



Income Tax Return of Corporate Trust

Registration section containing fields for corporation name, address, federal business code, and various business details.

Computation of Tax section containing a detailed grid for calculating gross receipts, deductions, and final tax amounts.

STAPLE CHECK HERE (vertical text on the left margin)

Sign Here section containing signature lines for the appropriate officer and preparer, along with date and identification information.

Footer text: If you are signing as an authorized delegate of the appropriate officer, check here and attach Mass. Form M-2848, Power of Attorney. Mail to: Massachusetts Department of Revenue, P.O. Box 7018, Boston, MA 02204.

## Schedule B. 12% Income — Interest, Dividends and Certain Capital Gains and (Losses)

<b>1</b>	Gross dividends (from U.S. Forms 1120 or 1120A, line 4) . . . . .	<b>1</b>		
<b>2</b>	Total interest income (from U.S. Forms 1120 or 1120A, line 5) . . . . .	<b>2</b>		
<b>3</b>	Other interest and dividends not included above (attach statement) . . . . .	<b>3</b>		
<b>4</b>	Total interest and dividends. <i>Add lines 1, 2 and 3</i> . . . . .	<b>4</b>		
<b>5</b>	Total interest from savings in Mass. banks (from page 1, line 11) . . . . .	<b>5</b>		
<b>6</b>	Interest and dividends taxed directly to Mass. trusts and estates (if included in line 4 above) . . . . .	<b>6</b>		
<b>7</b>	Other interest and dividends to be excluded. <b>Attach Schedule</b> . . . . .	<b>7</b>		
<b>8</b>	<i>Add lines 5 through 7</i> . . . . .	<b>8</b>		
<b>9</b>	Subtotal: <i>Subtract line 8 from line 4</i> . . . . .	<b>9</b>		
<b>10</b>	Short-term capital gains (included in U.S. Form 1120, Schedule D, Part I, line 1, plus lines 2 and 3) . . . . .	<b>10</b>		
<b>11</b>	Long-term capital gains on collectibles (from Mass. Schedule D, line 5) . . . . .	<b>11</b>		
<b>12</b>	Gain 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) . . . . .	<b>12</b>		
<b>13</b>	<i>Add lines 9, 10, 11 and 12</i> . . . . .	<b>13</b>		
<b>14</b>	Allowable deductions from your trade or business (from Mass. Schedule C-2, line 10) . . . . .	<b>14</b>		
<b>15</b>	Subtotal: <i>Subtract line 14 from line 13</i> . . . . .	<b>15</b>		
<b>16</b>	Short-term capital (losses) (included in U.S. Form 1120, Schedule D, Part I, line 1, plus lines 2 and 3). . . . .	<b>16</b>		
<b>17</b>	(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) . . . . .	<b>17</b>		
<b>18</b>	Prior short-term (losses) for years beginning after 1981 (from 1995 Mass. Schedule D, line 13, column D) . . . . .	<b>18</b>		
<b>19</b>	<i>Combine lines 15, 16, 17 and 18</i> . If the total is a (loss), omit line 20. Enter "0" on line 21 and enter the amount from line 19 in line 22. If a positive amount, go to line 20 . . . . .	<b>19</b>		
<b>20</b>	Long-term net collectible gain deduction. If there is no entry in line 10, enter "0." If line 10 shows a gain, enter 50% of line 11 less 50% of (losses) in lines 16, 17 and 18, but not less than "0". . . . .	<b>20</b>		
<b>21</b>	Adjusted gross 12% interest, dividends and certain capital gains and (losses). <i>Subtract line 20 from line 19</i> . Not less than "0." Enter result here, and on Form 3F, line 17 . . . . .	<b>21</b>		
<b>22</b>	Available short-term (losses) for carryover in 1997. Enter amount from line 19 only if it is a (loss) . . . . .	<b>22</b>		

## Schedule B-1. Long-Term Capital Gains Tax Credit Applied to 12% Income

<b>1</b>	Enter the amount from Schedule D, line 11, as a positive amount. . . . .	<b>1</b>		
<b>2</b>	Add Schedule B, lines 10, 11, 12, 16, 17 and 18. If line 2 is "0" or less, you are not eligible for this credit; omit lines 3-7 and enter "0" in line 8. If line 2 is more than "0" complete lines 3-8. . . . .	<b>2</b>		
<b>3</b>	<i>Multiply Schedule B, line 21 by .12</i> . . . . .	<b>3</b>		
<b>4</b>	<i>Multiply Schedule B, line 8 by .12</i> . . . . .	<b>4</b>		
<b>5</b>	<i>Subtract line 4 from line 3</i> . If "0" or less, you are not eligible for this credit; omit lines 6 and 7 and enter "0" in line 8. . . . .	<b>5</b>		
<b>6</b>	<i>Multiply the smaller of Schedule C-2, line 7 or line 10 by .12</i> . . . . .	<b>6</b>		
<b>7</b>	<i>Add lines 5 and 6</i> . . . . .	<b>7</b>		
<b>8</b>	Long-term capital gains tax credit applied to 12% income. Enter the smaller of line 1, line 3 or line 7 here and on Schedule D, line 12 and on Form 3F, line 26. . . . .	<b>8</b>		

## Schedule D. Long-Term Capital Gains and Losses

**Excluding Collectibles** (Attach copy of U.S. Schedule D)

<b>1</b>	Enter net gains or (losses) from U.S. Form 1120, Schedule D, Part II, line 10. If not filing U.S. Schedule D, report 100% of capital gains distributions in line 1 . . . . .	<b>1</b>		
<b>2</b>	Loss on the sale, exchange or involuntary conversion of property used in a trade or business and held for more than one year (not included in line 1) . . . . .	<b>2</b>		
<b>3</b>	Subtotal. <i>Add line 1 and line 2</i> . . . . .	<b>3</b>		
<b>4</b>	Net gains or (losses) taxed directly to Massachusetts trusts and included in line 3 . . . . .	<b>4</b>		
<b>5</b>	Long-term gains on collectibles. Also, enter this amount in Schedule B, line 11 . . . . .	<b>5</b>		
<b>6</b>	<i>Exclude/subtract line 4 and line 5 from line 3</i> . . . . .	<b>6</b>		
<b>7</b>	Differences and adjustments, if any (attach additional statement) . . . . .	<b>7</b>		
<b>8</b>	Mass. 1996 gain or (loss). <i>Combine lines 6 and 7</i> . . . . .	<b>8</b>		
<b>9</b>	Prior years long-term unused (losses) for years beginning after 1981 (from 1995 Mass. Schedule D, line 13, column D) . . . . .	<b>9</b>		
<b>10</b>	Adjusted long-term capital gains and (losses). <i>Add lines 8 and 9</i> . If result is a positive amount, enter on Form 3F, line 21; if a negative amount, complete lines 11-13 . . . . .	<b>10</b>		
<b>11</b>	If line 10 is a (loss), multiply line 10 by .05 and enter the result here and as a positive amount in Schedule B-1, line 1 . . . . .	<b>11</b>		
<b>12</b>	Enter amount from Schedule B-1, line 8, if applicable; otherwise, enter "0". . . . .	<b>12</b>		
<b>13</b>	Long-term capital gains tax credit available for carryover in 1997. <i>Combine line 11 and line 12</i> . . . . .	<b>13</b>		

# Schedule E. Income Apportionment/Business Locations Outside Massachusetts

Location (City and State)	Indicate Whether Factory, Sales Office, Warehouse, Construction Site, etc.	Answer Yes or No		
		Accepts Orders	Registered to Do Business in State	Files Returns in State

## Apportionment Factors

### 1 Tangible Property

	A. Massachusetts	B. Everywhere	C. Percentage
a Property owned (averaged) . . . . . <b>1a</b>	\$	\$	
b Rented property (capitalized) . . . . . <b>1b</b>	\$	\$	
c Totals. Add lines 1a and 1b for each column. . . . . <b>1c</b>	\$	\$	
d Tangible property apportionment percentage. Divide Column A total by Column B total . . . . . <b>1d</b>			%

### 2 Payroll

a Total . . . . . <b>2a</b>	\$	\$	
b Payroll apportionment percentage. Divide Column A total by Column B total . . . . . <b>2b</b>			%

### 3 Sales

a Tangibles . . . . . <b>3a</b>	\$	\$	
b Services . . . . . <b>3b</b>	\$	\$	
c Rents and Royalties . . . . . <b>3c</b>	\$	\$	
d Other . . . . . <b>3d</b>	\$	\$	
e Totals. Add lines 3a through 3d for each column. . . . . <b>3e</b>	\$	\$	
f Sales apportionment percentage. Divide Column A total by Column B total $\times 2 =$ . . . . . <b>3f</b>			%

**4** Apportionment percentage. Add lines 1d, 2b and 3f of Column C. . . . . **4**

**5** Massachusetts apportionment percentage. Divide line 4 by four ( $\div 4$ ). See instructions. (Enter here and in lines 14, 18 and 22) . . . **5** %

## Instructions for Schedule E, Income Apportionment

Schedule E should be completed by a corporate trust deriving income from business activities in another state which allow such state the jurisdiction to levy an income tax or a franchise tax. Note: If alternative apportionment is being requested under Ch. 63, sec. 42, you must still complete and file Schedule E. Also, check the box in line 7 of the Registration Section on page 1, and attach Form AA-1. A refund will be issued if alternative apportionment is granted by the Commissioner. For further information, see the Code of Massachusetts Regulations, 830 CMR 63.42.1.

Make certain that complete information is entered for all apportionment factors. Any return which is incomplete will be considered insufficient.

### 1. Property Factor

**Line a.** Corporate trusts must use original cost for average valuation of property owned. Averages of opening and closing balances are acceptable unless there have been substantial changes during the taxable year, in which case the Commissioner may require monthly averaging to properly reflect the average value of the property.

**Line b.** Rented property must be valued at eight times the annual net rental paid less annual sub-rentals received.

### 2. Payroll Factor

Enter the total amount of wages, salaries, commissions and other compensation paid to employees. Use the same basis as is used for reporting employee compensation to the Massachusetts Department of Employment and Training.

### 3. Sales Factor

For sales factors, enter all gross receipts with the exception of those receipts from interest, dividends and the sale or other disposition of securities.

**Line a.** Sales of tangible property are assignable to Massachusetts if: the property is delivered or shipped to any buyer in Mass., or the trust is not taxable in the state of the buyer and the goods are not sold by a salesman based outside Mass. Buyers include the U.S. Government. Sales of tangible property are not assignable to Mass. if the property is shipped or delivered to a buyer in a foreign country, or sold to any branch or instrumentality of the U.S. Government for resale to a foreign government.

**Line b.** Sales of services, or other intangibles, are assigned to Massachusetts if the income producing activity is performed in Mass. or if the greater portion of the activity, based on costs of performance, occurs in Mass., than in any other state.

**Line c.** Rents from property located or used in Massachusetts are assigned to Massachusetts. Royalties are assigned to the state in which the property right is actually used by the lessee.

### 4. & 5. Apportionment

Divide the total apportionment percentage in line 4 by either 4, 3, 2 or 1, depending upon the number of apportionment factors which apply. Remember that the sales factor is double-weighted. For example, if only the sales and payroll factors are applicable, divide by 3 instead of 4. An apportionment factor should not necessarily be considered inapplicable if its Mass. total (Column A, lines 1c, 2a or 3e) is zero. If any of the apportionment totals for "EVERYWHERE" (Column B line 1c, 2a or 3e) are less than 3.33% of net income, **do not** include that factor in the Mass. apportionment percentage.

# Form 3F Instructions

## General Information

**What is a Corporate Trust for Mass. Tax Purposes?** A corporate trust is any partnership, association or trust the beneficial interest in which is represented by transferable shares. Corporate trusts engaged in any business activity or transaction in Mass. are generally subject to taxation in Mass. on the same basis as individuals with certain exceptions. For information about the taxation of individuals, see the Form 1 instructions. A federal S corporation which qualifies as a Massachusetts corporate trust must file Form 3F. For additional information about taxation of corporate trusts, see MGL Ch. 62, sec. 8.

**When Must Form 3F Be Filed?** A Form 3F must be filed on or before April 15, 1997, if the corporate trust's gross income for the taxable year exceeds \$100. If prior permission has been granted on Form 13 to file on a fiscal year basis, Form 3F is due on or before the 15th day of the 4th month after the close of the fiscal year.

**Note:** Under Massachusetts law, professional and foreign corporations registered to do business in the Commonwealth must file an annual report with the Secretary of State within 2½ months of the close of the corporation's fiscal year. The annual report form may be obtained by calling (617) 727-9440. The fee is \$85. Reports not filed on a timely basis will be assessed a \$25 late fee. If you have any questions about this requirement, please call the Secretary of State's corporate information line at (617) 727-9640.

**Are Certain Trusts Exempt from Massachusetts Income Tax?** Yes. MGL Ch. 62, sec. 8, exempts the following trusts from Mass. income tax:

- Regulated investment companies under Section 851 of the Internal Revenue Code (IRC).
- Real estate investment trusts under Section 856 of the IRC.
- Holding companies, i.e. any corporate trust in which 90% of the book value of its assets at the end of the taxable year are securities, and at least 75% of such securities are issued by affiliates, and at least 90% of its Massachusetts gross income is derived from dividends, interest and gains from the sale or other disposition of securities. The word "affiliate" means a member of an affiliated group as defined under Section 1504 of the IRC. The word "securities" means transferable shares of beneficial interest in any corporation or other entity, bonds or debentures or any issuer of notes and other evidences of indebtedness of affiliates.
- Entities which derive less than 10% of their income within Massachusetts. Such entities must file a completed Form 3F, including Schedule E or other apportionment method to substantiate their exempt status.
- Entities which elect to be treated as a REMIC (Real Estate Mortgage Investment Conduit), as defined under Section 860D of the IRC for federal income tax purposes.

**What U.S. Forms Must Accompany Form 3F?** An exact and complete copy of U.S. Form 1120 or 1120A as filed must be attached and made part of the return. Certain schedules may be omitted. The following schedules, however, must be included: Schedule D, Capital Gains and (Losses); Form 4797, Supplemental Schedule of Gains; Cost of Goods Sold; Other Income; Taxes; Contributions; Amortization and Other Deductions. If the trust does not file U.S. Form 1120 or 1120A, copies of the return and schedules that the trust does file with the Internal Revenue Service must be attached.

In the event a corporate trust, subject to taxation in Massachusetts, has participated in filing a consolidated federal return with other entities, such as corporations or trusts not subject to taxation in Massachusetts, etc., the attached copy of U.S. Form 1120 should be a statement of the entire income of such trust taxable in Mass. as was included in the consolidated federal return. Supporting schedules in columnar form must be filed, for such trust included in the consolidated federal return, showing the items of gross income and deductions, a computation of taxable income, balance sheets as of the beginning and end of the taxable year, and a reconciliation of retained earnings.

## Line Instructions

**Question 6.** If the trust is filing a final return or liquidating, check the box in question 6 and attach a separate statement explaining the liquidation.

Liquidations of a trust may receive different treatment under the IRC and Massachusetts law. If you have any questions about a particular liquidation, consult the Customer Service Bureau at (617) 887-MDOR.

**Question 8.** Dividends paid since December 31, 1970, from earnings and profits accumulated prior to January 1, 1971, by a trust that was not subject to Massachusetts taxation are taxable dividends to the recipient individuals, partnerships, or other trusts. Such recipients should be informed of the taxable dividend amounts and the trusts must report names, addresses, and amounts on a copy of U.S. Form 1099-DIV. All dividends, whether or not from current or accumulated earnings, paid by any corporate trust engaged in business in Mass. to a corporation subject to taxation under MGL Ch. 63 are taxable to such corporation.

**Line 8.** A trust is allowed only those expense deductions which are available to an individually owned business. Consequently, certain deductions allowed on the U.S. 1040, Schedule A or on the U.S. 1120 or 1120A are not allowed. These include:

- Certain taxes, such as foreign, state, local income or franchise, or capital stock taxes or excises;
- Contributions;
- Other adjustments, such as any amount deducted on your U.S. return that is related to income not subject to Mass. taxation; or
- U.S. net operating (loss) deduction and other special deductions.

**Line 11.** Enter all interest (and dividends) credited or received from savings deposits, savings accounts, share or share savings accounts including term and time deposits in any kind of bank located in Mass. Such savings account organizations include any savings or cooperative bank, credit union, or savings and loan association, and any national bank, trust company, banking company, or Morris Plan company located in Mass. The \$100/\$200 exemption available to individuals is **not** available to trusts. Do not enter in line 11 any interest taxed at 12%. Enter 12% interest in Schedule B (see instructions to line 17.)

**Line 12.** Enter in line 12 "Other Income" from U.S. 1120 or 1120A, line 10 and any other income taxable at 5.95% and not reported elsewhere on Form 3F, such as miscellaneous commission income and the recovery of a business bad debt deducted in a prior year. Attach a copy of all schedules used.

**Line 17 and Massachusetts Schedule B, 12% Income — Interest, Dividends and Certain Capital Gains and (Losses).** 12% income includes interest on any variable interest rate note and fixed interest rate note. Income taxed at 12% also includes any interest (or dividends) from any bank deposit in another state or country and any interest on any personal or business account receivable, note, loan, taxable bond or security deposit or advance payments on rentals. The treatment of a distribution that is a return of capital for taxable years beginning after December 31, 1973, is the same as under the IRC.

12% income also includes short-term capital gains and (losses), gains or (losses) on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less and long-term gains on collectibles.

Collectibles are defined as any capital asset that is a collectible within the meaning of Internal Revenue Code section 408(m), as amended and in effect for the taxable year, including works of art, rugs, antiques, metals, gems, alcoholic beverages, certain coins, and any other items treated as collectibles for federal tax purposes.

**Line 3 of Schedule B.** Enter the interest from obligations of other states and their political subdivisions. Enter dividends received from an S corporation that were made from its undistributed income upon which the U.S. income tax was paid previously.

**Line 14 of Schedule B.** Excess 5.95% deductions may be used to offset 12% income which is effectively connected with the active conduct of a trade or business or any 12% income allowed under IRC Section 469(d)(1)(B) to offset losses from passive activities. See Schedule C-2.

**Where to file.** Mail Form 3F and all accompanying schedules to:

Massachusetts Department of Revenue  
P.O. Box 7018  
Boston, MA 02204