

Schedule U-E Instructions

Massachusetts Unitary or Affiliated Group Income

The combined group's income as determined on Schedule U-CI is subject to further modification in determining the combined group's taxable income subject to apportionment for Massachusetts purposes.

Schedule U-E is divided in two parts:

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

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

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

Once Schedule U-E has been completed, the combined group's taxable income is then apportioned (or attributed in cases where no apportionment is permissible) to the taxable group members using numerators calculated on each separate taxable group member's Schedule U-MSI (based on each individual member's Massachusetts attributes) and denominators representing attributes of all members of the combined group as determined on Schedule U-E.

General Instructions

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

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

All of the Schedules ABI and ABIE that relate to deductions taken on Schedule U-E with a unitary business identifier of 1 must also have an identifier of 1. All of the Schedules ABI and ABIE that relate to deductions taken on Schedule U-E with a unitary business identifier of 2 must also have an identifier of 2. All of the Schedules U-MSI that apportion income from the unitary business referenced on Schedule U-E with a unitary business identifier of 1 must also have identifier of 1.

Check one box for the type of group. A financial group is a combined group engaged in a unitary business or a Massachusetts affiliated group all of whose members, including members not taxable on their

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

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

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

Line Instructions

Part 1. Taxable Income

Lines 1 through 13

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

Line 14

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

Line 15

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

Line 16

For Massachusetts purposes, depreciation is to be claimed on all assets, regardless of when they are placed in service, using the method used for U.S. income tax purposes prior to the enactment of Internal Revenue Code (IRC) § 168(k). Enter the difference between the amount deducted for U.S. income tax purposes and the amount deductible for Massachusetts purposes. If the depreciation calculated for Massachusetts purposes exceeds the amount deducted for U.S. income tax purposes, this will be a negative amount.

Line 17

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

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

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

Line 18

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

Line 19

Reserved. Enter 0.

Line 20

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

Line 22

Reserved. Enter 0.

Line 23

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

Line 24

Taxpayers eligible for the FAS 109 deduction should have filed a FAS 109 Deduction Statement prior to July 1, 2009 to report the financial statement impact resulting from the change from separate to combined reporting in Massachusetts. The amount of the deduction in a taxable year is one-thirtieth of the amount that was reported in 2009, subject to verification by the DOR. Taxpayers that did not file a FAS 109 Deduction Statement on a timely basis are not eligible for the deduction. The financial statement impact amount reported on the FAS 109 Deduction Statement must be apportioned to reflect the amount of the financial impact attributable to Massachusetts using the corporation's current year Massachusetts apportionment percentage. Eligible taxpayers should report the deduction on Schedule U-E, line 24

(see TIR 09-8 and TIR 15-12 for details including taxpayer eligibility). The FAS 109 deduction cannot reduce taxable income below zero. Any amount in excess cannot be used as a deduction and cannot be carried forward. However, the deduction should be applied before any other deduction allowable in determining taxable net income, including the net operating loss and dividends received deductions.

Eligible taxpayers must complete and submit a Schedule TDS with their tax return to substantiate the FAS 109 deduction and attach a detailed worksheet to the Schedule TDS showing the calculation of the FAS 109 deduction. Schedule TDS is a Massachusetts taxpayer disclosure statement for purposes of MA Form 355U, line 15. Eligible taxpayers must submit this information to report and disclose the FAS 109 deduction for each taxable year it is claimed.

Note: Taxpayers eligible for the FAS 109 deduction cannot use any amount of the deduction to generate a net operating loss. Therefore, the taxpayer must maintain records to verify that no portion of the FAS 109 deduction is counted in generating an NOL in the current tax year. Where a taxpayer incorrectly takes the FAS 109 deduction into account in determining NOL, any amount of reported NOL attributable to the FAS 109 deduction that is included in the NOL carryforward will be disallowed.

Line 25

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

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

Line 26

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

Line 27

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

Line 28

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

Line 29

NEW – Ordinary and Necessary Business Expense Deductions Available for Licensed Massachusetts Marijuana Businesses

Internal Revenue Code (IRC) section 280E prohibits marijuana businesses from deducting expenses and claiming tax credits for federal tax purposes. Effective for taxable years beginning on or after January 1, 2022, Massachusetts decoupled from the IRC section 280E deduction disallowance with respect to licensed marijuana businesses only. As a result, for Massachusetts tax purposes, a licensed Massachusetts marijuana business can deduct ordinary and necessary business expenses that would otherwise be disallowed under IRC section 280E. These ordinary and necessary trade or business expenses should be reported on Schedule U-E Line 29 "Other adjustments."

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

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

Line 29 may also be used to reflect other differences in limitations that are to be applied to Massachusetts tax calculations, such as deductions that are to be based on a percentage of income as determined under the IRC. See 830 CMR 63.32B.2(6)(c)10.

Enter amounts reducing Massachusetts net income as positive amounts on line 29.

Line 30

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

Line 31

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

Line 32

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

Line 33

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

Line 34

Enter the amount of the combined group's net capital loss (if any) that is not deductible in determining whether or not apportionment factors are inapplicable under 830 CMR 563.38.1(11). If the amount on line 31 (the combined group's capital gain or loss to be apportioned) is greater than or equal to 0, enter 0.

If the amount on line 31 is a loss and the amount on line 32 (the combined group's IRC § 1231 gain or loss) is also a loss (or 0), enter, as a positive adjustment, the amount of the loss on line 31.

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

Line 35

Combine the amounts on line 30 and line 34.

Line 36

Enter 10% of .33% of the amount on line 35.

Part 2. Apportionment Denominators

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

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

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

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

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

Line 37

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

Line 38

All members that are financial institutions taxable within the meaning of MGL ch 63, § 1 must determine the average value of their credit card receivables or other financial institution property and combine the totals. Loans from one member of the unitary group to another (or as between combined group members in the case where the group is subject to an affiliated group election) are to be eliminated from the calculation. Loans and other financial institution property owned by members that are not financial institutions are not included in this calculation.

Line 40

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

Line 41

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

Line 42

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

Lines 45 through 58

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

Enter the total of all members' receipts on the appropriate lines. If no member of the group is a financial institution, enter 0 on each line.

Lines 59 through 62

These lines total the members' worldwide receipts from sources applicable for apportioning income from corporations generally.

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

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