2023 Instructions for Massachusetts S Corporation Return **Form 355S**

Includes Schedule S and Schedule SK-1. This form has an electronic filing requirement. See instructions.

What kind of help is available

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

Where to get forms and publications

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

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

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

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

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

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

Major 2023 Tax Law Changes

For more up-to-date and detailed information and to view all of the public written statements referenced in these instructions, visit mass.gov/dor.

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. The filing due date for S corporation tax returns is the 15th day of the third month following the close of each taxable year. For more information, see Technical Information Release (TIR) 17-5. For calendar year filers, April 15, 2024, when 2023 returns and payments would normally be due, is Patriots' Day, a legal holiday in the Commonwealth, and April 16, 2024 is Emancipation Day, a legal day in Washington D.C. As a result, returns, payments made with returns, and estimated payments otherwise due on April 15, 2024, will be treated as timely if they are filed and/or paid on or before April 17, 2024.

Wind Power Incentive Jobs Credit

For tax years beginning on or after January 1, 2023, and until tax years ending on or before December 31, 2032, a business subject to tax under MGL ch 63 may, to the extent authorized by the offshore wind tax incentive program established in MGL ch 23J, § 8A(d), be allowed a refundable credit in an amount determined by the Massachusetts Clean Energy Technology Center, in consultation with the Department of Revenue. A business taking this credit must commit to the creation of a minimum of 50 net new permanent full-time employees in Massachusetts. See TIR 23-6 and MGL ch 63, § 38LL for additional information.

Wind Power Incentive Investment Credit

For tax years beginning on or after January 1, 2023, and until tax years ending on or before December 31, 2032, a business subject to tax under MGL ch 63 may, to the extent authorized by the offshore wind tax incentive program established in MGL ch 23J, § 8A(d), be allowed a refundable credit in an amount, as determined by the Massachusetts Clean Energy Technology Center, of up to 50 percent of its total capital investment in an offshore wind facility. See TIR 23-6 and MGL ch 63, § 38MM for additional information.

National Guard Hiring Tax Credit

For tax years beginning on or after January 1, 2023, a business subject to tax under MGL ch 63 that employs not more than 100 employees may be allowed a credit equal to $2,000 for each member of the Massachusetts National Guard hired by the business after July 1, 2022. The credit cannot reduce a business's corporate excise liability below the minimum corporate excise amount. See TIR 23-6 and MGL ch 63, § 38KK for additional information.

Disability Hire Tax Credit

For tax years beginning on or after January 1, 2023, businesses subject to tax under MGL ch 63 that hire employees with a disability who live and work in Massachusetts may be eligible for a credit. The credit is equal to the lesser of $5,000 or 30% of the wages paid to a qualified employee in the first year of employment, and the lesser of $2,000 or 30% of the wages paid to a qualified employee in each subsequent year of employment. The credit cannot reduce a business's corporate excise liability below the minimum corporate excise amount. For additional information, see 830 CMR 63.38JJ.1: Disability Employment Tax Credit.

Extension of Brownfields Tax Credit

The brownfields tax credit, previously scheduled to expire on August 5, 2023, has been extended for five additional years. To qualify for a brownfields tax credit, a taxpayer must commence the environmental response action on or before August 5, 2028, and incur net response and removal costs before January 1, 2029. See TIR 23-12 for more information.

Federal Conformity

Massachusetts generally conforms to the IRC as currently in effect for Massachusetts corporate and financial institution excise purposes. For more up-to-date and detailed information on tax changes and federal conformity, visit DOR's website at www.mass.gov/dor.

General Instructions

Expansion of Mandatory Electronic Filing for Corporate Excise Returns

Effective for tax periods ending on or after December 31, 2021, electronic filing and payment of tax will be required of all business corporations and financial institutions subject to tax under MGL ch 63 with no income threshold. For more information, see TIR 21-9.

How Is S Corporation Income Taxed?

Entities that are S corporations for federal purposes are S corporations for Massachusetts purposes and generally file a Form 355S. S corporations that are security corporations must file a Form 355SC. Items of S corporation income, loss, and deduction are passed through the S corporation to the shareholders, and reported and taxed on their return. For Filers of 355S, S corporations are liable for the non-income measure of the corporate excise, and for the income measure of the corporate excise on any income that is taxable to the S corporation federally. S corporations owe at least the minimum tax.

S corporations with total receipts of $6 million or more are liable for the income measure of the cor porate excise at the following rates:

- 2.0% on net income subject to tax if total receipts are $6 million or more, but less than $9 million; or
- 3.0% on net income subject to tax if total receipts are $9 million or more.

Schedule S

Schedule S is designed to report the S corporation's distributive income. A single Schedule S is required to be filed by the S corporation taxpayer.

Schedule SK-1

Schedule SK-1 is designed to allow the S corporation taxpayer to report each shareholder's distributive share of S corporation income. A separate Schedule SK-1 is required for each shareholder.

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 million, an income measure of corporation excise will be due. If line 17 of Schedule S is less than $6 million, 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 intercompany 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 E with Form 355S and must complete and submit a pro forma U.S. Form 1120.

Requirement to File a Combined Report

An S corporation that is doing business in the state 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 S corporations. In such cases, if the 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. Further, even where an 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 whether or not 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 355S, Schedule E.

The non-income measure of excise for S corporations that are members of a combined group is still determined on a separate company basis but for tax years beginning on or after January 1, 2011, this is calculated on schedules attached to the Form 355U unless the S corporation's separate federal taxable year ends at a different time than the taxable year of the combined report.

Note: An S corporation that pays both the income and non-income measure of excise with Form 355U submits Form 355S as an informational return, enclosing Schedules S and SK-1, although no additional tax is due with that filing. See the instructions for Registration Information, line 5, for additional information.

Who Must File and Pay Corporate Excise?

The purpose of the corporate excise is to require payment for the right granted by the laws of the Commonwealth to exist as a corporation and for the enjoyment under the protection of the Commonwealth's laws of the powers, rights, privileges and immunities derived by reason of the corporate form of existence and operation. The corporate excise is due and payable when any of the following conditions are met:

- The corporation actually does business within the Commonwealth;
- The corporation exercises its charter within the Commonwealth;
- The corporation owns or uses any part of its capital, plant or other property in the Commonwealth; or
- The corporation owns and/or rents real or tangible personal property as a lessor in Massachusetts even without having a usual place of business here.

PTE Excise Election Out-of-state S Corporation

- An out-of-state S corporation as Eligible PTE elects to pay the PTE Excise even if it is not otherwise required to file an S corporation return in Massachusetts. The out-of-state Eligible PTE must make the election on a timely filed Form 355S and must complete and submit the form including all schedules. In addition, the out-of-state Eligible PTE must file Form 63D-ELT. For more information see the instructions for Form 63D-ELT available at mass.gov.

Massachusetts S corporations other than Financial Institution S corporations must file Form 355S with Schedule S and one Schedule SK-1 for each resident and nonresident shareholder. Schedule S must be completed to report the S corporation's distributive income. The S corporation must also provide a Schedule SK-1 to each shareholder to inform the shareholder of the distributive share of items of income, loss, deduction and credit for reporting on the shareholder's Massachusetts return.

If an S corporation is a Financial Institution, it must file Form 63-FI, Financial Institution Excise Return. It must enclose with Form 63-FI Schedule S and Schedule SK-1 for each shareholder.

All Massachusetts S corporations that are not financial institutions are liable for the non-income measure of the corporate excise or the minimum excise and must complete the relevant sections of Form 355S. It must also complete Schedule E of Form 355S for any income taxed at the corporate level for U.S. income tax purposes, or if total receipts are $6 million or more.

Note: Under Massachusetts law, all corporations registered in the Commonwealth are required to file an annual report form with the Secretary of State within a limited time after the close of their fiscal year. Annual report forms and instructions can be obtained by calling (617) 727-9440. For further information on this requirement, call the Secretary of State's Corporate Information line at (617) 727-9640.

Each shareholder should use the information provided on Schedule SK-1 to complete the shareholder's Massachusetts tax return.

Each shareholder is taxed on the shareholder's share of the S corporation's income whether distributed or not. Each shareholder must report the shareholder's distributive share of S corporation income during the taxable year on the shareholder's Massachusetts tax return. A full-year resident individual must file Form 1. Part-year resident individuals and nonresident individuals must file Form 1-NR/PY. A trust or estate must file Form 2.

What Is Nexus for Massachusetts Corporate Excise Purposes?

A corporation that owns or uses any part of its capital or other property, exercises or continues its charter or is qualified to, or is actually doing business in Massachusetts has nexus with the Commonwealth and must pay a corporate excise. Doing business in the state as referenced in MGL ch 63, § 39 includes:

- The maintenance of a place of business;
- The employment of labor;
- The buying, selling or procuring of services or property;
- The execution of contracts;
- The exercise or enforcement of contract rights;
- The consummation of greater than $500,000 in sales (where the corporation has no other state contacts); and
- Each and every act, power, right, privilege, or immunity exercised or enjoyed in the Commonwealth, as an incident to or by virtue of the powers and privileges acquired by the nature of such organizations, as well as, the buying, selling or procuring of services or property.

The federal statute, PL 86-272, exempts from state net income-based taxation an out-of-state corporation whose sole interstate activities con-

sist of the mere solicitation of orders for sales of tangible personal property filled by shipment or delivery from a point outside Massachusetts after such orders are sent outside the state for approval or rejection. PL 86-272 does not apply to a corporation that sells services or licenses intangible property in Massachusetts. Also, PL 86-272 does not apply where the in-state business activity by or on behalf of a corporation, however conducted, includes activity that is not entirely ancillary to the solicitation of orders of tangible personal property. Activities that take place after a sale will ordinarily not be considered entirely ancillary to the solicitation of such sale. A corporation that has nexus with the Commonwealth and is excluded from income-based taxation by PL 86-272 remains liable for the non-income measure of excise.

The following are activities that ordinarily fall within the scope of "solicitation" under PL 86-272:

- Activities including advertising related to generating retail demand for the products of a manufacturer or distributor by promoting the products to retailers who order the products from a wholesaler or other middleman;
- Carrying samples only for display or for distribution without charge or other consideration;
- Owning or furnishing automobiles to sales representatives, provided that the vehicles are used exclusively for solicitation purposes;
- Passing inquiries and complaints on to the home office;
- Incidental and minor advertising;
- Checking customers' inventories for reorder only;
- Maintaining a sample or display area for an aggregate of 14 calendar days or less during the tax year, provided that no sales or other activities inconsistent with solicitation take place;
- Soliciting of sales by an in-state resident representative who maintains no in-state sales office or place of business; and
- Training or holding periodic meetings of sales representatives.

For further information on corporate nexus, refer to 830 CMR 63.39.1.

Massachusetts and Internal Revenue Code Differences

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. Neither the federal deduction for a net operating loss carryover nor carryback is allowed to S corporations nor to an individual under Massachusetts income tax law. However, S corporations with total receipts of $6 million or more are allowed a Massachusetts net operating loss for purposes of calculating their additional excise liability. If an S corporation is subject to the net income measure because its receipts are over 6 million dollars, then it must calculate its net income as if it were a C corporation.

Schedules S and SK-1 isolate income and deduction items in order to produce the correct Massachusetts S corporation total as well as each shareholder's correct Massachusetts distributive share. These amounts often differ from those reported on U.S. Form 1120S and Schedule K-1.

For more information on difference related to the impact of the CARES Act in Massachusetts see TIR 20-9: Massachusetts Tax Implication of Selected Provisions of the Federal CARES Act.

For more information on differences related to the impact of the TCJA in Massachusetts see 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.

How Does Massachusetts Treat Qualified S Corporation Subsidiaries?

All federal S corporations are subject to the entity level tax that applies to S corporations in Massachusetts under MGL ch 63, § 32D, notwithstanding the entity's legal form of organization. A qualified S corporation subsidiary (QSUB) does not file a separate return; rather the parent S corporation shall include the income and take into account the activities of all qualified subchapter S subsidiaries for purposes of determining its excise.

A QSUB's income, assets, and other attributes are taken into account by the QSUB's S corporation parent, together with the parent's income, assets, and other attributes, in determining the parent S corporation's Massachusetts tax liability. Transition rules apply to carryovers a QSUB may have generated in tax years beginning prior to January 1, 2009, when it was required to file as a separate corporation under Massachusetts law. See 830 CMR 63.30.3.

S Corporation Additional Excise

Gross income for corporate excise purposes is the same as that defined under the IRC, as amended and in effect for the taxable year, with the following additions:

- Interest from the bonds, notes and evidences of indebtedness of any state, including Massachusetts.

Net income is gross income less the deductions, but not the credits, allowable under the IRC. The following deductions are not allowed:

- Dividends received (see Schedule E-1 instructions); and
- Taxes for or measured by income, franchise taxes measured by income, franchise taxes for the privilege of doing business and capital stock taxes imposed by any state or U.S. territory.

The deduction for losses sustained in other taxable years is allowed, but subject to restrictions. See Schedule NOL for further information.

S corporations with total receipts of $6 million or more are liable for the income measure of the corporate excise at the following rates:

- 2.0% (0.02) on net income subject to tax, if total receipts are $6 million or more, but less than $9 million; or
- 3.0% (0.03) on net income subject to tax, if total receipts are $9 million or more.

To determine if an S corporation is liable for the in come measure of the corporate excise, complete Massachusetts Schedule S. If line 17 of Schedule S is at least $6 million, complete Massachusetts Schedule E.

What If an S Corporation's Taxable Year Is Less Than 12 Months?

S corporations whose taxable year is less than 12 calendar months may determine their excise by prorating calendar months for the non-income measure of the excise only. Schedules should be available to explain any prorating computations.

The gross receipts of an S corporation must be annualized for a short period return for purposes of determining whether the corporation's gross receipts are $6 million or more. If not, there is no tax on income on the corporate level.

To compute total receipts for a taxable year consisting of less than 12 months, an S corporation must annualize its total receipts for the taxable year by multiplying the total taxable receipts for the short taxable year by 12 and then dividing the resulting amount by the number of months in the short taxable year. The resulting difference is entered on Schedule S, line 11.

For further information, see 830 CMR 62 17A.2(8)(b)4.a.

A corporation may never pay less than the $456 minimum excise on a return, and this amount can never be prorated as Massachusetts law makes no provision for the proration of the minimum excise.

When Are Returns Due?

S Corporation returns, together with payment in full of any tax due, must 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. S corporations that are members of a combined group may be eligible to file on or before the 15th day of the fourth month. See 830 CMR 62C.11.1.

S Corporations meeting certain payment requirements will be given an automatic six-month extension.

Note: An extension of time to file is not valid if the corporation fails to pay at least 50% of the total tax liability or the minimum tax of $456, which ever is greater, on or before the due date of the original return.

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

S corporations that are participating in a combined report of their net income to Massachusetts must file Form 355U.

In addition, an S corporation that pays both the income and non-income measure of excise with Form 355U must also submit Form 355S 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. See 830 CMR 62C.11.1.

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

File the 2023 return for calendar year 2023 and fiscal years that began in 2023 and ended in 2024. 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 use 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.

What is a Proper Return?

A proper return is a return upon which all required amounts have been entered in all appropriate lines on all forms, and all required schedules, forms and other attachments have been submitted. Data sheets, account forms or other schedules must be available to explain amounts entered on the forms. Referencing lines to enclosures in lieu of entering amounts onto the return is not sufficient.

An exact copy of U.S. Form 1120S, including all applicable schedules and forms and any other documentation required to substantiate entries made on this return, must be submitted along with Form 355S.

Should the Corporation Be Making Estimated Tax Payments?

All corporations which reasonably estimate their corporate 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.

- 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.

Note: The due dates for estimated tax payments are not the same as the corporate excise return due dates. An overpayment from the prior year Form 355 applied to the following year's estimated tax will be credited on the 15th day of the fourth month; one month after the due date for the first installment.

Corporations must submit their estimated payments electronically. See TIR 21-9 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.

Note: Any corporation having $1 million 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 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 its second installment payment.

For more information on corporate estimated taxes, refer to 830 CMR 63B.2.2, and MGL ch 63B.

Filing an Amended Return

New-Supporting Statement. If you are filing an amended return for any reason you **must** attach a statement to the amended return with an explanation of why you are filing the amended return, including the basis for submitting it.

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 21-9 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 (e.g., 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** oval and the **Amended return due to federal change** oval. If the amended Massachusetts return incorporates changes that are the result of an IRS audit, fill in both the **Amended return** oval and the **Amended return due to federal audit** oval; enclose a complete copy of the federal audit report and supporting schedules.

If your amended return is being submitted due to an IRS BBA Partnership Audit then fill in the **Amended return due to IRS BBA Partnership Audit** oval.

Schedule DRE. Disclosure of Disregarded Entity

A S corporation that is doing business in Massachusetts (including through the means of activities conducted by a disregarded entity that such S corporation owns) and that is also the owner of a disregarded entity for any portion of the taxable year for which a return is being filed must

identify each such disregarded entity by filing Schedule DRE with its return. A separate Schedule DRE is required for each such disregarded entity. See Schedule DRE instructions for additional information.

Massachusetts Schedule FCI. Foreign Corporation Income

Fill in the oval and enclose Schedule FCI (Foreign Corporation Income) if the S corporation is required to complete and file Schedule FCI with Form 355S. All taxpayers with foreign corporation income (including GILTI income) must complete Schedule FCI. Detailed instructions for completing Schedule FCI are available on DOR's website. See Schedule FCI and Instructions.

Enclosing Schedule TDS. Inconsistent Filing Position Penalty

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

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

S Corporation Election Termination or Revocation

Fill in this oval if the taxpayer's S corporation status was terminated or revoked by election or otherwise.

Member of Lower-tier Entity

A tiered structure is a pass-through entity that has a pass-through entity as a member. (The term "pass-through entity" refers to an entity whose income, loss, deductions and credits flow through to members for Massachusetts tax purposes. As between two entities, the pass-through entity that is a member is the upper- tier entity, and the entity of which it is a member is the lower-tier entity. If the S corporation is a member of another pass-through entity, it should fill in this oval.

Reporting on Form 63D-ELT (Entity Level Tax)

For purposes of reporting PTE Excise on Form 63D-ELT, an S corporation will still include in its PTE Excise tax base the share of income attributable to an entity that is disregarded for tax purposes (if such disregarded entity is owned by an individual or trust). An S corporation as Eligible PTE must disclose the identity of the legal or beneficial owner of any disregarded entity in its entity-level tax return (Form 355S) so the applicable share of income is included in the PTE Excise. For Form 355S purposes, the Eligible PTE filer must indicate on its Form 355S the legal or beneficial owner of each disregarded entity so that it can include it in calculating the PTE Excise on Form 63D-ELT.

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

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

Filing an Application for Abatement

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

- Penalties
- Audit assessments
- Responsible person determinations

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

Visit mass.gov/dor/amend for additional information about filing an amended return, or filing an application for abatement.

Registration Information

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

Line by Line Instructions

Line 3

A corporation is a section 38 manufacturer for any taxable year if it is engaged in manufacturing during the taxable year and its manufacturing activity during the taxable year is substantial. This applies regardless of whether the corporation is classified as a manufacturing corporation under MGL ch 58, § 2 and 830 CMR 58.2.1.

The apportionment factor for corporations engaged in substantial manufacturing (section 38 manufacturers) is 100% of sales.

A corporation's manufacturing activity is substantial for any taxable year if the corporation meets any of the following tests:

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

See MGL ch 63, § 38.

Effective January 1, 1997, mutual fund service corporations are required to attribute their mu-

tual fund sales to Massachusetts based on the domicile of the shareholders in the fund. Effective July 1, 1997 mutual fund service corporations are allowed to apportion their net income from mutual fund sales based solely on their sales factor. However, in order to use the single sales factor apportionment method a mutual fund service corporation must increase its workforce in Massachusetts by 5% a year for five years based on the 1996 employment level unless adverse economic conditions exist. Taxable net income not derived from mutual fund sales is apportioned according to the statutory three factor method.

A corporation is a mutual fund service corporation if it derives more than 50% of its gross income from providing, directly or indirectly, management, distribution or administration services to or on behalf of a regulated investment company, and from trustees, sponsors and participants of employee benefit plans which have accounts in a regulated investment company.

DOR has issued further guidance on apportionment for mutual fund service corporations; see 830 CMR 63.38.7.

If a corporation is qualified as a section 38 manufacturer or is a mutual fund service corporation, fill in the applicable oval and complete Schedule F, Income Apportionment, accordingly.

DOR has issued further guidance on apportionment; see 830 CMR 63.38.1.

Line 4

An R&D corporation is a business corporation whose principal business activity in Massachusetts is research and development and which:

- Derives more than two-thirds of its gross receipts attributable to Massachusetts from that activity; or
- Incurs more than two-thirds of its expenditures in that activity. Research and Development corporations may be eligible for certain tax benefits. See 830 CMR 64H.6.4.

A classified manufacturing corporation is a business corporation engaged in manufacturing in Massachusetts, whose manufacturing activities in Massachusetts are substantial and which has filed Form 355Q and had its manufacturing status approved by the Commissioner. A corporation may be a section 38 manufacturer based on its worldwide manufacturing activities but not be a classified manufacturer if those manufacturing activities occur outside of Massachusetts. Classified manufacturing corporations may be eligible for certain tax benefits. See 830 CMR 58.2.1.

If you are a classified manufacturer, you must have filed Form 355Q and had your manufacturing status approved by the Commissioner.

Line 5

If you filled in the oval in line 5 you are still required to file, on or before the 15th day of the third month after the close of the taxable year, Form 355S and to submit Schedules S and SK-1 on an informational basis. If this corporation has a taxable year that ends at a different time than the taxable year for which the combined report is being filed, you are also required to pay the non-income measure of excise by filing a separate Form 355S return (instead of filing it with Form 355U).

When two or more corporations are required to file a combined report, the taxable members' apportioned shares of the combined income are based the combined group's taxable year. If not all the members have the same taxable year, the combined group's taxable year is determined under 830 CMR 63.32B.2(12)(b).

Form 355U is used by the combined group to calculate and pay the income excise due from the taxable members of a combined group. Form 355U and payment of the income measure of excise is due on 15th day of the fourth month following the close of the combined group's taxable year. This due date also generally applies to S corporations that are taxable members of a combined group. See 830 CMR 62C.11.1. Members of such a group that are S corporations and that are subject to a non-income measure of excise under the provisions of MGL ch 63, § 39 (including those S corporations that are not taxed as financial institutions under MGL ch 63, § 2D) are required to determine and pay the non-income measure of excise on the 15th day of the third month following the close of their separate taxable year. If a member's non-income measure of excise is due on the same day as the combined report (if the member's taxable year ends at the same time as the combined group's taxable year), the member will pay such non-income measure with the combined report. S corporations that pay the non-income measure of excise with Form 355U, file Form 355S, completing all the questions on page 1, enter 0 on all lines of the excise calculation except line 12 (which reports the total tax paid with the Form 355U). When the non-income measure of excise has been paid with Form 355U, the dollar amounts on Schedules A and B submitted with the Form 355S will be blank (do not duplicate the information submitted with the Form 355U) and Schedules S, SK-1 and Schedule F (if the corporation is eligible to apportion) will be completed without regard to combined reporting, taking into account only the income and activities of this corporation to determine and apportion the distributive shares of income under MGL ch 62.

Line 7

If a member of a combined group has a separate taxable year that ends at a different time than the combined group's taxable year, that member must file a separate return to pay the non-income portion of the excise at the close of the member's separate taxable year. S corporations will file Form 355S indicating on the face of such return that they are subject to combined reporting for their income measure of excise and exclude from that separate return the income that is reported on the group's Form 355U (Schedule E is not required unless the taxpayer has income from a source other than the unitary business). S corporations with separate taxable years that end at a different time than the combined group's taxable year will complete Sched ules A and B and any other schedules required to determine the non-income measure of excise without regard to combined reporting (e.g. based on their assets and liabilities at the close of their separate taxable years). Such corporations complete the excise calculation on page 2 of the return normally and may take credits against the excise reported on this separate return and should enter the amount of each credit taken on the Schedule CMS. S Corporations always complete Schedules S and SK-1 without regard to combined reporting, taking into account only the income and activities of this corporation.

Line 9

If the S corporation is requesting alternative apportionment under MGL ch 63, § 42, it must fill in the appropriate circle in line 9, 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 corporation's application for alternative apportionment must be submitted with the return and must include a computation of tax using the statutory apportionment formula and a second 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.

Line 14
If your corporation has undergone a federal audit for some prior year, you must fill in the **Federal audit** oval on page 1. You must report any federal audit changes within three months after the final determination of the correct taxable income by the IRS. Otherwise, you will be subject to a penalty. If the federal change results in less tax due to Massachusetts than was assessed or paid, you may apply for abatement under the federal change rules within one year of the final federal determination. Answering line 14 does not relieve the corporation from this filing obligation.

Line 16
If the corporation is deducting intangible or interest expenses, answer yes. Complete Schedule ABI, Exceptions to the Add Back of Interest Expense, and/or Schedule ABIE, Exceptions to the Add Back of Intangible Expenses to claim the deduction. See TIR 19-17: Application of IRC § 163(j) Interest Expense Limitation to Corporate Taxpayers, for more information on how to calculate the interest expense deduction.

Line 17
Corporations that are doing business in Massachusetts but are exempt from the income measure of excise pursuant to federal PL 86-272 claim the exemption here by filling in the Yes oval.

These corporations remain subject to the non-income measure of excise or the minimum excise, whichever is greater. Such corporations are not required to submit Schedule E but must complete Schedule F for the purpose of determining their non-income measure of excise.

Fill in "Taxable only with respect to partnership activity" if the corporation is only taxable in Massachusetts with respect to their partnership activity. See 830 CMR 63.39.1(8) and 830 CMR 63.38.1(4)(d).

Excise Calculation
In order to complete the excise calculation, all appropriate schedules must be filled out first. Therefore, schedule instructions precede the instructions for the excise calculation section. Use the whole dollar method.

Schedule A
Enter the closing amounts for the taxable year covered by this return. Once the corporation's balance sheet is completed, it will be easier to complete subsequent schedules.

Note: Schedules A-1, A-2 and A-3 are obsolete. Taxpayers will no longer be required to provide this information when filing the return (it will be requested, if needed, on audit).

Line 1a
Enter here the book value of all buildings. A portion of the cost attributable to buildings under construction and reported on the corporation's books as construction in progress (CIP) is considered real estate for purposes of the property measure of the corporate excise and must be reported in line 1a. Enter 100% of the corporation's real estate CIP costs, less 15% of the current year's accumulation.

Line 1j
The value of any certified solar/wind units for which a deduction is claimed this year should be entered here. Amounts of certified industrial waste and/or air pollution treatment facilities and certified solar/wind deductions claimed in any prior year should be included. In order to be eligible for this deduction, property must be certified by the appropriate state agencies and copies of such certificates must be available upon request. See instructions for Schedule E, line 24.

Line 1k
Enter here the value of all tangible property reported on the corporation's books as CIP. In addition, enter here 15% of the current year's real estate CIP accumulation. For further information, see DOR Directive (DD) 02-11.

Line 2b
Enter here the value of inventory that is exempt from the tangible property measure of the excise. An example of exempt inventory is merchandise of foreign origin imported and immediately placed in a federally bonded warehouse. Merchandise of domestic origin is not exempt from the tangible property measure of the excise. A schedule listing the components of any entry in line 2b must be available upon request.

Line 12
In order to be a subsidiary, the parent must own at least 80% or more of the voting stock of a corporation in accordance with IRC § 1504 or, in the case of a subsidiary business corporation that does not have voting stock, the book value of its investment in such business corporation must represent an 80% or more ownership interest. Advances should include payments in the nature of capital contributions. Do not include loans or other receivables.

Line 12a
Enter in line 12a the total of capital stock and equity contributions of subsidiary corporations 80%or more owned.

Line 12b
Enter in line 12b the value of capital stock investments with less than 80% ownership and also any other investment entity such as a partnership.

Line 14
If the reserve for bad debt exceeds 2% of accounts receivable, a complete explanation to enable a review and determination of the proper amount allowable must be available upon request.

Line 17
Enter here the value of any assets not included in lines 1 through 16. Examples include, but are not limited to, goodwill and company patents.

Line 19a
Enter the value of mortgages on Massachusetts real estate, motor vehicles, machinery owned by a corporation which is not classified as a manufacturing corporation, and other tangible personal property located in Massachusetts and subject to local taxation. Mortgages do not include conditional sales, pledges or other types of security interest.

Schedules B, C and D
Tangible or Intangible Classification and Calculation of Non-Income Measure
Schedules B, C and D are used to calculate the non-income measure of the Massachusetts corporate excise. Schedule B is used to determine whether a corporation is a tangible or intangible property corporation. Once determined, tangible property corporations must complete Schedule C (and omit Schedule D) and intangible property cor porations must complete Schedule D (and omit Schedule C). Net book values should be used in completing all schedules.

Schedule B
Schedule B is used to calculate whether a corporation is a tangible or intangible property corporation. Beginning in 2004, taxpayers no longer have the option of calculating the non-income measure as a domestic or foreign corporation. To reflect this legislative change, both Schedule B and D have been reduced in length. If line 15 is 10% or greater, complete Schedule C. If line 15 is less than 10%, complete Schedule D. The maximum entry allowed on line 15 is 9.999999.

Schedule C
If Schedule B, line 15 is 10% or greater, the corporation must complete Schedule C using net book values to determine the non-income measure of the excise. Omit Schedule D.

Schedule D
Schedule D is used by a corporation to calculate its non-income measure excise on the basis of net worth. If line 15 of Schedule B is less than 10%, complete this schedule. Corporations are allowed to deduct the value of investments in, and advances to, Massachusetts and foreign subsidiaries. To be a subsidiary, the parent must own 80%

or more of the voting stock of the corporation in accordance with IRC § 1504, or if the subsidiary business corporation does not have voting stock, the parent must have 80% or more ownership interest in the subsidiary.

Schedule E-1

Massachusetts Dividends Received Deduction

Massachusetts corporate excise law does not allow the dividends received deduction allowed under the IRC. However, a deduction is allowed for 95% of the value of all dividends received (MA 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 Regulated Investment Company (RIC) or Real Estate Investment Trust (REIT) are not eligible for MA DRD whether the dividend is paid directly by the RIC or REIT, or indirectly, as through a subsidiary or affiliate of the taxpayer.

The total dividends amount on Schedule E-1, line 1 is derived from the amount shown on U.S. Form 1120, Schedule C, line 23, less any dividends received directly or indirectly from RICs or REITs as well as any other dividends for which deduction is not allowed under Massachusetts law. The amounts excluded from line 1 are also excluded from line 8. The dividends shown on lines 2 through 6 should not be excluded from line 1, as they will be separately subtracted from line 1 in determining the amount of line 8. For further information, see TIR 04-10.

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

Impact of TCJA on Schedule E-1 Reporting

Certain eligible individual and business taxpayers must report foreign corporation income for federal tax purposes under TCJA. This includes, among other things, reporting of Subpart F income and Global Intangible Low-Taxed Income (GILTI) under IRC § 951A.

For corporate excise purposes, subpart F income and GILTI must be reflected as part of the total dividends reported on Schedule E-1. See TIR 19-11: Legislation Impacting the Massachusetts Tax Treatment of Selected International Provisions of the Federal Tax Cuts and Jobs Act.

Thus, a business corporation that is not part of a combined group must report subpart F income and GILTI as dividends on on line 1 of Schedule E-1. For more information on combined group filers see Instructions to Form 355U.

Subpart F income and GILTI are also eligible for MA DRD (subject to the applicable 15% voting stock ownership requirement). Therefore, a business corporation that is not part of a combined group should also report eligible MA DRD amounts for subpart F income and GILTI on Schedule E-1.

A business corporation that is reporting subpart F income and GILTI must also file a Schedule FCI with its return.

Schedule E

If line 17 of Schedule S is less than $6 million, Schedule E is not required.

This rule applies whether or not the corporation is required to file a combined report, Form 355U, because it is engaged in a unitary business with a C corporation that is doing business in Massachusetts. Schedule E is not required, because the S corporation is engaged in a unitary business with a C corporation that is doing business in Massachusetts.

If line 17 of Schedule S is $6 million or more and the corporation is required to file Form 355U (see How Is S Corporation Income Taxed on page 3), check Yes in the registration section, line 5, and complete Schedule E only if:

- The taxable year of the S corporation does not end on the same day as the taxable year of the combined group that is filing the combined report; and
- The S corporation has income from sources other than the unitary business that is taxable in Massachusetts. If both of the above conditions apply, complete Schedule E only with respect to the income that is not included in the combined report. Otherwise enter 0 on line 5 of the excise calculation page.

All other S corporations with receipts of $6 million or more complete Schedule E as described below.

S Corporation Mutual Fund Service Corporations

Mutual fund service corporations eligible to apportion their income under MGL ch 63, § 38 (m) must complete two separate copies of Schedule E:

- For income derived from mutual fund sales; and
- For non-mutual fund sales income, if any.

Taxable net income from mutual fund sales is gross income from mutual fund sales less:

- Any deductions directly traceable to its mutual fund sales; and
- A portion of other allowable deductions.

Other allowable deductions consist of deductions not directly traceable to mutual fund sales or non-mutual fund sales. To determine the deductible amount of its other allowable deductions a mutual fund service corporation must multiply the total amount of its other allowable deductions by a fraction, the numerator of which is the mutual fund service corporation's gross income derived from mutual fund sales for the taxable year and the denominator of which is the mutual fund service corporation's total gross income for the taxable year. Taxable net income from non-mutual fund sales consists of any taxable net income not derived from mutual fund sales.

If a corporation is not a mutual fund service corporation, 100% of sales, profits, and income should be entered in lines 1 through 12. If the corporation has income from business activities which is taxable both in Massachusetts and any other state, Schedule F should be completed and the apportionment percentage entered in line 20.

Line 4

Enter U.S. taxable income before deducting net operating loss or other special deductions. If the corporation is the parent of a DISC, income should be reported with no allocation to the DISC.

Line 5

Enter any allowable U.S. Wage Credit used in calculating U.S. Form 1120, line 13.

Line 7

Enter all interest received on state and municipal obligations not reported in U.S. net income.

Line 8

Massachusetts does not allow a deduction for state, local and foreign income, franchise, excise or capital stock taxes. Any such taxes which have been deducted from U.S. net income should be entered in line 8 and added back into income.

Line 9
For Massachusetts purposes, for taxable years ending after September 10, 2001, depreciation is to be claimed on all assets, regardless of when they are placed in service, using the method used for U.S. income tax purposes prior to the enactment of § 168(k). For more information, see TIR 02-11 and TIR 03-25.

Line 10
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. If you qualify for an exception to the add back requirement, complete Schedule ABIE. For further information, see TIR 03-19.

Line 11
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. If you qualify for an exception to the add back requirement, complete Schedule ABI. For further information, see TIR 03-19.

Line 13
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 as a negative amount on Schedule E, Line 13 "Other adjustments."

Federal Tax Reform Add-back Adjustments
Massachusetts budget legislation created corporate excise tax add-backs for certain federal deductions enacted by TCJA. These include corporate excise tax add-back adjustments for federal deductions under IRC § 965(c), IRC § 245A and IRC § 250. A business corporation (other than a financial institution) that is not part of a combined group should report the amount of IRC § 965(c), IRC § 245A and IRC § 250 federal tax deductions as add-back adjustments on Schedule E, line 13. See TIR 19-11: Legislation Impacting the Massachusetts Tax Treatment of Selected International Provisions of the Federal Tax Cuts and Jobs Act. In lieu of these deductions, a taxpayer may be eligible for MA DRD.

Enter any adjustments to income not previously reported on Schedule E, line 13. For example, enter in this line the amount of depreciation or amortization taken this year in computing U.S. net income for the following:

- Certified industrial waste and/or pollution treatment facilities of prior years; or
- Certified solar/wind units of current or prior years, if said facilities were sold during the year.

(See MGL ch 63, § 38D(d) and § 38H(e) for further explanation.)

Capital gains on installment sales of intangible property made prior to 1963 may also be deducted from income. These gains fall under the provisions of prior Massachusetts law when such income was not taxable (see MGL ch 63, § 38(a)(2)). This adjustment should be made in line 8.

Deduct the full U.S. research credit generated provided that the full U.S. research credit was taken. If a reduced U.S. research credit was taken, no adjustments are necessary.

From Massachusetts Schedule RC, Part 1, line 21, add back the full Massachusetts research credit generated.

The deduction allowed to a corporation for any expense which qualifies for the Massachusetts Research Credit must be reduced by the Massachusetts Research Credit determined in the current taxable year. In addition, IRC § 280C, which requires a similar reduction of the deduction, shall not apply in determining Massachusetts net income.

Capital loss carryovers are not allowed under Massachusetts law. Any loss claimed on the U.S. return must be added back on Schedule E, line 13.

If the corporation has income not subject to apportionment, the amount should be deducted on Schedule E, line 13 and entered on Schedule E, line 22.

If the corporation has qualified taxable income and passive income, the amount should be deducted on Schedule E, line 13 and entered on the Excise Calculation Schedule, line 3.

Line 15
Enter the total cost of renovating an abandoned building in an Economic Opportunity Area. Multiply this amount by 10% and enter here.

Line 16
Refer to Schedule E-1 for the allowable deductions for dividends. Dividends from a Massachusetts corporate trust, a non-wholly-owned DISC or a corporation of which less than 15% of the voting stock is owned are not deductible. Also, direct or indirect dividends received from a RIC or REIT are not deductible.

Line 20
If the corporation conducts business activities in another state sufficient to give that state the jurisdiction to tax the corporation, Schedule F should be completed in order to determine the apportionment percentage. If all business is conducted in Massachusetts, 100% (1.00) should be entered in line 20.

Line 24
A deduction is allowed for expenditures paid or incurred during the taxable year for the installation of any solar or wind powered climate control or water heating unit. Ancillary units do not qualify.

In order to be eligible for this deduction, the property must be certified by the Office of Facilities Management. A copy of such certification must be available along with a schedule itemizing the:

- Cost;
- Allowable U.S. depreciation;
- Date of installation; and
- Place of installation.

If these amounts are prorated, the computation should be explained.

If eligible units do not continue in qualified use for ten years, the deductions previously allowed must be added back to taxable income. The amount should be entered in Schedule E, line 13.

Note: The special deduction for the construction of certified industrial waste and/or air pollution treatment facilities does not apply to expenditures paid or incurred on or after January 1, 1980.

Line 26
Enter the amount of the corporation's loss carryover deduction from Schedule NOL, line 5.

Line 27
Subtract the amount on line 26 from the amount on line 25. Enter this amount in the excise calculation section, line 5.

Line 28
Enter the amount of the total net operating loss available for carryover to future years. This figure is taken from Schedule NOL, line 8.

If Schedule NOL is not filed and Schedule E, line 23 is a loss, enter the amount from line 23 in line 28 as a positive number.

Schedule F
Schedule F should be completed by all corporations that have income from business activities taxable both in Massachusetts and in any other

state. For purposes of this requirement, "taxable" has the meaning set forth in 830 CMR 63.38.1(5)(b). This standard is not satisfied merely because the taxpayer is incorporated in such a state or files a return in another state that relates to capital stock tax or franchise tax for the privilege of doing business.

If the corporation is requesting alternative apportionment under MGL ch 63, § 42, it must fill in the appropriate circle in line 9, 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 corporation's application for alternative apportionment must be submitted with the return and must include a computation of tax using the statutory apportionment formula and a second 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.

For further information about corporations that hold S corporation interests and the appropriate method to use to apportion S corporation income, see 830 CMR 63.38.1(4)(d) and 12.

Corporations engaged in substantial manufacturing (section 38 manufacturers) are required to apportion their net income based on sales factor only.

Corporations other than section 38 manufacturers or mutual fund service corporations are required to apportion their net income as follows: sales factor equals 50%, property factor equals 25%, payroll factor equals 25%.

To determine if a corporation qualifies as a section 38 manufacturer or mutual fund service corporation, see instructions for the registration section: line 3 of Forms 355 and 355S.

If a corporation is a section 38 manufacturer or mutual fund service corporation, fill in the applicable oval. If a corporation is not a section 38 manufacturer or a mutual fund service corporation, fill in the **Other** oval.

Mutual fund service corporations must complete a Schedule F based on mutual fund sales and a separate Schedule F based on non-mutual fund sales, if any. For further information on apportionment for mutual fund service corporations, see 830 CMR 63.38.7.

Corporations must complete all lines, regardless of apportionment method used. Make certain that complete information is entered for all apportionment factors. A return which is incomplete will be considered insufficient.

Certain amounts are excluded from the calculation of the apportionment factors used to determine taxable income (both the worldwide and Massachusetts figures), among them any factors attributable to items of gross income that are excluded from the federal gross income of a taxpayer, in accordance with 830 CMR 63.38.1(9)(e), (see also TIR 10-16), and any factors attributable to income derived from unrelated business activities, in accordance with 830 CMR 63.38.1(3)(d). In addition, 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).

Property Factor

Line 1a

For tax purposes, average value is based on original cost and is determined by averaging the property values at the beginning and end of the taxable year. If substantial changes occur during the taxable year, the Commissioner may require monthly averaging to properly reflect the average value of the property. For purposes of the property factor, a taxpayer may elect to use any reasonable method for attributing its mobile property to Massachusetts. The election is made by filing a return that employs the chosen method for the first tax year ending on or after August 11, 1995, in which the taxpayer owns or rents mobile property and apportions income to Massachusetts. The taxpayer must make available a statement describing the method chosen and must use the same method consistently from year to year. For further information, including safe harbor methods, see 830 CMR 63.38.1(7)(d).

Construction in progress is generally excluded from the property factor; see 830 CMR 63.38.1(7)(a) and (b). For the property factor, inventory in transit is deemed to be at its destination; see 830 CMR 63.38.1(7)(c).

Line 1b

Property rented by the corporation is valued at eight times the annual net rental rate paid less any subrentals received.

Payroll Factor

Line 2a

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

- The employee's service is performed within Massachusetts;
- The employee's service is performed both in Massachusetts and in one or more states, but the non-Massachusetts service is secondary to the Massachusetts service;
- Part of the employee's service is performed in Massachusetts, and the service is controlled from a location in Massachusetts; or
- Part of the employee's service is performed in Massachusetts, and the location of the service is not in a state in which some part of the service is performed, but the employee lives in Massachusetts.

The total amount paid for compensation is computed on the cash basis, as reported for unemployment purposes. A taxpayer that uses the accrual method of accounting in computing its taxable net income may elect to use the accrual method in determining the total amount of compensation paid in Massachusetts during the taxable year. For further information on how to elect the accrual method see 830 CMR 63.38.1(8)(a).
Sales Factor

For sales factors, enter the gross receipts of the corporation with the exception of those receipts from interest, dividends and the sale or other disposition of securities or the sale of business "good will" or similar intangible value. Any receipts resulting in allocable income must be excluded. For further information, see 830 CMR 63.38.1(8)(a).

Also, in the case of the sale, exchange or other disposition of a capital asset used in the taxpayer's trade or business, enter the gain from the transaction and not the gross receipts. For further information, see 830 CMR 63.38.1(9)(b).

Line 3a

Sales of tangible personal property are assignable to Massachusetts if the property is delivered or shipped to any buyer, including the U.S. government, in Massachusetts.

Line 3b

Sales of tangible personal property are assignable to Massachusetts if the selling corporation is not taxable in the state of the buyer and the property is not sold by an agent or agencies chiefly situated

at, connected with, or sent out from premises for the transaction of business owned or rented by the corporation outside Massachusetts. A buyer for this item includes the U.S. government.

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

- The property is shipped or delivered to a buyer in a foreign country; or
- The property is sold to any branch or instrumentality of the U.S. government for resale to a foreign government.

Line 3c

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

Any amounts required to be excluded from the sales factor calculation should be accounted for by making the necessary exclusion from the Massachusetts and worldwide figures in line 3c. 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 these figures. See 830 CMR 63.38.1(9)(d) 1.

Note: Mutual fund sales are assigned to Massachusetts as follows:

- Mutual fund sales are determined separately for each RIC from which the mutual fund service corporation receives fees for mutual fund services;
- Mutual fund sales for each RIC are multiplied by a fraction, the numerator of which is the average number of shares owned by the RIC's shareholders domiciled in Massachusetts at the beginning and end of the RIC's taxable year that ends within the mutual fund service corporation's taxable year, and the denominator of which is the average number of shares owned by all of the RIC's shareholders for the same period; and
- The resulting amounts are totaled for all RICs.

For taxable years beginning on or after January 1, 2014 any corporation that has mutual fund sales, including those that do not qualify as mutual fund service corporations under MGL ch 63, § 38(m), is required to assign those sales according to the rules that apply to mutual fund service corporations. The term "mutual fund sales" is defined in MGL ch 63, § 38(m)(1) and refers to certain services provided to a RIC, including management, distribution, and administrative services.

Line 3d

Rents from property located or used in Massachusetts are assigned to Massachusetts. Income derived from license or lease of intangible property is assigned to the state in accordance with the rules at 830 CMR 63.38.1(9)(d) 5.

If using a three factor apportionment formula and one or more factors are inapplicable, the following shall apply:

- In cases where only two of the three apportionment factors (property, payroll, sales) are applicable, the taxable net income is apportioned by a fraction, the numerator of which is the remaining two factors with their respective weights and the denominator of which is the number of times that such factors are used in the numerator.
- In cases where only one of the three apportionment factors (property, payroll, sales) is applicable, the taxable net income is apportioned solely by that factor with its respective weight, and the denominator is the number of times the factor is used in the numerator.

Note: An apportionment factor should not necessarily be considered inapplicable if its Massachusetts total (lines 1c, 2a or 3f) is 0.

If you are claiming an exception on Schedule ABI or ABIE, do the following to see if a factor applies. Complete Schedule E through line 19 without reference to the add back exception but less the amount of deductible and intangible expense stated in line 1 of the respective Schedule ABI or ABIE.

If any of the apportionment totals for "Worldwide" (lines 1c, 2a or 3f) are less than 3.33% of Schedule E, line 19, do not include that factor in your Massachusetts apportionment percentage.

Schedule H
Part 1. Calculation of Current-Year Investment Tax Credit Generated

Lines 1a through 1d

Only R&D corporations should complete these lines. All others leave blank. R&D corporations are eligible for the credit only if 66% of their Massachusetts receipts are derived from the provision of research and development services or from royalties or fees from licensing patents, know-how or other technology developed from research and development. See 830 CMR 64H.6.4 for further information.

Lines 2a through 2h

Enter the total cost basis of all qualified depreciable property placed in service during the tax year by Schedule A category. Qualifying property must be tangible property, including buildings but excluding motor vehicles and other property taxable under MGL ch 60A, used by the corporation in Massachusetts, situated in the Commonwealth on the last day of the taxable year and depreciable under IRC § 167 with a useful life of four years or more. A corporation may not claim the credit for property it leases to others as a lessor.

Line 4

If any of the property included in lines 2a through 2h is eligible for a federal tax credit, the total amount of the U.S. credit taken with respect to the qualifying property must be entered here and applied as a reduction to the basis in calculating the Massachusetts credit.

Line 6

Enter the tentative tax credit. This is 3% of the cost after any basis reduction.

Line 7

If qualifying property is placed in service and disposed of or otherwise ceases to be in qualified service before the end of the same tax year, the amount of credits available is reduced. Multiply the credit otherwise available (cost as reduced by U.S. tax credits times 3%) by a fraction, the numerator of which is the number of months remaining in the useful life of the asset when it is disposed of or otherwise ceases to qualify and denominator of which is the total number of months in the assets' useful life. For example, an item that is depreciated over a seven-year period for U.S. tax purposes has a useful life of 84 months.

Line 8

Subtract the amount of the credit reduction in line 7 from the tentative credit in line 6.

Note: The taxpayer should enclose a statement with the tax return if any ITC credits have been converted from expiring to non-expiring. The statement should provide details of what specific credits have been converted from expiring to non-expiring.

Schedule S

Note: 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.

Lines 13 through 16

If the S corporation is required to participate in a combined report (i.e., it shares common ownership and engages in a unitary business with one or more entities), it must complete lines 13 through 16.

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 23. Annual Voluntary Election

Fill in the oval if you are making the annual voluntary election to pay tax at the entity level pursuant to MGL ch 63D. MA Form 63D-ELT must be filed by the Eligible PTE if it has made the annual voluntary election to pay PTE Excise on Schedule S of its Form 355S return. Once the election is made for a tax year it is irrevocable for that year and is binding on all qualified members. See Form 63D-ELT instructions for further information relating to the PTE Excise.

Note: Members of an electing Eligible PTE must report their share of distributive income from the PTE on their own returns. The distributive income may not be reduced by the amount of income reported by the electing PTE or by the amount of PTE Excise paid by the electing PTE.

Line 23a. Total Amount Paid

Enter amount from Form 63D-ELT, line 2 (Calculation of 5.0% Entity-Level Tax).

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 29 through 39.

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 said § 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 33

Report and describe any adjustments to line 32 net income or loss from rental real estate activity. Enter the line number and amount from U.S. Form 1120S to which the adjustment applies.

Enter the total of lines 32 and 33 on line 34 as the Adjusted Massachusetts net income or loss from rental real estate activity. The line 34 amount should also be entered on line 5 of Schedule SK-1.

Line 36

Report and describe any adjustments to line 35 net income or loss from other rental activity. Enter the line number and amount from U.S. Form 1120S to which the adjustment applies.

Enter the total of lines 35 and 36 on line 37 as the Adjusted Massachusetts net income or loss from other rental activity. The line 37 amount should also be entered on line 6 of Schedule SK-1.

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. This income is taxable by the federal 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% interest from Massachusetts banks derived in the ordinary course of the trade or business activity of the S corporation, and properly reported in line 24.

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 in line 51 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 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 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 ex plaining 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 63.38.1(3) and (4). Enclose a statement and explain any adjustments.

Form 355S, Schedule F should be completed before completing lines 54 through 57.

Schedule SK-1
Schedule SK-1 is designed to allow the S corporation taxpayer to report each shareholder's distributive share of S corporation income. A separate Schedule SK-1 is required for each shareholder.

Type of Shareholder
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 select "Bank" if the shareholder is an IRA or a Roth IRA and the S corporation is a bank or depository institution holding company.

Exempt Organizations (Ch 62 or Ch 63)
The **Ch 62 exempt organization** oval should be filled in if the shareholder is exempt from federal income tax under IRC § 501 and is treated as a ch 62 taxpayer in Massachusetts. The **Ch 63 exempt organization** oval should be filled in if the shareholder is exempt from federal income tax under IRC § 501 and is treated as a ch 63 taxpayer in Massachusetts.

If the shareholder is an entity disregarded for income tax purposes, **report the entity type of the beneficial owner** ("Individual resident", Individual non-resident", "non-resident trust or estate", "resident trust or estate", etc.) Complete all distributive share items based on the entity type of the beneficial owner.

S corporations that have indicated on the SK-1 that they are reporting transactions under MGL ch 62C, § 32A, identified as IRC § 453A or 453(I)(2)(B) transactions, must separately communicate information to the 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 and $5 million thresholds apply at the level of the individual shareholder. The S corporation must therefore communicate to the shareholder all 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 million 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 IRC § 453(I)(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 Distributive Share
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 355S, Schedule F, line 5.

Note: For line 8, enter the amount of the non-resident shareholder's distributive share without apportionment.

- 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 breakdown 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 non-resident 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 Schedule F, line 5.

Line 2
Report and describe in line 2 any other expense that is required to be separately stated, which is not reported elsewhere on Schedule SK-1. Examples of such items include the shareholder's share of the S corporation's charitable contributions, oil and gas depletion and the expense deduction for recovery property, IRC § 179. Each shareholder should take these items into account on their Form 1 or Form 1-NR/PY. In particular, charitable contributions are not deductible from the S corporation's distributive income. Rather, shareholders' shares of charitable contributions flow through the S corporation to the shareholders, who may use that amount in determining their charitable deductions claimed on Form 1, Schedule Y, line 9c, or Form 1-NR/PY, Schedule Y, line 9c. 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 1-NR/PY, Schedule E, Part II; or Form 2. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule E, Part II if applicable; or Form 2, to reflect the correct Massachusetts amount. Each shareholder should enclose a state ment 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 1-NR/PY, Schedule E, Part II; 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 the shareholder's share of any 5% 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 1-NR/PY, Schedule E, Part II.

Line 4a. Income Tax Paid to Other Jurisdictions
Enter the member's share of any tax due from the S corporation to any other state, territory or possession of the United States, or the Dominion of Canada or any of its provinces on income taxable to the member in Massachusetts and otherwise allowable as a credit to the individual. The S corporation should also provide each such member with the names of each taxing jurisdiction, the amount of income and the amount taxed.

This credit is available only to resident members and may be taken on Form 1, line 30, Form 1-NR/PY, line 34 or where applicable, on Form 2, line 42. For part-year residents the income that is subject to taxation in another state or jurisdiction must have been earned during the period of Massachusetts residency. The credit is not available for taxes paid on Massachusetts source income earned while a nonresident.

Where the credit is available, the S corporation must also provide each resident shareholder with separately stated totals of 5% 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.

Note: The credit for taxes paid to other jurisdictions does not include local income taxes paid or taxes paid to nations other than Canada.

Line 4b. Total Other Credits
The S corporation must use Schedule CMS to calculate the S corporation's credits, with the exception of the other jurisdiction credit. Based on those calculations, the S corporation should use line 4b of Schedule SK-1, to provide each member with the amount of each member's share of the S corporation's credits, according to the member's ownership share. The member will then include these credits on the member's Schedule CMS.

Credit Section
Each member's share of the S corporation's credits, according to the member's ownership share, must be entered separately on the Schedule SK-1 Credit Section. The S corporation must also provide each member with any required schedules, certificate numbers and/or other supporting documents related to each credit.

Report only those credits that are related to the member's ownership share. Refer to the Credit Table at the end of the instructions to report each credit and its respective attributes in the Credit Section.

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

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

Line 5
Enter the shareholder's share of the S corporation's adjusted Massachusetts 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, Part II; or Form 2, Schedule E. Each shareholder should make adjustments in Form 1, or Form 1-NR/PY, Schedule E, Part II; 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 adjusted Massachusetts 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 1-NR/PY, Schedule E, Part II; or Form 2. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule E, Part II; 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 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 Schedule F, 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 receive from the S corporation the amount of the shareholder's preapportionment 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 include its preapportionment share of 5.0% interest from Massachusetts banks in Form 2, Schedule B, instead of any amount from Form 2.

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 Schedule F, 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, 1-NR/PY, or 2, Schedule B, lines 1 and 2. Each shareholder should make adjustments to reflect the correct Massachusetts amount in Form 1 and 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 non-resident 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 Schedule F, 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, 1-NR/PY, or 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 Schedule F, 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, Part I, 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, Part I, 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 non-resident 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 Schedule F, 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, 1-NR/PY; or 2. Each shareholder should make adjustments on the applicable lines of Form 1, 1-NR/PY, or 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 1-NR/PY, Schedule E, Part I, 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 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 Schedule F, 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 Schedule F, 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, 1-NR/PY or 2, Schedule B. Each shareholder should make adjustments in Form 1 or 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 Schedule F, 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, 1-NR/PY; or 2, Schedule B. Each shareholder should make adjustments in Form 1 or 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 Schedule F, line 5.

The correct Massachusetts amount of the shareholder's share of loss 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, 1-NR/PY; or 2, Schedule B. Each shareholder should make adjustments in Form 1 or 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 net 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 net long-term capital gain or loss multiplied by the apportionment percentage in Schedule F, line 5.

The correct Massachusetts amount of the shareholder's share of net long-term capital gain or loss may differ from the comparable U.S. total reported on Form 1, 1-NR/PY, or 2, Schedule D, line 1. Each shareholder should make adjustments in Form 1, 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 net 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 net gain or loss multiplied by the apportionment percentage in Schedule F, line 5.

The correct Massachusetts amount of the shareholder's share of IRC § 1231 net gain or loss may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY, or 2, Schedule D. Each shareholder should make adjustments in Form 1 or 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 apportionment percentage in Schedule F, 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, 1-NR/PY, or 2, Schedule D. Each shareholder should make adjustments in Form 1 or 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 Schedule F, line 5. Enter the Payer Identification number of any lower-tier entity which withheld such amount. If the taxpayer is a member of more than one lower-tier entity, attach a statement listing the amounts withheld and the Payer Identification number of each such lower-tier withholding entity.

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, 1-NR/PY or 2, Schedule D, line 1. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule D, line 9 or Form 2, Schedule D. Each shareholder should enter the correct Massachusetts amount in Form 1 or 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 23 through 27 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 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 to the shareholder's Massachusetts basis for the taxable year. The shareholder's basis should be increased by the shareholder's distributive 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.

Pass-Through Entity Payment and Credit Information

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 select 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 select the **Member self-file** oval if the shareholder has indicated to the S corporation on the Form PTE-EX that the shareholder is a resident or will be filing its own return (i.e., has checked boxes 1 or 3 under Individual Certification, or boxes 2 or 3 under Organization Certification).

For more information about Form PTE-EX, see the Guide for Pass-Through Entities, at mass.gov/dor. The S corporation should select **Exempt PTE** if the shareholder has indicated to the S corporation, by checking box 4 under Organization Certification on Form PTE-EX, that the shareholder is a pass-through entity all of whose members are exempt from withholding. The S corporation should select **Non-profit** if the shareholder has checked box 1 under Organization Certification on Form PTE-EX. If the shareholder has not made a declaration to

the S corporation that the shareholder is exempt from withholding, the S corporation should select the **Withholding** oval.

If the S corporation has selected the **Composite** oval under the declaration election code and the S corporation itself made estimated payments on be half 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 14 of the Form MA NRCR, the composite return. This number is in for mational only, and is not to be used by the S corporation or the shareholder for any other purpose.

Note: Entities filing a composite return on behalf of shareholders should provide shareholders with a statement of their share of income tax reported and paid on Form MA NRCR, line 14, the composite return.

Line 28

If the S corporation has selected 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 distributive share and paid for the year on the shareholder's behalf.

Line 29

If the S corporation has selected the **Composite** oval under the declaration election code and the S corporation itself made estimated payments on be half of the shareholder, the S corporation should indicate on line 29 the 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 14 of the Form MA NRCR, the composite return. This amount is informational only and is only to be used by certain eligible qualified nonresident taxpayers subject to the 4% Surtax. See also 4% Surtax FAQ (https://www.mass.gov/info-details/4-surtax-on-taxable-income-over-1000000).

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 13 of the Form MA NRCR, the composite return. This number is informational only, and is not to be used by the S corporation or the shareholder for any other purpose.

Line 32. Shareholder's Share of Chapter 63D Refundable Credit (PTE Excise Credit)

An S corporation making the annual voluntary election in Schedule S of its Form 355S return to pay entity-level taxes under MGL ch 63D must determine and report the separate amount of PTE Excise Credit available to each shareholder that is a resident or nonresident shareholder having qualified taxable income subject to the MGL ch 63D entity-level tax (a qualified member).

How is the S corporation's PTE Excise tax calculated?

When an Eligible PTE makes a ch 63D election, the total ch 63D Qualified Taxable Income and ch 63D tax due is calculated and reported by the electing Eligible PTE on Form 63D-ELT. See Form 63D-ELT instructions for further information relating to eligibility for and reporting of the PTE Excise.

How is each shareholder's PTE Excise Credit calculated?

The PTE Excise Credit is separately calculated and reported on the MA schedule SK-1 of each eligible qualified member. An eligible qualified member is:

- An individual resident
- An individual non-resident
- A resident trust or estate
- A non-resident trust or estate; or
- A ch 62 exempt organization with unrelated taxable business income

Note: If the shareholder in an S corporation is a disregarded entity, enter the legal or beneficial owner of the disregarded entity on schedule SK-1.

If trust shareholder is a pass-through entity. If the shareholder for whom the schedule SK-1 has been reported is a trust, fill in this oval if the trust shareholder is a pass-through entity.

Total qualified income subject to 5.0% entity-level tax.

Separate tax calculation for each shareholder that is a qualified member (Schedule SK-1, lines 32a through 32d).

The ch 63D tax with respect to the income of each shareholder that is a qualified member is calculated on Schedule SK-1, lines 32a through 32d. Enter this information in the following manner:

Line 32a. Total of ordinary income or loss, interest, and dividend income is the sum of the following lines on Schedule SK1: (Schedule SK-1, line 3, lines 5 and 6, lines 8 through 12 and line 21). Do not enter less than 0.

Line 32b. Net gain or loss from the sale of capital assets is the sum of the amounts on Schedule SK-1, lines 13 through 19). Do not enter less than zero.

Line 32c. Total shareholder's income subject to 5% entity-level tax is the sum of lines 32a and 32b.

Line 32d. Shareholder's Share of tax due under ch 63D is 5% of the amount on line 32c.

The ch 63D tax liability for an S corporation that is an electing Eligible PTE is the total sum of the separately calculated amounts reported on line 32d of each qualified member's Schedule SK-1.

Shareholder's 90% PTE Excise Credit amount (Schedule SK-1, line 32e).

The shareholder's 90% refundable PTE Excise Credit is reported on Schedule SK-1 line 32e:

Line 32e. Shareholder's refundable credit is 90% of the amount reported on line 32d.

Note: Amounts reported on lines 32a through 32e should be 0 if the shareholder is not a qualified member.

Excise Calculation

The excise calculation schedule is used to calculate the various measures of the Massachusetts corporation excise. These are:

- A tax of $2.60 per $1,000 on taxable Massachusetts tangible property or taxable net worth, whichever applies. If the return is for a short taxable year, the tangible property or taxable net worth should be prorated; and
- A tax of 8.00% on certain income attributable to Massachusetts.

For tax year 2023, S corporations with total receipts of $6 million or more are liable for the income measure of the corporate excise at the following rates:

- 2.00% (0.02) on net income subject to tax, if total receipts are $6 million or more, but less than $9 million; or
- 3.00% (0.03) on net income subject to tax, if total receipts are $9 million or more.

The law also provides for a minimum excise of $456.

Line 3

S corporations in Massachusetts that are not financial institutions are taxed at 8.0% on certain built-in gains taxable at the federal level under IRC § 1374 and on passive investment income taxable at the federal level under IRC § 1375. Such income earned by an S corporation must be entered in line

3 of the excise calculation but subtracted from any income amount to be entered in line 5.

The taxable Massachusetts built-in gains and passive interest income is the amount of the federal gain times the Massachusetts apportionment percentage found in Schedule F, line 5.

Line 8

An addition to tax applies for taxpayers who have deferred the gain, and the tax associated with that gain, on certain installment sales. This addition to tax is measured by an interest charge on the tax that has been deferred.

Include in line 8 an additional tax amount representing an interest charge on the deferred tax on gain from certain installment sales with a sales price over $150,000 if you are not a dealer and the aggregate face amount of installment obligations arising during the tax year and outstanding as of the close of the tax year exceeds $5 million. For more information see MGL ch 62C, § 32A (b) and IRC § 453A(a)(c).

Also include in line 8 an additional tax amount representing an interest charge on the deferred gain from the installment sale of time shares and residential lots, if the sale meets one of the following criteria:

- The sale is of a timeshare right for 6 weeks or less;
- The sale is for the recreational use of specified campgrounds; or
- The sale is for a residential lot and neither the dealer nor someone related to the dealer is obligated to make any improvements on the lot.

For more information see MGL ch 62C, § 32A(b) and IRC § 453(l)(2)(B).

If you are a shareholder in an S corporation, the entity is required to send you the information you need to calculate the addition to tax under this provision.

To the extent practicable, Massachusetts follows federal income tax rules in determining the deferred gain from installment sales subject to the interest-charge addition to tax. For more information, visit DOR's website at mass.gov/dor and Internal Revenue Service Publication 537.

Line 10

Corporations which are not members of a combined group filing a combined report enter the amount from Schedule CMS and enclose any required schedules showing the calculation of the individual credits taken on Form 355S. Corporations which are members of a combined group and which are taking credits against excise shown on this return must complete Schedule CMS but should not duplicate schedules previously enclosed with Form 355U.

Line 12

If the corporation is a member of a combined group filing a combined report, enter the amount from this corporation's Schedule U-ST, line 41. Corporations which are not members of a combined group enter 0.

Line 13

Corporations taxable under MGL ch 63, § 32D and 39 are subject to a minimum excise of $456. If the corporation is a member of a combined group, it must file a combined report and its income measure of excise is determined on Schedule U-ST, line 41 and not on Form 355 or 355S. If the member's own income measure of excise from Schedule U-ST, line 41 (as referenced on line 12 above) is greater than or equal to $456, enter 0 on line 12. Otherwise, subtract the amount on line 8 from $456 and enter the result on line 13. If the corporation is not part of a combined group, enter $456 on line 13.

Line 15

Any corporation that wishes to contribute any amount to the Natural Heritage and Endangered Species Fund may do so on this form. This amount is added to the excise due. It increases the amount of the corporation's payment or reduces the amount of its refund.

Line 21

Enter the amount of any withholding tax from pass-through entities. This is the amount of withholding from all Schedules 3K-1, lines 36 and 38 that the corporation has received. Enter the Payer Identification Number of any lower-tier entity which withheld such amount. If the taxpayer is a member of more than one lower-tier entity, attach a statement listing the amounts withheld and the Payer Identification Number of each such lower-tier withholding entity.

Line 28

The following penalties may apply:

Penalty for underpayment of estimated tax. An additional charge may be imposed on corporations which underpay their estimated taxes or fail to pay estimated taxes. Form M-2220, Underpayment of Massachusetts Estimated Tax by Corporations, should be used to compute any underpayment penalty.

Penalty for failure to file. The penalty for failure to file a tax return by the due date is 1% of the tax due per month (or fraction thereof), up to a maximum of 25%.

Penalty for late payment. The penalty for failure to pay the total pay ment due with this form is 1%of the tax due per month (or fraction thereof), up to a maximum of 25%.

Any corporation which fails to pay its tax when due will be subject to interest charges.

Line 30

Enter the total payment due. Checks for this amount should be made payable to the Commonwealth of Massachusetts. Checks should have the corporation's Federal Identification number written in the lower left corner.

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, re-port the amount of credit distributed to 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 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 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 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 issued 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.

Credit Table

The Credit Table located at the end of these instructions lists all of the Massachusetts credit types with their respective attributes. Credits that may be available to a taxpayer subject to tax under MGL ch 63 must be claimed on Schedule CMS. The taxpayer should refer to this table for guidance when completing Schedule CMS.

To report claimed tax credits, enter the tax credit certificate number (if applicable) and the amount of credit claimed along with the designated credit code on Schedule CMS.

For additional information regarding tax credits that may be available to a taxpayer subject to tax under MGL ch 63 go to the Business Tax Credits web page on DOR's website at mass.gov/dor.

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. investment tax 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.

Schedule CRS, Credit Recapture Schedule (which replaces Schedule RF), lists each credit for which a recapture calculation must be made. For credits tracked by certificate numbers that must be reported on the return to claim the credit, 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 Schedule CRS instructions.

Privacy Act Notice

The Privacy Act Notice is available upon request or at mass.gov/dor.

Tax Matters Partner

An S corporation shall designate a Tax Matters Partner. The Tax Matters Partner must be a shareholder. If the S corporation does not designate a Tax Matters Partner, the Tax Matters Partner shall be the shareholder having the largest number of voting shares in the S corporation at the close of the year involved, unless shareholders holding an aggregate of more than 50% of the S corporations

designate a different Tax Matters Partner. If designation based upon the largest voting shares is impracticable, the Commissioner shall select an interim Tax Matters Partner, pending selection of a Tax Matters Partner by the entity, and shall notify Notice Members of the selection.

Signature

The completed form must be signed by the treasurer or assistant treasurer or, in their absence or incapacity, by any other principal corporate officer. If you are filing as an authorized delegate of the appropriate corporate officer, fill in the oval in the signature section and enclose a copy of Massachusetts Form M-2848, Power of Attorney. This form should be uploaded through MassTaxConnect or electronically filed using other authorized software.

Paid Preparer Authorization

If you want to allow the DOR to discuss your 2023 business tax return with the paid preparer who signed it, fill in the Yes oval in the signature area of the form at the bottom of page 1. This authorization applies only to the individual whose signature appears in the paid preparer section of your return. It does not apply to the firm (if any) shown in that section. If you fill in the Yes oval you are authorizing DOR to call the paid preparer to answer any questions that may arise during the processing of your return. You are also authorizing the paid preparer to:

- Give DOR any information that is missing from your return;
- Call DOR for information about the processing of your return or the status of your refund or payment(s); and
- Respond to certain DOR notices that you have shared with the preparer about math errors, offsets and return preparation. The notices will not be sent to the preparer.

You are not authorizing the paid preparer to receive any refund check, to bind you to anything (including any additional tax liability) or otherwise represent you before DOR. If you want to expand the paid preparer's authorization, see Form M-2848, Power of Attorney and Declaration of Representative. Form M-2848 is available at mass.gov/dor.

The authorization cannot be revoked. However, the authorization will automatically end no later than the due date (without regard to extensions) for filing your 2024 tax return.

Schedule M-1

Schedule M-1 reports the taxpayer's current year net income and expenses as they are or would be shown on U.S. Form 1120, lines 1 through 28, in calculating gross income under the provisions of the U.S. IRC and the deductions allowable in calculating net income under the code.

Schedule M-1 must be filed by all S corporations required to complete Schedule E. S corporations with receipts of less than $6 million on an annualized basis also are not required to file Schedule M-1.

Corporations reporting their income on Form 355U as part of a combined group that file Schedule U-M with that combined report are not required to file Schedule M-1.

S corporations, if required to file Schedule M-1, must complete and file Schedule M-1 as if they were a C corporation.

Credit Table

Credit name	Requirements	Refundable?	Credit type	a. MGL Chapter	Section	b. MGL Chapter	Section
Angel Investor***	Certificate number*	No	AGLCRD	62	6(t)		
Apprenticeship	Certificate number	Yes, at 100%	APPCRD	62	6(v)	63	38HH
Brownfields	Certificate number	No	BRWFLD	62	6(j)	63	38Q
Certified Housing	Certificate number	No	CRTHOU	62	6(q)	63	38BB
Community Investment	Certificate number	Yes, at 100%	CMMINV	62	6M	63	38EE
Conservation Land	Certificate number	Yes, at 100%	CNSLND	62	6(p)	63	38AA
Cranberry Bog Renovation	Certificate number	Yes, at 100%	CRBCRD	62	6(w)	63	38II
Dairy Farm	Certificate number	Yes, at 100%	DAIFRM	62	6(o)	63	38Z
Disability Employment	Period end date	Yes	DETCRD	62	6(z)	63	38JJ
EDIP	Certificate number and Schedule EDIP**	If authorized, at 100%	EDIPCR	62	6(g)	63	38N
EDIP-Vacant Store Front	Certificate number	Yes, at 100%	VACSTR	62	6(g)	63	38N
EOAC	Period end date and Schedule EOAC**	If authorized	EOACCR	62	6(g)	63	38N
Farming and Fisheries	Period end date and Schedule FAF**	No	FRMFSH	62	6(s)		
Film Incentive	Certificate number	If authorized, at 90%	FLMCRD	62	6(l)	63	38X
Harbor Maintenance****	Period end date	No	HRBMNT			63	38P
Historic Rehabilitation	Certificate number	No	HISRHB	62	6J	63	38R
Investment Tax	Period end date and Schedule H**	No	INVTAX			63	31A
Lead Paint	Period end date and Schedule LP**	No	LEDPNT	62	6(e)		
Life Science (FDA)	Period end date and Schedule RLSC**	If authorized, at 90%	LFSFDA	62	6(n)	63	31M
Life Science (ITC)	Period end date and Schedule RLSC**	If authorized, at 90%	LFSITC	62	6(m)	63	38U
Life Science (Jobs)	Period end date and Schedule RLSC**	If authorized, at 90%	LFSJOB	62	6(r)	63	38CC
Life Science (RD)	Period end date and Schedule RLSC**	If authorized, at 90%	LFSRDC			63	38W
Low-Income Housing	Certificate number	No	LOWINC	62	6I	63	31H

* As of 2023 the method for reporting the Angel Investor credit on Schedule CMS is by certificate number. Prior to 2023 the method of reporting was by period end date.

** A schedule is required when the credit is generated or awarded in the current year.

*** Eligibility for obtaining the Angel Investor Tax Credit has been repealed for tax years beginning on or after January 1, 2024. Taxpayers must continue to report available carryover credits on Schedule CMS to the extent they are allowed to use them.

**** Eligibility for obtaining the Harbor Maintenance Tax Credit has been repealed for tax years beginning on or after January 1, 2022. Taxpayers must continue to report available carryover credits on Schedule CMS to the extent they are allowed to use them.

Credit Table

Credit name	Requirements	Refundable?	Credit type	a. MGL Chapter	Section	b. MGL Chapter	Section
Low-Income Housing Donation	Certificate number	No	LIHDON	62	6I	63	31H
Medical Device*****	Certificate number	No	MEDDVC	62	61⁄2	63	31L
National Guard Employee	Certificate number	No	NGHCRD	62	6(aa)	63	38KK
Offshore Wind Facility Capital Investment	Period end date	Yes	OSWITC	62	6(cc)	63	38MM
Offshore Wind Jobs	Period end date	Yes	OSWJTC	62	6(bb)	63	38LL
Pass-Through Entity Excise Tax (Form 63D-ELT)	Period end date	Yes******	ELTCRD	63D	2		
Research	Period end date and Schedule RC**	No	REARCH			63	38M
Septic	Period end date and Schedule SC**	No	SEPTIC	62	6(i)		
Solar and Wind Energy	Period end date and Schedule EC**	No	SLRWND	62	6(d)		
Training Tax	Certificate number	No	TTCCRD	62	6(dd)(1)	63	38NN(a)
Vanpool	Period end date and Schedule VP**	No	VANPOL			63	31E
Veteran's New Hire Tax	Certificate number	No	VETHIR	62	6(u)	63	38GG

** A schedule is required when the credit is generated or awarded in the current year.

***** Eligibility for obtaining the Medical Device Tax Credit has been repealed for tax years beginning on or after January 1, 2022. Taxpayers must continue to report available carryover credits on Schedule CMS to the extent they are allowed to use them.

****** Shareholders, partners, or beneficiaries of an eligible pass-through entity (qualified members) may claim a refundable credit equal to 90% of their allocable share of PTE Excise paid by such pass-through entity. See MGL ch 63D §§ 1-7; TIR 22-6 Pass-through Entity Excise. See also Elective pass-through entity excise FAQs.

Note: Certified life sciences companies with a Research Credit exceeding the amount of credit that may be claimed under section 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).