STATE DEDUCTION METHODOLOGY

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Loudoun County

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STATE DEDUCTION METHODOLOGY

is a method for alleviating double taxation of the same gross receipts.

VA Income Tax – Points to Remember

- Sales of tangible property are reflected within the sales factor on the Virginia corporate income tax return on the basis of receipt of an item by the purchaser in Virginia, rather than whether the sale originated in Virginia.
- For all other sales, other than sales of tangible property, the sales factor on the Virginia corporate income tax return reflects the income producing activity that is performed in Virginia.
- When the income producing activity associated with a sale is performed both within and outside the state of Virginia, if the majority of the income producing activity is performed within Virginia, the total sale is attributed to Virginia and is included in the taxpayer's sales factor on the Virginia corporate income tax return.

BPOL FORMULA

World Wide Gross Receipts

The taxpayer must calculate its world wide gross receipts.

Gross Receipts Attributable to Virginia

Determine the receipts that are attributed to the business activity in Virginia.

Apportion Gross Receipts to Virginia Locations

Apportion the gross receipts to the localities that have a definite place of business in Virginia.

State Deduction

Subtract gross receipts permitted as an out-of-state deduction from the locality’s taxable gross receipts.

VA Code §58.1-3732(B)(2)

Deduction from Taxable Gross Receipts

"Any receipts attributable to business conducted in another state or foreign country in which the taxpayer (or its shareholders, partners or members in lieu of the taxpayer) is liable for an income or other tax based upon income…shall be deducted from gross receipts or gross purchases that would otherwise be taxable."

STATE DEDUCTION METHODOLOGY

State Filings

“Only the income tax return will do”

For all states that administer an income tax, it is only the income tax filing that will substantiate the taxpayer’s claim and allow for the deduction. If the state administers an income tax, no other tax filed in lieu of income tax would allow for the deduction.

STATE DEDUCTION METHODOLOGY

State Filings

"The withholding alone just won't cut it"

When taxing pass-through entities, many states require the business to file K-1 or similar forms**, so that the shareholder(s), partner(s) or member(s) may be taxed upon the income in lieu of the entity. For states in which a K-1 or similar form was filed, the taxpayer must also supply the income tax return filed by the shareholder(s), partner(s) or member(s) in order to be eligible to receive the deduction.

*** Example - Virginia Form 502 Pass-Through Entity Return of Income and Return of Nonresident Withholding Tax*

STATE DEDUCTION METHODOLOGY

State Filings

"Income Franchise Tax – That's confusing, which is it?"

Some states require the taxpayer to file income, franchise and all other taxes on the same form. For all states with a combined form, if there is attributable income filed in the income or income like calculation, then the filing would be supportive of a deduction regardless of whether or not they are liable for income tax based upon the calculation. There must be an income or income like component within the filing, which should be loosely interpreted.

California • Kentucky • Louisiana

STATE DEDUCTION METHODOLOGY

State Filings

For all states that **<u>do not</u>** administer an income tax, we would consider whether the other forms of tax are income like. Per multiple guidance documents offered by the State Tax Commissioner, the tax must be substantially similar to Virginia Income Tax to be considered income like. There are currently 13 states that do not administer income tax.

Deduction Allowed	
District of Columbia	New Jersey
Minnesota	New York
	Rhode Island

Deduction Disallowed		
Massachusetts	South Dakota	Washington
Nevada	Tennessee	Wyoming
Ohio	Texas	

STATE DEDUCTION METHODOLOGY

State Filings

"Income Like"

District of Columbia

- Unincorporated Business Franchise Tax
- Corporate Business Franchise Tax

Minnesota

- Corporation Franchise Tax

New Jersey

- Corporation Business Tax – *Entire Net Income Calculation*

New York

- Business Corporation Franchise Tax – *Entire Net Income Calculation*

Rhode Island

- Business Corporation Tax

The states listed in the box administer multiple taxes and fees on a combined form. The specific taxes listed are "income like." In some instances, only one specific calculation of the tax is "income like." Each has been noted. If there is attributable income filed in the income like calculation, then the filing would be supportive of a deduction regardless of whether or not the entity is liable for tax based upon the calculation.

NEW JERSEY CORPORATION BUSINESS TAX RETURN

2014

CBT-100

FOR TAXABLE YEARS ENDING ON OR AFTER
JULY 31, 2014 THROUGH JUNE 30, 2015

Taxable year beginning 01/01/2014 and ending 12/31/2014

NAME AS SHOWN ON RETURN	FEDERAL ID NUMBER
[redacted]	[redacted]

Check if applicable ☐ Initial return ☒ 1120-S filer ☐ Inactive

1.	Entire net income from Schedule A, line 38 (if a net loss, enter zero)	1.	302,259
2.	Allocation factor from Schedule J, Non-allocating taxpayers enter 1.000000	2.	0.000000
3.	Allocated net income - Multiply line 1 by line 2. Non-allocating taxpayers must enter the amount from line 1	3.	0
4.	a) Total nonoperational income $ ______ (Schedule O, Part I) (see instruction 38)		
	b) Allocated New Jersey nonoperational income (Schedule O, Part III)	4b.	
5.	Total operational and nonoperational income (line 3 plus line 4b)	5.	
6.	Investment Company - Enter 40% of line 1	6.	
7.	Real Estate Investment Trust - Enter 4% of line 1	7.	
8.	Tax Base - Enter amount from line 5 or line 6 plus 4b, or line 7 plus 4b, whichever is applicable	8.	
9.	Amount of Tax - Multiply line 8 by the applicable tax rate (see instruction 11 (a))	9.	
10.	Tax Credits (from Schedule A-3) (see instruction 44)	10.	
11.	TOTAL CBT TAX LIABILITY - line 9 minus line 10	11.	
12.	Alternative Minimum Assessment (Schedule AM, Part VI, line 5) ☐ Check and enter zero if AMA paid by a Key Corporation (see instruction 23)	12.	
13.	Tax Due (greater of line 11 or 12 or minimum tax due from Schedule A-GR or instruction 11(d))	13.	500
14.	Key Corporation AMA Payment (Form 401, Part II, line 5)	14.	
15.	Subtotal - (Sum of lines 13 and 14)	15.	500
16.	Installment Payment - (Only applies if line 13 is $500 - see instruction 45)	16.	
17.	Professional Corporation Fees (Schedule PC, line 5)	17.	
18.	TOTAL TAX AND PROFESSIONAL CORPORATION FEES (sum of lines 15, 16, and 17)	18.	500
19.	Payments & Credits (see instruction 46)	19.	
	a) Payments made by Partnerships on behalf of taxpayer (attach copies of all NJK-1's)	19a.	
	b) Refundable Tax Credits (see instruction 46(f))	19b.	
20.	Balance of Tax Due - line 18 minus line 19, 19a and 19b	20.	500
21.	Penalty and Interest Due - (see instructions 7(e) and 47)	21.	19
22.	Total Balance Due - line 20 plus line 21	22.	519
23.	If line 19 plus 19a plus 19b is greater than line 18 plus line 21, enter the amount of overpayment	$	DIVISION USE
24.	Amount of Item 23 to be	Credited to 2015 return $	Refunded $

NAME AS SHOWN ON RETURN	FEDERAL ID NUMBER
[redacted]	[redacted]

SCHEDULE A-GR COMPUTATION OF NEW JERSEY GROSS RECEIPTS AND MINIMUM TAX (See Instruction 22)

1. Enter sales of tangible personal property shipped to points within New Jersey	1.	
2. Enter services performed in New Jersey	2.	
3. Enter rentals of property situated in New Jersey	3.	
4. Enter royalties for the use in New Jersey of patents and copyrights	4.	
5. Enter all other business receipts earned in New Jersey	5.	
6. Total New Jersey Gross Receipts	6.	0
7. Enter minimum tax per instruction 11(d). Carry to page 1, line 13	7.	500

SCHEDULE AM ALTERNATIVE MINIMUM ASSESSMENT FOR C CORPORATIONS (See Instruction 23)

PART I COMPUTATION OF NEW JERSEY GROSS RECEIPTS

1. Enter sales of tangible personal property shipped to points within New Jersey	1.	
2. Enter services performed in New Jersey	2	
3. Enter rentals of property situated in New Jersey	3.	
4. Enter royalties for the use in New Jersey of patents and copyrights	4.	
5. Enter all other business receipts earned in New Jersey	5.	
6. Total New Jersey Gross Receipts	6.	0

PART II COMPUTATION OF NEW JERSEY GROSS PROFITS

1. Enter New Jersey Gross Receipts from Part I, line 6	1.	
2. Enter Cost of Goods Sold amount from Schedule A-2, line 8	2.	
3. Enter the Allocation Factor or Receipts Factor from Schedule J (Non-allocators enter 100%)	3.	
4. New Jersey Cost of Goods Sold - multiply line 2 by line 3	4.	
5. New Jersey Gross Profits - subtract line 4 from line 1	5.	

PART III GROSS SALES AND COST OF GOODS SOLD FOR CURRENT AND PRIOR YEARS

	Year 2011	Year 2012	Year 2013	Year 2014 From Part II Above
1. NJ Gross Receipts			25,205	
2. NJ Cost of Goods Sold			16,813	

PART IV ALTERNATIVE MINIMUM ASSESSMENT BASED UPON GROSS PROFITS

1. New Jersey Gross Profits - enter amount from Part II, line 5, if less than $1,000,000, enter zero on line 5 and go to Part V.	1.	
2. If line 1 is greater than $1,000,000, but not over $10,000,000, complete line 3. If line 1 is greater than $10,000,000 then go to line 4.		
3. (a) Maximum exclusion amount	3a.	$1,000,000
(b) Subtract line 3a from line 1	3b.	
(c) Multiply line 3b by .0025	3c.	
(d) Multiply line 3c by 1.11111, the NJ AMA Exclusion Rate	3d	
4. (a) If line 1 is greater than $10,000,000, but not over $15,000,000, multiply line 1 by .0035	4a.	
(b) If line 1 is greater than $15,000,000, but not over $25,000,000, multiply line 1 by .006	4b.	
(c) If line 1 is greater than $25,000,000, but not over $37,500,000, multiply line 1 by .007	4c.	
(d) If line 1 is greater than $37,500,000, multiply line 1 by .008	4d.	
5. AMA based on Gross Profits - amount from line 3d or 4a, 4b, 4c, or 4d	5.	0

MARYLAND FORM 510 **PASS-THROUGH ENTITY INCOME TAX RETURN** **2016**

165100020

OR FISCAL YEAR BEGINNING ______ 2016, ENDING ______

[redacted]
▶ Federal Employer Identification Number (9 digits) FEIN Applied for Date (MMDDYY)

[redacted] [redacted]
▶ Date of Organization or Incorporation (MMDDYY) ▶ Business Activity Code No. (6 digits)

Print Using Blue or Black Ink Only

[redacted]
Name

[redacted]
Street Address - Line 1

Street Address - Line 2

[redacted] [redacted] [redacted]
City or town State ZIP code +4

Do not write in this space. ▶ ME ▶ YE

TYPE OF ENTITY - Check the applicable box. ▶
[X] S Corporation [ ] Partnership [ ] Limited Liability Company [ ] Business Trust

CHECK HERE - Check applicable box(es).
[ ] Name or address has changed. [ ] First filing of the entity [ ] Inactive entity [ ] Final Return
▶[ ] This tax year's beginning and ending dates are different from last year's due to an acquisition or consolidation.

Amended Return ▶ [ ]

STAPLE CHECK HERE

1. Number of members:
   a. Individual (including fiduciary) residents of Maryland ▶ ______ c. Nonresident entities ▶ ______
   b. Individual (including fiduciary) nonresidents ▶ 1 d. Others ▶ ______
   e. Total 1
2. Total distributive or pro rata share of income per federal return (Form 1065 or 1120S) - Unistate entities or multistate entities with no nonresident members also enter this amount on line 4 ▶ 2. 245590 .

ALLOCATION OF INCOME
(To be completed by multistate pass-through entities with nonresident members - unistate entities, and multistate entities with no nonresidents, go to line 4.)

3a. Non-Maryland income (for entities using separate accounting). Subtract this amount from line 2 and enter the difference on line 4 . . . . ▶ 3a. ______ .

3b. Maryland apportionment factor from computation worksheet on Page 3 (for entities using the apportionment method). Multiply line 2 by this factor and enter the result on line 4. (If factor is zero, enter .000001) . . . . ▶ 3b. .084627

4. Distributive or pro rata share of income allocable to Maryland . . . . 4. 20784 .

NOTE: Complete lines 5 through 19 only if there is an entry on line 1b or line 1c. Tax is calculated only for nonresident individual or nonresident entity members. (Investment partnerships see Specific Instructions.)

5. Percentage of ownership by individual nonresident members shown on line 1b (or profit/loss percentage, if applicable). If 100%, leave blank and enter the amount from line 4 on line 6 . ▶ 5. ______

6. Distributive or pro rata share of income for nonresident individual members (Multiply line 4 by the percentage on line 5.) . . . . 6. 20784 .

7. Nonresident individual tax (Multiply line 6 by 5.75%.) . . . . 7. 1195 .

8. Special nonresident tax (Multiply line 6 by 1.75%.) . . . . 8. 364 .

9. Total Maryland tax on individual members (Add lines 7 and 8.) . . . . 9. 1559 .

10. Percentage of ownership by nonresident entities shown on line 1c (or profit/loss percentage, if applicable) If 100%, leave blank and enter the amount from line 4 on line 11 . ▶ 10. ______

11. Distributive or pro rata share of income for nonresident entity members (Multiply line 4 by percentage on line 10.) . . . . 11. ______ .

▶ ___ ___ ___

MARYLAND FORM **510** **PASS-THROUGH ENTITY INCOME TAX RETURN** **2016** page 3

165100220

NAME [redacted] FEIN [redacted]

Schedule A - COMPUTATION OF APPORTIONMENT FACTOR (Applies only to multistate pass-through entities. See instructions.)

NOTE: Special apportionment formulas are required for rental/leasing, transportation, financial institutions and manufacturing companies. See instructions.	Column 1 TOTALS WITHIN MARYLAND	Column 2 TOTALS WITHIN AND WITHOUT MARYLAND	Column 3 DECIMAL FACTOR (Column 1 ÷ Column 2 rounded to six places)
1A. Receipts a. Gross receipts or sales less returns and allowances	283043	2227015	
b. Dividends			
c. Interest		2699	
d. Gross rents			
e. Gross royalties			
f. Capital gain net income			
g. Other income (Attach schedule.)			
h. Total receipts (Add lines 1A(a) through 1A(g), for Columns 1 and 2.)	283043	2229714	.126940
1B. Receipts Enter the same factor shown on line 1A, Column 3. Disregard this line if special apportionment formula is used			.126940
2. Property a. Inventory			
b. Machinery and equipment		21176	
c. Buildings			
d. Land			
e. Other tangible assets (Attach schedule.)			
f. Rent expense capitalized (multiply by eight)		19200	
g. Total property (Add lines 2a through 2f, for Columns 1 and 2)		40376	.
3. Payroll a. Compensation of officers			
b. Other salaries and wages	224737		
c. Total payroll (Add lines 3a and 3b, for Columns 1 and 2.)	224737		.

4. **Total of factors** (Add entries in Column 3.) . 0.253881

5. **Maryland apportionment factor** Divide line 4 by four for three-factor formula, or by the number of factors used if special apportionment formula required. (If factor is zero, enter .000001 on line 3b, page 1.) .084626

Louisiana Department of Revenue
Post Office Box 91011
Baton Rouge, LA 70821-9011

Enter your LA Revenue Account Number here *(Not FEIN)*:

For office use only.

Louisiana Corporation **Income Tax** Return for **2016** or Fiscal Year	Louisiana Corporation **Franchise Tax** Return for **2017** or Fiscal Year
Begun ______, 2016	Begun ______, 2017
Ended ______, 2017	Ended ______, 2018

Calendar year returns are due **May 15.** See instructions for fiscal years

Final return
Short period return
Mark the appropriate box for Short period or Final return.

Mark box if:
Name change.
Amended return.
Entity is not required to file franchise tax.
X First time filing of this form.

Legal Name [redacted]
Trade Name [redacted]
Address [redacted]
[redacted]
City [redacted] State [redacted] ZIP [redacted]

IMPORTANT: Round all dollar amounts to the nearest dollar.

A. Federal Employer Identification Number	[redacted]	G. NAICS code	541511		
B. Federal taxable income	245,590	H. Enter the state abbreviation for location of the principal place of business.	VA		
C. Federal income tax	0	I. Does the income of this corporation include the income of any disregarded entities?	Yes	No	X
D. Income tax apportionment percentage	0.02 %	J. Was the income of this corporation included in a consolidated federal income tax return?	Yes	No	X
E. Gross revenues	2,227,015	K. If answered yes to J, enter FEIN of consolidated federal income tax return			
F. Total assets	880,252	L. Do the books of the corporation contain intercompany debt?	Yes	No	X

Computation of Income Tax - See instructions.

1A.	Louisiana net income before loss adjustments and federal income tax deduction	49
1B.	Subchapter S corporation exclusion	0
1C.	Loss carryforward [$ .00] less federal tax refund applicable to loss [$ .00] Attach schedule	0
1C1	Loss carryforward utilized	0
1D.	Federal income tax deduction	0
1D1	Federal Disaster Relief Credits	0
1E.	Louisiana taxable income	49
2.	Louisiana income tax	2
3.	Nonrefundable income tax credits from Schedule NRC-P1	0
4.	Income tax after priority 1 credits	2

Computation of Franchise Tax - See instructions.

5A.	Total capital stock, surplus, & undivided profits	880,252
5B.	Franchise tax apportionment percentage	0.01 %
5C.	Franchise taxable base	88
6.	Amount of assessed value of real and personal property in Louisiana in 2016	0
7.	Louisiana franchise tax	0
8.	Nonrefundable franchise tax credits from Schedule NRC-P1	0
9.	Franchise tax after priority 1 credits	0

IMPORTANT!
All three (3) pages of this return MUST be mailed in along with completed schedules. Please sign and date the return on Page 3 and remit any amount due shown on Line 26, Column 3. **Do not send cash.**

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SPEC CODE

21741

 LA Revenue Account Number:

All applicable schedules must be completed.

Schedule 2016A - Required Information

			FEIN	Percentage
1. At the end of the tax year, did you directly or indirectly own 50% or more of the voting stock of any corporation or an interest of any partnership, including any entity treated as a corporation or partnership? If yes, list the FEIN and percentage owned for the five largest percentages. Attach a schedule listing the names, addresses, FEIN and percentage owned of all entities.	Yes ☐ No ☒	1		
		2		
		3		
		4		
		5		
2. At the end of the tax year, did any corporation, individual, partnership, trust, or association directly or indirectly own 50% or more of your voting stock? If yes, list the FEIN and percentage owned for the five largest percentages. Attach a schedule listing the names, addresses, FEIN and percentage owned of all entities.	Yes ☐ No ☒	1		
		2		
		3		
		4		
		5		
3. If you answered yes to Line I on CIFT 620, list the FEIN of five of those entities. Also, attach a schedule listing the names, addresses FEIN of all entities.	Yes ☐ No ☒	1		
		2		
		3		
		4		
		5		

Schedule 2016B - Computation of Income Tax Apportionment Percentage

Description of items used as ratios	1. Total amount	2. Louisiana amount	3. Percent
1. Net sales of merchandise and/or charges for services			
A. Sales	2,227,015	392	
B. Charges for services			
C. Other gross apportionable income			
D. Total - Add the amounts in Columns 1 and 2.	2,227,015	392	0.02 %
2. For certain oil & gas businesses only. Wages, salaries, and other personal service compensation paid during the year. (See instructions.) Ratio not used. Check box ☒	1,862,904	9,135	%
3. For certain oil & gas businesses only. (See instructions.) Income tax property ratio - Enter percentage from Schedule 2016C, Line 24. Ratio not used. Check box. ☒			%
4. ONLY corporations primarily in the oil and gas business, enter ratio from Line 1D, Column 4 (See Instructions.)			%
5. Total of percents in Column 3			0.02 %
6. Average of percents - Divide Line 5 by applicable number of ratios. Enter here and on CIFT-620, Line D.			0.02 %

21750

State Deduction with Situs Under the General Rule

ONE LOCATION

- Assumes the entity has one location in the locality.
- The taxpayer has provided proof that the employees at the locality's location have participated in earnings of all the states in which an income or income like return was filed.
- The deduction from the locality's gross receipts would be for the specific amount of receipts tied to those other states that are taxable in the locality for which employees within the locality have participated in earning.

While this method places the burden of proof upon the taxpayer to prove that employees in the locality participated in the earnings of other states, because there is only one (1) location to attribute earnings to, the full earnings taxed in the other states for which an income or income like return was filed, would be deducted from the locality's gross receipts.

State Deduction with Situs Under the General Rule

MULTIPLE LOCATIONS

- Assumes the entity has more than one location within and outside of the state of Virginia.
- Virginia gross receipts have been allocated amongst all Virginia localities.
- The taxpayer has provided proof that the employees at the locality's location have participated in earnings of all the states in which an income or income like return was filed.
- The deduction from the locality's gross receipts would be for the specific amount of receipts tied to those other states that are taxable in the locality for which employees within the locality have participated in earning.

State Deduction with Situs Under the General Rule

MULTIPLE LOCATIONS

This is the hardest method to calculate state deduction for because the taxpayer is required to prove that the employees within the locality participated in the earnings of other states. Additionally, the burden of proof is upon the taxpayer to specifically identify the portion of receipts taxable in the locality that were also taxable in another state, for which the taxpayer filed an income or income like tax return. It's this specific portion of receipts taxable in the locality that were also taxable in another state that would be used to make the deduction. If the taxpayer has multiple locations in Virginia and worldwide, this is substantially harder to prove.

Acceptable Forms of Substantiated Proof:

- *Ratified Contracts identifying key contacts, as well as where and how work is to be performed.*
- *Travel Receipts.*
- *Ratified Engagement Letter identifying key contacts and their locations.*

State Deduction with Situs by Payroll Apportionment

Nielsen

Nielsen

Nielsen

- The taxpayer has proven that it is "impractical and impossible" to attribute receipts under the General Rule. The burden of proof is upon the taxpayer.
- There is an assumption that the employees in the locality participate in earning worldwide gross receipts and all other worldwide employees participate in earning the locality's gross receipts.
- Worldwide payroll is calculated and the locality's percentage of worldwide payroll as a whole is determined.
- Payroll apportionment is used to calculate the locality's gross receipts.
- The deduction to the locality's gross receipts would be for the locality's percentage of all gross receipts in each state for which an income or income like return was filed.

State Deduction with Situs by Payroll Apportionment

Nielsen

Nielsen

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If T = total receipts, O = receipts attributable to other states, and P = the payroll apportionment factor for the local definite place of business, then:

$$(T - O)*P = (T*P) - (O*P)$$

This is the easiest method to calculate the state deduction. If payroll apportionment had to be used to assign gross receipts in the first place, it is highly unlikely that any gross receipts can be accurately linked or tied whether for situs or deduction. Hence the assumption that all employees participate in all earnings.

Guidance provided in P.D. 18-22 refers to P.D. 12-88. P.D. 12-88 references the formula used in P.D. 10-228.

State Deduction with Situs by Payroll Apportionment

Nielsen

Nielsen

Nielsen

T = total receipts

O = receipts attributable to other states **

P = the payroll apportionment factor for the local definite place of business

(T*P) - (O*P)

Example:

T = $1,000,000

O = $425,000

P = 35%

($1,000,000 x 0.35) – ($425,000 x 0.35) =

$350,000 - $148,750 =

$201,250 Adjusted GR Total

*** Only include receipts attributable to other states for which and income or income like tax return was filed.*

If you would like a copy of the State Tax by State spreadsheet or the Loudoun County Methodology please e-mail me. I would be happy to send you a copy.

Julie Rivard
julie.rivard@loudoun.gov