return?

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

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

## How Is a Partnership Taxed?

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

## Schedule 3K-1

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

## How Does Each Partner Report Partnership Income?

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

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

Each nonresident partner must report the partner's distributive share of the Massachusetts source income of the partnership, which includes income from any of the following categories:

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

**Note:** A nonresident limited partner of a limited partnership engaged exclusively in buying, sell-

ing, dealing in or holding securities on its own behalf and not as a broker is not subject to tax on income from such partnership.

### What is a Nonresident Composite Return?

Massachusetts allows a partnership to file an electronic composite return on Form MA NRCR, Massachusetts Nonresident Composite Return, and make estimated tax payments as an agent on behalf of two or more qualified electing nonresident partners. For more information see the instructions for Form MA NRCR, available at [mass.gov](http://mass.gov).

### What is Massachusetts Gross Income?

For personal income taxpayers, Massachusetts gross income is divided into three classes: Part B is taxed at 5.1%, Part A is taxed at 5.1% and 12% and Part C is taxed at 5.1%.

#### Part B income:

- ▶ Gross receipts from sales;
- ▶ Ordinary income or loss from other partnerships excluding all interest (other than interest from Massachusetts banks) and dividends;
- ▶ Ordinary income or loss from trusts and estates not subject to Massachusetts taxation;
- ▶ Royalty income or loss;
- ▶ Income from REMIC residual interest;
- ▶ Rental income or loss;
- ▶ Massachusetts bank interest; and
- ▶ Other income taxed at 5.1% (see Form 1 instructions).

#### Part A income:

- ▶ Interest other than from Massachusetts banks (taxed at 5.1%);
- ▶ Dividends (taxed at 5.1%);
- ▶ Short-term capital gains and losses (taxed at 12%);
- ▶ Gains and losses on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less (taxed at 12%); and
- ▶ Long-term gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes (taxed at 12%).

#### Part C income:

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

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

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

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

Under MGL ch 62 § 2 (d)(1)(N), Massachusetts specifically disallows the bonus depreciation deduction allowed under IRC § 168K, as amended and in effect for the current taxable year. Therefore, a Massachusetts partnership that claims bonus depreciation under IRC § 168(k) for federal tax purposes must calculate a separate depreciation schedule for purposes of claiming depreciation on the Massachusetts partnership return. For more information, see TIRs 03-25 and 02-11.

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

There are also differences between Massachusetts and U.S. corporate taxation.

### When and Where Must a Partnership Return Be Filed?

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

**Note:** If the return is for a fiscal year, the partnership should file using the tax form for the calendar year within which the fiscal year began. If the return is for a short tax year, the partnership should file according to the rules announced in TIR 11-12.

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

### Automatic Extensions

All Form 3 filers are automatically granted a six-month extension of time to file their tax return as

long as at least 80% of the total amount of tax ultimately due on or before the due date prescribed for payment of the tax has been paid. See TIR 16-10.

### What is the Penalty for Filing a Late Return?

A \$5 per day penalty may be imposed for failure to file a partnership return on time. For information regarding extensions of time to file tax returns, see TIR 16-10.

## Line Instructions

Certain lines are addressed in detail. Those lines without specific instructions are considered to be self-explanatory. Additional information for completing Part 2 is available in the instructions for U.S. Form 1065 and its accompanying schedules.

DOR and the Internal Revenue Service (IRS) maintain an extensive exchange program routinely sharing computer tapes and audit results. Discrepancies between income and deductions reported federally and on this return, except those allowed under state law, will be identified and may result in a state audit or further investigation.

### Pass-Through Entity Audit Procedures

Partnerships are subject to unified audit procedures. A unified audit procedure is a separate audit, assessment, and appeal procedure conducted at the level of the entity, rather than at the level of the entity's members. This streamlined procedure applies to partnerships, S corporations, and certain trusts. Unified audit procedures require that the partnership designate a Tax Matters Partner (see instructions, page 5) to act as the partnership's representative to DOR. DOR will notify the Tax Matters Partner when a unified audit has commenced. During the unified audit, the Tax Matters Partner has the authority, on behalf of the entity, to request a settlement, to agree to extend the statute of limitations, to request a conference, or to appeal a determination of pass-through entity items. The Tax Matters Partner also has the responsibility, according to the terms of the partnership or other agreement governing the pass-through entity, to inform the members of the entity about the progress of the unified audit. For more information about unified audit procedures, see 830 CMR 62C.24A.1 and TIR 13-15.

### Filing an Amended Return

If you need to change a line item on your return, complete a new return with the corrected information and fill in the "Amended return" oval. Your amended return must include all schedules filed with the original return even if there are no changes to the schedules. Mail your amended return to the same address used for the original return. Do not file Form ATB with your amended return. An amended return can be filed to either increase or

decrease your tax. Generally, an amended return must be filed within three years of the date that your original return was filed. For further information regarding amended returns, visit [mass.gov/dor/amend](http://mass.gov/dor/amend) and see TIR 16-13, Changes to the Amended Return Process Expanded to Most Tax Types.

### Federal Changes

If your amended return includes changes you have reported on an amended federal return filed with the IRS for the same tax year, check the "Amended return due to federal change" oval.

If your amended return does not report changes that result from the filing of a federal amended return or from a federal audit (for example, if the amended Massachusetts return is reporting a rental deduction not claimed on the original return) fill in only the "Amended return" oval.

### Consent to Extend the Time to Act on an Amended Return treated as Abatement Application

In certain instances, an amended return showing a reduction of tax may be treated by DOR as an abatement application. Under such circumstances, by filing an amended return, you are giving your consent for the Commissioner of Revenue to act upon the abatement application after six months from the date of filing. See TIR 16-11. You may withdraw such consent at any time by contacting the DOR in writing. If consent is withdrawn, any requested reduction in tax will be deemed denied either at the expiration of six months from the date of filing or the date consent is withdrawn, whichever is later.

### Filing an Application for Abatement

File an Application for Abatement, Form ABT, only to dispute one of the following:

- ▶ Penalties
- ▶ Audit assessments
- ▶ Responsible person determinations

For the fastest response time, file your dispute online at [mass.gov/masstaxconnect](http://mass.gov/masstaxconnect). If you are not required to file electronically or you cannot file online, use Form ABT.

Visit [mass.gov/dor/amend](http://mass.gov/dor/amend) for additional information about filing an amended return, or filing an application for abatement.

### Technical Termination

Fill in the oval if this form is being filed for the tax period ending on the date a technical termination has occurred under IRC § 708.

## Schedule Instructions

### Schedule TDS. Inconsistent Filing Position Penalty

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

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

### Schedule DRE. Disclosure of Disregarded Entity

A partnership that is doing business in Massachusetts (including through the means of activities conducted by a disregarded entity that such partnership owns) and that is also the owner of a disregarded entity for any portion of the taxable year for which a return is being filed must identify each such disregarded entity by filing Schedule DRE with its return. A separate Schedule DRE is required for each such disregarded entity. See Schedule DRE instructions for additional information.

### Member of a Lower-Tier Entity

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

### Investment Partnership as Defined in the Pass-Through Entity Withholding Regulation

An investment partnership, as defined in the Pass-Through Entity Withholding regulation, is a partnership that meets the following criteria:

- ▶ Substantially all of the partnership's assets consist of investment securities, deposits at banks or other financial institutions, or office equipment and office space reasonably necessary to carry on the activities of an investment partnership;
- ▶ Substantially all of the partnership's income is from interest, dividends, and capital gains; and
- ▶ The partnership is not engaged in a trade or business in Massachusetts.

A partnership that invests only in so-defined investment partnerships and has no other Massachusetts-source income may also fill in the Yes oval. Partnerships that meet these criteria are not required to withhold on their partners. See 830 CMR 62B.2.2(3)(b).

### Electing Large Partnerships

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

### C-Corporate Partnerships

If a partnership is made up entirely of C-corporate partners, the partnership need not complete Form 3, lines 13 through 40. The partnership, however, must complete Form 3, lines 1 through 12, lines 41 through 53 to the extent applicable, and Schedule 3K-1, lines 21 through 35 (see instructions for Income Apportionment).

### Tax Matters Partner

Unless a partnership designates a different Tax Matters Partner for Massachusetts tax purposes, the Tax Matters Partner for a Massachusetts unified audit will be the same as the federal Tax Matters Partner. If the partnership has not designated a federal or Massachusetts Tax Matters Partner, the Tax Matters Partner will be the general partner, managing member, or similar partner with primary management responsibility; or, if no member has primary management responsibility, the direct member having the largest profits interest in the partnership determined based on the year-end profits interests reported on the partnership return for the taxable year for which the determination is being made. If designation based on the largest profits interest is impracticable, the Commissioner will select an interim Tax Matters Partner, pending

selection of a Tax Matters Partner by the entity, and shall notify Notice Members of the selection.

### E-File Mandate

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

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

For more information about the E-file mandate, see TIRs 16-9, 09-18, 05-22 and 04-30.

#### Partnership E-File Mandate Worksheet

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

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

Partnerships that meet one or more of the following criteria must file electronically:

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

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

#### Part 1. Number of partners

1. Number of partners . . . . .

If 25 or greater, stop. You must file electronically. If not, continue with worksheet.

#### Part 2. Gross income

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

2. Gross receipts or sales from U.S. Form 1065, line 1a . . . . .

3. Ordinary income from U.S. Form 1065, line 4 . . . . .

4. Net farm profit from U.S. Form 1065, line 5 . . . . .

5. Other income from U.S. Form 1065, line 7 . . . . .

6. Sale or exchange of property from U.S. Form 4797, line 9 . . . . .

7. Ordinary gain or loss from U.S. Form 4797, line 17 . . .

8. Total gross rents U.S. Form 8825, line 18a . . . . .

9. Other gross rental income (loss) from U.S. Schedule K, line 3a . . . . .

10. Interest from U.S. Schedule K, line 5 . . . . .

11. Dividends from U.S. Schedule K, line 6a . . . . .

12. Royalties from U.S. Schedule K, line 7 . . . . .

13. Sale of collectibles from U.S. Schedule K, line 9b . . .

14. Other income or loss from U.S. Schedule K, line 11

15. Total. Add lines 2 through 14. Enter the result here and on Form 3, line 1. If total is \$50,000 or greater, stop. You must file electronically. If total is less than \$50,000, continue with worksheet . . . . .

#### Part 3. Ordinary loss from trade or business activities

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

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

17. Enter the amount from U.S. Schedule K, line 8 . . . . .

18. Enter the amount from U.S. Schedule K, line 9a . . .

19. Total. Add lines 17 and 18. If the receipts or losses are \$100,000 or greater, stop. You must file electronically. If total is less than \$100,000, you may file a paper return . . . . .

## Part 1. Massachusetts Information

### Line 9. Withholding Amount

Enter the amount withheld by this partnership on behalf of its partners.

### Line 10. Payments Made With Composite Return

Enter the payments made by this partnership as part of a composite return on behalf of non-resident partners who are members of this partnership or members of upper-tier entities that participate in the composite return of this partnership.

### Line 11. Credit for Amounts Withheld by Lower-Tier Entity

Enter the amount withheld on behalf of this partnership, and reported to this partnership, by lower-tier pass-through entities.

### Line 12. Payments Made With a Composite Filing by Lower-Tier Entity

Enter the amount of composite payments reported to this partnership by lower-tier entities.

## Massachusetts Ordinary Income or Loss

### Line 13. Ordinary Income or Loss

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

### Line 14. Other Income or Loss

If reporting other income or loss from U.S. Form 1065, Schedule K, line 11, enclose a statement and explain. If any income or loss from U.S. Form 1065, Schedule K, line 11 is granted capital gains treatment by the federal government, omit it here and include it in lines 33 through 39, as applicable.

### Line 15. State, Local and Foreign Income and Unincorporated Business Taxes or Excises

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

### Line 17. Section 1231 Gains or Losses

Enter any gains or losses from the sale, exchange or involuntary conversion of IRC § 1231 property included in line 16 above. These amounts should be included in lines 35, 36 and 38 as applicable.

### Line 19. Other Adjustments

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

For Massachusetts tax purposes, a partnership is allowed only those expense deductions that an individually owned business is allowed. Deductions that are itemized by an individual on Schedule A of U.S. Form 1040, are not allowed. The deduction

for a net operating loss carryover or carryback is not allowed to the partnership nor to an individual under Massachusetts income tax law.

Also report the deductions for 10% of the costs of renovating a qualifying abandoned building located in an Economic Opportunity Area. Enclose a statement detailing the location and cost of renovating the qualifying abandoned building. The building must be designated as abandoned by the Economic Assistance Coordinating Council. For further information, contact the Massachusetts Office of Business Development, 1 Ashburton Place, Room 2101, Boston, MA 02108.

The partnership should also provide each partner with the amount of the partner's share of the deductible costs of renovating a qualifying abandoned building. Each partner should use this amount to complete the partner's return. Personal income taxpayer use Forms 1 or 1-NR/PY, Schedule E, line 57; or Form 2.

#### **Line 21. Net Income or Loss from Rental Real Estate Activity(ies)**

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

#### **Line 24. Net Income or Loss from Other Rental Activity**

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

### **U.S. Interest, Dividend and Royalty Income**

#### **Line 27. U.S. Interest, Dividend and Royalty Income, Not Including Capital Gains**

Add U.S. Form 1065, Schedule K, lines 5, 6a and 7 and enter the total in line 27.

#### **Line 28. Interest on U.S. Debt Obligations**

Enter the total amount of interest on U.S. debt obligations reported in line 27 which is taxable by the federal government, but is tax-exempt in Massachusetts.

#### **Line 29. 5.1% Interest from Massachusetts Banks**

Enter the total amount of interest from Massachusetts banks included in line 27. Report any interest from Massachusetts savings accounts, savings share accounts and NOW accounts. Also report any interest from term and time deposits. Enclose a statement listing bank sources and amounts.

#### **Line 30. Interest and Dividend Income**

Enter the total amount of interest (other than interest from Massachusetts banks) and dividend income included in line 27. Do not include interest on U.S. debt obligations, which is taxable by the federal government, but is tax-exempt in Mass-

achusetts. Enclose a statement listing sources and amounts.

#### **Line 31. Non-Massachusetts State and Municipal Bond Interest**

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

#### **Line 32. Royalty Income**

Enter the total amount of royalty income included in line 27.

### **Massachusetts Capital Gains and Losses**

If the partnership had any other income or loss that is granted capital gains treatment by the federal government, include that amount in lines 33 through 39, as applicable.

#### **Line 33. Total Short-Term Capital Gains**

Enter the total amount of short-term capital gains included in U.S. Form 1065, Schedule D, line 7.

#### **Line 34. Total Short-Term Capital Losses**

Enter the total amount of short-term capital losses included in U.S. Form 1065, Schedule D, line 7.

#### **Line 35. Gain On the Sale, Exchange or Involuntary Conversion of Property Used in a Trade or Business and Held for One Year or Less**

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

#### **Line 36. Loss On the Sale, Exchange or Involuntary Conversion of Property Used in a Trade or Business and Held for One Year or Less**

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

#### **Line 37. Net Long-Term Capital Gain or Loss**

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

#### **Line 38. Long-Term § 1231 Gains and Losses**

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

#### **Line 39. Long-Term Gains on Collectibles and Pre-1996 Installment Sales**

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

Collectibles are defined as any capital asset that is a collectible within the meaning of IRC § 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 40. Differences and Adjustments**

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

### **Income Apportionment Schedule**

Complete the income apportionment schedule only if all of the following conditions are met:

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

The total partnership income is apportioned using the three-factor formula provided in MGL ch 63, § 38(c). For more information regarding the apportionment of income, see 830 CMR 63.38.1 which is available on DOR's website at [mass.gov/dor](http://mass.gov/dor).

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

#### **Line 42. Tangible Property**

**Line 42a.** For tax purposes, average value is based on original cost and is determined by averaging the property values at the beginning and end of the taxable year. If substantial changes occur during the taxable year, the Commissioner may require monthly averaging to properly reflect the average value of the property.

**Line 42b.** Property rented is valued at eight times the annual rental rate less any sub-rentals received.

#### **Line 43. Payroll**

Enter the total amount of wages, salaries, commissions or any other compensation paid to employees. An employee's compensation is apportioned to Massachusetts if any of the following apply:

- ▶ The employee's service is performed within Massachusetts;

► The employee's service is performed both in Massachusetts and in other state(s), but the non-Massachusetts service is secondary to the Massachusetts service;

► Part of the employee's service is performed in Massachusetts, and the service is controlled from a base of operations/place of control in Massachusetts; or

► Part of the employee's service is performed in Massachusetts and the base of operations/place of control of the service is not in a state in which some part of the service is performed, but the employee lives in Massachusetts.

#### Line 44. Sales

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

**Line 44a.** Sales of tangible personal property are assigned to Massachusetts if:

► The property is delivered or shipped to any buyer, including the U.S. government, in Massachusetts; or

► The selling partnership is not taxable in the state of the buyer and the property is not sold by an agent or agencies chiefly situated at, connected with, or sent out from premises for the transaction of business owned or rented by the partnership outside Massachusetts. A buyer for this item includes the U.S. government.

Sales of tangible personal property are not assigned to Massachusetts if:

► The property is shipped or delivered to a buyer in a foreign country; or

► The property is sold to any branch or instrumentality of the U.S. government for resale to a foreign government.

**Line 44b.** Sales of services are assigned to Massachusetts, if and to the extent the service is delivered to a location in Massachusetts. See MGL ch 63, § 38(f) and 830 CMR 63.38.1(9)(d).

**Line 44c.** Rents from real or tangible property located or used in Massachusetts are assigned to Massachusetts. Royalties are assigned to Massachusetts if and to the extent the intangible property is used in Massachusetts. See MGL ch 63, § 38(f) and 830 CMR 63.38.1(9)(d).

#### Line 46. Massachusetts Apportionment Percentage

Any apportionment factor should not necessarily be considered inapplicable if its Massachusetts total is 0. If any of the apportionment totals for worldwide are less than 3.33% of taxable net in-

come, do not include that factor in your Massachusetts apportionment percentage.

Divide the total apportionment percentage in line 45 by 4.

**Note:** If an apportionment factor is inapplicable, divide by the number of times each applicable factor is used. For example, if only the sales and payroll factors are used, divide by 3 (double-weighted sales factor plus the payroll factor) instead of 4.

#### Line 47b. Other Credits (from Schedule CMS)

Enter the combined total from Section 1 and 3 of the Credit Manager Schedule (Schedule CMS). Be sure to enclose Schedule CMS with your return. Failure to do so will delay the processing of your return.

The partnership must use Schedule CMS to calculate the partnership's credits, with the exception of the other jurisdiction credit. The partnership must report all credits, whether the credit is a non-refundable credit or a refundable credit, in Section 1 or 3 of Schedule CMS. Section 2 and 4 of Schedule CMS should be left blank.

### Part 2. Federal Information

Additional information for completing Part 2 is available in the instructions for U.S. Form 1065 and its accompanying schedules.

#### Schedule 3K-1. Partner's Massachusetts Information Installment Sales Transactions

An addition to tax applies for taxpayers who have deferred the gain, and the tax associated with that gain, on certain installment sales. This addition to tax is measured by an interest charge on the tax that has been deferred. The addition to tax is determined by each partner based on the partner's own situation. The partnership should fill in the Yes oval if the partnership participated in one or more installment sales transactions that might subject the partner to this addition to tax.

Partnerships that have indicated on Schedule 3K-1 that they are reporting transactions under MGL ch 62C, 32A, identified as IRC § 453A or 453(l)(2)(B) transactions, must separately communicate information to the partner that will enable the partner to calculate the addition to tax.

For IRC § 453A transactions, the partnership must inform the partner of the partner'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 partner may need to calculate the addition to tax. The \$150,000 and \$5,000,000 thresholds apply at the level of the individual partner. The partnership must therefore communicate to the partner

all IRC § 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 \$5,000,000 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 partner.

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

#### Type of Entity

The entity type should be indicated on a separate Schedule 3K-1 for each partner. The "Partnership or other PTE" oval should be filled in if the partner is a partnership or another type of pass-through entity, such as a limited liability corporation treated as a partnership for Massachusetts tax purposes. The "IRA" oval should be filled in if the partner is a trustee of retirement funds such as Individual Retirement Accounts or other retirement funds. The "Disregarded entity" oval should be filled in if the partner is an entity that is disregarded under Massachusetts law. The "Exempt organization" oval should be filled in if the partner is exempt from federal income tax under IRC § 501.

#### Partner's Distributive Share

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

**Note:** Although the following instructions focus on individual partners, partnerships should also complete lines 1 through 20 for corporate partners. These lines should reflect the corporate partner's share of each applicable distributive share item on an unapportioned basis. Corporate partners subject to apportionment under MGL ch. 63, § 38 should continue to calculate their own Massachusetts source income and loss accordingly, on their own returns as appropriate.

**Nonresident partner eligible to apportion.** Enter in lines 1 through 8 and 10 through 20, the amount of the partner's share of each applicable distributive share item multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 46.

Income should be apportioned if:



► There is one or more nonresident individual partners and;

► There is any income from business activity or ownership of any interest in real or tangible property in another state and;

► Such business activities provide the other state the jurisdiction to levy any income or franchise tax.

**All other partners.** Enter in lines 1 through 20 the amount of the partner's share of each applicable distributive share item.

### Line 1. Massachusetts Ordinary Income or Loss

Enter the amount of the partner's share of the partnership's Massachusetts ordinary income or loss from Form 3, page 2, line 20. For a nonresident partner eligible to apportion, enter the amount of the partner's share of the partnership's Massachusetts ordinary income or loss multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 46.

### Line 2. Guaranteed Payments to Partners

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

### Line 3. Separately Stated Deductions and Exclusions

A partner must report any separately stated deductions and exclusions on the partner's return. Personal income taxpayers report and describe in line 3 any other expense that is deductible from income taxed at 5.1% and properly reportable on Massachusetts Forms 1 or 1-NR/PY, Schedule E-2; or Form 2, which is not reported elsewhere on Schedule 3K-1. Examples of such deductions include oil and gas depletion and the expense deduction for recovery property, IRC § 179. An estate or trust may not elect to expense recovery property. Report and describe in line 3 the partner's elective contribution to a qualified CODA retirement plan. Each partner should report this amount in Forms 1 or 1-NR/PY, Schedule E-2. A partner's distributive share of the federal deduction for any matching contribution made by the partnership is not deductible in Massachusetts. See DOR Directive 01-7.

### Line 4. Total of Lines 1 through 3

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

The correct Massachusetts amount of the partner's share of ordinary income and guaranteed payments may differ from the comparable U.S. total reported on the partner's return. Personal income taxpayer

use Forms 1 or 1-NR/PY, Schedule E-2, line 11; or Form 2. Each partner should make adjustments in Forms 1 or 1-NR/PY, Schedule E, lines 55 and 56, if applicable; or Form 2, to reflect the correct Massachusetts amount. Each partner should enclose a statement with the partner's Massachusetts tax return and explain.

The partnership should provide each partner with the amount of the partner's share of any interest (other than interest from Massachusetts banks) and dividend income and 5.1% interest from Massachusetts banks included in line 4. Each partner should use these amounts to complete the partner's return. Personal income taxpayer use Forms 1 or 1-NR/PY, Schedule E-2, lines 9 and 10; or Form 2.

### Line 5. Credits

The partnership must use Schedule CMS to calculate the partnership's credits, with the exception of the other jurisdiction credit. Based on those calculations, the partnership should use Line 5 of Schedule 3K-1, to provide each partner with the amount of each partner's share of the partnership's credits, according to the partner's ownership share. The partner will then include these credits on the partner's Schedule CMS.

The credits are separately listed on the Form 3K-1 with the exception of the Life Science credits that are combined in line 5(l). The Life Science credits may include Life Science (FDA), Life Science (ITC), Life Science (Jobs), Life Science (RD) and the Life Science Angel Investor Credit. The partnership must also provide each partner with any required schedules, certificate numbers and/or other supporting documents related to each credit, including information on how the Life Science credit was calculated.

**Note:** Some credits may only be claimed by individual partners and/or certain corporate partners. See instructions to Schedule CMS, Form 1 and Form 355 for more information.

### Line 5a. Income Tax Paid to Other Jurisdictions

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

This credit is available only to resident partners and may be taken on Form 1, line 30, Form 1-NY/PY, line 34 or where applicable, on Form 2, line 42. For part-year residents the income that is subject to taxation in another state or jurisdiction

must have been earned during the period of Massachusetts residency. The credit is not available for taxes paid on Massachusetts source income earned while a nonresident.

**Note:** The amount in line 5 is not simply the partner's share of the amount reported on Form 3, page 2, line 15, because the credit for taxes paid to other jurisdictions does not include local income taxes paid or taxes paid to nations other than Canada.

### Credit Recapture

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

### Line 6. Net Income or Loss from Rental Real Estate Activity

Enter the partner's share of the partnership's net rental income or loss from real estate activity from Form 3, line 23.

The correct Massachusetts amount of the partner's share of net income or loss from rental real estate activity may differ from the comparable U.S. total reported on the partner's return. Personal income taxpayer use Forms 1 or 1-NR/PY, Schedule E-1, line 24; or Form 2. Each partner should make adjustments in Forms 1 or 1-NR/PY, Schedule E, line 55; or Form 2, to reflect the correct Massachusetts amount. Each partner should enclose a statement with the partner's Massachusetts tax return and explain.

### Line 7. Net Income or Loss from Other Rental Activity

Enter the partner's share of the partnership's net rental income or loss from other activity from Form 3, line 26.

The correct Massachusetts amount of the partner's share of net rental income or loss from other activity may differ from the comparable U.S. total reported on the partner's return. Personal income taxpayer use Forms 1 or 1-NR/PY, Schedule E-1, line 24; or Form 2. Each partner should make adjustments in Forms 1 or 1-NR/PY, Schedule E, line 56; or Form 2, to reflect the correct Massachusetts amount. Each partner should enclose a statement with the partner's Massachusetts tax return and explain.

### Line 8. Interest on U.S. Debt Obligations

Enter the partner's share of the partnership's interest on U.S. debt obligations from Form 3, line 28. For a nonresident partner eligible to apportion, enter the partner's share without apportionment.

This income is taxable by the federal government, but tax-exempt in Massachusetts.

Each partner should include the line 8 total in the partner's return. Personal income taxpayer use Forms 1 or 1-NR/PY, Schedule B, line 6; or Form 2, Schedule B.

### **Line 9. 5.1% Interest from Massachusetts Banks**

Enter the partner's share of the partnership's 5.1% interest from Massachusetts banks from Form 3, line 29. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's 5.1% interest from Massachusetts banks multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 46.

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

Each nonresident partner whose income is apportioned should receive from the partnership the amount of the partner's pre-apportionment share of 5.1% interest from Massachusetts banks. Each nonresident individual whose income is apportioned should include this amount in Form 1-NR/PY, Schedule B, line 5. This amount should be used instead of any amount from Form 1-NR/PY, line 7 because the partner's full distributive share of such income is included in the U.S. amount reported in Schedule B, line 1. Each nonresident trust or estate whose income is apportioned should include its pre-apportionment share of 5.1% interest from Massachusetts banks in Form 2, Schedule B, line 6, instead of any amount from Form 2, line 16.

### **Line 10. Interest and Dividend Income**

Enter the partner's share of the partnership's interest (other than interest from Massachusetts banks) and dividend income from Form 3, line 30. For a nonresident partner eligible to apportion, enter the partner's distributive share of the partnership's interest (other than interest from Massachusetts banks) and dividend income multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 46.

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

### **Line 11. Non-Massachusetts State and Municipal Bond Interest**

Enter the partner's share of the partnership's non-Massachusetts state and municipal bond interest. For a nonresident partner eligible to apportion, enter the partner's distributive share of the partnership's non-Massachusetts state and municipal bond interest multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 46. This income is not taxed by the federal government, but is taxable in Massachusetts.

Each partner should include the line 11 total in the partner's return. Personal income taxpayer use Forms 1, 1-NR/PY, or 2, Schedule B, line 3.

### **Line 12. Royalty Income**

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

For a nonresident partner eligible to apportion, enter the partner's distributive share of the partnership's royalty income multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 46.

The correct Massachusetts amount of the partner's share of royalty income may differ from the comparable U.S. total reported on the partner's return. Personal income taxpayer use Forms 1 or 1-NR/PY, Schedule E-1, line 24; or Form 2, Schedule E, line 1a. Each partner should make adjustments in Forms 1, 1-NR/PY, Schedule E, line 56; or Form 2, Schedule E, line 2, to reflect the correct Massachusetts amount. Each partner should enclose a statement with the partner's Massachusetts tax return and explain any adjustments.

### **Line 13. Short-Term Capital Gains**

Enter the partner's share of the partnership's short-term capital gain from Form 3, line 33. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's short-term capital gain multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 46.

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

### **Line 14. Short-Term Capital Losses**

Enter the partner's share of the partnership's short-term capital loss from Form 3, line 34. For

a nonresident partner eligible to apportion, enter the partner's share of the partnership's short-term capital loss multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 46.

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

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

Enter the partner's share of the partnership's gain on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less from Form 3, line 35. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's gain on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 46.

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

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

Enter the partner's share of the partnership's loss on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less from Form 3, line 36. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's loss on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less multiplied by the apportionment per-

centage in Form 3, Income Apportionment Schedule, line 46.

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

### Line 17. Long-Term Capital Gain or Loss

Enter the partner's share of the partnership's long-term capital gain or loss from Form 3, line 37. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's long-term capital gain or loss multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 46.

The correct Massachusetts amount of the partner's share of long-term capital gain or loss may differ from the comparable U.S. total reported on the partner's return. Personal income taxpayer use Forms 1, 1-NR/PY or 2, Schedule D. Each partner should make adjustments in Forms 1 or 1-NR/PY, Schedule D, line 10, or Form 2, Schedule D, line 9, to reflect the correct Massachusetts amount. Each partner should enclose a statement with the partner's Massachusetts tax return and explain any adjustments.

### Line 18. Long-Term IRC § 1231 Gains or Losses

Enter the partner's share of the partnership's long-term IRC § 1231 gain or loss (not included in line 17) from Form 3, line 38. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's long-term IRC § 1231 gain or loss multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 46.

The correct Massachusetts amount of the partner's share of long-term IRC § 1231 gain or loss may differ from the comparable U.S. total reported on the partner's return. Personal income taxpayer use Forms 1, 1-NR/PY or 2, Schedule D. Each partner should make adjustments in Forms 1 or 1-NR/PY, Schedule D, line 10, or Form 2, Schedule D, line 9, to reflect the correct Massachusetts amount. Each partner should enclose a statement with the partner's Massachusetts tax return and explain any adjustments.

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

Enter the partner's share of the partnership's long-term gains on collectibles and pre-1996 installment sales classified as capital gains for Massachusetts purposes from Form 3, line 39. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's long-term gains on collectibles and pre-1996 installment sales multiplied by the apportionment percentage in Form 3, Income Apportionment Schedule, line 46.

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

## Corporate Partner Information

### For Corporate Partner Only

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

Provide each corporate partner with the apportionment factors in Form 3, lines 42 through 44 to assist each corporate partner in completing Schedule F of the appropriate corporate return. A corporate partner's distributive share of any item of income, loss, deduction or credit is determined by the partnership agreement. If the partnership agreement contains no provision with respect to the partner's distributive share of any item of income, loss, deduction or credit, such item shall be prorated in accordance with each partner's ratio of sharing income or losses of the partnership.

### Line 21. State and Municipal Bond Interest

Enter the corporate partner's share of the partnership's state and municipal bond interest. This income is not reported in U.S. net income, but is taxable in Massachusetts. Each corporate partner

should include the line 21 total in Form 355, 355U or 355S, Schedule E.

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

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

### Line 23. Other Adjustments

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

### Line 26. Net Income for the Year

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

### Pass-Through Entity Payment and Credit Information

**Note:** Partnerships that answered Yes to line 4 of Form 3 (i.e., publicly traded partnerships) should not complete the Pass-Through Entity Payment and Credit Information section. In addition, investment partnerships, as defined in 830 CMR 62B.2.2(2), or partnerships that only invest in investment partnerships and have no other Massachusetts-source income, are exempt from the pass-through entity withholding requirements and should not complete the Pass-Through Entity Payment and Credit Information section.

### Declaration Election Code

Indicate in this section how the partner will meet its Massachusetts tax obligation. Fill in the "Composite" oval if the partnership is filing a composite return on behalf of the partner, or if a lower-tier pass-through entity has filed a composite return on behalf of the partner. Fill in the "Member self-file" oval if the partner has indicated to the partnership (by filling in ovals for Part 1 (Individual certification), lines 1 or 3; or Part 2 (Organization certification), lines 2 or 3 of Form PTE-EX) that the

partner is a resident or will be filing its own return. For more information about Form PTE-EX, see the Guide for Pass-Through Entities.

Fill in the oval for "Exempt PTE" if the partner has indicated to the partnership (by filling in the oval for Part 2 (Organization certification), line 4 of Form PTE-EX) that the partner is a pass-through entity of which all members are exempt from withholding. Select "Insurance company" if the partner has indicated to the partnership (by filling in the oval for Part 2 (Organization certification), line 6 of Form PTE-EX) that the partner is an insurance company. Select "Non-profit" if the oval for Part 2 (Organization certification), line 1 of Form PTE-EX has been filled in. Select "Exempt corporate limited partner" if the ovals for Part 2 (Organization certification), lines 7 and 8 of Form PTE-EX have been filled in. If the partner has not made a declaration to the partnership that the partner is exempt from withholding, select the "Withholding" oval.

**Line 36. Withholding Amount**

If the "Withholding" oval has been filled in, indicate the amount of Massachusetts tax that the partnership withheld on the partner's distributive share and paid for the year on the partner's behalf.

**Line 37. Payments Made in a Composite Filing**

If the "Composite" oval has been filled in and the partnership itself made tax payments on behalf of the partner, the partnership should indicate the payments that the partnership made on behalf of the partner. This amount should be the partner's share of the amount entered on line 14 of the Form MA NRCR, Massachusetts Nonresident Composite Return. This amount is informational only and is not to be used by the partnership or the partner for any other purpose.

**Line 38. Credit for Amounts Withheld by Lower-Tier Entity**

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

If the partnership is a member of more than one lower-tier entity, enclose a statement listing the amount withheld and the Payer Identification Number of each entity.

**Line 39. Payments Made With a Composite Filing by Lower-Tier Entity**

If the partnership is a member of one or more lower-tier entities, and composite returns with tax payments were made on behalf of this partner by one or more of those entities, the partnership

should indicate the amount of payments made on behalf of this partner. The amount should be the partner's share of the amount entered on line 13 of the Form MA NRCR, Massachusetts Nonresident Composite Return. This amount is informational only and is not to be used by the partnership or the partner for any other purpose.