



Commonwealth of Massachusetts

Department of Revenue

2023 Instructions for Massachusetts Financial Institution Excise Return **Form 63-FI**

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

Who Must File a Form 63-FI Tax Return?

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

Financial Institutions that are members of a Combined Group

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

Major 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 consul-

tation 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

Who Must File and Pay the Financial Institution Excise?

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

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

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.

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

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

- ▶ Having a business location in Massachusetts;
- ▶ Having employees, representatives or independent contractors conducting business activities on the taxpayer's behalf in Massachusetts;
- ▶ Maintaining, renting or owning any tangible or real property in Massachusetts;
- ▶ Regularly performing services in Massachusetts;

- ▶ Regularly engaging in transactions with customers in Massachusetts that involve intangible property and result in income flowing to the taxpayer from residents of Massachusetts;
- ▶ Regularly receiving interest income from loans secured by tangible personal property or real property located in Massachusetts; or
- ▶ Regularly soliciting and receiving deposits from customers in Massachusetts.

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

S Corporation Financial Institutions electing to pay PTE Excise

Even if it is not otherwise required to file an S corporation financial institution return in Massachusetts, an out-of-state S corporation financial institution that is eligible for and elects to pay the PTE Excise must make the election on a timely filed Form 63-FI including all pertinent schedules. It must also file Form 63D-ELT with all pertinent schedules. For more information see the instructions for Form 63D-ELT available at mass.gov.

Financial Institution Excise Calculation

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

Schedule D Massachusetts Dividends Received Deduction

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

Dividends from ownership of shares in a corporate trust engaged in business in the Commonwealth; Dividends resulting from deemed or actual distributions (except actual distributions of previously taxed income) from a DISC which is not wholly-owned; or

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

Dividends received from a RIC or REIT are not eligible for the Massachusetts DRD, whether the dividend is paid directly by the RIC or REIT or

indirectly as through a subsidiary or affiliate of the taxpayer.

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

Changes to Schedule D Reporting

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

Apportionment

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

Effect of Federal Tax Reform on Interest Expense Calculation

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

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

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

For purposes of apportionment under MGL ch 63, § 2A, dividends that are deemed to be received from an entity (including amounts included in federal gross income pursuant to IRC §§ 951 and 951A) are not considered to be receipts when determining the receipts factor of the apportionment formula for financial institutions. Thus Subpart F income and GILTI must be excluded from the numerator and denominator of the receipts factor since each constitutes a dividend for Massachusetts tax purposes. Further, the 5% of dividends remaining after an eligible DRD is claimed is intended as a disallowance of expenses rather than

earnings and profits of the corporation making the dividend. As such a disallowance of expenses does not implicate the apportionment calculation. See TIR 19-11: Legislation Impacting the Massachusetts Tax Treatment of Selected International Provisions of the Federal Tax Cuts and Jobs Act.

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

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

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

Elections Relating to Apportionment

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

Elections Not Requiring Prior Approval from DOR

Receipts factor. Valuation of Investment and/or Trading Assets and Activities by Average Value or Gross Income Method (Form 63-FI, Schedule E ,

line 1). Interest, dividends, net gains (but not less than 0) and other income from investment and/or trading assets and activities are generally included in the numerator of the receipts factor by multiplying all income from such assets and activities by a fraction, the numerator of which is the average value of such assets which are properly assigned to a regular place of business of the taxpayer in Massachusetts and the denominator of which is the average value of all such assets. In lieu of using this method, the taxpayer may elect to determine the income from investment and/or trading assets and activities that is included in the numerator of the receipts factor by multiplying all such income by a fraction, the numerator of which is the gross income from such assets which are properly assigned to a regular place of business of the taxpayer in Massachusetts and the denominator of which is the gross income from all such assets and activities.

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

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

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

Elections Requiring Prior Approval from the Department

Property factor. The average value of rented property (real or tangible) is generally determined annually by multiplying the gross rents payable during the taxable year by eight. A financial institution which believes that this general method results in inaccurate valuations of rented property may apply to use any other method which properly reflects the value. The taxpayer should make this request by submitting Form AA-1. A taxpayer that has been unable to obtain prior approval of an alternative method of valuation of rental property should use the statutory method of valuing

rental property on its return and submit Form AA-1 describing the proposed alternative method. If the alternative method is approved by DOR, a refund of any overpayment, with interest, if due, will be made.

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

S Corporation Financial Institutions

Financial institutions that are S corporations for federal purposes are taxed as financial institution S corporations. Items of S corporation income, loss and deduction are passed through the S corporation to the shareholders, and reported and taxed on their return. Financial institution S corporations with income that is taxed to the S corporation for federal income tax purposes is still taxable on such income at the regular financial institution rate of 9% but all other income of the S corporation is taxable at a lower rate and is not subject to tax at the corporate level if receipts are less than \$6,000,000.

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

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

If an S corporation that is liable for the income measure is not part of a combined group (see below), it must complete Massachusetts Schedule A with Form 63-FI and must complete a pro-

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

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

A financial institution S corporation that is doing business in Massachusetts is subject to combined reporting, within the meaning of MGL ch 63, § 32B, when it is engaged in a unitary business with one or more other corporations, including one or more financial institution S corporations. In such cases, if the financial institution S corporation is liable for an income measure of excise it is required to be included in a combined report and is to compute its net income subject to tax and its income measure along with the other members of the group on Form 355U. A financial institution S corporation (or any financial institution) that is a member of a unitary group is not required to calculate a separate non-income measure.

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

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

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

When Are Returns Due?

Most financial institution excise returns, together with payment in full of any tax due, must be filed on or before the 15th day of the fourth month after the close of the taxable year, calendar or fiscal. Financial institution S corporation excise returns, like all other S corporation returns, must still be filed on or before the 15th day of the third month after the close of the taxable year, calendar or fiscal. See TIR 17-5. Financial institution S corporations that are members of a combined group generally file on or before the 15th day of the fourth month but see 830 CMR 62C.11.1 for important exceptions.

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

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

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

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

In addition, a financial institution S corporation that is a member of a combined group filing Form 355U must also submit Form 63-FI as an informational return, enclosing Schedules S and SK-1, although no additional tax is due with that filing.

Such informational filing is due on or before the 15th day of the third month after the close of the taxable year, calendar or fiscal.

Filing an Amended Return

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 (for example, if the amended Massachusetts return is reporting only a change in the apportionment calculation or an additional tax credit), fill in only the **Amended return** oval. If this is an amended return that includes changes you have reported on an amended federal return filed with the IRS for the same tax year, fill in both the **Amended return** and the **Amended return due to federal change** ovals. If the amended Massachusetts return incorporates changes that are the result of an IRS audit, fill in both the **Amended return** and **Amended return due to federal audit** ovals; 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 FCI. Foreign Corporation Income

Fill in the oval and enclose Schedule FCI (Foreign Corporation Income) if the financial institution is required to complete and file Schedule FCI with Form 63-FI. 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.

Schedule DRE. Disclosure of Disregarded Entity

A financial institution that is doing business in Massachusetts (including through the means of

activities conducted by a disregarded entity that such financial institution 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.

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 Financial Institution Election Termination or Revocation

Fill in this oval if the taxpayer was an S corporation financial institution in the prior tax year and its S status was terminated or revoked by election or otherwise.

S Corporation Financial Institution - Reporting on Form 63D-ELT

For purposes of reporting PTE Excise on Form 63D-ELT, an S corporation financial institution 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 financial institution as Eligible PTE must disclose the identity of the legal or beneficial owner of any disregarded entity in its entity-level tax return (Form 63-FI) so the applicable share of income is included in the PTE Excise. For Form 63-FI pur-

poses, the Eligible PTE filer must indicate on Form 63-FI 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 DOR in writing. If consent is withdrawn, any requested reduction in tax will be deemed denied either at the expiration of six months from the date of filing or the date consent is withdrawn, whichever is later.

Filing an Application for Abatement

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

- ▶ Penalties.; or
- ▶ Audit assessments.

For the fastest response time, file your dispute online at mass.gov/masstaxconnect. 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.

Should the Financial Institution Be Making Estimated Tax Payments?

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

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

▶ 0% of the estimated tax due for the year is due on the 15th day of the 3rd month of the taxable year;

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

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

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

Corporations 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.

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

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

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

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

All Financial Institutions Must File Electronically Using MassTaxConnect

All financial institutions must submit returns electronically using DOR's MassTaxConnect system at mass.gov/masstaxconnect. For further

information on electronic filing requirements see TIR 21-9.

What is a Proper Return?

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

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

Disclosure Schedule

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

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

File the 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 using the tax form for the calendar year in which the short year began. If the current form is not available at the time the short year filer must file, the filer should follow the rules explained in TIR 11-12.

Schedule CMS: Tax Credits

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

For each credit claimed on a Schedule CMS, report the amount of the credit available for use and the amount of credit claimed to reduce tax for the current taxable year. For pass-through entities, report the amount of credit distributed to partners/shareholders/beneficiaries in the credit shared column. Taxpayers also report the amount of a re-

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

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

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

Overview of Schedule CMS

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

Section 1. Non-Refundable Credits

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

Section 2. Refundable Credits

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

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

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

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

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

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

Note: Do not report the refundable Film Incentive Credit in this section because these credits are 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. the investment tax credit is subject to recapture under MGL ch 63, § 31A(e) if an asset for which the credit was taken is disposed of before the end of its useful life). Recapture may also be triggered if the corporation no longer qualifies for the credit (as when a manufacturing corporation ceases to qualify as such or a corporation's status as a Life Sciences Company is terminated as discussed in TIR 13-6.)

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

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

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

Signature and Declaration

The completed return 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 enclose a copy of Massachusetts Form M-2848, Power of Attorney with the return. Form M-2848 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.

Instructions for Financial Institution S Corporations Schedule S

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

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

Line 11. Enter the total amount of other income not included in lines 1 through 10. Include income from U.S. Form 1120S, line 5, and U.S. Form 1120S, Schedule K, line 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 inter-company 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 inter-company 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, Calculation of 5.0% Entity-Level Tax, 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 39 through 44.

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

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

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

A capital asset is:

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

Line 30. Report and describe any other adjustments to Massachusetts income and deductions not reported elsewhere on Schedule S. For Massachusetts tax purposes, an S corporation is allowed only those expense deductions that an individually owned business is allowed. Deductions that are itemized by an individual on Schedule A of U.S. Form 1040, are not allowed. The deductions for a net operating loss carryover or carry-back 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 detail-

ing the location and cost of renovating the qualifying abandoned building.

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

Line 39. Enter the total amount of interest on U.S. debt obligations reported in line 38. 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 5.0% interest from Massachusetts banks derived in the ordinary course of the trade or business activity of the S corporation, and properly reported in line 18.

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

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

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

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

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

Capital Gains and Losses

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

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

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

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

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

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

Line 52. Enter the amount of any gain from collectibles held for more than one year. Collectibles are defined as any capital asset that is a collectible within the meaning of IRC § 408(m), as amended and in effect for the taxable year, including works of art, rugs, antiques, metals, gems, stamps, alcoholic beverages, certain coins, and any other items treated as collectibles for federal tax purposes.

Line 53. Report any adjustments to Massachusetts capital gain and losses. Enclose a complete statement explaining any such adjustments. If an S corporation is taxable at the federal level, and thus the state level, on certain capital gains under IRC § 1374, then the amount of the capital gains passed through to the shareholder is reduced by the tax paid at the federal and state level. Reduce the S corporation's capital gain by the amount of federal and state tax paid by the S corporation and enclose the computation of the tax shown on U.S. Form 1120S, line 22(b).

Resident and Nonresident Reconciliation

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

- ▶ There is one or more nonresident shareholders;

- ▶ There is any income derived from business activities or ownership of any interest in real or tangible property in another state; and

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

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

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

Schedule SK-1

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.

Credit Section

A separate Credit Section has been created on Schedule SK-1 (and on all other Massachusetts K-1 schedules). The Credit Section must be used by the taxpayer to report specific amounts for the

listed credits. The total amount reported in the Credit Section should be entered on **Line 4b. Total Other Credits.**

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 fill in the **Bank** oval if the shareholder is an IRA or a Roth IRA and the S corporation is a bank or depository institution holding company.

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

For IRC § 453A transactions, the S corporation must inform the shareholder of the shareholder's share of the aggregate face amount of installment sales transactions arising in and outstanding as of the close of the taxable year, and any other information the shareholder may need to calculate the addition to tax. The \$150,000 or \$5 million thresholds apply at the level of the individual shareholder. The S corporation must therefore communicate to the shareholder all IRC § 453A installment sale transactions exceeding \$150,000. The applicable percentage is the ratio of the aggregate face amount of installment sale obligations arising in and outstanding as of the close of the taxable year in excess of \$5 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 453(l)(2)(B) transactions, the S corporation must inform the shareholder of the shareholder's share of gain on installment transactions, the date of the transactions, and any other informa-

tion 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 63-FI, Schedule E, line 5.

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

For lines 17 through 20 the S corporation may provide each shareholder with a written 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 nonresident eligible to apportion, enter the amount of the shareholder's share of the S corporation's Massachusetts ordinary income or loss multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5.

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

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

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

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

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

Line 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-NY/PY, line 34 or where applicable, on Form 2, line 42. For part-year residents the income that is subject to taxation in another state or jurisdiction must have been earned during the period of Massachusetts residency. The credit is not available for taxes paid on Massachusetts source income earned while a nonresident.

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

The credits 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, including information on how the Life Science credit was calculated.

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

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

The correct Massachusetts amount of the shareholder's share of net rental income or loss from other activities may differ from the comparable U.S. total reported on the shareholder's Form

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

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

Line 8. Enter the shareholder's share of the S corporation's 5.0% interest from Massachusetts banks from Schedule S, line 40. For a nonresident eligible to apportion, enter the shareholder's share of the S corporation's 5.0% interest from Massachusetts banks multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5.

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

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

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

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

The correct Massachusetts amount of the shareholder's share of (other than from Massachusetts

banks) interest and dividend income may differ from the comparable U.S. total reported on the shareholder's Form 1, Form 1-NR/PY, or Form 2, Schedule B, lines 1 and 2.

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

Line 10. Enter the shareholder's share of the S corporation's non-Massachusetts state and municipal bond interest from Schedule S, line 42. For a nonresident shareholder eligible to apportion, enter the shareholder's distributive share of the S corporation's non-Massachusetts and municipal bond interest multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5. This income is not taxed by the U.S. government, but is taxable in Massachusetts.

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

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

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

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

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

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

The correct Massachusetts amount of the shareholder's share of other income may differ from the comparable U.S. total reported on the shareholder's Form 1, Form 1-NR/PY, or Form 2. Each shareholder should make adjustments on the applicable lines of Form 1, Form 1-NR/PY, or Form 2 to reflect the correct Massachusetts amount. If

any income reported to the S corporation from a Real Estate Mortgage Investment Conduit (REMIC) in which the S corporation is a residual interest holder is reported in line 12, then any such adjustment should be made on Form 1 or Form 1-NR/PY, Schedule E-1, line 2 or Form 2, Schedule E.

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

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

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

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

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

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

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

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

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

For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's gain on the sale, exchange, or involuntary conversion of property used in trade or business

and held for one year or less multiplied by the apportionment percentage in Form 63-FI, Schedule E, line 5.

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

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

Line 16. Enter the shareholder's share of the S corporation's loss on the sale, exchange, or involuntary conversion of property used in trade or business and held for one year or less from Schedule S, line 48.

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

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

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

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

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

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

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

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

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

Line 19. Enter the shareholder's share of the S corporation's other long-term capital gains or losses from Schedule S, line 51. For a nonresident shareholder eligible to apportion, enter the shareholder's share of the S corporation's other long-term capital gains and losses multiplied by the percentage in Form 63-FI, Schedule E, line 5.

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

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

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

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

Shareholder's Basis Information

The information in lines 23 through 26 may be needed by the shareholder to determine the limitation of losses passed through to the shareholder,

or the gain or loss from sale or other disposition of the shareholder's stock and indebtedness.

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

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

Line 25. Enter the net amount of the adjustments made share of S corporation income, decreased by distributions to the shareholder, and otherwise adjusted to reflect changes that affect the basis of the stock. Make comparable entries for adjustments to the shareholder's Massachusetts indebtedness.

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

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

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

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

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

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

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

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

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

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

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

Line 28. If the S corporation has filled in the **Withholding** oval under the declaration election code, the S corporation should indicate on line 28 the amount of Massachusetts tax that the S corporation withheld on the shareholder's share and paid for the year on the shareholder's behalf.

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

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

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

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

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 non resident 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.

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 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 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)		
Vanpool	Period end date and Schedule VP**	No	VANPOL			63	31E
Veteran's New Hire	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 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).