Instructions: Franchise and Excise Financial Institution and Captive Real Estate Investment Trust Tax Return

General Information

The beginning and ending dates of the tax year must be entered. The tax year covered must coincide with the federal return. A return can cover a 52/53-week filing period, but cannot otherwise exceed 12 months.

Enter the franchise and excise account number. This number may be found by using the account number online search available on the Department's website at www.tn.gov/revenue.

Enter the FEIN and/or Tennessee Secretary of State Control Number, if applicable. Also enter the North American Industry Classification System (NAICS) code.

Check all of the boxes in the top right of the return that apply to the taxpayer. Check the amended return box if the return reflects changes from a previously filed return. Check the final return box if all of the assets of the business have been liquidated and distributed and no further returns are required to be filed. If the final return box is checked, the Department may request a schedule of liquidation, distribution, or disposition of all assets and/or Final Return Worksheets (available on the Department's website).

In order for the taxpayer to make the consolidated net worth election pursuant to Tenn. Code Ann. § 67-4-2103(g)-(i), it must first file a Consolidated Net Worth Election Registration Application.

The election to use the alternative annualized income installment method of computing the required estimated tax payments can only be made on an original tax return and must be made annually. See the Estimated Franchise and Excise Tax Payments Worksheet for additional information and to determine the required quarterly estimates under this alternative method. The amounts from Line 23 of the worksheet should be reported on this return on Schedule E, Lines 2(a) through 5(a).

A taxable entity that is incorporated, domesticated, qualified or otherwise registered to do business in Tennessee that was inactive in Tennessee for the entire taxable period and owes only the minimum tax may file only page 1 of this return and omit the remaining pages.

Schedule A – Computation of Franchise Tax

Line 1: Enter amount on Schedule F, Schedule F1, Line 3, or Schedule F2, Line 3.

Line 2: Enter amount on Schedule G, Line 15.

Line 3: Multiply the greater of Line 1 or 2 by $0.25 per $100 or major fraction thereof. The minimum tax is $100. Franchise tax may be prorated on short period returns. Complete the Short Period Return Worksheets and retain it for your records when filing a short period return. The franchise tax may not be prorated on returns covering 52 weeks (364 days) filed by 52/53 week filers.

Schedule B – Computation of Excise Tax

Line 4: Enter amount on Schedule J, Line 34.

Line 5: Multiply amount on Line 4 by 6.5%. If Line 4 is a loss, enter zero.

Line 6: Enter amount on Schedule T, Line 13.

Line 7: Add Lines 5 and 6.

Schedule C – Computation of Total Tax Due or Overpayment

Line 8: Add Schedule A, Line 3, and Schedule B, Line 7. This is the total franchise and excise tax liability.

Line 9: Enter the total available credits from Schedule D, Line 9. Total credits cannot exceed the total franchise and excise amount on Line 8.

Line 10: Subtract Line 9 from Line 8. This value must be zero or greater.

Line 11: Enter total payments reported on Schedule E, Line 7.

Line 12: Penalty is calculated at a rate of 5% for each 30-day period, or portion thereof, that a return is delinquent, up to a maximum of 25% of the delinquent amount. The minimum penalty is $15 for the delinquent filing of a return.

Line 13: Interest is due on any amount of tax that is paid after the statutory due date of the return. The interest rate is determined in accordance with Tenn. Code Ann. § 67-1-801. The current interest rate can be found at www.tn.gov/revenue under Tax Resources.

Line 14: Penalty on estimated franchise and excise tax payments is calculated at a rate of 2% per month, or portion thereof, that an estimated payment is deficient or delinquent, up to a maximum of 24% of the deficient or delinquent amount. It is calculated from the due date of the estimated payment through the date paid or the due date of the return, whichever is earlier.

Line 15: Interest is calculated on estimated franchise and excise tax payments on any deficient or delinquent amount. The rate of interest is the same as determined on Line 13. It is calculated from the due date of the estimated payment through the date paid or the due date of the return, whichever is earlier.

Line 16: Add Lines 10, 12, 13, 14 and 15, and subtract Line 11. If an overpayment exists on this line, enter the amount to be credited to the next year on Line A and/or to be refunded on Line B. If a refund of $200 or more is requested on Line B of an amended return, a Report of Debts Form must be completed and filed with the return.

Schedule D – Schedule of Credits

Line 1: A taxpayer may take a credit for gross premium tax paid to the Department of Commerce and Insurance during the period covered by this return. If the credit is taken, this same amount should be added to taxable income on Schedule J, Line 9. A taxpayer may elect to forego the credit instead of adding back the deduction in Schedule J.

Line 2: Enter the amount of any Tennessee Hall income tax paid during the period covered by this return. If this amount exceeds the net excise tax due listed on Schedule B, Line 5, enter the amount of net excise tax due.

Line 3: Enter any Community Investment Credit available per Tenn. Code Ann. § 67-4-2109(h).

Line 4: Enter any Tennessee Rural Opportunity Fund Credit available per Tenn. Code Ann. § 67-4-2109(I).

Line 5: Enter any Tennessee Small Business Opportunity Fund Credit available per Tenn. Code Ann. § 67-4-2109(I).

Line 6: Enter the amount of Industrial Machinery Credit from Schedule T, Line 11.

Line 7: Enter the amount of Job Tax Credit from Schedule X, Line 46.

Line 8: Enter the amount of Additional Annual Job Tax Credit from Schedule X, Line 38.

Line 9: Add Lines 1 through 8 and enter here and on Schedule C, Line 9. Total credits may not exceed the amount on Schedule C, Line 8.

Schedule E – Schedule of Payments

Lines 2a-5a: Enter the required quarterly installments from the applicable line of the Estimated Franchise and Excise Tax Payments Worksheet.

Lines 1-6: Enter any overpayment from a prior period, estimated tax payments, and extension payment on the applicable lines.

Line 7: Total the amounts in the second column, and enter here and on Schedule C, Line 11.

Schedule F1 – Captive Real Estate Investment Trust Group Net Worth

Schedule F1 is to be completed by Captive Real Estate Investment Trusts (REIT) and Captive REIT Affiliated Groups as defined by Tenn. Code Ann. § 67-4-2004. Captive REITs and Captive REIT Affiliated Groups that are part of a larger group that has made an election to file consolidated net worth must use Schedule F2.

Line 1: Net worth is total assets less total liabilities computed in accordance with the above instructions.

Line 2: Enter franchise tax apportionment ratio as computed on Schedule N, Line 14, Column c. If the taxpayer is not entitled to apportion, enter 100%.

Line 3: Multiply Line 1 by Line 2. Enter this amount here and on Schedule A, Line 1.

Schedule F2 – Consolidated Net Worth

Schedule F2 is to be completed only if the consolidated net worth election has been made. All amounts in this schedule should be determined in accordance with generally accepted accounting principles (GAAP). However, if the taxpayer does not maintain its books on a GAAP basis, the franchise tax is computed in accordance with the accounting method used by the taxpayer for federal tax purposes, provided this method fairly reflects the taxpayer's activity.

Line 1: Consolidated net worth is total assets less total liabilities of all members of the affiliated group computed in accordance with the above instructions.

Line 2: Enter franchise tax apportionment ratio as computed on Schedule 174SC or 174NC.

Line 3: Multiply Line 1 by Line 2. Enter this amount here and on Schedule A, Line 1.

Schedule G – Determination of Real and Tangible Property

Lines 1-5: The amounts on these lines are based on the year-end net book values of the assets on the entity's book basis books and records. All tangible assets should be included in these values regardless of how the assets are classified.

Line 6: This amount is calculated by multiplying the taxpayer's percentage of ownership in a general partnership, shown on federal Schedule K-1, by the amount of real and tangible property owned or used in this state, shown on the balance sheet of an entity treated as a partnership for federal tax purposes. Only include property from an entity treated as a partnership on this line if the entity itself is not required to file a Tennessee franchise and excise tax return.

Line 7: Include all inventory and work in progress on Line 7a. Include all exempt inventory on Line 7b. Exempt inventory is any amount of finished goods in excess of $30,000,000 in accordance with Tenn. Code Ann. § 67-4-2108(a)(6)(B).

Line 8: Enter the net book value of pollution control equipment that has been certified by the Department of Environment and Conservation.

Line 9: Enter the amount of any required capital investments exempted by Tenn. Code Ann. § 67-4-2108(a)(6)(G).

Line 10: Add Lines 1 through 7a, and subtract Lines 7b through 9.

Lines 11-14: The amounts in the first column are the total net annual rental paid for property located in Tennessee. Multiply these amounts by the multiples, and enter each total on Lines 11 through 14. Rents must be annualized for returns covering a period of less than 12 months. Complete the Short Period Return Worksheets and retain them with your records when filing a short period return.

Line 15: Add Lines 10 through 14, and enter total here and on Schedule A, Line 2. This amount is the total Tennessee property.

Schedule H - Gross Receipts

Line 1: Enter the amount of gross receipts or sales shown on the federal income tax return covering the same tax period. This is Line 1a on federal Forms 1120, 1120S and 1065 and Schedule C, Line 1on federal Form 1040.

Schedule SF – Financial Institution Apportionment – Standard

This apportionment schedule is used by financial institutions or unitary groups of financial institutions doing business within and without Tennessee, as defined by Tennessee statutes, who have not elected to compute net worth on a consolidated basis. In cases of unitary groups of financial institutions filing a combined return, a separate franchise tax apportionment ratio is computed for each member of the unitary filing group and applied to the separate net worth of each member of the group in Schedule F to obtain the net worth apportioned to Tennessee. See Tenn. Code Ann. § 67-4-2118 for a complete list of receipts to be included and applicable allocation requirements.

Schedule F – Non-consolidated Net Worth - Financial Institutions

All amounts in this schedule should be determined in accordance with generally accepted accounting principles (GAAP). However, if the taxpayer does not maintain its books on a GAAP basis, the franchise tax is computed in accordance with the accounting method used by the taxpayer for federal tax purposes, provided this method fairly reflects the taxpayer's activity.

Net worth is total assets less total liabilities computed in accordance with the above instructions. To the extent that a corporation is inadequately capitalized, indebtedness to or guaranteed by a parent corporation or affiliated corporation must be added back. This amount cannot be a deduction. Enter apportionment ratio as computed on Schedules SF. If the entity is not entitled to apportion, enter 100%. Total the last column, and enter this amount here and on Schedule A, Line 1.

Schedule J1 – Net Earnings for Entities Treated as Partnerships

Line 1: Enter the amount of ordinary income (loss) from federal Form 1065, Line 22.

Line 2: Enter the amount of additional income items passed through to partners or members from federal Form 1065, Schedule K, Lines 2 through 11. This includes guaranteed payments to partners.

Line 3: Enter any net loss or expense distributed to a publicly traded Real Estate Investment Trust (REIT) on Schedule K-1. The name and FEIN of the REIT must be made available upon request

Line 4: Add Lines 1 through 3.

Line 5: Enter the amount of additional expense items passed through to partners or members from federal Form 1065, Schedule K, Lines 12 and 13 a-d. Contributions to qualified pension or benefit plans of any partner or member should not be reported on this line, but should be reported on Line 7 instead.

Line 6: Enter the amount subject to self-employment taxes distributable or paid to each partner or member net of any pass-through expense deducted elsewhere on this return, such as IRC Section 179 expenses and contributions. Do not enter a negative amount on this line. This deduction cannot create a loss carryover. Include this amount on Schedule K, Line 3.

Line 7: Enter the amount of contribution to qualified pension or benefit plans of any partner or member, including all IRC 401 plans. This deduction cannot create a loss carryover. Include this amount on Schedule K, Line 3.

Line 8: Enter any net gain or income distributed to a publicly traded REIT on federal Schedule K-1. The name and FEIN of the REIT must be made available upon request.

Line 9: Enter loss on the sale of an asset not already included in the taxpayer's net earnings or loss that was distributed to a member, partner, or certificate holder, when such asset was sold within 12 months of the date of distribution. Thus, the loss is recognized by the entity making the asset distribution rather than by the seller of the asset.

Line 10: Add Lines 5 through 9. This is the total amount of deductions.

Line 11: Subtract Line 10 from Line 4, and enter here and on Schedule J, Line 1.

Schedule J2 –Net Earnings for a Single Member LLC Filing as an Individual

Line 1: Enter the amount of business income (loss) from federal Form 1040, Schedule C, Line 31.

Line 2: Enter the amount of capital gain (loss) attributable to the LLC from federal form Schedule D. If it is a loss, enter as a negative.

Line 3: Enter the amount of total income (loss) attributable to the LLC from federal Form 1040, Schedule E, Line 41.

Line 4: Enter the amount of net profit (loss) attributable to the LLC from federal Form 1040, Schedule F, Line 34.

Line 5: Enter the amount of gain (loss) attributable to assets used by the LLC from federal Form 4797.

Line 6: Enter the amount of any income (loss) attributable to the LLC that is reported on any other federal schedules and that is not reported on Lines 1 through 5 above. Please enter the type of federal form and schedule in the space provided.

Line 7: Add Lines 1 through 6.

Line 8: Enter the amount subject to self-employment taxes distributable or paid to the single member. This

deduction cannot create a loss carryover. Include this amount on Schedule K, Line 3.

Line 9: Subtract Line 8 from Line 7 and enter here and on Schedule J, Line 1.

Schedule J3 – Net Earnings for Entities Treated as Subchapter S Corporations

Line 1: Enter the amount of ordinary income (loss) from federal Form 1120S, Line 21.

Line 2: S corporation's pass-through income items are required to be added to ordinary income. This amount should include the total income items as shown on federal Form 1120S, Schedule K.

Line 3: Add Lines 1 and 2.

Line 4: S corporation's pass-through expense items are required to be deducted from ordinary income. This amount should include the total expense items as shown federal Form 1120S, Schedule K.

Line 5: Enter loss on the sale of an asset not already included in the taxpayer's net earnings or loss that was distributed to a shareholder or certificate holder, when such asset was sold within 12 months of the date of distribution. Thus, the loss is recognized by the entity making the asset distribution rather than by the seller of the asset.

Line 6: Add Lines 4 and 5. This is the total amount of deductions.

Line 7: Subtract Line 6 from Line 3, and enter here and on Schedule J, Line 1.

Schedule J4 – Net Earnings for Entities Treated as Corporations and "Other" Entities

Line 1: Enter the amount of net earnings (loss) from federal Form 1120, Line 28. This is the amount of taxable income or loss before the net operating loss deduction and special deductions. When one or more group members are taxed as partnerships, include ordinary income (loss) from federal Form 1065, Line 22.

Line 2: Enter the amount of unrelated business taxable income before net operating loss deduction from federal Form 990-T, Line 30.

Line 3: Enter the amount of net earnings or loss from any entity that reports on any other federal schedules and that is not reported on Lines 1 and 2 above. Please enter the type of federal form and schedule in the space provided. Include pass-through income and expense items from federal Form 1065, Schedule K.

Line 4: Enter any deduction for domestic production activities under the provisions of IRC Section 199.

Line 5: Contribution carryovers must be added back to net income when used for federal purposes. This amount is reflected on federal Schedule M-1 or federal Schedule M-3.

Line 6: Capital loss carryovers must be added to net income when offset against capital gains for federal tax purposes. This amount is reflected on federal Schedule M-1 or federal Schedule M-3.

Line 7: Add Lines 1 through 6.

Line 8: Contributions may be deducted, in full, for the year in which the contributions were made. This amount is reflected on federal Schedule M-1 or federal Schedule M-3.

Line 9: Capital losses may be deducted, in full, the year the loss was incurred. This amount is reflected on federal Schedule M-1 or federal Schedule M-3.

Line 10: Add Lines 8 and 9. This is the total amount of deductions.

Line 11: Subtract Line 10 from Line 7, and enter here and on Schedule J, Line 1.

Schedule J – Net Earnings Subject to Excise Tax

Line 1: Enter the amount of net earnings or loss reported on Schedule J1, J2, J3, or J4.

Line 2: Enter expenses from transactions between members of the group.

Line 3: Enter any dividends and receipts from transactions between members of the group.

Line 4: Add Lines 1 and 2, and subtract Line 3.

Line 5: Enter the intangible expense you paid, accrued or incurred to an affiliate and deducted on your federal income tax return. "Intangible expense" and "affiliate" are defined by Tenn. Code Ann. § 67-4-2004(23) and Tenn. Code Ann. § 67-4-2004(1)(A).

Line 6: Enter any depreciation under the provisions of IRC Section 168 not permitted for excise tax purposes due to Tennessee permanently decoupling from federal bonus depreciation.

Line 7: Enter the amount of any gain on the sale of an asset sold within 12 months after distribution to a

nontaxable entity. This gain is to be reported by the entity that distributed the assets. If an asset was distributed to a member, partner, shareholder, or certificate holder and no sale has taken place, or the asset was sold 12 months after distribution, no entry is required. Failure to report this gain may result in a 50% negligence penalty.

Line 8: Enter the amount of excise tax that was deducted in determining federal net income. In the event of an over accrual in the prior year that causes the current year's federal return to report a negative "deduction," this amount can be reported as a deduction.

Line 9: If a taxpayer elects to take the gross premiums tax paid to the Tennessee Department of Commerce and Insurance as a credit against its franchise and excise taxes, the amount of the gross premiums tax expensed for federal purposes that is used as an excise tax credit must be shown here.

Line 10: This amount is all tax-exempt interest as shown on the books of the taxpayer, net of disallowed interest expense pursuant to 26 U.S.C. §§ 265 and 291. This amount is reflected on federal Schedule M-1 or federal Schedule M-3.

Line 11: Enter any percentage depletion deducted for federal tax purposes. This amount is reflected on federal Schedule M-1 or federal Schedule M-3.

Line 12: The excess of the fair market value over the book value of property donated must be added to net income. This amount is reflected on federal Schedule M-1 or federal Schedule M-3.

Line 13: The amount of rent that is paid, accrued, or incurred in excess of reasonable rent for property owned by an affiliate must be added back. Reasonable rent means rent that does not exceed 2% per month of the appraised value for property tax purposes. A taxpayer receiving excess rent, to the extent added back to net earnings by its affiliate, may enter a negative amount on this line.

Line 14: Enter any Captive Real Estate Investment Trust Dividends Paid Deduction taken in computing federal income.

Line 15: Enter the amount of any pass-through net loss and expense included in the excise tax base by the taxpayer. The pass-through items are reported to the taxpayer on federal Schedule K-1. This adjustment is only made if the entity issuing the K-1 is itself subject to the excise tax and filing a franchise and excise tax return. This adjustment is to prevent the duplicate recognition of the pass-through loss and expense in the excise tax base.

Line 16: Add Lines 5 through 15. This is the amount of total additions.

Line 17: Enter any depreciation under the provisions of IRC Section 168 permitted for excise tax purposes due to Tennessee permanently decoupling from federal bonus depreciation.

Line 18: Enter any excess gain reported for federal tax purposes resulting from the basis adjustment resulting from Tennessee permanently decoupling from federal bonus depreciation.

Line 19: Enter all dividends received from corporations in which the entity owns at least 80% of the corporation's stock.

Line 20: Enter 75% of donations to qualified public school support organizations as defined in Tenn. Code Ann. § 67-4-2006(b)(2)(M) or nonprofit organizations as described in Tenn. Code Ann. § 67-4- 2006(b)(2)(P).

Line 21: Enter any expenses incurred, other than income taxes, that were not deducted for federal tax purposes but were used as a credit against federal income tax. Most common are federal job credits and ESOP. The expenses are reflected on federal Schedule M-1 or federal Schedule M-3.

Line 22: Enter adjustments provided by Tenn. Code Ann. §§ 67-4-2006(b)(1)(G) and (b)(2)(G)-(H) in relation to federal "safe harbor" lease election permitted under Section 168 of the Economic Recovery Act of 1981. If the net adjustment is an increase in taxable income, enter a negative number on this line.

Line 23: Enter the amount from Schedule M, Line 8.

Line 24: Enter intangible expenses paid, accrued, or incurred to an affiliated entity or entities. In order to take this deduction, Form IE - Intangible Expense Disclosure must be completed and attached to the return. Otherwise, the deduction will be disallowed.

Line 25: Enter any intangible income from an affiliated business entity to the extent that the affiliate's corresponding intangible expense was included in the affiliate's net earnings or loss, but was not deducted on the affiliate's excise tax return under Tenn. Code Ann. § 67-4-2006(b)(2)(N).

Line 26: Enter bad debts not deducted but allowed by IRC Sections 585 or 593, as that law existed on December 31, 1986.

Line 27: Enter the amount of any pass-through net gain and income included in the excise tax base by the taxpayer. The pass-through items are reported to the taxpayer on federal Schedule K-1. This adjustment is only made if the entity issuing the K-1 is itself subject to the excise tax and filing a franchise and excise tax return. This adjustment is to prevent the duplicate recognition of the gain and income in the excise tax base.

Line 28: Add Lines 17 through 27. This is the amount of total deductions.

Line 29: Add Lines 4 and 16, and subtract Line 28. This is the total business income. If the corporation has a net loss, enter on Schedule K, Line 1.

Line 30: Enter apportionment ratio as computed on Schedule SE, Line 14 or Schedule N, Line 14, Column d. If the entity is not entitled to apportion, enter 100%.

Line 31: Multiply Line 29 by Line 30.

Line 32: Enter the amount on Schedule M, Line 9.

Line 33: Enter loss carryover from prior year as shown on Schedule U. Please note that Tennessee loss carryover is computed separately from federal loss carryover.

Line 34: Add Lines 31 and 32, and subtract Line 33. Enter this amount here and on Schedule B, Line 4. This is the excise tax base.

Schedule K – Determination of Loss Carryover Available

Line 1: Enter the net loss on Schedule J, Line 29.

Line 2: Enter the total of amounts reported on Schedule J, Lines 19 and 23.

Line 3: Enter the total of amounts reported on Schedule J1, Lines 6 and 7 or on Schedule J2, Line 8.

Line 4: Add Lines 1 through 3. If the net amount is positive, then enter zero, and no loss carryover is available. This is the net reduced loss carryover.

Line 5: Enter apportionment ratio as computed on Schedule SE, Line 14 or Schedule N, Line 14, Column d. If the entity is not entitled to apportion, enter 100%.

Line 6: Multiply Line 4 by Line 5. This is the current year loss carryover available.

Schedule SE – Financial Institution Apportionment Schedule for Excise Tax Purposes

Lines 1-12: Enter the applicable receipts for each line. See Tenn. Code Ann. § 67-4-2013(b) for the allocation requirements used to determine Tennessee receipts.

Line 13: Add Lines 1 through 12.

Line 14: Divide the total Tennessee receipts in the first column by the total everywhere receipts in the second column. Enter this ratio here and on Schedule J, Line 30.

Schedule N – Apportionment – Captive REITs

Line 1-3: Complete all four columns for each line using the original tax-basis cost of the tangible property. Beginning and end year values are reported in the respective columns for property located in Tennessee and for all property located everywhere.

Line 4: Include all types of inventory on this line.

Line 5: Enter all tangible assets, including those classified as “current assets” or “other assets.”

Line 6: Enter the taxpayer’s percentage of ownership (shown on federal Schedule K-1) multiplied by the amount of real and tangible personal property shown on the balance sheet of an entity treated as a partnership for federal tax purposes. Only include on this line the taxpayer’s ownership share of a partnership’s property if the partnership itself is not required to file its own franchise and excise tax return.

Line 7: Add Lines 1 through 6.

Line 8: Add Lines 7(a) and 7(b) and divide by two.

Line 9: Enter the year-end value of rented property, determined by multiplying the annual rental rate by eight. The value of owned or leased mobile/moveable property will be determined based on the percentage of time the property was within the state during the tax period. However, the value of an automobile/truck assigned to a traveling employee is entirely sourced to Tennessee if the vehicle is registered in this state or if the employee’s compensation is assigned to Tennessee for purposes of

the payroll factor.

Line 10: Add Lines 8 and 9 and enter in the appropriate columns. Divide 10(a) by 10(b) to calculate the franchise and excise tax ratios.

Line 11: Enter the total compensation paid during the taxable period in Tennessee on Line 11(a) and the total compensation paid everywhere during the taxable period on Line 11(b). Divide 11(a) by 11(b) to calculate the franchise and excise tax payroll ratios.

Line 12: Enter the total business gross receipts during the taxable period in Tennessee on Line 12(a) and the total everywhere business gross receipts during the taxable period on Line 12(b). Divide 12(a) by 12(b) to calculate the franchise and excise tax sales ratios.

Line 13: Add Lines 10 and 11 and Line 12 multiplied by three.

Line 14: Divide Line 13 by five or by the number of factors with everywhere values greater than zero. Enter here and on Schedule F1, Line 2 (the franchise tax ratio) and Schedule J, Line 30 (the excise tax ratio).

Schedule M – Nonbusiness Earnings

Lines 1-7: Income that meets the statutory definition of nonbusiness earnings is uncommon. Income that does meet that definition and related expenses should be reported here. Deductions for taxpayer expenses are generally related to both business and nonbusiness earnings. These expenses include, but are not limited to, administrative costs, taxes, insurance, repairs, maintenance, and depreciation. In the absence of evidence to the contrary, it is assumed that the expenses related to nonbusiness rental earnings will be an amount equal to 50% of such earnings and that expenses related to other nonbusiness earnings will be an amount equal to 5% of such earnings. See TENN. COMP. R. & REG. 1320-06-01-.23(3).

Line 8-9: Add Lines 1 through 7 to arrive at net nonbusiness earnings and net nonbusiness earnings directly allocated to Tennessee. Enter net nonbusiness earnings on Schedule J, Line 23, and enter net nonbusiness earnings directly allocated to Tennessee on Schedule J, Line 32.

Schedule T – Industrial Machinery and Research and Development Tax Credit

Industrial machinery includes everything included under the industrial machinery definition in Tenn. Code Ann. § 67-6-102, computer and related equipment listed in Tenn. Code Ann. § 67-4-2009(3)(A)(ii) purchased as part of the required capital investment made in order to qualify for the job tax credit, and certain research and development equipment meeting the requirements of TENN. COMP. R. & REG. 1320-05-01-.128. This regulation requires that the ultimate goal of the research and development must be one of the following:

- basic research in a scientific field of endeavor;
- advancing knowledge or technology in a scientific or technical field of endeavor;
- the development of a new product, whether or not the new product is offered for sale;
- the improvement of an existing product, whether or not the improved product is offered for sale;
- the development of new uses of an existing product, whether or not a new use is offered as a rationale to purchase the product; or
- the design and development of prototypes, whether or not a resulting product is offered for sale.

<u>Part 1</u>

Line 1: Enter the purchase price of industrial machinery or research and development equipment purchased or leased during the tax period.

Line 2: Enter 1% unless the taxpayer has prior approval for a higher rate under Tenn. Code Ann. § 67-4-2009(3)(I) for investments in excess of $100,000,000.

Line 3: Multiply Line 1 by Line 2.

Line 4: Enter the amount of credit carryover available from Schedule V.

Line 5: Add Lines 3 and 4.

Line 6: Add Schedule A, Line 3 and Schedule B, Line 5.

Line 7: Enter 50% of Line 6 unless the taxpayer has prior approval from the Commissioner of Revenue and the Commissioner of Economic and Community Development for a higher limitation under Tenn. Code Ann. § 67-4-2009(3)(H).

Line 8: Add Schedule A, Line 3 and Schedule B, Line 5.
Line 9: Add credits from Schedule D, Lines 1 through 6 and Schedule D, Line 9.
Line 10: Subtract Line 9 from Line 8.
Line 11: Enter the least of Lines 5, 7, or 10. Also enter this amount on Schedule D, Line 7.

Part 2
Line 12: Enter the amount calculated on the Industrial Machinery Credit Recapture Worksheet, Part 2, Line 16.
Line 13: Enter the amount calculated on the Industrial Machinery Credit Recapture Worksheet, Part 2, Line 17. Also enter this amount on Schedule B, Line 6.

Schedule U – Schedule of Loss Carryover

- Period Ended – Enter the ending date of the tax period in which the loss was incurred. List the oldest period first.

- Original Return or as Amended – Enter the amount of loss created in the corresponding tax period. If this amount has been adjusted by the Department, or otherwise amended, enter the corrected amount. If there is an adjustment that has not been previously reported to us, simply changing this line will not adjust our records. Adjustments must be made on the applicable Departmental form (amended FAE170, Federal Income Revision form, etc.) or by correspondence.

- Used in Prior Year(s) – Enter the cumulative amount of loss carryover that has previously been used. The oldest loss within the 15 year carryover period is used first.

- Expired – Enter the amount of loss carryover that was not used within the 15 year carryover period.

- Loss Carryover Available – Enter each year's carryover amount less amounts used or expired. Enter the total loss carryover on Schedule J, Line 33.

Schedule V – Industrial Machinery Credit Carryover

- Period Ended – Enter the ending date of the tax period in which the credit originated. List the oldest period first.

- Original Return or as Amended – Enter the amount of credit created in the corresponding tax period. If this amount has been adjusted by the Department, or otherwise amended, enter the corrected amount. If there is an adjustment that has not been previously reported to us, simply changing this line will not adjust our records. Adjustments must be made on the applicable Departmental form (amended FAE170, Federal Income Revision form, etc.) or by correspondence.

- Used in Prior Year(s) – Enter the cumulative amount of credit that has previously been used. The oldest credit within the 15 year carryover period is used first.

- Expired or Recaptured – Enter the amount of credit that was not used within the 15 year carryover period.

- Industrial Machinery Credit Carryover Available – Enter each year's carryover amount less amounts used or expired. Enter the total industrial machinery credit carryover on Schedule T, Line 4.