

1998 CT-1120A INSTRUCTIONS FOR SCHEDULES Q, R AND S

Complete this form and file as a part of the Corporation Business Tax Return only if the company carried on business within and outside of Connecticut and was taxable in another state during the income year for which the return is filed.

FORM CT-1120A, SCHEDULES Q, R AND S ARE NOT APPLICABLE TO THE FOLLOWING COMPANIES:

AIR CARRIERS (use Form CT-1120A-A, Corporation Business Tax Return Apportionment Computation - Air Carriers);

INSURANCE COMPANIES (use Form CT-1120A-I, Corporation Business Tax Return Apportionment Computation - Insurance Company).

SPECIAL FILING INSTRUCTIONS FOR SCHEDULES Q AND R ARE APPLICABLE TO THE FOLLOWING COMPANIES. HOWEVER, THEY MUST CALCULATE THE MINIMUM TAX APPORTIONMENT FRACTION ON SCHEDULE S:

- COMPANIES whose income is derived from credit card activities principally located in distressed municipalities may elect to calculate their apportionment fraction on Form CT-1120A-CCA.
- COMPANIES whose income is from services performed for Regulated Investment Companies may elect to calculate their apportionment fraction on Form CT-1120A-IRIC.
- SECURITIES BROKERAGE SERVICES COMPANIES may elect to calculate their apportionment fraction on Form CT-1120A-SBC.
- COMPANIES (not otherwise conducting business in Connecticut) who are limited partners in a limited partnership doing business in Connecticut may apportion their limited partnership distribution on Form CT-1120A-LP.
- MOTOR BUS COMPANIES and MOTOR CARRIERS calculate their apportionment fraction on Form CT-1120A-BMC. Income derived from sources other than carrying passengers or tangible property for hire must be apportioned by an apportionment fraction calculated on Form CT-1120A, Schedule Q or R.

Schedule Q - APPORTIONMENT OF NET INCOME

This schedule should be completed only by companies that derive business income from operations which do not involve the manufacture, sale or use of tangible property or real property. Item 1(a) should include all receipts from business carried on within Connecticut. The components of the receipts factor in Schedule Q will be determined in the same manner as in Schedule R.

Schedule R - APPORTIONMENT OF NET INCOME

This schedule should be completed only by companies that derive business income from operations which involve the manufacture, sale or use of tangible personal or real property.

Item 1. Enter on Line 1(a) through Line 1(d) the average monthly net book value for each category of tangible personal and real property that is held and owned or rented by the corporation. Average monthly net value is computed by multiplying by eight the gross rents paid directly or indirectly for the use or possession of the property. Include interest, taxes, insurance and repairs to the property. Royalties are excluded. Enter on Line 1(e) items such as construction-in-progress, interest in partnerships, etc. A corporation that owns an interest in a partnership or joint venture should include its pro rata share of its apportionment factor (property, payroll, and receipts) in the numerator and denominator of the Connecticut statutory apportionment formula (Conn. Gen. Stat. § 12-218) which is used to determine the corporation's portion of its total net income subject to the Connecticut corporation business tax. Total the amounts and divide Column A by Column B to compute the apportionment factor, carried to six decimal places.

Item 2. This factor must include all compensation paid by the corporation during the income year to officers and all other employees inclusive of salaries and wages which have been capitalized and not claimed as a deduction in the income year of the return.

Item 3. Enter the gross receipts from sales and other sources during the income year. Include the following: receipts from sales of tangible property delivered or shipped to a purchaser within this state regardless of the f.o.b. point or other conditions of sale; receipts from services performed within Connecticut; rents and royalties from property situated within Connecticut; royalties from patents and copyrights used within Connecticut; interest earned from assets managed or controlled within the state; net gains from sales or other disposition of intangible assets managed or controlled within the state; and net gains from sales or disposition of tangible assets situated within the state. If losses from sales or other dispositions of such tangible or intangible assets exceed the gains, then enter zero for the net gains. Dividends are excluded from the receipts factor. All other receipts earned within Connecticut not included above must be apportioned.

Item 4. This factor is the same as Item 3, Column C.

Item 6. Divide the total on Line 5 by the number of factors used. For example, if the taxpayer derives net income from manufacturing, this line would contain the sum of its property factor, payroll factor and the receipts factors on Lines 3 and 4, divided by four (less the number, if any, of factors that are not applicable).

Schedule S - MINIMUM TAX BASE APPORTIONMENT

Item 3. This apportionment factor must include the average monthly net book value of all assets exclusive of holdings of stock of private (nongovernmental) corporations. The intangible assets of a company that has its principal place of business within Connecticut are deemed to have a tax situs within Connecticut, unless it can be clearly established that some or all of the assets are held in connection with business conducted during the income year outside of Connecticut.

APPORTIONMENT IN SPECIAL CASES

Conn. Gen. Stat. §12-221a provides for deviation from the statutory apportionment method under certain extraordinary circumstances. The return of a taxpayer requesting relief must be filed initially on the statutory basis using the formula methods prescribed in Conn. Gen. Stat. §§12-218, 12-219a or 12-244 for computing the net income and the minimum tax base, together with (1) payment of the tax due on the applicable base as so computed and (2) a statement containing a specific alternative method. Data supporting the contention that the operation of the statutory method is grossly inequitable and attributes to Connecticut an undue proportion of the taxpayer's net income or minimum tax base must be provided. Permission to determine the tax on an alternative basis will not be considered in any case in which this procedure has not been strictly followed.

Since the statutory method is designed to produce a reasonable apportionment within and outside Connecticut, it must be used in all cases except those in which it has been determined by the Commissioner of Revenue Services that an exception should be made. It is also emphasized that while the statutory method may produce a result substantially different from that produced by some other method, that fact alone does not justify an exception. It is the responsibility of the taxpayer to show that the statutory apportionment fraction, when applied to its business, provides grossly inequitable results and that the income attributed to Connecticut is out of proportion to the business transacted in Connecticut. The variance must be significant enough to invalidate the assumption that the statutory method is reasonable.

The commissioner will notify the company as to whether the proposed alternative method of apportionment is accepted or rejected. If the proposed method is accepted, the tax will be adjusted. The return may be audited within three years after the date filed. If the taxpayer is aggrieved by the audit findings, a hearing may be granted, provided a request for a hearing is filed within 60 days after issuance of the notice of assessment.