



# 2020 Instructions for Massachusetts Financial Institution Excise Return **Form 63-FI**

Massachusetts has an electronic filing requirement for this form. See TIR 16-9 for further information.

All financial institutions subject to Massachusetts General Laws (MGL) ch 63, §§ 1 through 2B that engage in any or all of their business in Massachusetts and are not part of a combined group are required to file Form 355U must complete and file Massachusetts Form 63-FI.

Financial institutions that are members of a combined group engaged in a unitary business are required to file a combined return under MGL ch 63, § 32B. See 830 CMR 63.32B.2 for additional information. A financial institution that is a member of such a combined group files Form 355U instead of Form 63-FI. Financial institutions that are not members of such a group are not allowed to participate in the filing of combined returns. For additional details regarding combined reporting requirements, see the Form 355U Instructions.

## Major 2020 Tax Law Changes

### Federal Conformity

Massachusetts generally follows the Internal Revenue Code (IRC) as currently in effect for Massachusetts corporate excise tax purposes. For more up-to-date and detailed information on tax changes and federal conformity please see the dedicated 2020 Tax Changes page on our website at <https://www.mass.gov/orgs/massachusetts-department-of-revenue>.

### Coronavirus Aid, Relief, and Economic Security Act

On March 27, 2020, Public Law 116-136, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), was signed into law. The CARES Act provides for federal changes to a variety of provisions of the Internal Revenue Code (IRC) that affect business entities subject to the corporate and financial institution excise. In response to the CARES Act, the Department of Revenue (DOR) issued TIR 20-9: Massachusetts Tax Implications of Selected Provisions of the Federal CARES Act, which addresses various provisions that are specific to corporations and small businesses including (1) small business loan forgiveness, (2) modifications to the federal limitations on net operating losses, (3) modifications to limitation on business interest deduction, (4) technical amendments regarding qualified improvement property, and (5) modification of limitation on charitable contributions during 2020. TIR 20-9 is available on DOR's website.

### Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act (TCJA) also changed a variety of provisions of the IRC that affect busi-

ness entities subject to the corporate and financial institution excise. In response to the TCJA, DOR issued written guidance addressing the impact of the TCJA in Massachusetts. See e.g., TIR 19-17: Application of IRC § 163(j) Interest Expense Limitation to Corporate Taxpayers, TIR 19-11: Legislation Impacting the Massachusetts Tax Treatment of Selected International Provisions of the Federal Tax Cuts and Jobs Act, TIR 19-9: Extension of Time to File Short-Year Returns Resulting from Partnership Technical Termination, TIR 19-7: Massachusetts Treatment of Investments in Qualified Opportunity Zones, and TIR 19-6: Impact of the Federal Tax Cuts and Jobs Act on a Taxpayer's Overall Method of Accounting for Massachusetts Purposes. All of these TIRs are available on DOR's website.

### Employees Working Remotely due to COVID-19: Massachusetts Tax Implications

Massachusetts declared a state of emergency and issued several health and safety related restrictions in response to the 2019 novel Coronavirus ("COVID-19") pandemic. As a result, many businesses implemented work-from-home requirements for their employees. DOR has provided Massachusetts tax relief in situations in which employees work remotely due solely to the COVID-19 pandemic to minimize disruption for corporations doing business in Massachusetts. See 830 CMR 62.5A.3: Massachusetts Source Income of Non Residents Telecommuting due to the COVID-19 Pandemic, and TIR 20-15: Revised Guidance on the Massachusetts Tax Implications of an Employee Working Remotely due to the COVID-19 Pandemic. These rules are effective until 90 days after the state of emergency in Massachusetts is lifted.

DOR will not consider the presence of one or more employees working remotely from Massachusetts solely due to a Pandemic-Related Circumstance, including the presence of business property reasonably needed for such persons' use while working remotely, to be sufficient in and of itself to establish corporate nexus and a corporate excise filing requirement. In addition, such presence will not, of itself, cause a corporation to lose the protections of Public Law 86-272. Relatedly, for corporate apportionment purposes, (i) services performed by such persons in Massachusetts will not increase the numerator of the employer's payroll factor, and (ii) the presence in Massachusetts of business property reasonably needed for such persons' use while working remotely will not increase the numerator of the employer's property factor.

### Filing Due Dates

Massachusetts General Laws (MGL) ch 62C, §§ 11 and 12 require C corporations to file their tax returns on or before the 15th day of the fourth month following the close of each taxable year (April 15 in the case of corporations filing on a calendar year basis). The filing due date for S corporation tax returns is the 15th day of the third month following the close of each taxable year. See TIR 17-5.

For most calendar year filers, returns are due April 15, 2021.

## General Instructions

### Who Must File and Pay the Financial Institution Excise?

The Massachusetts financial institution excise applies to banks, trust companies and federal or state savings and loan associations existing by authority of the United States, any state, or a foreign country. It also applies to bank holding companies and subsidiaries of bank holding companies, savings and loan holding companies, corporations subject to supervision by the Massachusetts Division of Banks or other corporations in substantial competition with financial institutions in Massachusetts which derive more than 50% of their gross income from loan origination, lending activities or credit card activities. Credit unions are not subject to the excise. See the definition of financial institution in MGL Ch 63, § 1.

The minimum excise for a financial institution is \$456 and cannot be prorated.

### What is Nexus for Purposes of the Massachusetts Financial Institution Excise?

The financial institution excise applies to any financial institution engaged in business in Massachusetts. Engaged in business as defined in MGL ch 63, § 1 includes:

- Having a business location in Massachusetts;
- Having employees, representatives or independent contractors conducting business activities on the taxpayer's behalf in Massachusetts;
- Maintaining, renting or owning any tangible or real property in Massachusetts;
- Regularly performing services in Massachusetts;
- Regularly engaging in transactions with customers in Massachusetts that involve intangible property and result in income flowing to the taxpayer from residents of Massachusetts;
- Regularly receiving interest income from loans secured by tangible personal property or real property located in Massachusetts; or

Regularly soliciting and receiving deposits from customers in Massachusetts.

With respect to the activities described above, activities are presumed, subject to rebuttal, to be conducted on a regular basis within Massachusetts if any of such activities are conducted with 100 or more residents of Massachusetts during any taxable year or if the taxpayer has \$10,000,000 or more of assets attributable to sources within Massachusetts or if the taxpayer has no other contacts with the state but has in excess of \$500,000 in receipts attributable to sources within Massachusetts.

#### Financial Institution Excise Calculation

All appropriate Form 63-FI schedules must be filled out in order to complete the financial institution excise calculation. Use the whole dollar method.

#### Schedule D Massachusetts Dividends Received Deduction

Massachusetts does not allow the dividends received deduction allowed under the IRC. However, a deduction is generally allowed for 95% of the value of dividends received (the Massachusetts DRD) except for the following:

Dividends from ownership of shares in a corporate trust engaged in business in the Commonwealth;

Dividends resulting from deemed or actual distributions (except actual distributions of previously taxed income) from a DISC which is not wholly-owned; or

Dividends from any class of stock if the corporation owns less than 15% of the voting stock of the payer corporation.

Dividends received from a RIC or REIT are not eligible for the Massachusetts DRD, whether the dividend is paid directly by the RIC or REIT or indirectly as through a subsidiary or affiliate of the taxpayer.

Enclose a schedule showing payers, amounts and percent of voting stock owned by class of stock if claiming the Massachusetts DRD.

#### Changes to Schedule D Reporting

Subpart F income and GILTI are included as dividends and will flow through to Schedule D. See TIR 19-11: Legislation Impacting the Massachusetts Tax Treatment of Selected International Provisions of the Federal Tax Cuts and Jobs Act. Subpart F income and GILTI are eligible for the 95% Massachusetts DRD (subject to the applicable 15% voting stock ownership requirement).

#### Apportionment

A three-factor apportionment formula based on receipts, property and payroll applies to financial

institutions with income from business activity which is taxable both in Massachusetts and in any other state. See MGL ch 63, § 2A. The apportionment calculations are reported in Form 63-FI, Schedule E. It may be necessary to refer to the detailed provisions of MGL ch 63, § 2 in order to complete Form 63-FI, Schedule E.

#### Effect of Federal Tax Reform on Interest Expense Calculation

As a result of federal tax reform under the TCJA, there is a new limitation on the business interest expense deduction. For more information on the impact of the TCJA change in Massachusetts please see TIR 19-17: Application of IRC § 163(j) Interest Expense Limitation to Corporate Taxpayers. The CARES Act temporarily modified the calculation of this limitation for tax years 2019 and 2020. See TIR 20-9: Massachusetts Tax Implications of Selected Provisions of the Federal CARES Act.

#### Changes to Schedule E, Effect of Federal Tax Reform on Apportionment Factors

As a result of federal tax reform under the TCJA, Subpart F income and GILTI must be reflected as part of the total dividends reported on Schedule D. See Changes to Schedule D Reporting above.

For purposes of apportionment under MGL ch 63, § 2A, dividends that are deemed to be received from an entity (including amounts included in federal gross income pursuant to IRC §§ 951 and 951A) are not considered to be receipts when determining the receipts factor of the apportionment formula for financial institutions. Thus Subpart F income and GILTI must be excluded from the numerator and denominator of the receipts factor since each constitutes a dividend for Massachusetts tax purposes. Further, the 5% of dividends remaining after an eligible DRD is claimed is intended as a disallowance of expenses rather than earnings and profits of the corporation making the dividend. As such a disallowance of expenses does not implicate the apportionment calculation. See TIR 19-11: Legislation Impacting the Massachusetts Tax Treatment of Selected International Provisions of the Federal Tax Cuts and Jobs Act.

A financial institution that is a member of a combined group filing Form 355U with income from business activity which is taxable both in Massachusetts and in any other state must follow the specific apportionment rules set forth in the combined reporting regulation. See 830 CMR 63.32B.2(7).

**Alternative apportionment.** If a financial institution is requesting alternative apportionment under MGL ch 63, § 42, it must fill in the appropriate oval on Form 63 FI, enclose Form AA-1, and attach to its return a statement of reasons

that (1) demonstrates by clear and cogent evidence that the statutory apportionment formula under MGL ch 63, § 38 does not fairly represent the extent of its business activity in Massachusetts; and (2) contains a detailed description of the corporation's proposed alternative apportionment method. Failing to attach the required statement to the Form AA-1 that meets this criteria may result in the denial of the corporation's request for alternative apportionment. The financial institution's application for alternative apportionment must be submitted with the return and must include a computation of tax using the corporation's proposed alternative apportionment method. The return and Schedule F must be completed and the amount of tax must be paid according to the statutory apportionment formula. For further information on alternative apportionment, see MGL ch 63, § 42 and 830 CMR 63.42.1.

**Note:** If requesting alternative apportionment, fill in the respective oval in the registration section. A request for an alternative method of apportionment must be made for each taxable period.

#### Elections Relating to Apportionment

Financial institutions subject to the excise under MGL ch 63, §§ 1, 2 and 2A and filing Form 63-FI may make elections relating to apportionment. A taxpayer making an election to use an alternative method of valuation will generally be required to use the alternative method on subsequent returns. However, a taxpayer must request for an alternative method of apportionment of income for each taxable period.

#### Elections Not Requiring Prior Approval from DOR

**Receipts factor.** Valuation of Investment and/or Trading Assets and Activities by Average Value or Gross Income Method (Form 63-FI, Schedule E, line 1). Interest, dividends, net gains (but not less than 0) and other income from investment and/or trading assets and activities are generally included in the numerator of the receipts factor by multiplying all income from such assets and activities by a fraction, the numerator of which is the average value of such assets which are properly assigned to a regular place of business of the taxpayer in Massachusetts and the denominator of which is the average value of all such assets. In lieu of using this method, the taxpayer may elect to determine the income from investment and/or trading assets and activities that is included in the numerator of the receipts factor by multiplying all such income by a fraction, the numerator of which is the gross income from such assets which are properly assigned to a regular place of business of the taxpayer in Massachusetts

sets and the denominator of which is the gross income from all such assets and activities.

If the taxpayer elects or is required by DOR to use the gross income method, the taxpayer must use this method on subsequent returns unless the taxpayer receives permission or the Department requires a different method.

**Property factor.** Valuation of All Property Owned (Form 63-FI, Schedule E, line 2e). The average value of property owned by the taxpayer is computed on an annual basis by adding the value of the property on the first day of the taxable year and the value of the property on the last day of the taxable year and dividing the sum by two. If averaging on this basis does not properly reflect average value, the taxpayer may elect or DOR may require averaging on a more frequent basis.

A taxpayer electing to average on a more frequent basis must use the same method of valuation consistently with respect to property inside and outside of Massachusetts and on all subsequent returns unless the taxpayer receives permission or DOR requires a different method of determining average value.

### **Elections Requiring Prior Approval from the Department**

**Property factor.** The average value of rented property (real or tangible) is generally determined annually by multiplying the gross rents payable during the taxable year by eight. A financial institution which believes that this general method results in inaccurate valuations of rented property may apply to use any other method which properly reflects the value. The taxpayer should make this request by submitting Form AA-1. A taxpayer that has been unable to obtain prior approval of an alternative method of valuation of rental property should use the statutory method of valuing rental property on its return and submit Form AA-1 describing the proposed alternative method. If the alternative method is approved by DOR, a refund of any overpayment, with interest, if due, will be made.

If an alternative method of valuing rented property is approved, that method must be used on all subsequent returns unless the taxpayer receives prior approval or DOR requires a different method.

### **S Corporation Financial Institutions**

Financial institutions that are S corporations for federal purposes are taxed as financial institution S corporations. Items of S corporation income, loss and deduction are passed through the S corporation to the shareholders, and reported and taxed on their return. Financial institution S corporations with income that is taxed to the S corporation for federal income tax purposes is still taxable on such income at the regular financial in-

stitution rate of 9% but all other income of the S corporation is taxable at a lower rate and is not subject to tax at the corporate level if receipts are less than \$6,000,000.

Financial institution S corporations with receipts of \$9,000,000 or more pay an income measure of excise at a rate of 4.0% on income allocated or apportioned to Massachusetts. S corporations with receipts of at least \$6,000,000 but less than \$9,000,000 pay tax at a rate of 2.67%. S corporations with receipts of less than \$6,000,000 are not subject to the income measure of excise. Financial institution S corporations must calculate the tax using the correct rate.

To determine if an S corporation is liable for the income measure of the corporate excise, complete Massachusetts Schedule S, lines 1 through 17. If line 17 of Schedule S is at least \$6,000,000, an income measure of corporation excise will be due. If line 17 of Schedule S is less than \$6,000,000, Form 63-FI, Schedule E is not required. If an S corporation and any other entity share common ownership and are engaged in a unitary business, then the total receipts less inter-company transactions of all such entities must be combined according to the rules of 830 CMR 62.17A.1(11)(e) and (f), to determine the dollar amount of such S corporation's total receipts. Total receipts means gross receipts or sales, less returns and allowances, and includes dividends, interest, royalties, capital gain net income, rental income and all other income.

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

### **When is a Financial Institution S Corporation Required to Participate in a Combined Report?**

A financial institution S corporation that is doing business in Massachusetts is subject to combined reporting, within the meaning of MGL ch 63, § 32B, when it is engaged in a unitary business with one or more other corporations, including one or more financial institution S corporations. In such cases, if the financial institution S corporation is liable for an income measure of excise it is required to be included in a combined report and is

to compute its net income subject to tax and its income measure along with the other members of the group on Form 355U. A financial institution S corporation (or any financial institution) that is a member of a unitary group is not required to calculate a separate non-income measure.

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

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

A financial institution S corporation that is a member of a combined group filing form 355U must also file an informational Form 63-FI for the purpose of submitting Schedules S and SK-1. Such a corporation completes Form 63-FI, Schedule E, if required to determine shareholder income derived from sources within the Commonwealth, without regard to the combined reporting apportionment rules. An S corporation subject to this requirement does not report on Schedule A any income included in the combined report. The filing due date for the pro-forma return (as with other S corporation returns) remains the 15th day of the third month following the close of each taxable year. See TIR 17-5.

### **When Are Returns Due?**

Most financial institution excise returns, together with payment in full of any tax due, must be filed on or before the 15th day of the fourth month after the close of the taxable year, calendar or fiscal. Financial institution S corporation excise returns, like all other S corporation returns, must still be filed on or before the 15th day of the third month after the close of the taxable year, calendar or fiscal. See



TIR 17-5. Financial institution S corporations that are members of a combined group generally file on or before the 15th day of the fourth month but see 830 CMR 62C.11.1 for important exceptions.

Taxpayers meeting certain payment requirements will be given an automatic seven-month extension in the case of financial institution taxpayers filing combined reports, and a six-month extension for other taxpayers. For further information, see TIR 15-15.

**Note:** An automatic extension of time to file is not valid if the financial institution fails to pay at least 50% of the total tax liability or the minimum tax of \$456, whichever is greater, through estimated payments or with an extension payment on or before the original due date of the return.

Any tax not paid on or before the due date — without regard to the extension — shall be subject to an interest charge.

Financial Institution S corporations that are participating in a combined report of their net income to Massachusetts must file Form 355U. For more information, see 830 CMR 62C.11.1.

In addition, a financial institution S corporation that is a member of a combined group filing Form 355U must also submit Form 63-FI as an informational return, enclosing Schedules S and SK-1, although no additional tax is due with that filing. Such informational filing is due on or before the 15th day of the third month after the close of the taxable year, calendar or fiscal.

### Filing an Amended Return

If you need to change a line item on your return, complete a return with the corrected information and fill in the **Amended return** oval. 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. Electronic filing requirements apply to amended returns and disputes. See TIR 16-9 for further information.

### Federal Changes

If this is an amended Massachusetts return and it 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 only a change in the apportionment calculation or an additional tax credit), fill in only the **Amended return** oval. If this is an amended return that includes changes you have reported on an amended federal return filed with the IRS for the same tax year, fill in both the **Amended return** and the **Federal amendment** ovals. If the amended Massachusetts return incorporates changes that are the result of an IRS audit, fill in both the **Amended return** and **Federal audit**

ovals; enclose a complete copy of the federal audit report and supporting schedules.

### 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 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; or
- ▶ Audit assessments.

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.

### Should the Financial Institution Be Making Estimated Tax Payments?

All financial institutions which reasonably estimate their excise to be in excess of \$1,000 for the taxable year are required to make estimated tax payments to the Commonwealth. Estimated taxes may be paid in full on or before the 15th day of the third month of the corporation's taxable year or in four installment payments according to the schedule below.

**Note:** The due dates for estimated tax payments are not affected by the change in corporate excise return due dates. For S corporations that are members of a combined group, an overpayment from the prior year applied to the estimated tax for the following year will generally be credited on the 15th day of the fourth month (i.e., one month after the due date for the first installment).

- ▶ 40% of the estimated tax due for the year is due on the 15th day of the 3rd month of the taxable year;
- ▶ 25% of the estimated tax due for the year is due on the 15th day of the 6th month of the taxable year;

▶ 25% of the estimated tax due for the year is due on the 15th day of the 9th month of the taxable year;

▶ 10% of the estimated tax due for the year is due on the 15th day of the 12th month of the taxable year.

Corporations with \$100,000 or more in receipts or sales must submit their estimated payments electronically. See TIR 16-9 for further information.

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

To avoid a possible underpayment penalty on its taxes, a corporation should, when making its first payment, estimate its tax to be at least equal to the prior year's tax. If the prior year's tax was the minimum tax, the corporation should make a payment or payments equal to the minimum tax to safeguard against a possible underpayment penalty.

Any corporation having \$1,000,000 or more of federal taxable income in any of its three preceding taxable years (as defined in IRC § 6655(g)) may only use its prior year's tax liability to calculate its first quarterly estimated tax payment. Any reduction in the first installment payment that results from using this method must be added to the second installment payment.

A corporation that claims the exception to the underpayment penalty of equaling the prior year's tax liability must provide federal tax returns (front page only) for the three preceding taxable years to verify that federal taxable income is less than \$1,000,000.

Financial institutions which underpay or fail to pay their estimated taxes may incur an additional charge on the amount of the underpayment for the period of the underpayment at the rate established under MGL ch 62C, § 32. Form M-2220, Underpayment of Massachusetts Estimated Tax by Corporations, is used to compute the additional charge.

See 830 CMR 63B.2.2 and MGL ch 63B for additional information about estimated payments.

### Which Financial Institutions Must File Electronically?

A financial institution with gross income of \$100,000 or greater must submit its return electronically. Failure to submit the return electronically may result in a penalty of \$100. For further information on electronic filing requirements, see TIR 16-9. A financial institution may file online for free through DOR's MassTaxConnect system at [mass.gov/masstaxconnect](http://mass.gov/masstaxconnect).

### What is a Proper Return?

A proper return is a return upon which all required amounts have been entered in all appropriate items on all forms. Data sheets, account forms or other schedules may be attached to explain amounts entered on the forms. A subchapter S corporation should include Schedule S and Schedule SK-1. Referencing items to enclosures in lieu of entering amounts onto the return is not sufficient.

A properly filed return must also include exact and complete copies of the financial institution's U.S. Form 1120, 1120S, 1120-REIT or other federal return as filed. Copies of all accompanying schedules and supplemental statements to the federal return must be enclosed.

### Disclosure Schedule

Form 63-FI requires the taxpayer to enter certain information from its federal return. DOR has been mandated by statute to collect and annually report aggregate information about financial institution filers to the legislature.

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

File the 2020 return for calendar year 2020 and fiscal years that began in 2020 and ended in 2021. For a fiscal year return, fill in the tax year space at the top of page 1. Short year filers should file using the tax form for the calendar year within which the short year falls. If the short year spans more than one calendar year, the filer should file using the tax form for the calendar year in which the short year began. If the current form is not available at the time the short year filer must file, the filer should follow the rules explained in TIR 11-12.

### Schedule CMS: Tax Credits

Financial institutions, insurance companies, business corporations, and other taxpayers subject to tax under MGL ch 63 may be eligible for certain tax credits in Massachusetts. Credits may be used to offset a tax due, may be passed or shared with another person or entity, or, in some cases credits may be fully or partially refundable. MGL ch 63 taxpayers with credits available for use in the current taxable year must file a Schedule CMS to claim most credits.

For each credit claimed on a Schedule CMS, report the amount of the credit available for use and the amount of credit claimed to reduce tax for the current taxable year. For pass-through entities, report the amount of credit distributed to partners/shareholders/beneficiaries in the credit shared column. Taxpayers also report the amount of a refundable credit they are using to request a refund of tax. See the 2020 Credit Manager Schedule Instructions for more information on

how to complete the Schedule CMS and claim the credits.

Credits reported on the Schedule CMS are generally identified either by a certificate number assigned by the issuing agency (which may be the DOR) or by the tax period end date in which the credit originated. If a credit has been assigned a certificate number, the certificate number must be included on the Schedule CMS. A taxpayer that does not include an assigned certificate number on the Schedule CMS will not be allowed the credit on the tax return and will have their tax liability adjusted by the DOR. Be sure to omit hyphens, spaces, decimals and other special symbols when entering the certificate number. Also, enter the number from left to right.

Likewise, a taxpayer that is required to complete a separate schedule to claim a credit must include the separate schedule with the taxpayer's return filing. Failure to do so may result in the credit being disallowed.

If, by operation of MGL ch 63, § 32C or another provision of law, a credit normally identified by tax period end date is eligible for indefinite carry-over, the credit should be reported as "non-expiring" and identification of the tax period of origin is not necessary.

### Overview of Schedule CMS

The following is a brief overview of the Schedule CMS sections and where certain credits should be reported. If a taxpayer is using a credit to reduce a taxpayer's current year tax liability, whether it is a non-refundable credit or a refundable credit, the credit should be reported in Section 1 or 3 of the Schedule CMS. Only a refundable credit that the taxpayer is seeking a refund for should be reported in either Section 2 or 4 of the Schedule CMS. Generally, a credit should only be reported in one section on the Schedule CMS unless a portion of it is being used to offset a tax and a portion is being refunded.

#### Section 1. Non-Refundable Credits

Section 1 is for reporting credits the taxpayer is using (i) to offset or reduce the taxpayer's total tax due (ii) to pass to any partner, shareholder or beneficiary of the taxpayer or (iii) to share with taxpayer affiliates. The Brownfields Credit, Film Incentive Credit, or Medical Device Credit should always be included in Section 1, unless the taxpayer is requesting a refund of the Film Incentive Credit. However, a taxpayer that received a credit on a Massachusetts K-1 schedule from a pass-through entity or a credit transfer should report such credit in Section 3 or 4, as applicable.

#### Section 2. Refundable Credits

Section 2 is for reporting refundable credits the taxpayer is using to request a refund. The Film Incentive Credit should always be included in Section 2 to the extent that the taxpayer is requesting a refund. However, a taxpayer that received a refundable credit on a Massachusetts K-1 from a pass-through entity or a credit transfer should report such credit in Section 4, to the extent that the taxpayer is requesting a refund. For each refundable credit, report the amount of the credit available after taking into consideration any amount of the credits that may have been taken to offset a tax or shared as reported in Section 1 of this schedule. Enter the amount by which the available credit balance is being reduced and the amount to be treated as a refundable credit, which may be either 90% or 100% of the reduction. See TIR 13-6, Example 3, for an illustration.

#### Section 3. Non-Refundable Credits Received from Massachusetts K-1 Schedules

Section 3 is for reporting credits the taxpayer received on a Massachusetts K-1 schedule (SK-1, 2K-1 or 3K-1) that the taxpayer is using (i) to offset or reduce the taxpayer's total tax due (ii) to pass to any partner, shareholder or beneficiary of the taxpayer or (iii) to share with taxpayer affiliates. The Brownfields Credit, Film Incentive Credit, or Medical Device Credit should never be included in Section 3.

**Note:** Do not report the Brownfields Credit, Film Incentive Credit, and Medical Device Credit in this section because these credits are issued new certificate numbers from the DOR when they are received from a pass-through entity or a credit transfer. These credits should always be reported in Section 1, unless the taxpayer is requesting a refund of the Film Incentive Credit.

#### Section 4. Refundable Credits Received from Massachusetts K-1 Schedules

Section 4 is for reporting credits the taxpayer received on a Massachusetts K-1 schedule (SK-1, 2K-1 or 3K-1) and that the taxpayer is using to request a refund. The Film Incentive Credit should never be included in Section 4. For each refundable credit, report the amount of the credit available after taking into consideration any amount of the credits that may have been used to offset a tax or shared as reported in Section 3 of this schedule. Enter the amount by which the available credit balance is being reduced and the amount to be treated as a refundable credit, which may be either 90% or 100% of the reduction. See TIR 13-6, Example 3, for an illustration.

**Note:** Do not report the refundable Film Incentive Credit in this section because these credits are is-

sued new certificate numbers from the DOR when they are received from a pass-through entity or a credit transfer. If the taxpayer is requesting a refund of the Film Incentive Credit, it should be reported in Section 2.

### List of Credit Names and Credit Codes

The following table identifies various credits that may be available to a taxpayer subject to tax under MGL ch 63 and that must be claimed on a Schedule CMS.

Apprenticeship Tax Credit.....	APPCRD*
Brownfields .....	BRWFLD
Certified Housing .....	CRTHOU
Community Investment .....	CMMINV*
Conservation Land .....	CNSLND*
Dairy Farm .....	DAIFRM*
EDIP .....	EDIPCR*
EDIP-Vacant Storefront Credit.....	VACSTR*
Employer Wellness .....	EMPWLL
EOAC .....	EOACCR
Film Incentive .....	FLMCRD*
Harbor Maintenance .....	HRBMNT
Historic Rehabilitation .....	HISRHB
Investment Tax .....	INVTAX
Life Science (FDA) .....	LFSFDA*
Life Science (ITC) .....	LFSITC*
Life Science (Jobs) .....	LFSJOB*
Life Science (RD) .....	LFSRDC
Low-Income Housing .....	LOWINC
Low-Income Housing Donation ...	LIHDON
Medical Device .....	MEDDVC
Research .....	REARCH*
Vanpool .....	VANPOL
Veteran's Hire .....	VETHIR

\*These credits may be partially or fully refundable. See Schedule CMS instructions for further information.

**Note:** Certified life sciences companies with a Research Credit exceeding the amount of credit that may be claimed under MGL ch 63, § 38M for a taxable year may, to the extent authorized under the Life Sciences Tax Incentive Program, elect to make 90% of the balance of remaining credits refundable. See MGL ch 63, § 38M(j).

### Credit Recapture Schedule

The Credit Recapture Schedule (CRS), which eliminates Schedule RF, lists each credit for which a recapture calculation must be made.

Certain Massachusetts tax credits are subject to recapture as specified in the statute authorizing the credit (e.g. the investment tax credit is subject to recapture under MGL ch 63, § 31A(e) if an asset for which the credit was taken is disposed of before the end of its useful life). Recapture may also be triggered if the corporation no longer qualifies for the credit (as when a manufacturing corporation ceases to qualify as such or a corporation's status as a Life Sciences Company is terminated as discussed in TIR 13-6.)

If a recapture calculation is required, the amount of the credit allowed is redetermined and the reduction in the amount of credit allowable is recaptured to the extent the credit was taken or used in a prior year. See DD 89-7. Taxpayers who have a recapture calculation must complete this schedule whether or not a recapture tax is determined to be due.

For credits tracked by certificate numbers, enter each certificate number and the associated credits separately. For credits not tracked by certificate number, enter credits separately by type and the year to which they relate. List only those credits and certificate numbers or tax years for which a reduction in the credit is being calculated.

For more information and examples, see the Credit Recapture Schedule instructions.

### Brief Summary of Available Credits on Schedule CMS

The following are brief summaries describing the specific credits that may be available to a taxpayer subject to tax under MGL ch 63 and that must be claimed on a Schedule CMS.

#### Apprenticeship Tax Credit

Businesses corporations subject to tax under MGL ch 63 that employ qualified apprentices may be eligible for an Apprenticeship Tax Credit (ATC). The credit is equal to the lesser of \$4,800 or 50% of the wages paid by the business to each qualified apprentice it hires. Business corporations are eligible for up to \$100,000 in credits each calendar year. To claim the credit, the primary place of employment of the apprentice must be in Massachusetts, the business corporation employing the apprentice must register with the Division of Apprentice Standards as an apprenticeship program sponsor and enter into apprenticeship agreements with each apprentice for whom the credit is claimed, and the apprentice must be employed for at least 180 calendar days in the taxable year in which the credit is claimed. A business corporation claiming the credit in a taxable year may also be eligible for a credit in the subsequent taxable year, provided that the Division of Apprentice Standards again certifies that

the apprentice remains employed as an apprentice during the subsequent taxable year.

The ATC is not transferrable but is refundable. The ATC is available for tax years beginning on or after January 1, 2019. See TIR 18-13 for further information.

To claim the ATC, enter the ATC certificate number and the amount of ATC using credit code AP-PCRD on Schedule CMS.

#### Brownfields Tax Credit

Taxpayers subject to tax under MGL ch 63 and nonprofit organizations may be eligible to claim a Brownfields Tax Credit (BTC) for amounts expended to clean up contaminated property in Massachusetts in an amount equal to either 25% or 50% of the cost. The cleanup must begin on or before August 5, 2023, and costs must be incurred before January 1, 2024, and equal or exceed 15% of the assessed value of the property before the beginning of the cleanup. Contaminated properties must be owned or leased for business purposes, reported to the Massachusetts Department of Environmental Protection (DEP), cleaned up in compliance with DEP's standards, and located in an economically distressed area identified by DEP. Unused portions of BTC may be carried forward for the next 5 years. If a BTC recipient does not maintain the property in compliance with standards set out by DEP, the credit may be recaptured. The BTC is not refundable. For taxpayers subject to a minimum excise under MGL ch 63, the BTC cannot reduce the excise due below the minimum amount. The BTC is also subject to the 50% limitation for taxpayers subject to tax under MGL ch 63, § 39.

The BTC may be transferred, sold or assigned to another taxpayer with a liability under MGL ch 62 or 63, or to a nonprofit organization. A taxpayer must complete a Form BCA, Brownfields Credit Application, and submit it to DOR. If approved, DOR will issue a certificate reflecting the amount of the BTC awarded. The party receiving the BTC must include the certificate number with each tax return in which the credits are being applied. BTC application forms, including Form BCA, and additional information are available at [mass.gov/dor](http://mass.gov/dor).

To claim the BTC, enter the BTC certificate number and the amount of BTC using credit code BR-WFLD on Schedule CMS.

#### Certified Housing Development Tax Credit

Taxpayers subject to tax under MGL ch 63 that invest in housing development projects in Massachusetts may be eligible to claim the Certified Housing Development Credit (CHDC) in an amount up to 25% of the costs of qualified project expenditures as defined in MGL ch 40V, § 1. Eligibility for and the amount of CHDC awarded



are determined and administered by the Department of Housing and Community Development (DHCD). The CHDC is not refundable, but unused amounts may be transferred or carried forward for 10 years. See TIRs 16-15, 10-15, and 10-14 for further information.

To claim the CHDC, enter the CHDC certificate number and the amount of CHDC using credit code CRTHOU on Schedule CMS.

### **Community Investment Tax Credit**

Taxpayers subject to tax under MGL ch 63 may be able to claim a Community Investment Tax Credit (CITC) for cash contributions made to a community partner to support implementation of its community investment plan, or to a community partnership fund. The CITC is equal to 50% of the total contribution made by the taxpayer and cannot be claimed for contributions of less than \$1,000. The Department of Housing and Community Development (DHCD) is responsible for determining which contributions qualify for the CITC and the actual amount of the CITC awarded. The CITC is not transferrable. However, the CITC is refundable, or, alternatively, may be carried forward for 5 years. For further information, see 760 CMR 68.00, 830 CMR 62.6M.1, and TIRs 16-15, 13-15, and 12-10.

To claim the CITC, enter the CITC certificate number and the amount of CITC using credit code CMMINV on Schedule CMS.

### **Conservation Land Tax Credit**

Taxpayers subject to tax under MGL ch 63 that make qualified donations of certified land to a public or private conservation agency in Massachusetts may be eligible for a Conservation Land Tax Credit (CLTC). The Executive Office of Energy and Environmental Affairs (EEA) ultimately determines which donations qualify for CLTC and the actual amount of CLTC attributable to the donation. The CLTC is equal to 50% of the fair market value of the donated certified land but may not exceed \$75,000. The CLTC is refundable but is not transferable. Taxpayers who claim CLTC may not claim any other credit or deduction in the same tax year for the costs related to the same donated, certified land. For further information, see 301 CMR 14.00, and 830 CMR 62.6.4.

To claim the CLTC, enter the CLTC certificate number and the amount of CLTC using credit code CNSLND on Schedule CMS.

### **Dairy Farm Tax Credit**

Massachusetts dairy farmers taxable under MGL ch 63 may be eligible for a Dairy Farm Tax Credit (DFTC) based on the amount of milk produced and sold during the taxable year when the cost of milk drops below a price based on federal stan-

dards. The dairy farmer must have a certificate of registration as a Massachusetts dairy farm from the Massachusetts Department of Agricultural Resources (MDAR). The total amount of DFTC granted through the program cannot exceed \$6,000,000 in any year. The DFTC is refundable but is not transferrable.

To claim the DFTC, enter the MDAR-issued certificate number and the amount of DFTC from the MDAR's Dairy Farmer Certified Tax Credit Statement using credit code DAIFRM on Schedule CMS.

### **Economic Opportunity Area/Economic Development Incentive Program Credits**

#### **Economic Opportunity Area Credit**

Taxpayers subject to tax under MGL ch 63 that participated in projects certified by the Economic Assistance Coordinating Council (EACC) before January 1, 2010 and in effect through December

31, 2016, may be eligible to claim an Economic Opportunity Area Credit (EOAC) equal to 5% of the cost of qualifying property purchased for business use within a certified project within an Economic Opportunity Area (EOA). A certified project is a project approved by the EACC. To qualify for the EOAC, the property must be used exclusively by the certified project in an EOA and must meet the same tests imposed for the 3% Investment Tax Credit (ITC) (see ITC summary below). The EOAC cannot offset more than 50% of the tax due. Any unused EOAC may be carried forward for 10 years, while credits not used because of the 50% limitation may be carried over indefinitely. The EOAC may be subject to recapture if a taxpayer's business is decertified by the EACC, or a taxpayer stops using the qualifying property in a certified project before the end of the property's useful life. The EOAC is neither refundable nor transferrable. For taxpayers subject to a minimum excise under MGL ch 63, the EOAC may not reduce the excise due below the minimum amount. The EOAC is not available to certified projects that were certified by the EACC on or after January 1, 2010. See TIRs 16-15 and 10-01 for further information.

To claim the EOAC, complete Schedule EOAC and enter the amount of EOAC using credit code EOACCR on the Schedule CMS. Include both the completed Schedule EOAC and Schedule CMS with the return.

#### **Economic Development Incentive Program Credit for Projects Certified on or After January 1, 2010 and Before January 1, 2017**

For projects certified by the EACC on or after January 1, 2010 and before January 1, 2017, the Economic Development Incentive Program Credit

(EDIPC) is available to taxpayers subject to tax under MGL ch 63 with respect to certified projects as defined under MGL ch 23A. The EDIPC is equal to a percentage of the cost of qualifying property purchased by a certified project for business use within Massachusetts. As part of the project certification, the EACC may (but is not required to) award a credit under the program and determine the percentage of the cost of the property to be used to determine the credit. In addition, the EACC may award an EDIPC that is refundable. To qualify for the EDIPC, the qualifying property must be used exclusively in the certified project in Massachusetts and must meet the same tests imposed for the 3% ITC.

Unless the EDIPC awarded is refundable, the credit may not offset more than 50% of the tax due. Carryover of unused EDIPC is available only to the extent authorized by the EACC. The EACC may, in consultation with DOR, limit (but not expand) the EDIPC to a specific dollar amount or time duration or in any other manner deemed appropriate by the EACC. St. 2009, c. 166, § 18. For example, the EACC may limit the EDIPC available with respect to a particular project to a specific dollar maximum, even if the actual dollar amount of the qualifying purchases would otherwise generate a higher credit amount. Similarly, the EACC may limit the otherwise applicable credit carry forward period provided by MGL ch 63, § 38N(d). The EDIPC may be subject to recapture if a taxpayer's business is decertified by the EACC, or a taxpayer stops using the qualifying property in a certified project before the end of the property's useful life. The EDIPC is not transferable. For taxpayers subject to a minimum excise under MGL ch 63, the EDIPC may not reduce the excise due below the minimum amount. See TIRs 16-15, 14-13, 10-15, and 10-1 for further information.

To claim the EDIPC, complete Schedule EDIP and enter the amount of EDIPC using credit code EDIPCR on Schedule CMS. Also, enter the EACC-issued certificate number on Schedule CMS. Include both the completed Schedule EDIP and Schedule CMS with the return.

#### **EDIP Credit for Projects Certified on or after January 1, 2017**

The EDIPC provisions were significantly changed for projects certified on or after January 1, 2017. For projects certified by the EACC on or after January 1, 2017, the EDIPC for taxpayers subject to tax under MGL ch 63 is determined by the EACC based on numerous factors set forth in MGL ch 23A § 3D. The EACC may award a refundable EDIPC to any certified project. Unless the EDIPC awarded is refundable, the EDIPC may not offset more than 50% of the excise due. Carryover of unused EDIPC is available only to the extent



authorized by the EACC. Recapture is required only if the EACC revokes the certification of a project. The EDIPC is not transferable. For taxpayers subject to a minimum excise under MGL ch 63, the EDIPC may not reduce the excise due below the minimum amount. See TIRs 16-15 and 10-01 for further information.

To claim the EDIPC, complete Schedule EDIP and enter the amount of EDIPC using credit code EDIPCR on Schedule CMS. Also, enter the EACC-issued certificate number on Schedule CMS. Include both the completed Schedule EDIP and Schedule CMS with the return.

### **EDIP Credit for Vacant Storefronts**

Effective January 1, 2019, awards of EDIPC are also available as a Vacant Storefront Credit (VSC) to taxpayers subject to tax under MGL ch 63 that occupy vacant storefronts in downtown areas that have been designated as Certified Vacant Storefront Districts. To claim the VSC a taxpayer must apply for and obtain certification from the EACC and must commit to occupy the vacant storefront for not less than 1 year. The taxpayer does not need to invest in improvements or create new jobs to claim the VSC. The EACC awards the VSC on a competitive basis, taking into account the factors set forth in MGL ch 23A, § 3C. The amount of VSC available to taxpayers occupying vacant storefronts is limited to \$500,000 in a calendar year.

The VSC is not transferrable but is refundable. For additional information about the credit, contact the Massachusetts Office of Business Development at 617-973-8600.

To claim the VSC, enter the amount of the VSC using credit code VACSTR on Schedule CMS. Also, enter the EACC-issued certificate number on Schedule CMS.

### **Employer Wellness Credit**

The Employer Wellness Credit (EWC) program expired on December 31, 2017 and no new EWC amounts are being awarded. However, remaining credits awarded for the 2015 through 2017 tax years and carried over by a taxpayer may be applied in the 2020 tax year.

Effective for tax years beginning on or after January 1, 2013, a taxpayer subject to tax under MGL ch 63 that employed 200 or fewer workers was eligible for the EWC for up to 25% of its costs associated with implementing a “certified wellness program” for its employees. Prior to the EWC program’s expiration on December 31, 2017, a taxpayer could claim the EWC by applying to the Department of Public Health (DPH) to certify its wellness program. The amount of the credit available to be claimed could not exceed \$10,000 in any tax year and the credit was not refundable.

A taxpayer may carry forward any unused portion of the EWC for up to 5 taxable years. For taxpayers subject to a minimum excise under MGL ch 63, the EWC may not reduce the excise due below the minimum amount.

Since the EWC program expired on December 31, 2017, a taxpayer may only claim a previously awarded EWC that was carried over to subsequent tax years. Information about the criteria DPH utilized for authorizing and certifying the EWC may be found in DPH’s “Massachusetts Wellness Tax Credit Incentive” regulation, 105 CMR 216.000.

To claim the EWC, enter the amount of EWC using credit code EMPWLL on Schedule CMS. Also, enter the DPH issued certificate number on Schedule CMS.

### **Film Incentive Credit**

Motion picture production companies subject to tax under MGL ch 63 may be eligible to claim the Film Incentive Credit (FIC) for certain payroll and production expenses. Production companies that incur at least \$50,000 of production costs in Massachusetts are eligible for a credit equal to 25% of the total Massachusetts payroll for the production, excluding salaries of \$1 million and higher. In addition, production companies whose Massachusetts production expenses exceed 50% of the total production cost may receive a credit equal to 25% of the total Massachusetts production expense. The FIC may be applied to reduce a taxpayer’s liability (including the minimum excise), reduced by any other available credits, after which 90% of any remaining credits may be refunded to the taxpayer. Subject to certain conditions, unused FIC may be carried over, refunded, or transferred by the taxpayer for the following 5 tax years. FIC transferees may carry forward unused FIC for the 5 tax years subsequent to the first tax year the FIC was allowed to the initial FIC transferor. The FIC is not refundable to the transferee. See TIR 07-15 for further information.

To claim the FIC, enter the FIC certificate number and the amount of FIC using credit code FLMCRD on Schedule CMS. Supporting documentation must be available to DOR upon request. Certificate application forms and additional information are available at [mass.gov/dor](http://mass.gov/dor).

### **Harbor Maintenance Tax Credit**

Business corporations subject to tax under MGL ch 63 that have paid certain federal harbor maintenance taxes under IRC § 4461 may be eligible to claim the Harbor Maintenance Tax Credit (HMTTC). A corporation is eligible for the HMTTC only for federal harbor maintenance taxes paid that are attributable to the shipment of break-bulk or containerized cargo by sea and ocean-going

vessels through a Massachusetts harbor facility. The HMTTC is neither refundable nor transferrable. The HMTTC may not reduce the corporate excise due below the minimum amount but is not subject to the 50% limitation imposed by MGL ch 63, § 32C. Any unused portion of the HMTTC may be carried forward for the next 5 tax years. See TIR 97-4 and Schedule HM instructions for further information.

To claim the HMTTC, complete Schedule HM and enter the amount of HMTTC using credit code HRBMNT on Schedule CMS. Include both the completed Schedule HM and Schedule CMS with the return.

### **Historical Rehabilitation Credit**

Taxpayers subject to tax under MGL ch 63 that have made qualified expenditures in the rehabilitation of a qualified historic structure may be eligible to claim a Historic Rehabilitation Tax Credit (HRTC). The HRTC may be claimed for up to 20% of the taxpayer’s rehabilitation expenditures made in substantially rehabilitating a historic structure that has received final certification from the Massachusetts Historical Commission and placed into service (where occupancy of the entire structure or some identifiable portion of it is permitted). Unused portions of HRTC may be carried forward for the following 5 tax years. The HRTC may be transferred or sold to another taxpayer but is not refundable. HRTC awards also may be transferred to other qualifying taxpayers that acquire a historic structure, as long as certain criteria are met. Any HRTC claimed by the taxpayer may be subject to recapture if the taxpayer disposes of its interest in the structure within 5 years of its placement into service. HRTC awards however are not subject to recapture. For taxpayers subject to the corporate excise, the HRTC is not subject to the 50% limitation under MGL ch 63, § 32C but may not reduce the excise below the minimum amount. For further information, see 830 CMR 63.38R.1 and TIRs 16-15 and 10-11.

To claim the HRTC, enter the HRTC certificate number and the amount of HRTC using credit code HISRHB on Schedule CMS. Supporting documentation must be enclosed with the return or the HRTC may be disallowed. For further information on documentation see the Transfer/Sale HRC: Historic Rehabilitation Credit Certificate Form and Allotment Schedule HRC: Historic Rehabilitation Credit Summary Form.

### **Investment Credit**

Taxpayers subject to tax under MGL ch 63, § 39 may be eligible to claim the Investment Tax Credit (ITC). To claim the ITC, a corporation must qualify as a manufacturing or research development corporation under MGL ch 63, § 42B, or be princi-

pally engaged in agriculture or commercial fishing. Such corporations may earn a credit equal to 3% of the cost of “qualifying tangible property” acquired, constructed, reconstructed, or erected during the taxable year. “Qualifying tangible property” includes tangible property, buildings, and structural components acquired by purchase (as defined in IRC § 179(d)) that is used and located in Massachusetts on the last day of the taxable year, and is depreciable under IRC § 167 with a useful life of four years or more. Any unused portion of the credit may be carried forward for 3 tax years after the credit was earned, while credits not used because of the 50% limitation may be carried over indefinitely. The ITC may be recaptured if the eligible property for which the ITC is claimed is disposed of or ceases to be in qualified use prior to the end of its useful life (as determined by the property’s depreciation period for federal tax purposes). The ITC is neither refundable nor transferrable. The ITC may not reduce the corporate excise due below the minimum amount, nor may the amount of the credit exceed 50% of the taxpayer’s liability.

To claim the ITC, complete Schedule H and enter the amount of ITC using credit code INVTAX on Schedule CMS. Include both the completed Schedule H and Schedule CMS with the return.

### **Life Sciences Refundable FDA User Fees Tax Credit**

Certified life sciences companies subject to tax under MGL ch 63, to the extent authorized by the Life Sciences Tax Incentive Program, may be eligible to claim a Life Sciences Refundable FDA User Fees Tax Credit. The credit is equal to 100% of the user fees paid on or after June 16, 2008, to the US Food and Drug Administration (FDA) upon submission of an application to manufacture a human drug in Massachusetts. The credit may be claimed in the tax year in which the application for licensure of an establishment to manufacture the drug is approved by the FDA. To be eligible for the credit, more than 50% of the research and development costs for the drug must have been incurred in Massachusetts. Certified life sciences companies may use the FDA user fees credit to reduce their tax to zero. At the option of the taxpayer and to the extent authorized pursuant to the Life Sciences Tax Incentive Program, where the credit exceeds the tax due, 90% of the balance of the excess credit is refundable. A life sciences company claiming the credit may not also deduct FDA user fees for which the credit is claimed on its return. In the event a company’s certification as a life sciences company is revoked, the recapture of credit may be required. The credit is not transferrable. For further information, see TIRs 13-6 and 08-23.

To claim the credit, complete a Schedule RLSC and enter the amount of the credit using credit code LFSFDA on the Schedule CMS.

### **Life Sciences Refundable Investment Tax Credit**

Certified life sciences companies subject to tax under MGL ch 63, to the extent authorized by the Life Sciences Tax Incentive Program, may claim a Life Sciences Refundable Investment Tax Credit (LSRITC) equal to 10% of the cost of qualifying property acquired, constructed, reconstructed, or erected and used exclusively in Massachusetts. If the LSRITC exceeds the tax due, 90% of the balance of the LSRITC may, at the option of the taxpayer and to the extent authorized pursuant to the Life Sciences Tax Incentive Program, be refundable to the taxpayer for the tax year in which the qualified property giving rise to the LSRITC is placed in service. If the taxpayer does not opt to make the LSRITC refundable, then the LSRITC may be carried forward for up to 10 years. Certified life sciences companies qualifying for the Economic Development Incentive Program Credit (EDIPC) may only take the EDIPC to the extent of an additional 2% of the cost of the qualifying property. In the event a company’s certification as a life sciences company is revoked, the recapture of the LSRITC may be required. The LSRITC is not transferrable. For certified life sciences companies subject to a minimum excise, the LSRITC cannot reduce the amount of the excise due to less than the minimum amount. For further information, see TIRs 13-6 and 08-23.

To claim the LSRITC, complete a Schedule RLSC and enter the amount of LSRITC using credit code LFSITC on Schedule CMS.

### **Life Sciences Refundable Jobs Tax Credit**

Certified life sciences companies subject to tax under MGL ch 63, to the extent authorized by the Life Sciences Tax Incentive Program, may receive a Life Sciences Refundable Jobs Tax Credit (LSRJTC) in an amount determined by the Massachusetts Life Sciences Center in consultation with the DOR. A taxpayer claiming the LSRJTC must commit to the creation of a minimum of 50 net new permanent full-time positions in Massachusetts. If the LSRJTC claimed by a taxpayer exceeds the tax otherwise due, 90% of the balance of such LSRJTC may, at the option of the taxpayer and to the extent authorized by the Life Sciences Tax Incentive Program, be refundable. Excess LSRJTC amounts cannot be carried forward to subsequent taxable years. The LSRJTC is not transferrable. The LSRJTC is subject to all of the requirements of the Life Sciences Tax Incentive Program under MGL ch 23I. In the event of the revocation of a company’s certification as a life sciences company or other disqualifying events,

the LSRJTC may be subject to recapture. For more information, see TIRs 13-6, 11-6, and 08-23.

To claim the LSRJTC, complete a Schedule RLSC and enter the amount of LSRJTC using credit code LFSJOB on Schedule CMS.

### **Life Sciences Research Tax Credit**

Certified life sciences companies subject to tax under MGL ch 63, to the extent authorized by the Life Sciences Tax Incentive Program, may claim a Life Sciences Research Tax Credit (LSRTC) for certain expenditures that do not qualify for the MGL ch 63, § 38M Research Tax Credit (RC). The LSRTC generally is calculated in the same manner as the RC, but may also include expenditures for research related to legally mandated clinical trial activities performed both inside and outside of Massachusetts. Unlike the RC, the LSRTC is not refundable for certified life sciences companies. See the Research Credit summary below. The LSRTC is not transferrable. However, unused portions of the LSRTC may be carried forward for 15 years. In the event of the revocation of a company’s certification as a life sciences company or other disqualifying events, the LSRTC may be subject to recapture. For certified life sciences companies subject to a minimum excise, the LSRTC cannot reduce the amount of the excise due to less than the minimum amount. For further information, see TIRs 13-6 and 08-23.

To claim the LSRTC, complete a Schedule RLSC and enter the amount of LSRTC using credit code LFSRDC on Schedule CMS.

### **Low Income Housing Tax Credit**

Taxpayers subject to tax under MGL ch 63 who invest in a qualified low-income housing project located in Massachusetts may be eligible for the Low Income Housing Tax Credit (LIHTC). The Department of Housing and Community Development (DHCD) determines which low-income housing projects will qualify for the LIHTC, which properties may generate an LIHTC for investors, and ultimately allocates the amount of credit a taxpayer may claim based on a total pool of \$20,000,000. The LIHTC may be claimed in the year that a “qualified Massachusetts project” is placed in service and for each of the four subsequent taxable years. The properties must also meet the requirements established by Massachusetts and federal laws, and be owned by a taxpayer who enters into a regulatory agreement with DHCD.

Any unused LIHTC may be carried forward for the next 5 tax years. Alternatively, unused credits may be transferred. If an event or circumstance occurs that results, or would have resulted, in the recapture of any portion of a federal Low Income Hous-

ing Credit, then the Massachusetts LIHTC may also be subject to recapture. The LIHTC is not refundable.

For taxpayers subject to a minimum excise under MGL ch 63, the LIHTC may not reduce the excise due below the minimum amount.

To claim the LIHTC, enter the LIHTC certificate number and the amount of LIHTC using credit code LOWINC on Schedule CMS. Supporting documentation must be enclosed with the return or the LIHTC may be disallowed. For further information on documentation see the Transfer LIHC: Low-Income Housing Credit Statement Form and Allotment Schedule LIHC: Low-Income Housing Credit Summary Form. For further information regarding this credit, contact DHCD, Division of Private Housing, at (617) 727-7824.

### **Low Income Housing Donation Tax Credit**

Taxpayers subject to tax under MGL ch 63 that make a “qualified donation” of real or personal property to certain non-profit entities for use in purchasing, constructing or rehabilitating a “qualified Massachusetts project” may be eligible to claim a Low Income Housing Donation Tax Credit (LIHDC). This credit operates in a similar manner to the Low Income Housing Tax Credit (LIHTC), but the LIHDC is limited to 50% of the amount of the “qualified donation,” which may be increased to 65% by the Department of Housing and Community Development (DHCD). In addition, the LIHDC may only be claimed in the year that the “qualified donation” is made. However, any unused LIHDC may be carried forward for the next 5 years. DHCD determines eligibility and ultimately allocates the LIHDC a taxpayer may claim based on a total pool of \$20,000,000 shared with the LIHTC. Only one-fifth of awarded LIHDC will count towards this pool. The LIHDC is not refundable but is transferrable in the same manner as the LIHTC.

The property must also meet the requirements established by Massachusetts and federal laws and be owned by an owner who enters into a regulatory agreement with DHCD. If an event or circumstance occurs that results, or would have resulted, in the recapture of any portion of a federal Low Income Housing Credit, then the Massachusetts LIHDC may also be subject to recapture. For taxpayers subject to a minimum excise under MGL ch 63, the LIHDC may not reduce the excise due below the minimum amount.

To claim the LIHDC, enter the LIHDC certificate number and the amount of LIHDC using credit code LIHDON on Schedule CMS. Supporting documentation must be enclosed with the return or the LIHDC may be disallowed. For further information on documentation see the Transfer LIHC:

Low-Income Housing Credit Statement Form and Allotment Schedule LIHC: Low-Income Housing Credit Summary Form. For further information regarding this credit, contact DHCD, Division of Private Housing, at (617) 727-7824.

### **Medical Device Tax Credit**

Medical Device Companies taxable under MGL ch 63 may be eligible to claim a Medical Device Tax Credit (MDTC). The MDTC is equal to 100% of the user fees actually paid by the medical device company to the United States Food and Drug Administration (FDA). To qualify for the MDTC, the user fees must be paid during the tax year for which the tax is due for pre-market submissions (e.g., applications, supplements, or 510(k) submissions) to market new technologies developed or manufactured in Massachusetts. The MDTC may not be carried forward to subsequent tax years. The MDTC is not refundable. However, unused portions of the MDTC may be transferred to a purchasing company, who may carry over the MDTC but must use it within 5 years of the issuance of the certificate. The purchasing company may not transfer the MDTC. The MDTC may not reduce the purchasing company’s corporate excise due below the minimum excise.

To claim the MDTC, enter the MDTC certificate number and the amount of MDTC using credit code MEDDVC on Schedule CMS. Certificate application forms and additional information are available at [mass.gov/dor](http://mass.gov/dor).

### **Research Credit**

Business corporations subject to an excise under MGL ch 63 that incur “qualified research expenses” and “basic research payments” may be able to claim a Research Tax Credit (RC). The RC closely parallels the federal research credit. Generally, “qualified research expenses” include wages paid to employees, a portion of wages paid to contractors, and amounts paid for supplies, but only if the services were performed for research purposes or the supplies were used to conduct research in Massachusetts. The RC amount is limited to the first \$25,000 of excise due, plus 75% of any excise due in excess of \$25,000. The RC is neither refundable nor transferrable. Business corporations subject to a minimum excise under MGL ch 63 cannot use the RC to reduce their tax due to below the minimum amount. However, credits in excess of the taxpayer’s liability may be carried over for 15 years, while credits not used because of the 75% rule may be carried over indefinitely. The deduction allowed to a corporation for any research expenses generating an RC must be reduced by the amount of RC generated. This amount is added back to income on Schedule E, line 13.

Certified life sciences companies that have an RC that exceeds the amount of the credit that may be claimed under MGL ch 63, § 38M for a taxable year may, to the extent authorized under the Life Sciences Tax Incentive Program, elect to make 90% of the balance of the remaining credits refundable. See TIR 08-23, section 5.

To claim the RC, complete Schedule RC and enter the amount of RC using credit code REARCH on Schedule CMS. Include both the completed Schedule RC and Schedule CMS with the return.

### **Vanpool Credit**

Business corporations subject to tax under MGL ch 63 may be eligible for a Vanpool Credit (VPC) equal to 30% of the cost incurred during the taxable year for the purchase or lease of company shuttle vans used by the corporation in an employer-sponsored ride sharing program in Massachusetts. The company shuttle vans must be situated in Massachusetts on the last day of the corporation’s taxable year and used to bring employees from their homes to their jobs or students from a public transportation facility to a school campus in Massachusetts. The amount of VPC will be prorated for property disposed of or no longer having a qualified use prior to the end of the tax year. Additionally, the VPC will be recaptured if the property on which the VPC has been taken is disposed of or the property ceases to be in qualified use prior to the end of its useful life. No recapture is necessary if the property has been in qualified use for more than 4 consecutive years. The VPC is neither refundable nor transferrable. For corporations subject to the corporate excise, the VPC may not reduce the corporate excise due below the minimum amount, nor may the amount of VPC allowable in any one tax year exceed 50% of the corporation’s corporate excise liability.

To claim the VPC, complete Schedule VP and enter the amount of VPC using credit code VANPOL on Schedule CMS. Include both the completed Schedule VP and Schedule CMS with the return.

### **Veteran’s Hire Tax Credit**

Businesses subject to tax under MGL ch 63 that hire veterans who live and work in Massachusetts may be eligible for a Veteran’s Hire Tax Credit (VHTC). The credit is equal to \$2,000 for each qualified veteran hired. The business must employ fewer than 100 employees; be certified by the Commissioner of Veteran’s Services; and qualify for and claim the federal Work Opportunity Credit allowed under IRC § 51. A business may be eligible for a second VHTC for the next taxable year if the veteran continues to work for the business. In order to claim the VHTC, the primary



place of employment and the primary residence of the qualified veteran must be in Massachusetts, and the business corporation must obtain certification that the veteran is a qualified veteran, as defined in IRC § 51(d)(3), from the Department of Career Services, no later than the employee's first day of work.

The VHTC is neither refundable nor transferrable. Any amount of VHTC that exceeds the tax due in the current taxable year may be carried forward to any of the 3 subsequent taxable years. The VHTC is available for qualified veterans hired after July 1, 2017. A business subject to a minimum excise under MGL ch 63 cannot use the credit to reduce its tax due to below the minimum amount. See TIR 17-10 for further information.

To claim the VHTC, enter the VHTC certificate number and the amount of VHTC using credit code VETHIR on Schedule CMS.

## Instructions for Financial Institution S Corporations

### Schedule S

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

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

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

**Line 13.** Enter only those receipts from intercompany transactions that are included in lines 1 through 11. Do not include receipts from related entities included in 15 below.

**Line 15.** Enter here the aggregated total receipts less receipts from intercompany transactions for all entities other than the S corporation that share common ownership and are engaged in a unitary business with the S corporation according to 830 CMR 62.17A.1 (11)(e) and (f).

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

**Line 24.** Enter the amount of ordinary income or loss from U.S. 1120S, line 21. Do not include interest, dividends, and other portfolio income included in line 21. Enter such income on lines 39 through 44.

**Line 25.** If reporting other income or loss from U.S. Form 1120S, Schedule K, line 10, enclose a statement and explain.

**Line 26.** Enter total foreign, state or local income, franchise, excise or capital stock taxes deducted from U.S. income. These taxes are deductible for U.S. tax purposes, but are not deductible in Massachusetts.

**Line 28.** Enter in line 28 any income or loss included in lines 24 and/or 25 which is granted treatment by the U.S. government or is classified as a capital gain or loss for Massachusetts purposes. For Massachusetts purposes capital gain or loss is the gain or loss from the sale or exchange of a capital asset.

A capital asset is:

- An asset which is a capital asset for U.S. income tax purposes; or

- Property that is used in a trade or business within the meaning of IRC § 1231(b) without regard to the holding period defined in IRC § 1231(b).

**Line 30.** Report and describe any other adjustments to Massachusetts income and deductions not reported elsewhere on Schedule S. For Massachusetts tax purposes, an S corporation is allowed only those expense deductions that an individually owned business is allowed. Deductions that are itemized by an individual on Schedule A of U.S. Form 1040, are not allowed. The deductions for a net operating loss carryover or carryback are neither allowed to the S corporation nor to an individual under Massachusetts income tax law.

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

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

**Line 38.** Add U.S. Form 1120S, Schedule K, lines 4, 5a and 6 and enter the total in line 38.

**Line 39.** Enter the total amount of interest on U.S. debt obligations reported in line 38 which is taxable by the U.S. government, but is tax-exempt in Massachusetts.

**Line 40.** Enter the total amount of interest from Massachusetts banks included in line 38. Report any interest from Massachusetts savings accounts, saving share accounts and NOW accounts. Also report any interest from term and time deposits. Enclose a statement listing bank sources and amounts.

**Note:** This amount should not include any 5.0% interest from Massachusetts banks derived in the ordinary course of the trade or business activity of the S corporation, and properly reported in line 18.

**Line 41.** Enter the total amount of interest (other than from Massachusetts banks) and dividend income included in line 38. Do not include interest on U.S. debt obligations that is taxable by the U.S. government, but is tax-exempt in Massachusetts. Enclose a statement listing sources and amounts.

**Line 42.** Enter the total amount of the S corporation's non-Massachusetts state and municipal bond interest. This interest is taxable in Massachusetts but not taxed by the U.S. government and thus not reported on U.S. Form 1120S, Schedule K, line 4.

**Line 43.** Enter the total amount of royalty income included in line 38.

**Note:** This amount should not include any royalty income derived in the ordinary course of the trade or business activity of the S corporation and properly reported in line 24.

**Line 44.** Enter the total amount of other income included in line 38, less the amounts of other income included in lines 39 through 43.

### Capital Gains and Losses

If the S corporation had any income or loss reported in U.S. Form 1120S, Schedule K, line 10 that is granted capital gains treatment by the U.S. government, include that amount in lines 45 through 52, as applicable.

**Line 48.** Enter the amount of any loss on the sale, exchange, or involuntary conversion of property used in a trade or business and held for one year or less (from U.S. Form 4797).

**Line 51.** Enter any long-term capital gain or loss that is not included in lines 49 and/or 50 that is granted capital gains treatment by the U.S. government or is classified as a capital gain or loss for Massachusetts purposes.

For Massachusetts purposes a capital gain or loss is the gain or loss from the sale or exchange of a capital asset. A capital asset is:

- ▶ An asset which is capital asset for U.S. income tax purposes; or
- ▶ Property that is used in a trade or business within the meaning of IRC § 1231(b) without regard to the holding period defined in said § 1231(b).

**Line 52.** Enter the amount of any gain from collectibles held for more than one year. Collectibles are defined as any capital asset that is a collectible within the meaning of IRC § 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 53.** Report any adjustments to Massachusetts capital gain and losses. Enclose a complete statement explaining any such adjustments. If an S corporation is taxable at the federal level, and thus the state level, on certain capital gains under IRC § 1374, then the amount of the capital gains passed through to the shareholder is reduced by the tax paid at the federal and state level. Reduce the S corporation's capital gain by the amount of federal and state tax paid by the S corporation and enclose the computation of the tax shown on U.S. Form 1120S, line 22(b).

### Resident and Nonresident Reconciliation

Lines 54 through 57 should be completed only if all three of the following conditions are met:

- ▶ There is one or more nonresident shareholders;
- ▶ There is any income derived from business activities 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.

When completing line 55 exclude any income from unrelated business activities prior to apportionment, see 830 CMR 63.38.1(3) and (4). Enclose a statement and explain any adjustments.

Form 63-FI, Schedule E, should be completed before completing lines 54 through 57.

### Schedule SK-1

On the Schedule SK-1 for each shareholder, the S corporation should indicate the entity type of the shareholder. The S corporation should obtain this information from the shareholder. The S corporation should fill in the **Bank** oval if the shareholder is an IRA or a Roth IRA and the S corporation is a bank or depository institution holding company. The S corporation should fill in the **Exempt orga-**

**nization** oval if the shareholder is exempt from federal income tax under IRC § 501.

S corporations that have indicated on Schedule SK-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/shareholder that will enable the shareholder to calculate the addition to tax.

For IRC § 453A transactions, the S corporation must inform the shareholder of the shareholder's share of the aggregate face amount of installment sales transactions arising in and outstanding as of the close of the taxable year, and any other information the shareholder may need to calculate the addition to tax. The \$150,000 or \$5,000,000 thresholds apply at the level of the individual shareholder. The S corporation must therefore communicate to the shareholder 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 shareholder.

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

### Shareholder's Massachusetts Information

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

**Note:** If the shareholder is a single member of a limited liability company (LLC), the taxpayer identification number is the shareholder's Social Security number, not the Federal Identification number of the LLC.

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

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

For lines 17 through 20 the S corporation may provide each shareholder with a written break-

down of long-term capital gains and losses by the applicable holding period.

**Line 1.** Enter the amount of the shareholder's share of the S corporation's Massachusetts ordinary income or loss from Schedule S, line 31. For a nonresident eligible to apportion, enter the amount of the shareholder's share of the S corporation's Massachusetts ordinary income or loss multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5.

**Line 2.** Report and describe in line 2 any other expense that is deductible from income taxed at 5.0% and properly reportable on Massachusetts Form 1 or Form 1-NR/PY, Schedule E-2, or Form 2 and is not reported elsewhere on Schedule SK-1. Examples of such deductions include oil and gas depletion and the expense deduction for recovery property, IRC § 179. An estate or trust may not elect to expense recovery property.

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

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

The S corporation should provide each shareholder with the amount of its share of any 5.0% interest from Massachusetts banks and interest (other than from Massachusetts banks) and dividend income included in line 3. Each shareholder should use these amounts to complete Form 1 or Form 1-NR/PY, Schedule E-2.

**Line 4.** Enter the shareholder's share of any tax due from the S corporation to any other state, territory or possession of the United States, or Canada or any of its provinces on income taxable to the shareholder in Massachusetts and otherwise allowable as a credit to individuals. This credit is available only to resident shareholders and may be taken by using Form 1, Schedule Z, or Form 1-NR/PY, Schedule Z, or, if applicable, on Form 2.

Where the credit is available, the S corporation must also provide each resident shareholder with separately stated totals of 5.0% interest (other than from Massachusetts banks), dividends and certain capital gains taxed at 12% income and long-term capital gain taxed by other jurisdictions to enable each shareholder to calculate the amount of the credit. The S corporation should provide each shareholder with the names of each applicable jurisdiction and the amount taxed.

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

**Line 5.** Enter the shareholder's share of the S corporation's net rental income or loss from real estate activities from Schedule S, line 34. The correct Massachusetts amount of the shareholder's net income or loss from rental real estate activities may differ from the comparable U.S. total reported on the shareholder's Form 1 or Form 1-NR/PY, Schedule E-2; or Form 2, Schedule E. Each shareholder should make adjustments in Form 1 or Form 1-NR/PY, Schedule E-2; or Form 2, Schedule E, to reflect the correct Massachusetts amount. Each shareholder should enclose a statement with the shareholder's Massachusetts tax return and explain.

**Line 6.** Enter the shareholder's share of the S corporation's net rental income or loss from other activities from Schedule S, line 37.

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

**Line 7.** Enter the shareholder's share of the S corporation's interest on U.S. debt obligations from Schedule S, line 39. For a nonresident shareholder eligible to apportion, enter the shareholder's share without apportionment. This income is taxable by the U.S. government, but tax-exempt in Massachusetts. Each shareholder should include the line 7 total in Form 1 or Form 1-NR/PY, Schedule B; or Form 2, Schedule B.

**Line 8.** Enter the shareholder's share of the S corporation's 5.0% interest from Massachusetts

banks from Schedule S, line 40. For a nonresident eligible to apportion, enter the shareholder's share of the S corporation's 5.0% interest from Massachusetts banks multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5.

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

Each nonresident shareholder whose income is apportioned should also receive from the S corporation the amount of the shareholder's pre-apportionment share of 5.0% interest from Massachusetts banks.

Each nonresident individual whose income is apportioned should include this amount in Form 1-NR/PY, Schedule B. This amount should be used instead of any amount from Form 1-NR/PY, line 7 because the shareholder's full distributive share of such income is included in the U.S. amount reported in Form 1-NR/PY, Schedule B, line 1. Each nonresident trust or estate whose income is apportioned should also receive from the S corporation the amount of shareholders pre-apportionment share of 5.0% interest from Massachusetts banks and should include its pre-apportionment share of 5.0% interest from Massachusetts banks in Form 2, Schedule B, instead of any amount from Form 2, line 5.

**Line 9.** Enter the shareholder's share of the S corporation's interest (other than from Massachusetts banks) and dividend income from Schedule S, line 41. For a nonresident shareholder eligible to apportion, enter the shareholder's distributive share of the (other than from Massachusetts banks) interest and dividend income from Schedule S, line 41, multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5.

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

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

**Line 10.** Enter the shareholder's share of the S corporation's non-Massachusetts state and municipal bond interest from Schedule S, line 42. For a nonresident shareholder eligible to apportion, enter the shareholder's distributive share of the S corporation's non-Massachusetts and municipal bond interest multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5. This

income is not taxed by the U.S. government, but is taxable in Massachusetts.

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

**Line 11.** Enter the shareholder's share of the S corporation's royalty income from Schedule S, line 43. For a nonresident shareholder eligible to apportion, enter the shareholder's distributive share of the S corporation royalty income from Schedule S, line 43, multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5.

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

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

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

**Line 12.** Enter the shareholder's share of the S corporation's income from Schedule S, line 44. For a nonresident shareholder eligible to apportion, enter the shareholder's distributive share of the S corporation's other income from Schedule S, line 44 multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5.

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

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

**Line 13.** Enter the shareholder's share of the S corporation's short-term capital gain from Schedule S, line 45.

For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's short-term capital gain or loss multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5.



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

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

**Line 14.** Enter the shareholder's share of the S corporation's short-term capital losses from Schedule S, line 46. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's short-term capital losses multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5.

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

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

**Line 15.** Enter the shareholder's share of the S corporation's gain on the sale, exchange, or involuntary conversion of property used in trade or business and held for one year or less from Schedule S, line 47.

For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's gain on the sale, exchange, or involuntary conversion of property used in trade or business and held for one year or less multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5.

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

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

**Line 16.** Enter the shareholder's share of the S corporation's loss on the sale, exchange, or involuntary conversion of property used in trade or

business and held for one year or less from Schedule S, line 48.

For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's loss on the sale, exchange, or involuntary conversion of property used in trade or business and held for one year or less multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5.

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

**Line 17.** Enter the shareholder's share of the S corporation's long-term capital gain or loss from Schedule S, line 49. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the long-term capital gain or loss multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5.

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

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

**Line 18.** Enter the shareholder's share of the S corporation's IRC § 1231 gain or loss from Schedule S, line 50.

For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's IRC § 1231 gain or loss multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5.

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

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

**Line 19.** Enter the shareholder's share of the S corporation's other long-term capital gains or losses from Schedule S, line 51. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's other long-term capital gains and losses multiplied by the apportion-

ment percentage in Form 63-FI, Schedule E, line 5.

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

**Line 20.** Enter the shareholder's share of the S corporation's long-term gains on collectibles from Schedule S, line 52. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's long-term gains on collectibles multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5.

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

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

### Shareholder's Basis Information

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

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

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

**Line 25.** Enter the net amount of the adjustments made share of S corporation income, decreased by

distributions to the shareholder, and otherwise adjusted to reflect changes that affect the basis of the stock. Make comparable entries for adjustments to the shareholder's Massachusetts indebtedness.

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

**Line 26.** Enter the net amount of the adjustments made to the shareholder's federal basis for the taxable year.

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

### Declaration Election Code

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

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

▶ The S corporation should fill in the **Member self-file** oval if the shareholder has indicated on Form PTE-EX that it will be filing its own return (e.g., has filled in the oval for **Part 1, line 3; Part 2, line 2; or Part 2, line 3**).

For more information about Form PTE-EX, see the Guide for Pass-Through Entities.

▶ The S corporation should fill in the **Exempt PTE** oval if the shareholder has filled in the oval for **Part 2, line 4** on Form PTE-EX.

▶ The S corporation should fill in the **Non-profit** oval if it has filled in the oval for Part 1, line 1 on Form PTE-EX.

▶ If the shareholder has not made a declaration to the S corporation that it is exempt from withholding, the S corporation should fill in the **Withholding** oval.

▶ If the S corporation has filled in the **Composite** oval under the declaration election code and the S corporation itself made estimated payments on behalf of the shareholder, the S corporation should indicate on line 34 the estimated payments that the S corporation made on behalf of the shareholder.

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

**Line 28.** If the S corporation has filled in the **Withholding** oval under the declaration election code, the S corporation should indicate on line 28 the amount of Massachusetts tax that the S corporation withheld on the shareholder's distrib-

utive share and paid for the year on the shareholder's behalf.

**Line 29.** If the S corporation has filled in the **Composite** oval under the Declaration election code and the S corporation itself made estimated payments on behalf of the shareholder, the S corporation should indicate on line 29 the estimated payments that the S corporation made on behalf of the shareholder.

This number should be the shareholder's share of the amount entered on line 16 of Form MA NRCR. This number is informational only, and is not to be used by the partnership or the partner for any other purpose.

**Line 30.** If the S corporation is a member of one or more lower-tier entities, and amounts were withheld for the S corporation by one or more of those entities, the S corporation should indicate how much of the total amount withheld by all lower-tier entities of which the S corporation is a member should be allocated to this shareholder.

**Line 31.** If the S corporation is a member of one or more lower-tier entities, and composite returns with estimated payments were made on behalf of this shareholder by one or more of those entities, the S corporation should indicate the amount of estimated payments made on behalf of this shareholder. This number should be the shareholder's share of the amount entered on line 16 of Form MA NRCR. This number is informational only, and is not to be used by the S corporation or the shareholder for any other purpose.