

# 2018 Schedule U-ST Instructions

## Member's Separate Income Tax

Each taxable member of a combined group must complete Schedule U-ST. Schedule U-ST determines the income tax liability of each such taxable member from all sources, including the tax liability due with respect to the members' apportioned share of the combined group's taxable income and the tax liability due with respect to allocable or apportionable income that is derived from sources other than the activities of the combined group. The use of any net operating losses or credits as applied against the member's current year income is also accounted for on Schedule U-ST.

Business corporations, including S corporations, with taxable years ending in the same month as the taxable year for which the combined report is being filed will pay their respective non-income measure of excise (MGL ch 63, §39(a)(1)) as part of the combined report. A business corporation subject to the non-income measure of excise and that has a separate taxable year ending at a different time than the taxable year of the combined report is still required to file a separate Form 355 (Form 63 FI if a financial institution) and pay their respective non-income measure of excise on the 15th of the fourth month after the end of the corporation's separate taxable year. An S corporation that is a taxable member of a combined group and has a taxable year that differs from the combined group must report its non-income measure on its separate Form 355S (Form 63 FI if a financial institution) on or before the 15th day of the third month following the close of its taxable year. See 830 CMR 62C.11.1.

## General Instructions

For each Schedule U-ST filed, enter the name of the member (as shown on the federal income tax return, if filed), its Federal Identification number and the beginning and ending dates of the member's taxable year as shown on its federal income tax return. This may be different than the taxable year for which the combined report is being filed and will include any part of the member's separate taxable year for which it was not considered unitary with the group and separately accounted for its income. Other than in the case where either the group or the member is using a 52 or 53 week year, the ending date of the member's taxable year may not be later than the ending date of the year for which the combined report is being filed.

Check one box to indicate whether the member is subject to the financial institution excise, or the general business corporation excise. Note that S corporations taxable under MGL ch 63, § 2B are considered financial institutions and that S corporations taxable under MGL ch 63, § 32D are considered business corporations.

Check the box to indicate that this member is an insurance mutual holding company as defined in MGL ch 63, § 39. Note that an insurance mutual holding company is not subject to the non-income measure of excise.

Check one box to indicate whether the member is either a manufacturing corporation under the rules stated in MGL ch 63, § 42B and 830 CMR 58.2.1, a research and development corporation within the meaning of MGL ch 63, § 42B, a regulated investment corporation (RIC) or real investment trust (REIT) within the meaning of the Internal Revenue Code (IRC). Do not check any box if the member is not included in one of these categories. A member is a research and development corporation if its principal activity is research and development and it otherwise meets the require-

ments set forth in MGL ch 63, §42B. A member is a manufacturing corporation if it is engaged in manufacturing in Massachusetts and has filed an application to be formally classified as such under 830 CMR 58.2.1 and has been so classified.

A taxable member that is qualified as a section 38 manufacturer or is a mutual fund service corporation must check the applicable box here and on Schedule U-MSI. If neither box applies, leave this item blank.

A corporation is a section 38 manufacturer for any taxable year if it is engaged in manufacturing and its manufacturing activities during such taxable year are substantial. A corporation may be a section 38 manufacturer when, based solely on its activities within Massachusetts, it does not qualify as a manufacturing corporation under MGL ch 63, § 42B. A corporation's manufacturing activity is substantial if the corporation meets any of the following tests, regardless of whether any of the manufacturing activity occurs within Massachusetts:

- The corporation derives 25% or more of its receipts for the taxable year from the sale of manufactured goods that the corporation manufactures; or
- The corporation pays 25% or more of its payroll for the taxable year to employees working in manufacturing operations and derives 15% or more of its receipts for the taxable year from the sale of manufactured goods that the corporation manufactures; or
- The corporation uses 25% or more of its tangible property in manufacturing during the taxable year and derives 15% or more of its receipts for the taxable year from the sale of manufactured goods that the corporation manufactures; or
- The corporation uses 35% or more of its tangible property in manufacturing during the taxable year.
- The corporation's manufacturing activities are deemed substantial under relevant regulations promulgated by the commissioner. See MGL ch 63, § 38.

In some cases, a member of a combined group purchasing goods manufactured by another member of the group may be considered to be a section 38 manufacturer for the purpose of determining its Massachusetts apportioned share of the combined group's taxable income based upon the manufacturing activity of such other member. See 830 CMR 63.32B.2(7)(g)(2).

A corporation is a mutual fund service corporation under MGL ch, 63 § 38(m) if it derives 50% or more of its gross income from providing, directly or indirectly, management, distribution or administrative services to or on behalf of a regulated investment company, and from trustees, sponsors and participants of employee benefit plans that have accounts in a regulated investment company.

Also enter the name and Federal Identification number of the principal reporting corporation of the combined report.

## Line Instructions

### Line 2

Check the box if the member is a business corporation is subject to taxation under MGL ch 63, §39 but which is exempt from the income measure of that excise pursuant federal Public Law 86-272 or which would be exempt except for tangible personal property stored in a licensed public warehouse as described in MGL ch 63,

§ 39. Such corporations remain subject to the non-income measure of excise. A member that claims such exemption does not complete lines 11 through 30 of this schedule or Schedule U-MSI, but does complete lines 31 through 39.

**Line 3**

Check the box if the member has terminated its existence (including by reason of a merger) or the member will not be a taxable member of the combined group in the next taxable year for any reason (including a change of ownership).

**Lines 4 through 6**

S corporations that are financial institutions or general business corporations are taxed at a different rate. The applicable tax rate for an S corporation is determined based on the business' receipts. See MGL ch, 63 § 32D. However, the receipts used for this determination are calculated on an aggregated basis as to entities under common control and engaged in a unitary business and include certain entities that are not corporations. Also, for tax periods of less than 12 months, such receipts are calculated on an annualized basis. See 830 CMR 62.17A.2.

Check the box on line 4 if the member is an S corporation.

Skip lines 5 and 6 if the member is an S corporation and the unitary group's receipts are \$9 million or more. Otherwise, check the box on line 5 if the S corporation and the unitary group's receipt were less than \$6 million. Check the box on line 6 if the S corporation and the unitary group's receipts were greater than \$6 million but less than \$9 million.

**Line 7**

Indicate if the member has a separate taxable year ending at a different time than the taxable year for which the combined report is being filed.

All members of the combined group determine and pay the excise on their apportioned shares of the combined group's income from the unitary business on Form 355U. The combined report is due on the 15th day of the fourth month following the close of the combined group's taxable year. Each business corporation that is a member of the combined group and that is taxable under MGL ch 63, §39 is also subject to the non-income measure of excise. Where both the income and non-income measures of the excise are due on the same date, complete lines 31-35 to calculate the non-income measure of excise with this return. See DD 93-6 if a member of a federal consolidated group is filing a final return because it has merged with its owner.

**Fiscalization**

A corporation that has a different taxable year end (e.g., a member subject to fiscalization under 830 CMR 63.32B.2 (12)(c)) is required to check the box on line 7 and, if taxable under MGL ch 63, §39, to file Form 355 or 355S to pay the non-income measure of excise at the close of its separate taxable year. Such corporations do not complete lines 31-35, below.

**Line 10**

Enter the member's total assets as of the last day of the taxable year. If the member's tax year ends at a different time than the combined group's taxable year, enter the asset total as of the last day of the member's most recently completed tax year. For member corporations that file U.S. Form 1120, this amount must match the total assets as shown on Schedule L as attached to such Form 1120.

**Line 11**

Enter the total amount from the member's Schedules U-MSI, line 33. If the member files more than one Schedule U-MSI, this amount must match the total of all the amounts on line 33 of all such Schedules U-MSI.

**Line 12**

If the member has IRC § 1231 gain (or loss) from a source other than the activities of the combined group's unitary business, enter the amount of such income to be allocated or apportioned to Massachusetts. This amount must match the amount stated on Schedule U-MTI, line 29 as filed by the member. If the member files more than one Schedule U-MTI, this amount must match the total of all the amounts on line 29 of all such Schedules U-MTI.

**Line 13**

Combine the amounts on lines 11 and 12. If the total is a loss, enter 0 here; the combined loss will be entered on line 20.

**Line 14**

If the member has an un-recaptured IRC § 1231 loss from a prior year combined report (e.g., 2009 Schedule U-ST, line 18 was less than 0), or the member has an un-recaptured IRC § 1231 from a year not subject to combined reporting, enter the amount here as a positive amount. Un-recaptured losses from years not subject to combined reporting should be converted to post-apportionment amounts by multiplying the amount included in determining pre-apportionment income for the year in which the loss was deducted by the apportionment percentage applicable to the same year.

**Line 15**

If the amount on line 14 is greater than the amount on line 13, enter 0. If the amount on line 13 is greater, subtract the amount on line 14 from the amount on line 13 and enter the result.

**Line 16**

Enter the total of all of the member's Schedules U-MSI, line 31.

**Line 17**

If the member has capital gain (or loss) from a source other than the activities of the combined group's unitary business, enter the amount to be allocated or apportioned to Massachusetts. This amount must match the amount stated on Schedule U-MTI, line 28.

**Line 18**

If the total of the amounts stated on lines 15 through 17 is a gain, enter the total here. Otherwise, enter 0.

**Line 19**

If line 13 and line 14 were both greater than 0, enter the smaller amount here. Otherwise, enter 0.

**Line 20**

If the total of the amounts on lines 11 and 12 was a loss, enter the total here as a negative. Otherwise, enter 0.

**Line 21**

Enter the total amount from the member's Schedules U-MSI, line 29. If the member files more than one Schedule U-MSI, this amount must match the total of all the amounts on line 29 of all such Schedules U-MSI.

**Line 22**

If the member has any income other than gains or losses from a source other than the activities of the combined group's unitary business, enter the amount allocated or apportioned to Massachusetts. This amount must match the amount stated on Schedule U-MTI, line 27.

**Line 23**

Massachusetts S corporations may be subject to an entity-level tax under MGL ch 63 on certain income taxed to the S corporation at the entity level under the IRC (e.g., as to certain built-in gains). See MGL ch 63, § 2B(a)(1) and 32D(a)(i). If the member is an S corporation and its apportioned share of the combined group's taxable income or income otherwise allocated or apportioned to Massachusetts includes such income, reference such income on this line as a negative number and enter the applicable tax on said income on line 33. The tax applicable to such income is determined by applying the MGL ch 63 tax rate that would apply to the S corporation if it were a C corporation (e.g., the rate that applies to a business corporation or a financial institution).

Other adjustments required by applicable law and not otherwise provided for on this Schedule U-ST should also be made on this line. Taxpayers must maintain contemporaneous records to support any such adjustment.

**Line 25**

A member that incurred a loss in a prior tax year and has a net operating loss (NOL) carryforward by reason of that fact should enter the amount of the allowable NOL deduction to be applied to the member's income in the current tax year on this line and enclose Schedule NOL. The amount stated must match the amount on Schedule NOL, line 9. See 830 CMR 63.32B.2(8). Financial institutions are not allowed a NOL carryforward deduction. If a member is a financial institution, enter 0 on this line.

**Line 27**

A member that is eligible to claim a NOL carryforward deduction that has exhausted its own such carryforwards, if any, may share the Massachusetts NOL carryforwards of other taxable members subject to the requirements and limitations that apply to the use of such carryforwards. For example, only a NOL that derives from a group loss as determined on a prior year combined report may be shared and such loss may only be applied against apportioned income as derived from the combined group for the current year. See 830 CMR 63.32B.2 (8).

Enter the total amount of the allowable losses incurred and carried forward by other members that are being deducted by the member submitting this Schedule U-ST and enclose Schedule U-NOLS. The amount of the shared NOL deduction stated on this line must match the amount on all Schedules UNOLS, line 24 filed by this member. Financial institutions are not allowed a NOL carry forward deduction. If the member is a financial institution, enter 0 on this line.

**Line 29**

The member must determine its tax rate based on:

- Its applicable tax type as indicated in its response to the question in the header;
- Whether it is an S corporation and, if so, its receipts for the tax year as stated in lines 4 through 6; and
- The date of the beginning of the combined group's taxable year.

Members that are financial institutions taxable under MGL ch 63, §2 (not including financial institutions that are S corporations) are taxed at a rate of 9.0% for tax years beginning on or after January 1, 2017.

Members that are S corporation financial institutions taxed under MGL ch 63, § 2B and that have total annualized receipts (calculated on an aggregate basis with commonly controlled entities engaged in a unitary business) of \$9 million or more are taxed at the rate that applies to financial institutions that are C corporations less the rate that applies to Part B taxable income under MGL ch 62 for the same tax year. For tax years beginning on or after January 1, 2017 the applicable rate is 3.90%.

Members that are S corporation financial institutions taxed under MGL ch 63, § 2B with annualized, aggregated receipts of at least \$6 million but less than \$9 million pay tax at a rate equal to 66.67% of the rate imposed on those financial institution S corporations that have receipts of \$9 million or more. For tax years beginning on or after January 1, 2017 the applicable rate is 2.60%.

Financial institution S corporations with annualized aggregated receipts of less than \$6 million are subject to an income measure excise only if they have income taxed to the S corporation at the entity level under the IRC (e.g., as to built in gains). Enter 0 on line 29 if the annualized, aggregated receipts are less than \$6 million.

Members that are business corporations taxable under MGL ch 63, § 39 (not including S corporations) are taxed at a rate of 8% for tax years beginning on or after January 1, 2017.

Members that are S corporations taxed under MGL ch 63, § 32D and that have total annualized receipts (calculated on an aggregate basis with commonly controlled entities engaged in a unitary business) of \$9 million or more are taxed at the rate applicable to business corporations that are C corporations less the rate applicable to Part B taxable income under MGL ch 62 for the same tax year. For tax years beginning on or after January 1, 2017, the applicable rate is 2.90%.

Members that are S corporations taxed under MGL ch 63, § 32D with annualized, aggregated receipts of at least \$6 million but less than \$9 million pay tax at a rate equal to 66.67% of the rate imposed on S corporations with receipts of \$9 million or more. The rate for tax years beginning on or after January 1, 2017 is 1.93%.

S corporations that have annualized aggregated receipts of less than \$6 million are subject to an income measure excise only if they have income taxed to the S corporation at the entity level under the IRC (e.g., as to built in gains). Enter 0 on line 29 if the member's annualized, aggregated receipts are less than \$6 million.

**Line 30**

Multiply line 28 by line 29. Round the result to the nearest whole dollar.

**Lines 31 through 35**

Each taxable member that is subject to a non-income measure of excise (e.g., a business corporation, including an S corporation regardless of the level of receipts used to determine its tax rate under § 32D, that is not an insurance mutual holding company) and that does not have a different fiscal year end must submit with Schedule U-ST their separately calculated Schedules A, B and either C, D or RNW for the purpose of calculating the non-income measure of excise. Taxable members that are financial institutions leave this section blank. Taxable members that are business corporations that have a separate taxable year ending at a different time than the

year for which the combined report is being filed leave this section blank and must file Form 355 or 355S to pay the non-income measure at the end of the member's separate taxable year.

The non-income measure of excise is calculated without reference to MGL ch 63, § 32B. Taxable members complete Schedules A, B, etc. based on their separate assets, liabilities and activities. Taxable members that are not eligible to apportion their income based on their separate activities enter 100% as the apportionment percentage on Schedule B and Schedule D or RNW. Taxable members that are separately eligible to apportion complete both the numerator and denominators on Schedule F without eliminating transactions with other group members as required when apportioning the combined group's income.

**Line 31**

Enter, as a decimal, the tangible property percentage calculated on Schedule B, line 15. A result greater than 9.99999 (999.999%) is entered as 9.99999.

**Line 32**

If the result on line 31 is 0.1 (10%) or more, attach Schedule C and enter the amount from Schedule C line 4 (do not enter less than 0). Omit Schedule D.

**Line 33**

If the result on line 31 is less than 0.1 (10%), attach Schedule D (or RNW if appropriate) and enter the amount from Schedule D line 10 (do not enter less than 0).

**Line 34**

Enter, as a whole number, the number of months in the member's separate taxable year as shown in the header of Schedule U-ST; this must be at least one and not more than 12. A calendar month is counted if 15 days or more of the month are within the taxable year (e.g., a year beginning on January 1 and ending on March 10 is reported as two months, a year beginning on March 11 and ending on December 31 is 10 months.) If the taxable year includes two taxable months each having less than fifteen days and the total number of days in such partial months is fifteen or more, the aggregate of such two partial months will be treated as an additional calendar month. See DD 07-08.

**Line 35**

Calculate the non-income measure of excise. If line 34 indicates that this is a taxable year of 12 months, this will be the amount on line 32 or 33 (whichever applies) × 0.0026. If line 34 is less than 12 months, that result is pro-rated by the number of months in the corporation's separate taxable year. Round the result to the nearest whole dollar.

**Line 36**

Enter any additional excise taxes that may be due from the member under MGL ch 63. These additional taxes may include the following:

- Recapture taxes due with respect to certain credits;
- Additional taxes due from an S corporation with respect to income taxed to the S corporation at the entity level under the IRC (e.g., as to built-in gains). Note that this excise is calculated using the rate that applies to a financial institution or business corporation, as applicable, in the instance where such entity is not an S corporation;

Additional taxes due with respect to certain installment sales under MGL ch 62C § 32A. See TIR 10-11.

Business corporations and financial institutions do not account for the \$456 minimum excise on this line.

**Line 37**

Combine the amounts on lines 30, 35 and 36. If the result is less than \$456 and the taxable member is a financial institution or a business corporation that is not filing a separate form 355 or 355S to determine and pay its non-income measure of excise, enter \$456.

**Line 38**

A taxable member that has a credit, including a credit carried forward from a prior tax year, should enter the total amount of any of the member's own such credits that are being applied to reduce the member's excise for the tax year. See 830 CMR 63.32B.2(9). This amount must match the amount stated on Schedule U-IC, line 11.

**Line 39**

A taxable member that is eligible to claim a credit that has exhausted its own credits, if any, may share a credit of one or more other members subject to the requirements and limitations that apply to the use of such credits. See 830 CMR 63.32B.2(9). Enter the total amount of credits generated by other members that are being used by the member submitting this Schedule U-ST. This amount must match the amount stated on Schedule U-IC, line 12.

**Line 42**

Enter the amount from Schedule U-IC, line 13 if the member has income from a pass-through entity (e.g., a partnership) from which Massachusetts income tax has been withheld.

**Line 43**

Enter the total of the amounts shown on the Credit Manager Schedule, Section 2, column (f), or Section 4, column (g), if the member has refundable tax credits under any of several programs.