



Commonwealth of Massachusetts

Department of Revenue

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1996 Massachusetts Partnership Return **Form 3**

Schedule 3K-1 and Instructions

General Instructions

This booklet contains Form 3, Schedule 3K-1, and the instructions needed for completing your Massachusetts partnership return. The Massachusetts Schedule 3K-1 parallels federal Schedule K-1, which gathers information on each partner separately.

The instructions are divided into two sections designed to lead you through the form and answer your questions along the way.

The first section — **General Instructions** — answers commonly asked questions such as, “How Is a Partnership Taxed?”

The second section — **Specific Instructions** — provides information on each part of Form 3 and Schedule 3K-1.

What are the Major Tax Changes for 1996?

Tax Lowered on Capital Gains/Change in Tax Rates. Legislation passed in 1994 reduces the tax on gain from the sale of capital assets held for more than one year. For purposes of the new law, holding periods will be deemed not to have begun prior to January 1, 1995. The lower tax rates, ranging from 5% to 0%, will be gradually phased in over the next six years as holding periods increase from the deemed commencement date. The new law expands the definition of a capital asset and allocates capital gains and losses into either 12% income or 5% income based on the capital asset's character and holding period. There are special rules for collectibles which are capital assets such as antiques, gems, and works of art. A new credit, which may be applied against 5% income and portions of 12% income, is generated from certain long-term capital losses.

The new law defines “capital gain income” as gain from the sale or exchange of a capital asset. The definition of “capital asset” has been expanded to include: (1) an asset which is a capital asset for federal income tax purposes, (2) property held in a trade or business within the meaning of IRC section 1231(b) without regard to the holding period set out in said section 1231(b) or (3) property that is subject to compulsory or involuntary conversions within the meaning of IRC section 1231(a) without regard to the federal holding periods prescribed in those sections.

Applicable to tax years beginning on or after January 1, 1996, reduced tax rates on long-term capital gains will be phased in year by year over a six-year period. Since holding periods will be deemed not to have begun prior to January 1, 1995, for tax year 1996 the longest possible holding period is 2 years and the applicable tax rate is 5% if the capital asset was held for more than one year. For each subsequent tax year, the longest possible holding period increases by one year, and lower tax rates apply accordingly. By tax year 2001 when the law is fully operational, gains on the sale of capital assets held more than one year will be taxed at the following rates: assets held for more than one year but less than or equal to two years will be taxed at 5%; more than two years but less than or equal to three years will be taxed at 4%; more than three years but less than or equal to four years will be taxed at 3%; more than four years but less than or equal to five years will be taxed at 2%; and more than five years but less than or equal to six years will be taxed at 1%. Capital assets held for more than 6 years will not be subject to tax.

As a result of the above changes, the various classes of Mass. gross income are now allocated among three categories:

- Gains on the sale of capital assets (excluding collectibles) held for more than one year are taxed as 5% income in tax year 1996. The new law sets forth a calculation to generate a credit when long-term losses are in excess of long-term gains. This credit may be applied against short-term capital gains in the current year and carried forward to be applied against long- and short-term capital gains in subsequent years.

- 12% income continues to include short-term capital gains, dividends, and non-Mass. bank interest, as well as short- and long-term capital gains arising from the sale of collectibles. Allowable deductions from 12% income include allowable deductions from your trade or business, losses on the sale of capital assets held for one year or less, a 50% deduction for gains on the sale of collectibles held for more than one year and, excess exemptions.

- 5.95% income will continue to consist of all income that is not 5% income or 12% income, including such items as wages, pensions, rents, and Massachusetts bank interest.

NOTE: For a detailed explanation of the new law, see Proposed Regulation on Capital Gains and Losses, 830 CMR 62.4.1.

Limited Liability Company. Effective January 1, 1996 a limited liability company formed under MGL Ch. 156 shall be deemed to be a partnership if it is classified for the taxable year as a partnership for federal tax purposes.

When Must a Partnership File a Return?

A Massachusetts partnership return, Form 3, must be filed if the partnership meets either of the following criteria:

- has a usual place of business in Massachusetts; or
- receives federal gross income of more than \$100 during the taxable year.

How Is a Partnership Taxed?

A partnership is not directly subject to income tax. Instead, each partner is taxed on the partner's share of the partnership income, whether distributed or not. Form 3 is a legally required informational return under Massachusetts General Laws, Ch. 62C, and subject to penalty for late filing.

How Does Schedule 3K-1 Work?

Schedule 3K-1 is designed to allow the partnership to report each partner's distributive share of partnership income separately.

How Does Each Partner Report Partnership Income?

Each partner must report the partner's distributive share of each item of partnership income during the taxable year on the partner's Massachusetts tax return. The following table shows which return should be filed by each type of partner.

Type of Partner	Form to File
<i>resident individual</i>	1
<i>nonresident/part-year resident individual</i>	1-NR/PY
<i>trust or estate</i>	2
<i>domestic corporation</i>	355A
<i>foreign corporation</i>	355B
<i>domestic corporation</i> (part of a Mass. combined group)	355C-A
<i>foreign corporation</i> (part of a Mass. combined group)	355C-B
<i>corporate trust</i>	3F
<i>domestic S corporation</i>	355S-A
<i>foreign S corporation</i>	355S-B

Each **nonresident partner** must report the partner's distributive share of partnership income from any of the following categories:

- income derived from or connected with the partnership business carried on in Massachusetts;
- income from the ownership of any interest in real or tangible personal property located in Massachusetts; or
- interest, dividends, annuities and capital gains from property employed in the partnership business carried on in Massachusetts.

NOTE: A nonresident limited partner of a limited partnership engaged exclusively in buying, selling, dealing in or holding securities on its own behalf and not as a broker is not subject to tax on income from such partnership.

Qualified electing nonresident partners may file a composite tax return as defined in the nonresident regulation 830 CMR 62.5A.1(12)(f). A composite return is made on a Form 1-NR/PY with a composite Schedule E-NR/PY attached.

What is Massachusetts Gross Income?

Massachusetts Gross Income is divided into three classes: Part B is taxed at 5.95%, Part A is taxed at 12% and Part C is taxed at 5%.

5.95% Income:

- Gross receipts from sales;
- Ordinary income or (loss) from other partnerships excluding all interest and dividends taxed at 12%;
- Ordinary income or (loss) from trusts and estates not subject to Massachusetts taxation;
- Royalty income or (loss);
- Income from REMIC residual interest;
- Rental income or (loss);
- Massachusetts bank interest; and
- Other income taxed at 5.95% (see Form 1 instructions).

12% Income:

- Interest other than from Massachusetts banks;
- Dividends;
- Short-term capital gains and (losses).
- Gains and (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.

5% Income:

- Long-term capital gains and (losses) excluding long-term gains on collectibles; and
- (Losses) on the sale, exchange or involuntary conversion of property used in a trade or business and held for more than one year.

NOTE: Massachusetts gross income does **not** include interest on obligations of the U.S. or Massachusetts and its political sub-divisions.

Are there Differences Between Massachusetts Tax Law and the Internal Revenue Code Provisions Affecting Partnerships?

Yes. There are a number of differences between Massachusetts and U.S. personal income tax law. For Massachusetts tax purposes, a partnership 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 deduction for charitable contributions or for a net operating loss carryover or carryback are neither allowed to the partnership nor to an individual under Massachusetts income tax law. Also, Massachusetts continues to have a net long-term capital gain deduction of 50%. Additional explanations of these differences are provided in the appropriate lines and in the Forms 1 and 1-NR/PY instructions.

Form 3 and Schedule 3K-1 isolate income and deduction items in order to produce the correct Massachusetts partnership total as well as each partner's correct Massachusetts distributive share.

These amounts sometimes differ from those reported on U.S. Form 1065, Schedule K-1.

When and Where Must a Partnership Return be Filed?

A partnership return is due on or before the 15th day of the fourth month after the close of the partnership's taxable year, calendar or fiscal. If the partnership was dissolved or reorganized during the taxable year, Form 3 must be filed to reflect partnership activity as of the date of dissolution or reorganization.

Form 3 must be signed by one of the general partners. U.S. Form 1065 and all related schedules, including Schedule K-1 must be attached. A return without attached U.S. information is incomplete and subject to penalty.

Mail partnership return to:
Massachusetts Department of Revenue
P.O. Box 7017
Boston, MA 02204

What is the Penalty for Filing a Late Return?

A \$5.00 per day penalty may be imposed for failure to file a partnership return on time.

Specific Instructions

Certain lines are addressed in detail. Those lines without specific instructions are considered to be self-explanatory.

The Department of Revenue and the Internal Revenue Service maintain an extensive exchange program routinely sharing computer tapes and audit results. Discrepancies between income and deductions reported federally and on this return, except those allowed under state law, will be identified and may result in a state audit or further investigation.

Part II. Partnership Income

If a partnership is made up entirely of **corporate partners**, the partnership need not complete Form 3, Part II. The partnership, however, must complete Form 3, Part I and, if applicable, Part III, and Schedule 3K-1, lines 22 through 29 (see instructions for Income Apportionment, Part III). The partnership must also attach U.S. Form 1065 and all schedules, including K-1s.

Mass. Ordinary Income or (Loss)

Line 1 Ordinary Income or (Loss)

Enter the total amount of ordinary income or (loss) from U.S. Form 1065, line 22.

Line 2 Other Income or (Loss)

If reporting other income or (loss) from U.S. Form 1065, Schedule K, line 7, attach a statement and explain. If any income or (loss) from U.S. Form 1065, Schedule K, line 7 is granted capital gains treatment by the federal government, omit it here and include it in lines 16, 17, 18, 19, 20 and 21, as applicable.

Line 3 State, Local and Foreign Income and Unincorporated Business Taxes or Excises

Enter total state, local and foreign income and unincorporated business taxes or excises. These taxes are deductible for U.S. tax purposes, but are not deductible in Massachusetts.

Line 5 Other Adjustments

Report and describe any other adjustments to Massachusetts partnership income and deductions not reported elsewhere on Form 3.

For Massachusetts tax purposes, a partnership 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 deduction for charitable contributions or for a net operating loss carryover or carryback are neither allowed to the partnership nor to an individual under Massachusetts income tax law.

Also report the deductions for 10% of the costs of renovating a qualifying abandoned building located in an Economic Opportunity Area. Attach a statement detailing the location and cost of renovating the qualifying abandoned building. The building must be designated as abandoned by the Economic Assistance Coordinating Council. For further information, contact the Massachusetts Office of Business Development, One Ashburton Place, Room 2101, Boston, MA 02108.

The partnership should also provide each partner with the amount of the partner's share of the deductible costs of renovating a qualifying abandoned building. Each partner should use this amount to complete Forms 1 or 1-NR/PY, Schedule E, Part II, line 4; Form 2; or Form 3F.

NOTE: For Securities Dealers, Massachusetts does not require the use of the federal Mark-to-Market accounting requirement.

Line 7 Net Income or (Loss) from Rental Real Estate Activity(ies)

Enter the net income or (loss) from rental real estate activity(ies) from U.S. Form 1065, Schedule K, line 2.

Line 8 Net Income or (Loss) from Other Rental Activity(ies)

Enter the net income or (loss) from other rental activity(ies) from U.S. Form 1065, Schedule K, line 3c.

U.S. Portfolio Income

Line 9 U.S. Portfolio Income, Not Including Capital Gains

Add U.S. Form 1065, Schedule K, lines 4a, 4b, 4c and 4f and enter the total in line 9.

NOTE: U.S. Portfolio income includes any gross income from interest, dividends, annuities or royalties that is **not** derived in the ordinary course of trade or business. For Massachusetts tax purposes, however, such interest, dividend and royalty income may still be treated as derived from or effectively connected with the trade or business.

Line 10 Interest on U.S. Debt Obligations

Enter the total amount of interest on U.S. debt obligations reported in line 9 which is taxable by the federal government, but is tax-exempt in Massachusetts.

Line 11 5.95% Interest from Mass. Banks

Enter the total amount of interest from Mass. banks included in line 9. Report any interest from Mass. savings accounts, savings share accounts and NOW accounts. Also report any interest from term and time deposits. Attach a statement listing bank sources and amounts.

NOTE: This amount should not include any 5.95% interest from Massachusetts banks derived in the ordinary course of the trade or business activity of the partnership and properly reported in line 1.

Line 12 12% Interest and Dividend Income

Enter the total amount of 12% interest and dividend income included in line 9. Do not include interest on U.S. debt obligations, which is taxable by the federal government, but is tax-exempt in Massachusetts. Attach a statement listing sources and amounts.

NOTE: This amount should not include any 12% interest and dividend income derived in the ordinary course of the trade or business activity of the partnership and properly reported in line 1.

Line 13 Non-Mass. State and Municipal Bond Interest

Enter the total amount of the partnership's non-Massachusetts state and municipal bond interest. This interest is taxable in Massachusetts, but not taxed by the federal government and thus not reported on U.S. Form 1065, Schedule K, line 4a.

Line 14 Royalty Income

Enter the total amount of royalty income included in line 9.

NOTE: This amount should not include any royalty income derived in the ordinary course of the trade or business activity of the partnership and properly reported in line 1.

Line 15 Other Income

Enter the total amount of other income included in line 9 (from U.S. Form 1065, Schedule K, line 4f).

Mass. Capital Gains and (Losses)

If the partnership had any other income or (loss) that is granted capital gains treatment by the federal government, include that amount in lines 16, 17, 18, 19, 20, 21 and 22 as applicable.

Line 16 Total Short-term Capital Gains

Enter the total amount of short-term capital gains included in U.S. Form 1065, Schedule D, line 5.

Line 17 Total Short-term Capital (Losses)

Enter the total amount of short-term capital (losses) included in U.S. Form 1065, Schedule D, line 5.

Line 18 Gain On the Sale, Exchange or Involuntary Conversion of Property Used in a Trade or Business and Held for One Year or Less

Enter from U.S. Form 4797 the amount of gain from the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less.

Line 19 (Loss) On the Sale, Exchange or Involuntary Conversion of Property Used in a Trade or Business and Held for One Year or Less

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

Line 20 Net Long-term Capital Gain or (Loss)

Enter the net long-term gain or (loss) from U.S. Form 1065, Schedule K, line 4e.

Line 21 (Loss) On the Sale, Exchange or Involuntary Conversion of Property Used in a Trade or Business and Held for More Than One Year

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

Line 22 Long-term Gains on Collectibles

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 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 23 Differences and Adjustments

Report any adjustments to Massachusetts capital gains and (losses). Attach a complete statement explaining any such adjustments. For more information see Form 1, Schedule D instructions.

Part III. Income Apportionment

Part III should be completed only if **all** three of the following conditions are met: (a) there is one or more corporate or nonresident individual partners; (b) there is any income from business activity or ownership of any interest in real or tangible property in another state; (c) such business activities provide the other state the jurisdiction to levy an income or franchise tax.

The total partnership income is apportioned using the three-factor formula provided in Massachusetts General Laws Ch. 63, sec. 38(c), except that the sales factor is single-weighted.

The partnership should provide each corporate or corporate trust partner with the applicable apportionment factors to be used in completing Schedule F of the applicable corporate form, or Form 3F, Schedule E.

Line 24 Tangible Property

24a For tax purposes, average value is based on original cost and is determined by averaging the property values at the beginning and end of the taxable year. If substantial changes occur during the taxable year, the Commissioner may require monthly averaging to properly reflect the average value of the property.

24b Property rented is valued at eight times the annual rental rate less any sub-rentals received.

Line 25 Payroll

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

- The employee's service is performed within Massachusetts;
- The employee's service is performed both in Massachusetts and in other state(s), but the non-Massachusetts service is secondary to the Massachusetts service;
- Part of the employee's service is performed in Massachusetts, and the service is controlled from a base of operations/place of control in Massachusetts; or
- Part of the employee's service is performed in Massachusetts and the base of operations/place of control of the service is not in a state in which some part of the service is performed, but the employee lives in Massachusetts.

Line 26 Sales

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

26a Sales of tangible personal property are assignable to Massachusetts if:

- The property is delivered or shipped to any buyer, including the U.S. Government, in Massachusetts; or
- The selling partnership is not taxable in the state of the buyer and the property is not sold by an agent or agencies chiefly situated at, connected with, or sent out from premises for the transaction of business owned or rented by the partnership outside

Massachusetts. A buyer for this item includes the U.S. Government.

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

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

26b Sales of services, or other intangibles, are assigned to Massachusetts if the income-producing activity is performed in Massachusetts, or if the greater portion of the activity occurs in Massachusetts than in any other state based on performance cost.

26c 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.

Line 28 Mass. Apportionment Percentage

Any apportionment factor should not necessarily be considered inapplicable if its Massachusetts total (column A, lines 24c, 25a or 26e) is zero. If any of the apportionment totals for "Everywhere" (column B, lines 24c, 25a or 26e) are less than 3.33% of taxable net income, **do not** include that factor in your Massachusetts apportionment percentage.

Divide the total apportionment percentage in line 27 by either 3, 2 or 1, depending on the number of apportionment factors which apply. For example, if only the sales and payroll factors are applicable, divide by 2 instead of 3.

Lines 29 through 33 Resident and Nonresident Reconciliation

The Massachusetts apportionment percentage (line 28) is applied only to the nonresident partners' share of each major income item. The total resident partners' shares are then added to reach the total amount of resident and nonresident partners' income attributable to Massachusetts. Finally, the corporate partners' share of each major income item is reported.

Schedule 3K-1. Partner's Mass. Information

Partner's Distributive Share

A partner's distributive share of any item of income, (loss), deduction or credit shall be determined by the partnership agreement. If the partnership agreement contains no special provisions with respect to the partner's distributive share of any item of income, (loss), deduction or credit, such item shall be prorated in accordance with each partner's ratio of sharing income or (losses) of the partnership.

- a. For a corporate partner skip to line 22.
- b. For a nonresident partner eligible to apportion, enter in column B, lines 1 through 21, the amount of the partner's share of each applicable distributive share item multiplied by the apportionment percentage in Form 3, line 28.

Income should be apportioned if:

- There is one or more nonresident individual partners **and**;
- There is any income from business activity 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.

NOTE: For line 9, however, enter in column B the amount of the nonresident partner's distributive share without apportionment. For line 2, see instructions.

c. For all other partners, enter in column B, lines 1 through 21, the amount of the partner's share of each applicable distributive share item.

Line 1 Mass. Ordinary Income or (Loss)

Enter the amount of the partner's share of the partnership's Massachusetts ordinary income or (loss) from Form 3, line 6. For a nonresident partner eligible to apportion, enter the amount of the partner's share of the partnership's Massachusetts ordinary income or (loss) multiplied by the apportionment percentage in Form 3, line 28.

Line 2 Guaranteed Payments to Partners (Deductible and Capitalized)

Enter the guaranteed payments to each partner from U.S. Form 1065, Schedule K, line 5. For a nonresident partner eligible to apportion, if the payments are for services, the partnership should not apportion using the partnership's apportionment percentage, but should report payments related to services performed in Massachusetts. If the payments are not for services, use the partnership's Massachusetts apportionment percentage.

Line 3 Separately Stated Deductions

Report and describe in line 3 any other expense that is deductible from income taxed at 5.95% and properly reportable on Massachusetts Forms 1 or 1-NR/PY, Schedule E, Part II; or Forms 2 or 3F, and that is not reported elsewhere on Schedule 3K-1. Examples of such deductions include oil and gas depletion and the expense deduction for recovery property, IRC Section 179. An estate or trust may not elect to expense recovery property.

Line 4 Total of Lines 1, 2 and 3

Combine the amounts in lines 1, 2 and 3. The line 4 result includes each partner's share of the partnership's Massachusetts ordinary income and any guaranteed payments to the partner (deductible and capitalized).

The correct Massachusetts amount of the partner's share of ordinary income and guaranteed payments may differ from the comparable U.S. total reported on the partner's Form 1 or 1-NR/PY, Schedule E, Part II, line 1; Form 2, line 17; or Form 3F. Each partner should make adjustments in Form 1 or 1-NR/PY, Schedule E, Part II, line 2 and line 4, if applicable; Form 2, line 17; or Form 3F, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain.

The partnership should provide each partner with the amount of the partner's share of any 12% interest and dividend income and 5.95% interest from Massachusetts banks included in line 4. Each partner should use these amounts to complete Form 1 or 1-NR/PY, Schedule E, Part II, lines 6 and 7; Form 2; or Form 3F.

Line 5 Credits

Income Tax Paid to Other Jurisdictions

Enter the partner's share of any tax due from the partnership 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 partner in Massachusetts and otherwise allowable as a credit to

the individual. The partnership should also provide each such partner with the names of each taxing jurisdiction and the amount taxed.

This credit is available only to resident partners and may be taken on Form 1, line 26, Form 1-NY/PY, line 31 or where applicable, on Form 2, line 46. Where the credit is available, the partnership must also provide each resident partner with separately stated totals of 5.95%, 12% and 5% income taxed by other jurisdictions to enable the partners to complete Schedule F.

NOTE: The amount in line 5 is NOT simply the partner's share of the amount reported on Form 3, line 3, because the credit for taxes paid to other jurisdictions does not include local income taxes paid or taxes paid to nations other than Canada.

Lead Paint Credit

Enter the partner's share of any credit due to the partnership for expenses incurred by the partnership for covering or removing lead paint on residential premises in Massachusetts. The partnership must provide each partner with a copy of a "Letter of Compliance" or a "Letter of Interim Control" issued by a licensed inspector.

Economic Opportunity Area Credit

Enter the partner's share of any Economic Opportunity Area Credit for qualifying property used as a Certified Project. Enter each partner's share of the credit, according to the partner's ownership share in line 5 of each partner's Schedule 3K-1.

This amount should then be used by each partner to complete Schedule EOA.

Line 6 Net Income or (Loss) from Rental Real Estate Activity(ies)

Enter the partner's share of the partnership's net rental income or (loss) from real estate activity(ies) from Form 3, line 7.

The correct Massachusetts amount of the partner's share of net income or (loss) from rental real estate activity(ies) may differ from the comparable U.S. total reported on the partner's Form 1 or 1-NR/PY, Schedule E, Part II, line 1; Form 2, Schedule E, line 1; or Form 3F. Each partner should make adjustments in Form 1 or 1-NR/PY, Schedule E, Part II, line 2; Form 2, Schedule E, line 2; or Form 3F, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain.

Line 7 Net Income or (Loss) from Other Rental Activity(ies)

Enter the partner's share of the partnership's net rental income or (loss) from other activity(ies) from Form 3, line 8.

The correct Massachusetts amount of the partner's share of net rental income or (loss) from other activity(ies) may differ from the comparable U.S. total reported on the partner's Form 1 or 1-NR/PY, Schedule E, Part II, line 1; Form 2, line 17; or Form 3F. Each partner should make adjustments in Form 1 or 1-NR/PY, Schedule E, Part II, line 2; Form 2, line 17; or Form 3F, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain.

Line 8 5.95% Interest from Mass. Banks

Enter the partner's share of the partnership's 5.95% interest from Massachusetts banks from Form 3, line 11. For a nonresident partner eligible to apportion, enter the partner's share of the partner-

ship's 5.95% interest from Massachusetts banks multiplied by the apportionment percentage in Form 3, line 28.

Each partner should include the line 8 total in Form 1, line 5; Form 1-NR/PY, line 7; Form 2, line 16 or Form 3F.

Each nonresident partner whose income is apportioned should receive from the partnership the amount of the partner's preapportionment share of 5.95% interest from Massachusetts banks. Each nonresident individual whose income is apportioned should include this amount in Form 1-NR/PY, Schedule B, line 6. This amount should be used instead of any amount from Form 1-NR/PY, line 7 because the partner's full distributive share in such income is included in the U.S. amount reported in Schedule B, line 1. Each nonresident trust or estate whose income is apportioned should include its pre-apportionment share of 5.95% interest from Massachusetts banks in Form 2, Schedule B, line 6, instead of any amount from Form 2, line 16.

Line 9 Interest on U.S. Debt Obligations

Enter the partner's share of the partnership's interest on U.S. debt obligations from Form 3, line 10. For a nonresident partner eligible to apportion, enter the partner's share **without** apportionment. This income is taxable by the federal government, but tax-exempt in Massachusetts.

Each partner should include the line 9 total in Form 1 or 1-NR/PY, Schedule B, line 7; Form 2, Schedule B, line 5; or Form 3F, Schedule B, line 7.

Line 10 Non-Mass. State and Municipal Bond Interest

Enter the partner's share of the partnership's non-Massachusetts state and municipal bond interest from Form 3, line 13. For a nonresident partner eligible to apportion, enter the partner's distributive share of the partnership's non-Massachusetts state and municipal bond interest multiplied by the apportionment percentage in Form 3, line 28. This income is not taxed by the federal government, but **is** taxable in Massachusetts.

Each partner should include the line 10 total in Form 1, 1-NR/PY, 2 or 3F, Schedule B, line 3.

Line 11 12% Interest and Dividend Income

Enter the partner's share of the partnership's 12% interest and dividend income from Form 3, line 12. For a nonresident partner eligible to apportion, enter the partner's distributive share of the partnership's 12% interest and dividend income multiplied by the apportionment percentage in Form 3, line 28.

The correct Massachusetts amount of the partner's share of 12% interest and dividend income may differ from the comparable U.S. total reported on the partner's Form 1, 1-NR/PY or 2, Schedule B, lines 1 and 2; or Form 3F. Each partner should make adjustments in Form 1 and 1-NR/PY, Schedule B, line 7; Form 2, Schedule B, line 8; or Form 3F, Schedule B, line 7 to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain.

Line 12 Royalty Income

Enter the partner's share of the partnership's royalty income from Form 3, line 14.

For a nonresident partner eligible to apportion, enter the partner's distributive share of the partnership's royalty income from Form 3, line 14 multiplied by the apportionment percentage in Form 3, line 28.

The correct Massachusetts amount of the partner's share of royalty income may differ from the comparable U.S. total reported on Form 1 or 1-NR/PY, Schedule E, Part I, line 1a; Form 2, Schedule E, line 1a; or Form 3F. Each partner should make adjustments in Form 1, 1-NR/PY, Schedule E, Part I, line 2; or Form 2, Schedule E, line 2; or Form 3F, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain.

Line 13 Other Income

Enter the partner's share of the partnership's other income from Form 3, line 15. For a nonresident partner eligible to apportion, enter the partner's distributive share of the partnership's other income from Form 3, line 15 multiplied by the apportionment percentage in Form 3, line 28.

The correct Massachusetts amount of the partner's share of other income may differ from the comparable U.S. total reported on Form 1, 1-NR/PY, 2 or 3F. Each partner should make adjustments on the applicable lines of Form 1, 1-NR/PY, 2 or 3F, to reflect the correct Massachusetts amount. If any income reported to the partnership from a Real Estate Mortgage Investment Conduit (REMIC), in which the partnership is a residual interest holder, is reported in line 13, then any such adjustment should be made on Form 1 or 1-NR/PY, Schedule E, Part I, line 1b or Form 2, Schedule E, line 1b.

Line 14 Short-term Capital Gains

Enter the partner's share of the partnership's short-term capital gain from Form 3, line 16. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's short-term capital gain multiplied by the apportionment percentage in Form 3, line 28.

The correct Massachusetts amount of the partner's share of short-term capital gain may differ from the comparable U.S. total reported on your Form 1, 1-NR/PY, 2 or 3F, Schedule B. Each partner should make adjustments in Form 1 or 1-NR/PY, Schedule B, line 9, or Form 2, Schedule B, line 11 or 3F, Schedule B, line 10, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain any adjustments.

Line 15 Short-term Capital (Losses)

Enter the partner's share of the partnership's short-term capital (loss) from Form 3, line 17. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's short-term capital (loss) multiplied by the apportionment percentage in Form 3, line 28.

The correct Massachusetts amount of the partner's share of short-term capital (loss) may differ from the comparable U.S. total reported on your Form 1, 1-NR/PY, 2 or 3F, Schedule B. Each partner should make adjustments in Form 1 or 1-NR/PY, Schedule B, line 15, or Form 2, Schedule B, line 17 or 3F, Schedule B, line 16, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain any adjustments.

Line 16 Gain on the Sale, Exchange or Involuntary Conversion of Property Used in a Trade or Business and Held for One Year or Less

Enter the partner's share of the partnership's gain on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less from Form 3, line 18. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's gain on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less multiplied by the apportionment percentage in Form 3, line 28.

The correct Massachusetts amount of the partner's share of gain on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less may differ from the comparable U.S. total reported on your Form 1, 1-NR/PY, 2 or 3F, Schedule B. Each partner should make adjustments in Form 1 or 1-NR/PY, Schedule B, line 11, or Form 2, Schedule B, line 13 or 3F, Schedule B, line 12, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain any adjustments.

Line 17 (Loss) on the Sale, Exchange or Involuntary Conversion of Property Used in a Trade or Business and Held for One Year or Less

Enter the partner's share of the partnership's (loss) on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less from Form 3, line 19. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's (loss) on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less multiplied by the apportionment percentage in Form 3, line 28.

The correct Massachusetts amount of the partner's share of (loss) on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less may differ from the comparable U.S. total reported on your Form 1, 1-NR/PY, 2 or 3F, Schedule B. Each partner should make adjustments in Form 1 or 1-NR/PY, Schedule B, line 16, or Form 2, Schedule B, line 18 or 3F, Schedule B, line 17, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain any adjustments.

Line 18 Long-term Capital Gain or (Loss)

Enter the partner's share of the partnership's long-term capital gain or (loss) from Form 3, line 20. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's long-term capital gain or (loss) multiplied by the apportionment percentage in Form 3, line 28.

The correct Massachusetts amount of the partner's share of long-term capital gain or (loss) may differ from the comparable U.S. total reported on your Form 1, 1-NR/PY, 2 or 3F, Schedule D, line 1. Each partner should make adjustments in Form 1 or 1-NR/PY, Schedule D, line 4, or Form 2, Schedule D, line 6 or 3F, Schedule D, line 7, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain any adjustments.

Line 19 (Loss) on the Sale, Exchange or Involuntary Conversion of Property Used in a Trade or Business and Held for More Than One Year

Enter the partner's share of the partnership's (loss) on the sale, exchange or involuntary conversion of property used in a trade or business and held for more than one year from Form 3, line 21. For

a nonresident partner eligible to apportion, enter the partner's share of the partnership's (loss) on the sale, exchange or involuntary conversion of property used in a trade or business and held for more than one year multiplied by the apportionment percentage in Form 3, line 28.

The correct Massachusetts amount of the partner's share of (loss) on the sale, exchange or involuntary conversion of property used in a trade or business and held for more than one year may differ from the comparable U.S. total reported on your Form 1, 1-NR/PY, 2 or 3F, Schedule D, line 2. Each partner should make adjustments in Form 1 or 1-NR/PY, Schedule D, line 4, or Form 2, Schedule D, line 6 or 3F, Schedule D, line 7, to reflect the correct Massachusetts amount. Each partner should attach a statement with the partner's Massachusetts tax return and explain any adjustments.

Line 20 Long-term Gains on Collectibles

Enter the partner's share of the partnership's long-term gains on collectibles from Form 3, line 22. For a nonresident partner eligible to apportion, enter the partner's share of the partnership's long-term gains on collectibles multiplied by the apportionment percentage in Form 3, line 28.

The correct Massachusetts amount of the partner's share of long-term gains on collectibles may differ from the comparable U.S. total reported on your Form 1, 1-NR/PY, 2 or 3F, Schedule D, line 1. Each partner should make adjustments in Form 1 or 1-NR/PY, Schedule D, line 4, or Form 2, Schedule D, line 6 or 3F, Schedule D, line 7. Each partner should report the correct Massachusetts amount in Form 1 or 1-NR/PY, Schedule D, line 5; Form 2, Schedule D, line 8 or Form 3F, Schedule D, line 5. Each partner should attach a statement with the partner's Massachusetts tax return and explain any adjustments.

Corporate Partner Information

For Corporate Partner Only

Complete lines 22 through 24 for corporate partners only. For all other partners, skip to line 25. Lines 22 through 24 isolate income and deduction items where there are differences between Massachusetts and federal tax treatment. The information provided in lines 22 through 24 should be used by each corporate partner to complete Schedule E of the appropriate corporate return, supplementing other information on the corporate partner that is derived from U.S. Forms 1065 and 1120.

Provide each corporate partner with the apportionment factors in Form 3, lines 24, 25 and 26 to assist each corporate partner in completing Schedule F of the appropriate corporate return.

A corporate partner's distributive share of any item of income, (loss), deduction or credit is determined by the partnership agreement. If the partnership agreement contains no provision with respect to the partner's distributive share of any item of income, (loss), deduction or credit, such item shall be prorated in accor-

dance with each partner's ratio of sharing income or (losses) of the partnership.

Line 22 State and Municipal Bond Interest

Enter the corporate partner's share of the partnership's state and municipal bond interest. This income is not reported in U.S. net income, but is taxable in Massachusetts.

Each corporate partner should include the line 22 total in Form 355A, 355B, 355C-A, 355C-B, 355S-A or 355S-B, Schedule E, line 6.

Line 23 Foreign, State or Local Income, Franchise, Excise or Capital Stock Taxes

Enter the corporate partner's share of the partnership's foreign, state or local income, franchise, excise or capital stock taxes. These taxes are deducted from U.S. net income, but not deductible in Massachusetts.

Each corporate partner should include the amount in line 23 on Form 355A, 355B, 355C-A, 355C-B, 355S-A or 355S-B, Schedule E, line 7.

Line 24 Other Adjustments

Enter each corporate partner's share of any other adjustments to Massachusetts partnership income that reflect differences between Massachusetts and federal tax treatment of corporate partner income and deductions.

The partnership should also provide each corporate partner with the amount of the partner's share of the costs of renovating a qualifying abandoned building. Each corporate partner should use this amount to complete Form 355A, 355B, 355C-A, 355C-B, 355S-A or 355S-B, Schedule E, line 10.

Each corporate partner should use the line 24 amount in Form 355A, 355B, 355C-A, 355C-B, 355S-A or 355S-B, Schedule E, line 8 and Schedule E, line 10, if applicable.

Reconciliation of Partner's Capital Account

Lines 25 through 29 Reconciliation of Partner's Capital Account

Lines 25 through 29 must be completed for each partner.

Line 25 Balance at the Beginning of Year

Enter each partner's capital amount at the beginning of the year.

Line 26 Net Income for the Year

Line 26a must include all income subject to taxation to resident and nonresident partners. Line 26b must include all line 26 income plus all income not subject to taxation and must reflect unallowable deductions.

Line 29 Balance at the End of Year

Enter the sum of lines 25, 26b and 27 less the amount in line 28.

Department of Revenue Resources

DOR Locations in Massachusetts

100 Cambridge Street

Boston 02204

(617) 887-MDOR

218 S. Main Street

Fall River 02721

(508) 678-2844

1019 Iyanough Road

Hyannis 02601

(508) 771-2414

333 East Street

Pittsfield 01201

(413) 499-2206

436 Dwight Street

Springfield 01103

(413) 784-1000

40 Southbridge Street

Worcester 01608

(508) 792-7300

DOR Locations throughout the Country

999 Peachtree St., Suite 1640

Atlanta, GA 30309

(404) 874-2922

101 South First St., 4th Floor

Burbank, CA 91502

(818) 840-9059

150 N. Michigan Ave., Suite
2035

Chicago, IL 60601

(312) 899-9040

1201 Louisiana St., Suite 3322

Houston, TX 77002

(713) 650-0390

1212 Ave. of the Americas
9th Floor

New York, NY 10036

(212) 768-2750

355 Fifth Ave., Suite 1400


Pittsburgh, PA 15222


(412) 281-2776


What kind of help is available


The instructions in the Department of Revenue's tax forms should provide answers to most taxpayer questions. If you have questions about completing your Massachusetts tax form, you can call or visit any of the Department of Revenue offices listed on this page Monday through Friday, between 8:45 a.m. and 5:00 p.m. Taxpayers also can call TaxTalk, the Department's new 24-hour automated system of recorded tax help, at the main information lines listed below. In addition, DOR issues a number of useful publications on various state tax issues. These publications include: tax-specific guides written in question and answer format such as the *Guide to Filing Your 1996 Massachusetts Income Taxes*; a quarterly newsletter, the *Taxpayer Advisory Bulletin*, with updates on legislative, legal and Departmental decisions; and public written statements, such as Regulations, Technical Information Releases (TIRs), Directives and Letter Rulings.

Where to get forms and publications

 During the income tax filing season, you can pick up Massachusetts personal income tax forms in many convenient locations, including post offices, libraries, and major city or town halls; any DOR office listed on this page; or 16 IRS district offices across the state.

 To obtain Massachusetts forms and publications by phone, call the Department's main information lines at (617) 887-MDOR, or toll-free in Massachusetts at 1-800-392-6089. Please note that many forms and publications are available 24 hours a day by calling the Department's automated forms request system at the numbers listed above.

 Many Massachusetts tax forms and publications are available via the Internet. The address for the Department's home page is <http://www.magnet.state.ma.us/dor/dorpg.htm>

 Certain forms and publications can be obtained through DOR's Fax on Demand system. For a complete Fax on Demand menu, please call (617) 887-1900 using the handset and the keypad on your fax machine.

Note: The 1996 Form 1, Form 1-NR/PY and Form M-4868 available on the Internet and through the Fax on Demand system are for informational purposes only. Due to the sensitivity of the Department's imaging equipment for tax return processing, only an original or approved computer-generated version of these forms will be accepted for filing purposes.

For general tax information

Please call (617) 887-MDOR or toll-free in Massachusetts 1-800-392-6089. These main information lines can provide assistance with:

- ▶ abatements
- ▶ bills and payments
- ▶ business taxes
- ▶ corporate excise
- ▶ corporate trusts
- ▶ estate taxes
- ▶ estimated taxes
- ▶ fiduciary taxes
- ▶ nonresident information
- ▶ partnerships
- ▶ personal income taxes
- ▶ refunds
- ▶ withholding

For help in one of the following specific areas

Please call the number listed below.

- ▶ Certificates of Good Standing (617) 887-6550
- ▶ Federal changes (617) 621-5300
- ▶ Teletype (TTY): (617) 887-6140
- ▶ Installment sales (617) 621-5249
- ▶ Small Business Workshop (617) 887-6100
- ▶ Vision-impaired taxpayers are welcome to make an appointment at any DOR office listed on this page to receive assistance in preparing their tax forms.
- ▶ Upon request, this publication is available in an alternative format.

To report allegations of suspected misconduct or impropriety involving Department of Revenue employees, please call the Inspectional Services Division's Integrity Hot Line at 1-800-568-0085 or write to P.O. Box 6040, Boston, MA 02114.

Massachusetts

Department of

Revenue

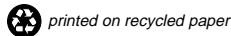
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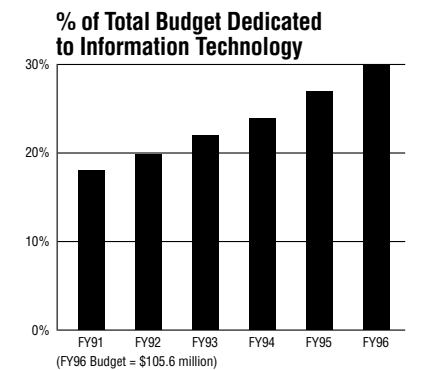
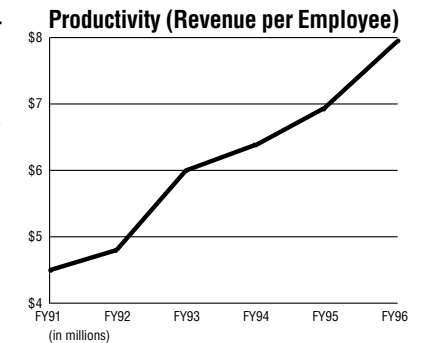
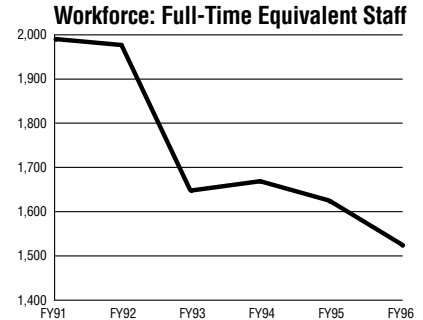


Dear Taxpayer:

Across the country, information technology has revolutionized the way work is done, permitting efficiencies never before possible. The Department of Revenue is a very good example.

Imaging/data recognition, electronic funds transfer, interactive voice response, computer-assisted audit, PC filing and Telefile are now in full use. This extensive array of cutting-edge systems has permitted us to downsize from 2,000 employees to 1,500, while productivity has virtually doubled — from \$4.5 million in revenue per employee in FY91 to \$8 million in FY96. Service has never been better. Half a million taxpayers received their refunds in 4 days or less last year, and waiting time on the telephones was cut to near zero at peak tax season.

Our pledge is to keep our leadership role in these technologies, because it will mean lower costs, and even better performance and service for Massachusetts taxpayers.



Sincerely,

Mitchell Adams
Commissioner