Table of Contents

**Consolidated Corporations**

[General Consolidated Corporation Processing Information](#_General_Consolidated_Corporation) ………………………………………………………………2

[Input Not Allowed with the Consolidated Return](#_Input_Not_Allowed) ……………………………………………………………………………..4

[Federal Input - Part 1](#_Federal_Input_-) ………………………………………………………………………………………………………………………..5

[Federal Input - Part 2](#_Federal_Input_-_1)………………………………………………………………………………………………………………………10

[Schedule M-3](#_Schedule_M-3)…………………………………………………………………………………………………………………………………..21

[Division and Disregarded Entity Processing](#_Division_and_Disregarded)…………………………………………………………………………………..…24

[Mixed Groups](#_Mixed_Groups)………………………………………………………………………………………………………………………………….27

[Eliminations and Adjustments](#_Eliminations_and_Adjustments)………………………………………………………………………………………………………….32

[Federal Tax Liability Option](#_Federal_Tax_Liability)……………………………………………………………………………………………………………..36

[State and City Tax Accrual Option](#_State_and_City)…………………………………………………………………………………………………….37

[State Consolidated Returns - General Information](#_State_Consolidated_Returns)…………………………………………………………………………..38

General Consolidated Corporation Processing Information

Consolidated corporation tax returns are processed with minimum entries. You **must** process the returns for the parent company and all subsidiaries (individual companies) before processing the consolidating return. In the General section of the Basic Data worksheet in the General category of each individual company, make an entry in the field entitled "Return May be Included in a Consolidated Return". You **must** make an entry here if the return is part of a group that might be consolidated. While this election does not lock the return into being included in a consolidated return, it is a mandatory entry if the System is to save the information necessary to complete the consolidating return.

Once you have processed the individual companies, you can process the consolidating return. You **must** submit the List of Companies under the Consolidated category with the consolidating return to identify the individual companies to include in the consolidation.

Following is an overview of the consolidating process.

1. Returns for separate companies are processed singly. Each separate company return which is to be included in a consolidated return must contain an entry in the field "Return may be included in a consolidated" An entry in this field is not required for the consolidated unit.
2. The consolidating unit is created by entering the separate company's client I.D. on the List of Companies section in the Consolidated General Information worksheet in the column marked "Client I.D." Do NOT enter this data with any of the separate company's parent or subsidiary returns. A brand new unit must be created for consolidating purposes. The client I.D. field is limited to a total of 15 characters, of which the last 3 are reserved for the version number. If no version number is entered we will use the first version. It is not necessary to enter the XXC: prefix before the client I.D., where XX is the tax year.
3. Amounts from the separate companies are combined together. Details are shown on combined statements.
4. When entering data for the separate companies, do not use both detail entries and their corresponding override. For example, if detailed entries are made on asset by asset basis for cost of goods sold depreciation, and an entry is also made to override total cost of goods sold depreciation, these entries will add together on the consolidated return and will generate an invalid automatic journal entry. You may use either the override or the detailed entries, but not both.
5. Supporting statement descriptions that are entered **EXACTLY** the same in the separate companies will appear only once on the combined supporting statement with amounts showing to the right under the appropriate company heading. This alphabetical match is lower and upper case sensitive and recognizes spacing between words. For example, If Company A and B have made an entry for other deductions and both spelled it "Telephone Expense", then only one line would appear on the combined other deductions statement entitled "Telephone Expense". However, if the Company B entry was spelled "Telephone expense" or two spaces instead of one were used between the words, then two lines of the other deductions statement would be produced; one entitled "Telephone Expense" and the other "Telephone expense." If the option "Print open line statements in stacked format" is selected on the List of Companies section in the Consolidated General Information worksheet the alphabetical match requirement described above is not required.
6. The combined amounts are adjusted to arrive at the consolidated amounts. Adjustments can occur in two ways:
   1. Manual adjustments based on your input. These are made in the Eliminations and Adjustments worksheet under the Consolidated category.
   2. Automatic recalculations by the System. We perform a series of automatic recalculations and post the resulting adjustments into the return. These include charitable contributions, net operating loss, Section 1231 gain/losses, capital gains/losses, ordinary gains/losses, depletion, and depreciation. When making your manual adjustments, care should be taken not to duplicate the system generated adjustments. If you prefer, you may also suppress the system's automatic recalculations in the Options worksheet under the Consolidated category. For a more detailed discussion of our automatic recalculations, please see the adjustment and eliminations section of this guide.
7. Consolidated schedules are prepared showing consolidated and combined amounts and adjustments.
8. A consolidated Form 1120, pages 1 through 4, is prepared from the consolidated schedules and from information entered on under the General category (besides officer's compensation) with the consolidated return. Basic return information entered under the General category (besides officer's compensation) do not carry from the separate company return and must be reentered with the consolidated unit.
9. Forms 851 and/or 1122 are prepared as requested on the General Information worksheet under the Consolidated category.

Input Not Allowed with the Consolidated Return

| **Categories** | **Worksheets Not Allowed** |
| --- | --- |
| Income/Deductions | All Worksheets except: |
|  | Compensation of Officers Section |
|  | Totals Only Depreciation Section |
|  | DPAD - Other Information |
|  | General Passive Limitation Information Section |
|  | Form 8283 - Noncash Charitable Contributions Sections |
|  | Form 8594 - Asset Acquisition Section |
| Credits | All Worksheets except: |
|  | Form 6765 Fixed Base Percentage Field |
|  | Form 6765 Section 280C(c) Election Field |
|  | Form 8827 - Prior Year Minimum Tax Credit |
|  | Credit Summary |
| Schedule L, M-1, and M-2 | All Worksheets except: |
|  | Schedule M-3 - Net Income Reconciliation |
|  | Schedule M-3 - Income(Loss) Items |
|  | Schedule M-3 - Expense/Deductions Items |
|  | Schedule M-3 - Form 8916-A |
| Other Returns | All Worksheets |

Please see the Federal Input section of the consolidated help file for a more detailed description.

Federal Input - Part 1

General Category

Basic Data, Return Options, and Depreciation and Depletion Overrides and Options

This set of worksheets must be re-entered with the consolidating unit. This includes data found in the General, Inventory and Miscellaneous Information, and the Stock Ownership Questions Sections and the Options worksheet. This information is not accumulated from any of the separate company returns. We will accumulate the parent's Basic Data information to answer Schedule K and Schedule G questions if the field entitled "Carry Parent's Schedule K - Other Information" is checked on the Consolidated Options worksheet. For a company to be included in the consolidated return the field "To include in a consolidated return" must be present in the separate company's General section under the Basic Data worksheet . We will calculate the tax on each separate company's return unless you check the field "To suppress calculation of tax" in the General section of each separate company return.

Footnotes are not accumulated from separate companies return.

Electronic Filing

Your user options, preferences and general information are not accumulated from your separate companies. This information must be entered with the consolidated return.

Two Year Comparison

Input for the two year comparison must be entered at the consolidated level. This information is not accumulated from separate company input.

Officer's Compensation and Corporate Ownership

If you do not enter compensation of officers data with the consolidating return, it will automatically be carried from the separate companies to the consolidated Schedule E. Corporate ownership information entered is not accumulated from the separate company's returns. If officer's compensation data is entered at the consolidated level it will override Schedule E only and will not carry to the consolidated officer's compensation deducted on Form 1120, page 1.

Federal Elections

All data under the Federal Elections worksheet must be entered in the consolidated unit. This data is not accumulated from your separate company returns.

Shareholders Category

Information entered on these worksheets are not accumulated from separate company input and should be submitted with the consolidated unit.

Income/Deductions Category

Business

Information entered on these worksheets are accumulated from separate company input. Do not submit these worksheets with the consolidating unit. There are some exceptions as noted below.

**Caution**: When entering data for the separate companies do not use both detail entries and their corresponding override. For example, if detailed asset by asset entries are made for other depreciation attached to Form 1120, page 1 and an entry is also made the Deductions section of the Business worksheet in the "Depreciation - override" field, these entries will be added together on the consolidated return and will generate an invalid automatic adjustment. You may use either the override or the detailed entries, but not both.

Supporting statement descriptions that are entered EXACTLY the same in the separate companies will appear only once on the combined supporting statement with amounts showing to the right under the appropriate company heading. This alphabetical match is lower and upper case sensitive and recognizes spacing between words. For example, if Company A and Company B have made entries for open line other deductions and both spelled it "Telephone Expense", then only one line entitled "Telephone Expense" would appear on the combined other deductions statement. However, if the Company B entry was spelled "Telephone expense" or two spaces instead of one were used between the words, then two lines of the other deductions statement would be produced. One entitled "Telephone Expense" and the other "Telephone expense". This requirement for alphabetical matching applies only to columnar supporting statements. If the option entitled "Print open line supporting statements in stacked format" is selected on the Consolidated Options worksheet this alphabetical matching is not required. For more information, please see the help for this option on the Consolidated Options worksheet.

Bank Bad Debts

Bank bad debt information is automatically accumulated from your separate company entries. You may suppress this accumulation and enter this data with the consolidated return by making an entry the field entitled 'Do NOT accumulate bank bad debt information from separate companies" in the Options worksheet of the Consolidated category. If this field is present and no consolidated bad debts data is entered, the bank bad debt schedule will not be prepared, however, the separate companies' Form 1120, page 1, will still be accumulated and will appear on the consolidated Form 1120, page 1, as the consolidated bad debts deduction.

8873 - Extraterritorial Income Exclusion

Entries on this section are accumulated from your separate company returns and should not be entered at the consolidated level.

Depreciation Detailed Worksheets

Entries made on an asset by asset basis are accumulated from your separate company input. Do not enter this data with the consolidated unit. You may override depreciation and amortization in the Federal Overrides worksheet of the Consolidated category.

**Caution**: All parent and subsidiary returns must use the same type of depreciation input forms. For example, one subsidiary should NOT use Totals Only depreciation, while the parent enters its depreciation via the Depreciation Detailed worksheets.

Totals Only Depreciation

Totals Only depreciation entries are accumulated from separate company input. You may elect to enter Totals Only data at the consolidated level by making an entry in Options worksheet of the Consolidated category in the field "Suppress separate company depreciation detail." This field must be present if you wish to enter Totals Only depreciation with the consolidated return.

**Caution**: All parent and subsidiary returns must use the same type of depreciation input forms. For example, one subsidiary should NOT use Totals Only depreciation, while the parent enters its depreciation with the Depreciation Detailed worksheets

Depletion, Rent and Royalties, Farms / 4835 Worksheets, and Passthrough Entities

Entries on these worksheets are accumulated from separate company input. Do not enter these forms with the consolidated unit. Depletion will be limited to 65% of consolidated taxable income.

Interest and Dividends Worksheets

Interest and dividends are accumulated from your separate company entries. Do not submit this information with the consolidating unit. Dividends coded AG (qualifying dividends from affiliated groups) and WFC (Wholly-owned foreign subsidiary) will automatically be eliminated on Schedule C and Schedule M-1 of the consolidated return. You may elect different treatment for this automatic elimination or suppress it altogether by making an entry in the field entitled "Automatic dividend income adjustment options" in the Options worksheet of the Consolidated category.

Gains and Losses, Installment Sales, Like Kind Exchanges, and Contracts and Straddles Worksheets

Your separate company entries for all dispositions of assets are accumulated and brought forward to the consolidated return. Do not enter this data with the consolidated return. Entries Form 8594 - Asset Acquisition Statement are not accumulated and must be re-entered with the consolidating unit. If the automatic sales feature is selected on the separate company returns, the sale numbers must be unique through out all the companies included in the consolidated return. For example, if Company A uses 1, 2, and 3 to identify three automatic sales on its return, then company B should identify its automatic sales starting with number 4. You may override capital gain income and ordinary income in the Federal Overrides worksheet of the Consolidated category.

The System limits consolidated capital loss to consolidated capital gain and recomputes nonrecaptured

Section 1231 losses.

Carryover Worksheet

Entries for NOL, capital loss, charitable contribution and credits carryovers are accumulated from separate company input. If a separate company's NOL, capital loss, or credit carryover for a particular year is subject to the SRLY limitation, you may indicate this by making an entry in the field entitled "SRLY" on the separate company's Carryover worksheet. When this field is checked, the portion of the consolidated carryover attributable to the separate company's SRLY NOL or capital gain income will be limited to that company's income. A statement will be produced detailing this calculation. The NOL statement and our NOL recalculation may be suppressed by an entry in the Options worksheet of the Consolidated category in the field "Suppress automatic NOL and AMT NOL adjustment."

The consolidated default is NOT to accumulate your year by year detail entries for prior year's AMT tax to calculate Form 8827 or the "net positive ACE adjustment from prior years" to calculate Form 4626. If you wish for these amounts to be accumulated make an entry on the Consolidated Options worksheet. Also be sure no entries are present in the fields entitled 'Alternative Minimum Tax from Prior Year Form 4626" or "Minimum Tax Credit Carryforward" on the Credits > Form 8827 - Credit for Prior Year Minimum Tax worksheet or the field entitled "net positive ACE adjustment from prior years" on the Other Items section of the Alternative Minimum Tax worksheet. Presence of anyone of these two fields will also suppress our accumulation.

Charitable Contributions

Detailed entries for current year contributions and carryovers should not be made with the consolidated return. This information should only be entered with the separate company return. The sections for Form 8283 - Noncash Charitable Contributions are not accumulated from the separate companies. If you wish to produce Form 8283 at the consolidated level it must be entered with the consolidated return.

The charitable contributions statement may be suppressed by an entry in the field "Suppress automatic charitable contributions and AMT charitable contributions" in the Options worksheet of the Consolidated Category

Section 199A(g) Deduction - 1120C Only

Our system default is NOT to recompute QPAI at the consolidated level. We will accumulate your QPAI activities exactly as they were calculated at the separate company level and report them on company by company basis on the consolidated QPAI worksheet. You may elect for us to recompute QPAI on a consolidated basis by making an entry in the field entitled "Accumulation of Domestic Production Activity Deduction Options" under the Consolidated Options Worksheet.

We will accumulate your separate company 199A(g) activity level detail entered for rents, farms, depletion, and trade or business entered on each activity's respective worksheet. You may suppress this accumulation on the Consolidated Options worksheet. Election of this option will in effect suppress Form 8903 at the consolidated level. If you elect this option and still wish to produce Form 8903, override data should be completed on the Override section of the Domestic Production Activity Deduction Other Information worksheet.

**Note**: If you are electing to recompute QPAI at the consolidated basis, the Simplified Overall Method, the Simplified Method, the Section 861 Method, or an Other Method this election must also be made at the consolidated level. Your election is not accumulated from your separate company's return due to the possibility of conflicting data. We recommend processing each separate company with the same method that will be elected with the consolidated return.

**Note**: We will produce Form 8903 at the consolidated level whenever separate company detailed DPAD activity entries are present for rents, farms, depletion, and trade or business on each activity's respective worksheet. If no election is made as to "Method used to apportion deductions" , we will assume the section 861 method.

**Note**: We will produce Form 8903 at the consolidated level whenever separate company detailed DPAD activity entries are present for rents, farms, depletion, and trade or business on each activity's respective worksheet. If no election is made as to the "Method used to apportion deductions" in the "General Information" section of the "Domestic Production Activity Deduction Other Information" worksheet, we will assume the section 861 method.

**Note**: If you wish to override the Section 199A(g) deduction that appears on line 22 of Form 1120C, page 1, use the "Domestic Production Activity Deduction - Override" in the Income and Deductions section of the Consolidated Federal Overrides worksheet .

**Note**: "Deduction Allocated from Expanded Affiliated Group" and "Domestic Productions Activities Deduction from Cooperatives" should only be entered at the consolidated level.

8990 - Interest Expense Limitation

The only information accumulated from your separate company returns is the "Activities Subject to Section 163(j) " input at the bottom of this worksheet. Entries here exclude and override buisiness interest expense for various activities. This information should NOT be re-entered at the consolidated level. To request Form 8990 for a consolidated return, an entry must be present in the "Preparation Code" field on the consolidated return. Presence of this worksheet with the separate company returns will not produce Form 8990 on the consolidated return.

If Form 6198 - At-Risk Limitations is present in the consolidated return, it is recommended that Form 8990 should also any separate company returns which also have Form 6198

Disallowed business interest expense carryovers and floor plan financing interest expense is accumulated from your separate company returns and should not be entered at the consolidated level.

Passive / At-Risk Activity Limitations

If you process the consolidated return as either a closely held or a personal service corporation, the subsidiaries containing passive and/or at-risk activities should also be processed as the same type of corporation as the consolidated.

Data for Passive / At-Risk Trade or Business, Pass Loss Carryover, and Passive Credits should never be entered with the consolidated unit. This information will be accumulated from your separate company input. The General Passive Limitation section of the Passive Activity Limitation worksheet may be entered with the consolidated return.

Federal Input - Part 2

* Taxes Category
* **Schedule PH - Personal Holding Company Tax**

The personal holding company requirements must be met on a consolidated basis. Thus, information entered at the separate company level is not accumulated. It should be re-entered at the consolidated level.

* **Summary Tax and Controlled Group Information**

Information for summary taxes and controlled group information for Schedule O is not accumulated from separate company input, but may be entered at the consolidated level.

* **4255 - Investment Tax Credit Recapture**

Entries for Recapture of the Investment Tax Credit are accumulated from the separate company returns. You may suppress this accumulation and enter the worksheet at the consolidated level by checking the field entitled "Suppress separate company Form 4255" on the Options worksheet under the Consolidated category.

* **Alternative Tax on Qualifying Shipping Activities**

Entries on this worksheet should be made at the consolidated level.

8991 - Base Erosion Minimum Tax

Your input is accumulated from the separate company returns. Input related to questions and the aggregation option for form 8991 must be entered at the consolidated level. This is the only input allowed with the consolidated return. All other input is accumulated from the separate companies.

* Payments and Penalty Category
* **Payments**

Separate company tax payments are accumulated from each member company. You may suppress this treatment by making an entry in the field "Suppress federal and state separate company tax payments" on the Options worksheet in the Consolidated category. If you suppress the separate company tax payments, enter all tax deposits and other payments on the Payments worksheet at the consolidated level. If you elect this option, tax payment information on Form 851 for each subsidiary may be incomplete. The only way to attribute tax payments to a particular member corporation is to enter them with each separate company's return.

**Caution**: If an overpayment exists at a separate company, you may have to manually adjust the pro formaed amount on next year's return to reflect any consolidated differences. For example, a separate company could have an overpayment and the consolidated tax return could have a balance due. On next year's Pro Forma, the system would Pro Forma the overpayment amount at the separate company level as an overpayment from the prior year. This amount would need to be change to 0 by you to reflect that no overpayment existed on the prior year's consolidated return.

Estimates options, application of overpayment, and all penalties data must be entered with the consolidated return. This information is not accumulated from your separate company returns since these options apply on a consolidated basis.

* Credits Category

All credit information, unless noted below, is accumulated from the separate company returns. These worksheets may NOT be entered at the consolidated level. However, if you are processing Form 6765, you will need to re-enter the section 280C(c) election on the Form 6765 - Research Credit worksheet at the consolidated level to reflect that amount on a consolidated basis. If processing a tiered consolidated return, this information should be entered with the top tiered return. We will accumulate the fixed base percentage from each separate company for Form 6765. If the accumulated total exceeds 16% we will limit it to 16%. You may override this percentage at the consolidated level on the Form 6765 worksheet.

Form 6478 - Alcohol Fuel Credit - We assume the IRS Registration Number to be the number entered with the parent's return. This number may be overridden at the consolidated level.

Worksheet data for Form 8827, Prior Year Minimum Tax Credit, is not accumulated from your separate company returns. It must be entered at the consolidated level. This information is not accumulated, since the credit must be based on the prior year consolidated alternative minimum tax, not the separate company's prior year AMT.

Form 8941 - Credit for Small Employer Health Insurance Premiums - Entries on this worksheet are accumulated from the separate companies. Detail entries on this worksheet and overrides should not be mixed at the separate company level. If detailed entries are used with one company, all separate companies should use detailed entries. All fields labeled override on this worksheet may be entered at the consolidated level. The field entitled "Average Annual Wages Paid for the Tax Year - Override" is never accumulated from the separate company returns since this must be based on a consolidated basis. If you have entered this override at the separate company level you will need to enter at the consolidated level.

Credit carryover information should only be entered with the separate companies. If you wish to apply the SRLY limitation to a carryover, make an entry in the "SRLY" field. The carryover for a particular year will then be limited to the separate company's tax liability at the consolidated level.

* Schedules L, M-1, M-2, M-3 Category

The Balance Sheet, Schedule M-2, and Schedule M-2 category are accumulated from separate company input. Do not submit any data in this category with the consolidating unit. The Schedule M-3 category is also accumulated, but may also be entered at the consolidated level as follows.

All sections of the Schedule M-3 worksheet, except for the Other Information section, may be entered with the consolidating unit. Use the General and Net Income Loss Reconciliation section to suppress columns A and D of Schedule M-3, Part II, or to mandatory print or suppress printing of the entire Schedule M-3. This input form is also used to complete Part I of for the consolidated unit. This section is not accumulated from your separate company input.

All entries on the Income(Loss) Items and the Expense/Deduction Items sections act as overrides at the consolidated level. The Other Information sections should never be entered with the consolidated unit. It is accumulated from your separate company input.

**Note**: If Schedule M-3 is to be filed at the consolidated level all members should process Schedule M-3 instead of Schedule M-1. If total assets are between $10,000,000 and $50,000,000 and you wish to elect to produce Schedule M-1 instead of Schedule M-3 an entry is required to be made on the consolidated return's Schedule M-3 > General and Net Income (Loss) Reconciliation worksheet in the field entitled "Code to suppress Schedule M-3 Parts II and III." This option should be the same on all separate company returns.

* Tax Provisioning Worksheet

We accumulate the beginning balances of the Deferred Income Taxes from your separate company returns. All other entries should be entered at the consolidated level.

**Note**: We complete the Temporary and Permanent Differences portion of the Tax Provisioning Workpaper based on your separate company detail Schedule M-3 entries made to the Income/Deductions | Business worksheet and/or the Sch L/M | Schedule M-3 | Other Information worksheet. Schedule M-3 override entries made on the Sch L/M | Schedule M-3 | Income(Loss) Items and Expense/Deduction Items Worksheets are ignored. If overrides are entered on these input forms at the consolidated or separate company level, the Tax Provisioning Workpaper's Temporary and Permanent Differences may not agree with Schedule M-3. If you wish to use the the Tax Provisioning Workpaper produced by the program, we encourage you to make your separate company Schedule M-3 entries via the Income/Deductions | Business worksheet and/or the Sch L/M | Schedule M-3 | Other Information worksheet.

Currently the Tax Provisioning Workpaper is not produced for 1120-L, 1120-PC, 1120-C, and 1120-REIT consolidated returns. It is produced for a regular 1120 consolidated return.

* Other Category
* **Extensions-1**

To produce Form 7004 with the consolidated return, extension data must be entered at the consolidated level. If the parent and subsidiaries returns have been previously calculated and their client I.D.s are present in the List of Companies in the General Information worksheet of the Consolidated category, we will print the list of subsidiaries on Form 7004. If the parent and subsidiaries have yet to be calculated, you will need to enter their name, address and employer I.D. number in the Extension worksheet under the Other category.

Worksheets regarding the following forms must be entered at the consolidated level. It is not accumulated from separate company data:

|  |  |
| --- | --- |
| Extensions | Federal and State |
| Schedule H | Section 280H Limitations for Personal Service Corporations |
| 114 | Report of Foreign Bank and Financial Accounts |
| 1120X | Amended Returns |
| 1128 | Application to Adopt, Change, or Retain a Tax Year |
| 1138 | Extension of Time for Corporation Expecting an NOL Carryback |
| 1139 | Corporation Application for Tentative Refund |
| 2848 / 8821 | Power of Attorney |
| 3115 | Change in Accounting Method |
| 4466 | Application for Quick Refund |
| 5452 | Corporate Report of Nondividend Distributions |
| 5713 | International Boycott Report |
| 8050 | Direct Deposit of Refund |
| 8271 | Tax Shelter Registration |
| 8275 | Disclosure Statement |
| 8697 | Look-Back Method for Completed Long Term Contracts |
| 8716 | Tax Year Election |
| 8821 | Tax Information Authorization |
| 8822 | Change of Address |
| 8832 | Entity Class Election |
| 8848 | Consent to Extend Time to Assess Branch Profits Tax |
| 8866 | Look-back Method for Property Depreciated |
| 8875 | Taxable REIT Subsidiary Election |
| 8886 | Reportable Transaction Disclosure |
| 8925 | Report of Employer-Owned Life Insurance Contracts |
| 926 | Return by a U.S. Transferor of Property to a Foreign Corporation |
| 966 | Corporate Dissolution or Liquidation |
| 970 | General Information and Statement of Election Under Section 472 |
| 972/973 | Consent Dividends |
| 982 | Reduction of Tax Attributes Due to Discharge of Indebtedness Statement Pursuant to Regulation Section 1.351-3 |

Worksheets regarding the following forms are accumulated from separate company data:

|  |  |
| --- | --- |
| 8082 | Notice of Inconsistent Treatment or Administrative Adjustment Request, |
| 8858 | Information Return of US Persons with Respect to Foreign Disregarded Entities |
| 8883 | Asset Allocation Statement |
| 8975 | Country-by-Country Report |
| 8975(Sch A) | Tax Jurisdiction and Constituent Entity Information |
| COD | Deferral of Cancellation of Debt (COD) Income |
| Schedule UTP | Uncertain Tax Positions |

To file a consolidated amended return enter the "1120X - Amended Returns" worksheet at the consolidated level. It is recommended to select the option "To transfer original information" on this worksheet at the consolidated level before recalculating any separate company returns to reflect any changes due to the amended return.

Deferral of Cancellation of Debt (COD) Income - This information is accumulated from your separate company returns. There are two processing options on this form which may be entered at the consolidated level. They are the "Option to Print Deferral of Income from COD" and the "Election Statement Option." These two options are not accumulated from your separate company returns.

Form 966 Corporate Dissolution or Liquidation, is not accumulated to the consolidated unit. If it is required for a subsidiary return it should be prepared at the separate company level. Form 966, is then filed separate from the consolidated return within 30 days after the resolution or plan to dissolve the subsidiary is adopted.

Form 5452 - To produce Form 5452 with a consolidated return the "Form 5452 - Corporate Report of Nondividend Distributions" workheet must be entered at the consolidated level. Form 5452 is NOT accumulated from your separate companies. We do however, accumulate the separate companies Form 5452 Worksheets to support your consolidated Form 5452. A copy of each Form 5452 worksheet produced with each separate company return will be accumulated and collated after the consolidated Form 5452 worksheet or worksheets produced with the consolidated return.

**Note**: It is important to note that if you wish a Form 5452 worksheet produced on a consolidated basis, that information must be entered at the consolidated level on the "Form 5452 Worksheet for Figuring Current Year Earnings and Profits." What the program accumulates is an exact copy of any Form 5452 worksheets produced with the separate company returns. They are not combined to produce one consolidated Form 5452 worksheet. If ten worksheets were produced with the separate company returns then 10 copies of those worksheets will be produced with the consolidated return. This is done to comply with the Form 5452 reporting requirements for a consolidated return.

If you wish for the separate company worksheets to not be carried from the separate company returns, you can suppress them on the Consolidated Options worksheet.

Form 5452 - Affiliated Group Member Information Worksheet - If no entries are made in the Affiliated Member's Information fields we will automatically complete a statement showing each member's name, FEIN, taxable income and tax paid based on the separate company's return. Any entry in these fields will suppress this automatic feature. You may also enter the method of tax allocation and indicate whether a tax sharing agreement was in effect among the affiliated group members by making an entry in the fields entitled "Description of Consolidated Tax Allocation Method." Entries in these fields will not suppress our automatic completion of the Affiliated Group Member List.

Form 8858 - Information Return of U.S, Persons With Respect To Foreign Disregarded Entities - We will accumulate your entries on the Form 8858 worksheet for the main Form 8858 and the Form 5471 version of Form 8858 to the consolidated level. If you wish to enter the main Form 8858 at the consolidated level the option entitled "Do Not to Carry Form 8858 Information" should be selected on the Consolidated Options Worksheet. If you wish to enter the Form 5471 version of Form 8858 at the consolidated level the option entitled "Do Not to Carry Form 5471 Information" should be selected on the Consolidated Options Worksheet. When this option is selected all Form 5471 information should be entered with the consolidated return, not just the Form 8858 data related to Form 5471.

Form 8925 - Report of Employer Owned Life Insurance Contracts, is not accumulated from separate company input. The IRS does not allow multiple Form 8925s to be filed. Only one Form 8925 is allowed to be filed. Information for Form 8925 should be entered at the consolidated level.

Form 8926 - Disqualified Corporate Interest Expense Disallowed Under Section 163(j). To produce this form an entry must be present in the General Information section of the Form 8926 worksheet. We will accumulate the following information from the separate company returns:

* Additional Taxable Income Adjustments
* All fields in the Disqualified Interest for the Tax Year section
* All fields in the Information About Related Persons Receiving Disqualified Interest section

All other fields and overrides should be re-entered at the consolidated level. The General Information questions should be answered on a consolidated basis. We do not accumulate Excess Interest Expense carryovers from the separate company returns, since this should also be determined on a consolidated basis.

Fom 8975 - Country-by-Country Report and Schedule A - Tax Jurisdiction and Constituent Entity Information, should be entered at the consolidated level. They are not accumulated from your separate company entries.

Schedule UTP - Tax Position ranking numbers on Schedule UTP must start with number 1 and be consecutive per IRS instructions. Ranking Numbers may not be skipped. We will not renumber these numbers since we do not know the ranking on a consolidated basis. Please insure that your ranking numbers are unique among members and will follow a consecutive order.

* Foreign Category

Schedule N - Foreign Operations Information

This information is not accumulated from your separate company returns and must be reentered with the consolidated

unit.

* Forms 5471 and 5472

Form 5471 information is accumulated from your separate company input.

We will also automatically accumulate your Form 5472 information. Certain information on Form 5472 is nonrepeating information. It is answered the same on all copies of Form 5472. This applies to the following lines of Form 5472: Line 1j - Country of Incorporation, Line 1k - Country Under Whose Laws the Reporting Corporation Files, Line 1l - Principal Country Where Business is Conducted, Line 2 - Did a Foreign Person Own, Directly or Indirectly, at least 50% etc., and Part VI - Additional Information. We will answer these questions based on the data entered on the Reporting Corporation and Additional Information section of the Form 5472 worksheets of the first company listed on the consolidated Membership Information worksheet which has these Form 5472 worksheets. These answers will apply to all copies of Form 5472 produced at the consolidated level since we assume they apply to the reporting corporation.

Information for Form 5472, Part II, 25% Foreign Shareholder is accumulated from each company and will print for each Form 5472 at the consolidated level. For example, if foreign shareholder information for shareholders 1 and 2 are entered with Company A, and foreign shareholder information for shareholders 3 and 4 are entered with Company B, each Form 5472 produced with the consolidated return will list all the foreign shareholders of 1 through 4. The shareholder information on Form 5472, Part II, that is accumulated from the separate companies may be overridden at the consolidated level on the Foreign > Form 5472 - Direct 25% Foreign Shareholder and the Ultimate Indirect 25% Foreign Shareholder worksheets. This feature may be used to remove duplicate shareholders that appear on the consolidated Form 5472, Part II, that have been entered multiple times in different separate company returns.

You may override these lines by making entries at the consolidated level directly on their respective fields on the Reporting Corporation section and/or the Additional Information section of the Form 5472 worksheet.

**Note**: If you wish to override ANY information on Part II, Part III, Part IV, and/or Part V of Form 5472, the field entitled "Suppress Accumulation of Form 5472 Information" on the Consolidated Options worksheet should be checked and ALL Form 5472 information should be entered with the consolidated return.

* Form 1118 - Foreign Tax Credit

Worksheet data for Form 1118, Foreign Tax Credit, may be entered with the separate company returns or with the consolidated unit. If it is entered with the consolidated return, be sure the field entitled "Enter Form 1118 with the consolidated return" is checked on the Options worksheet of the Consolidated category.

* Forms 8865 and 8621

The worksheets for Form 8621 - Return by a Shareholder of a PFIC or QEF, should be entered at the consolidated level. They are not accumulated from your separate company entries.

The worksheet entitled "8865 automated Feature" is NOT allowed to be entered with the consolidating unit.

The remaining Form 8865 worksheets may be entered at the consolidated level or you may elect to accumulate Form 8865 from the separate company returns by selecting the option "Accumulate Form 8865" on the Consolidated Options Worksheet.

* Section 965 - Transition Tax Statement

The worksheets for the Section 965 Transition Tax Statement should be entered at the consolidated level. They are not accumulated from your separate company entries. If input entries are made at the separate company level and not at the consolidated level your separate company calculated amounts will be reversed out at the consolidated level.

* Forms 8992 and 8993

The worksheet for Form 8992 - U.S Shareholder Calculation of Global Intangible Low-Taxed Income (GILTI) is accumulated from your separate company return. If entered at the consolidated level the separate company accumulation will be suppressed. The worksheet for Form 8993 - Section 250 Deduction should be entered at the consolidated level. It is not accumulated from your separate company entries. If this worksheet is entered at the separate company level and not at the consolidated level any deduction accumulated from the separate company will be reversed out at the consolidated level.

* Other Returns Category
* **1120-C Cooperative Associations**

To process an 1120-C consolidated return list only 1120-C members on the Consolidated "Membership Information" worksheet. Regular 1120 and 1120-C companies may NOT be mixed.

On the consolidated return be sure to indicate this return is an 1120-C by making an entry in the mandatory field entitled "Cooperative Tax Exempt Under Section 521" on the Other Returns "1120-C General Information" worksheet. This entry must be present at both the consolidated level and for each separate company return. Any fields on this worksheet with the 'CC' indicator may be entered at the consolidated level.

The Journal Entry Method for eliminations and adjustments does not apply to an 1120-C consolidated return. Unique 1120- eliminations and adjustment may be made on the "1120-C Adjustments and Options" section of the Consolidated "Eliminations and Adjustments" worksheet. All other adjustment and eliminations may be made on the regular Consolidated Eliminations and Adjustments Worksheets.

Patronage and Nonpatronage Income/Loss - For Schedule G purposes, we will treat any consolidated adjustments to Form 1120-C, page 1, except for net operating loss and section 1382 adjustments, as nonpatronage amounts. This applies to any manual entries entered by you and to any automatic system adjustments. This is our default treatment, additional input is NOT required for this treatment.

You may change this treatment by suppressing the carrying of any Form 1120-C, page 1, adjustments to Schedule G, or you may have any Form 1120-C, page 1, adjustments apply to patronage amounts instead of nonpatronage by making an entry in the field entitled "Carry 1120-C, Page 1, Taxable Income Adjustments to Schedule G" on the "1120-C Adjustments and Options" section under the Consolidated Eliminations and Adjustments worksheet. Regardless of what treatment you may elect, the patronage and non-patronage amounts may further be adjusted using the Schedule G adjustment fields on the "1120-C Adjustments and Options" worksheet.

**Note**: We assume any adjustments to the section 1382 adjustment on Form 1120-C, page 1, to be attributable to patronage. You may manually adjust the patronage and/or nonpatronage section 1382 adjustment reported on Schedule G by using the Schedule G adjustment fields on the "1120-C Adjustments and Options" worksheet.

**Note**: We will automatically recompute the patronage and nonpatronage NOL adjustments based on your separate company NOL entries identified as such. We will never automatically carry any NOL adjustment reported on Form 1120-C, page 1, to Schedule G. You may manually adjust the patronage and/or nonpatronage NOL adjustment reported on Schedule G by using the Schedule G adjustment fields on the "1120-C Adjustments and Options" worksheet.

* 1120-F - Foreign Corporation Return

Form 1120-F, Income Tax Return for a Foreign Corporation, may not be filed on a consolidated basis. Worksheets related to these forms should not be submitted with the consolidated return. Any separate company which has filed an 1120-F return should not be included as a member of a consolidated return.

* 1120-FSC - Foreign Sales Corporation

Form 1120-FSC, Income Tax Return for a Foreign Sales Corporation, may not be filed on a consolidated basis. Worksheets related to these forms should not be submitted with the consolidated return. Any separate company which has filed an 1120-FSC should not be included as a member of a consolidated return.

* 1120-H - Homeowner's Association

We do not process a consolidated Form 1120-H, Income Tax Return for Homeowner's Associations. This worksheet should not be submitted with the consolidated return. Any separate company which has filed an 1120-H should not be included as a member of a consolidated return.

* 1120-IC-DISC - Interest Charge Domestic International Sales Corporation

Form 1120-IC-DISC, Interest Charge Domestic International Sales Corporation, may not be filed on a consolidated basis. Worksheets related to these forms should not be submitted with the consolidated return. Any separate company which has filed an 1120-IC-DISC should not be included as a member of a consolidated return.

* Form 1120-L - Life Insurance Company

To process an 1120-L consolidated return list only 1120-L members on the Consolidated "Membership Information" Worksheet. Regular 1120, 1120-PC, and 1120-L companies may NOT be mixed unless you have indicated that a Mixed Group return is present. See the Mixed group section of this worksheet's help or the help for the Mixed Group Code field on the Consolidated "Membership Information" Worksheet.

**Caution**: If a 1120-L member is a failed life company under Section 816 reserved percentage test do NOT enter this member with an 1120-L consolidated return. It should be included as a member of an 1120-PC consolidated return.

On the consolidated return be sure to indicate this return is an 1120-L by making an entry in the "Return Code" on the General "Basic Data" worksheet. Also an entry must be present in the mandatory field entitled "Elections Under IRC" on the "General" section of the "Other Returns 1120-L" Worksheet. These two entries must be present at both the consolidated level and for each separate company return.

The General Information fields on the "General" section of the "Other Returns 1120-L" Worksheet with the 'CC' indicator must be entered at the consolidated level. No other 1120-L worksheets may entered with the consolidating unit. "The Special Loss Discount Account and Special Estimated Tax Payments" Worksheet should never be entered with the consolidated return. Form 8816 is accumulated from the separate company returns and produced on a member by member basis at the consolidated level.

The Journal Entry Method for eliminations and adjustments does not apply to an 1120-L consolidated return. Any Balance Sheet adjustments must be made on the "1120-L Adjustments" section of the Consolidated "Eliminations and Adjustments" worksheet. Unique 1120-L eliminations and adjustment may be made on the "1120-L Adjustments" section of the Consolidated "Eliminations and Adjustments" worksheet. Unique 1120-L Schedule M-3 adjustments may be made on the "Schedule M-3 Adjustments For 1120-PC and 1120-L" section of the Consolidated "Eliminations and Adjustments" Worksheet.

* 1120-PC - Property and Casualty

To process an 1120-PC consolidated return list only 1120-PC members on the Membership Information section of the Consolidated Worksheet. Regular 1120 and 1120-PC companies may NOT be mixed unless you have indicated that a Mixed Group return is present. See the Mixed group section of this worksheet's help or the help for the Mixed Group Code field on the Consolidated "Membership Information" Worksheet.

An electing small insurance company may not be a member of a consolidated return. The mandatory entry for "Option to calculate taxable income" on the General Section of 1120-PC Property and Casualty Worksheet must be equal to "Other" for each member of the consolidated return and for the consolidated return.

The General Section fields of the 1120-PC Property and Casualty Worksheet with the 'CC' indicator must be entered at the consolidated level. All other fields with the "CC" indicator on the Other Information section of this worksheet may be entered with consolidated unit. With the exception of the General Worksheet and the Schedule M-3 Insurance Company Items Worksheet, no other 1120-PC Property and Casualty Worksheets should be entered with the consolidated return. Form 8816 is accumulated from the separate company returns and produced on a member by member basis at the consolidated level.

The Journal Entry Method for eliminations and adjustments does not apply to an 1120-PC consolidated return. Unique 1120-PC eliminations and adjustment may be made on the "1120-PC Adjustments" section of the Consolidated "Eliminations and Adjustments" worksheet. Unique 1120-PC Schedule M-3 adjustments may be made on the "Schedule M-3 Adjustments For 1120-PC and 1120-L" section of the Consolidated "Eliminations and Adjustments" Worksheet. All other adjustment and eliminations may be made on the regular Consolidated Eliminations and Adjustments Worksheets.

* Common State Insurance and State by State Insurance Tax Information

This information is not accumulated from your separate company returns and should be entered with the consolidated return.

* 1120-POL - Certain Political Organizations

Form 1120-POL, Certain Political Organizations, may not be filed on a consolidated basis. Worksheets related to these forms should not be submitted with the consolidated return. Any separate company which has filed an 1120-POL should not be included as a member of a consolidated return.

* 1120-RIC - Regulated Investment Companies

Form 1120-RIC for Regulated Investment Companies may not be filed on a consolidated basis. Worksheets related to this form should not be entered with the consolidated return.

* 1120-REIT - Real Estate Investment Trusts

To process an 1120-REIT consolidated return list ONLY 1120-REIT members on the Consolidated "Membership Information" Worksheet. Regular 1120. 1120-PC, 1120-L and 1120-REIT may NOT be mixed.

On the consolidated return be sure to indicate this return is an 1120-REIT by making an entry in the "Return Code" on the General "Basic Data" worksheet. Also an entry must be present in the mandatory field entitled "Year of REIT Status Election" on the "General" section of the "Other Returns 1120-REIT" Worksheet. These two entries must be present at both the consolidated level and for each separate company return.

The General Information fields on the "General" section of the "Other Returns 1120-REIT" Worksheet with the 'CC' indicator must be entered at the consolidated level.

* Common State Data

The State/City Generation worksheet must be reentered with the consolidated unit.

Apportionment and allocation information will not be accumulated for any "generic" state returns. This information must be re-entered with the consolidated return. However, for the consolidated/combined states of Alabama, Arizona, Arkansas, California,Colorado, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Massachusetts, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Mexico, New York, North Dakota, Ohio, Oklahoma, Oregon, Rhode Island, South Carolina, Utah, Vermont, Virginia Washington D.C., and West Virginia we will accumulate apportionment and allocation data and bring them forward to the consolidated level. Re-entry of Apportionment and Allocation data for these states is not necessary. Please refer to these state's instruction guide for further information.

The "State Intercompany Elimination for Apportionment" worksheets should only be entered at the consolidated level and never at the separate company level.

General Information entered on the State/City Common Data worksheet is NOT accumulated and must be re-entered with the consolidating unit.

State/City tax payments entered on the State Tax Payments and/or the City Tax Payments worksheet will be accumulated for all states and cities. This is true even for "generic" returns. To suppress this accumulation you may make an entry on the field entitled "Options to suppress separate company tax payments" on the Consolidated Options worksheet. If you elect to suppress you may enter your state/city tax payments at the consolidated level.

State/City estimate and penalty information entered on the Penalties and the Estimates and Application of Overpayment worksheets are not accumulated from the separate companies and must be reentered with the consolidated unit.

Schedule M-3

The consolidated Schedule M-3 is produced based on your entries at the separate company and the consolidated level. We will accumulate your entries on the Income(loss) Items, the Expense/Deductions Items, Form 8916-A COGS Items, and the Other Information worksheets under the L/M-1/M-2/M-3 category from your separate company input. These input forms are accumulated along with any other entries on our Business Income and Deductions, Passthrough, Rental, and Farms input series forms from your separate company input to complete the Consolidated Schedule M-3, Parts II and III and Form 8916-A.

**Note**: the General and Net Income(Loss) Reconciliation worksheetis NOT accumulated from your separate company input and needs to be entered with the consolidated return. The Income(loss) Items, the Expense/Deductions Items, Form 8916-A Items worksheets under the L/M-1/M-2/M-3 category may be entered at either the separate or consolidated level. At the consolidated level all fields act as overrides. The Other Information worksheet under the L/M-1/M-2/M-3 category is accumulated from your separate company input and should NOT be entered with the consolidating unit.

**Note**: If Schedule M-3 is to be filed at the consolidated level all members should process Schedule M-3 instead of Schedule M-1. If total assets are between $10,000,000 and $50,000,000 and you wish to elect to produce Schedule M-1 instead of Schedule M-3 an entry is required to be made on the consolidated return'sSchedule M-3 > General and Net Income (Loss) Reconciliation worksheet in the field entitled "Code to suppress Schedule M-3 Parts II and III." This option should be the same on all separate company returns.

The IRS specifies that a separate Schedule M-3, Parts II and III, and Form 8916-A be filed for each member of the consolidated group reflecting each member's own activity. **These are filed with the government copy of the return in lieu of our customary combined columnar statements detailing the parent's and each subsidiary's activity**. We will, however, provide columnar statements for Schedule M-3, Parts II and III and for Form 8916-A. These columnar statements are produced only in the Accountant's copy of the return and are produced only for review purposes only. They should not be filed with the IRS. In addition, to providing a separate Schedule M-3, Parts II and III, and Form 8916-A for the parent, the parent must also complete Part I of Schedule M-3. The parent's Part I reflects activity for the entire consolidated group. To complete the parent's Part I, enter the General and Net Income(Loss) Reconciliation worksheet with the consolidated return only. Separate company entries on this input form are NOT accumulated.

We will combine the subsidiaries and parent's Schedule M-3, Parts I, II, and III to produce a consolidated version of Schedule M-3 reflecting activity for the entire group. You may adjust the consolidated Schedule M-3, Parts II and III, and Form 8916-A, by using the Consolidated Eliminations and Adjustments worksheet. These input forms will allow you to adjust your Per Income Statement, Permanent Differences, and Per Tax Return items. For more information, see the Consolidated Adjustments section below.

In addition to providing a separate Schedule M-3, parts II and III, and Form 8916-A for each consolidated member and a consolidated Schedule M-3, parts I, II and III, and Form 8916-A for the entire group, the IRS also specifies that an additional Schedule M-3 be produced. This additional Schedule M-3, parts II and III and Form 8916-A only, would account for intercompany transactions and consolidated adjustment(e.g. disallowance of net capital losses, contribution deduction carryovers etc...) performed at the consolidated level that are not attributable to any specific member of the consolidated group.

In summary, the consolidated output for Schedule M-3 for a consolidated group consisting of one parent and three subsidiaries would consist of six Schedule M-3's as follows:

The parent's Schedule M-3, Parts I, II, and III and Form 8916-A reflecting Part I information for the entire consolidated group and its own activity in Parts II and III, and Form 8916-A.

The three subsidiaries Schedule M-3, Parts II and III, and Form 8916-A, reflecting their respective activity.

One consolidated Schedule M-3, Parts II and III, and Form 8916-A reflecting only intercompany transactions and adjustments made at the consolidated level which are not attributable to a specific member.

One consolidated Schedule M-3, Parts I, II, and III, and Form 8916-A which summarizes the parents, the subsidiaries, and the consolidated Schedule M-3 with intercompany eliminations and adjustments.

Consolidated Adjustments

You may adjust the consolidated Schedule M-3, Parts II and III, and Form 8916-A, by using the Consolidated Eliminations and Adjustments worksheet. This is only place where Schedule M-3 consolidated adjustments may be made for the Direct Entry or the Journal Entry Methods. . We make no assumptions, as to Schedule M-3 applicability, for any manual consolidated entries you have made to Schedule M-1 on the Schedule M-1 section of the Consolidated Eliminations and Adjustments worksheet. For the Elimination Company Method we will accumulate any amounts from the elimination company's Schedule M-3 and treat these amounts as eliminations on the consolidated return.

**Note**: Schedule M-3 should be forced for the elimination company if it is being filed for the consolidated return.

* Override entries on the Schedule M-3 > Income(Loss) Items worksheet for Interest Income and for Interest Expense on the Schedule M-3 > Expense /Deduction Items worksheet should NOT be used at the elimination company level. Instead detailed entries on the Form 8916-A – COGS/ Interest Income/Expense Items worksheet should be used.
* “Temporary Difference – Override” fields on the Schedule M-3 > Income (Loss) Items worksheet, the Expense/Deduction Items worksheet, and the Form 8916-A – COGS, Interest Income/Expense Items worksheet should NOT be used on the elimination company and are ignored at the consolidated level. Unless overridden at the consolidated level, Schedule M-3 and Form 8916-A Temporary Differences are always recomputed for the consolidated return. This is done to insure that the detail lines of Schedule M-3, Parts II and III, and Form 8916-A cross foot.

**Note**: On the consolidated workpapers support Schedule M-3 and Form 8916-A you may view a breakdown between system generated automatic adjustments and manual eliminations by placing the cursor on any amount field and clicking the "Expand" icon. The "Expand" feature is utilized due to size restrictions.

**State Schedule M-1s**: If Schedule M-3 is present we will automatically transfer timing differences from Schedule M-3 to Schedule M-1 unless a code "D" is entered on the field entitled "Carry book/tax differences to Schedule M-1 Code" . This is done regardless of whether Schedule M-1 is produced in the federal return. This is done to enable completion of Schedule M-1 for state purposes..If you suppress this automatic transfer and you wish to complete a Schedule M-1 for state purposes, separate Schedule M-1 adjustments should be made. We make no assumptions as to the applicability of your manual Schedule M-3 entries for state Schedule M-1 purposes when the Schedule M-3 to Schedule M-1 tranfer is suppressed. Automatic adjustments created by our program will be posted to both Schedule M-1 and Schedule M-3 and do not have to be duplicated by you.

We will always calculate your Temporary Differences based on your entries for "Per Income Statement", "Permanent Differences", and "Per Tax Return" items. This is done to keep your Income Statement and Tax Returns items in balance. If you wish to override our automatic calculation of Temporary Differences you may make entries on the Income(loss) Items, the Expense/Deductions Items, Form 8916-A COGS Items worksheets under the L/M-1/M-2/M-3 category at the consolidated level. Special care should be taken when using the Temporary Difference overrides since they have the potential to cause Taxable Income per Form 1120, page 1, line 28 not to agree with the Taxable Income reported on Schedule M-3, Part II, line 30 column (d).

**Note**: We will automatically compute your Temporary Differences even if you have elected to "Suppress automatic consolidated recalculations" or to "Suppress automatic Schedule M-3 consolidated recalculations" on the Options worksheet under the Consolidated category. To override use the Income(loss) Items, the Expense/Deductions Items, and the Form 8916-A Items worksheets under the L/M-1/M-2/M-3 category at the consolidated level.

**Note**: Any entries made to the Per Tax Return column of the Schedule M-3 section of Consolidated Eliminations and Adjustments worksheet will NOT automatically be posted to Form 1120, page 1, Income and Deductions accounts. If entries are made to Per Tax Return column of the Schedule M-3 section of Consolidated Eliminations and Adjustments worksheet and no offsetting are made to the Income and Deductions section of the Eliminations and Adjustments worksheet, the taxable income per Form 1120, page 1, line 28 may not tie to the taxable income per Schedule M-3, Part II, line 30 column (d).

Automatic Consolidated Adjustments

We will make various automatic adjustments to Schedule M-3 to reflect the recalculation of consolidated net income. Items such as disallowance of net capital losses, contribution deduction carryovers, utilization of capital loss carryovers, disallowed passive loss deductions, and limitation of contribution deductions may change at the consolidated level. You may suppress these automatic postings by making an entry in the field entitled "Suppress automatic Schedule M-3 adjustments" on the Options worksheet under the Consolidated category.

Division and Disregarded Entity Processing

Division and Disregarded Entity (DRE) processing gives the user the versatility and flexibility of preparing the return as if it is a consolidated entity but will be filing as a single non-consolidated 1120 entity.

Divisions and Disregarded Entities for federal tax purposes are processed in the same manner and the following instructions apply to both. The terms Division and Disregarded Entities (DRE) may be used interchangeably. Before describing how to setup a Division/DRE return a brief description of the output is in order.

Division/DRE Output

A Division/DRE return is basically processed similar to a regular consolidated return. However, when you have flagged a consolidated return as a Division or DRE we will not print any Consolidated or Combined Columnar Supporting Schedules. These forms will be prepared and highlighted in the menus and trees for your review but will not be printed or filed electronically. We will also prepare any Form 1120, 4626, and Schedule M-3 supporting statements as if the corporation was filing as a single regular corporation. Statement references will be provided on Form 1120 and Schedule M-3. Items sharing the same description between member entities will be combined into one line. Separate entity level Schedule M-3's will not be produced, however, existing columnar and consolidated Schedule M-3 worksheets will be produced but not printed. Schedule M-3 will be completed as if the corporation is filing as a single regular corporation. Form 851 will not be produced. Eliminations/Adjustments may be made as if a consolidated entity is present.

You have two presentation options for the federal regular NOL, AMT NOL, regular charitable contributions, AMT Charitable contributions, and capital loss carryover statements. The first, our default, is to present these statements as if a single corporation was being processed. No break down of the separate members will be given. The statements will appears as if a regular corporation return is being produced. Your second option, is to produce our regular consolidated carryover statements which will list any division/DRE separately which has carryover data. To select this option, make an entry in the field entitled " Divisions/DRE Only - Carryover Statement Option" on the Consolidated Options Worksheet.

**Caution**: Federal carryover data should NOT be entered at the consolidated level. Only state carryover data is allowed at the consolidated level.

A state combined or consolidated return will never be produced when you have identified a consolidated return as a Division/ DRE. Instead a regular single entity state return will be produced. State data may be entered at the separate entity level to produce a state return, but it will not be accumulated to the consolidated level for any state. This applies to apportionment and any carryover entries.

**Note**: When processing a Division or DRE consolidated return, state carryover and apportionment information and all other state input MUST be entered at the consolidated level if you wish to produce a state with the consolidated Division/DRE return.

**Caution**: State carryover data and apportionment/allocation data is NOT accumulated from the separate members returns when processing a consolidated division. Only federal carryover data will be accumulated.

Division/DRE Setup

1. For any separate entity that is to be processed as a Division/DRE a the "Division/Disregard Entity" code should be entered on the field entitled "Code for Consolidated Return" on The Basic Data/General worksheet in the Consolidated Return Information section. This entry is in addition to checking the field entitled "Return May Be Included in a Consolidated Return" located immediately after the "Code for Consolidated Return" field. If a separate division does not have a valid federal EIN number you may enter all '9's" for it , or enter the federal EIN that will be used on the consolidated division's return.
2. This step is optional. It is required if you wish to include a regular corporation as the parent of the consolidated division. This company will be listed as company 2 on the consolidated Division's/DRE's Consolidated Membership Information worksheet. created in step 3 below. This separate company should also have the "Division/Disregard Entity" code entered in the field entitled "Code for Consolidated Return" on The Basic Data/General worksheet in the Consolidated Return Information section. This entry is in addition to checking the field entitled "Return May Be Included in a Consolidated Return" located immediately after the "Code for Consolidated Return" field.
3. This step creates the consolidated Division/DRE tax return. Create a new unit and enter the code for "Division/Disregard Entity" in the field entitled "Code for Consolidated Return" on The Basic Data/General worksheet in the Consolidated Return Information section. If this consolidated Division/DRE is to be included in a regular consolidated return be sure and check the field entitled "Return May Be Included in a Consolidated Return" located immediately after the "Code for Consolidated Return" field. If you are including a corporation as the parent of the consolidated division (you performed step 2 above) lists this corporation's name, FEIN, and client ID as company 2 on this unit's Consolidated Membership Information worksheet.. This is the company from step 2 above. This same name and EIN should also be entered for company 1. Otherwise, list any Division/DRE as company 2 that was created in step 1 above. For the remaining companies 3 and beyond enter the client id's from the Divisions/DREs created in step 1 above.

**Note**: The consolidated Division/DRE created in step 3 above should have a valid FEIN number entered.

1. The consolidated Division/DRE created in step 3 above may also be included in a consolidated return. To do so create a new return. Do NOT enter the "Division/Disregarded Entity" code on this unit's The Basic Data/General worksheet in the Consolidated Return Information section. On this new return's Consolidated Membership Information worksheet. list the sub-consolidated Division/DRE created in step 3 above. Multiple sub-consolidated Division/DRE returns may be listed.

**Caution**: A single entity Divisions/DREs must first be sub-consolidated with their reporting entity and/or other Divisions/DREs before including them in a regular consolidated return. If any single non-consolidated Division/DRE is listed on a consolidated return's Consolidated Membership Information worksheet., this consolidated return must also have the "Division/Disregard Entity" code entered in the field entitled "Code for Consolidated Return" on its Basic Data/General worksheet..

**Note**: A consolidated Division/DRE (a consolidated return which has a "Division/Disregard Entity" entered in the field entitled "Code for Consolidated Return" on its Basic Data/General worksheet.) which is also included as a member of a another consolidated return will always be shown as one entity on Form 851 and any supporting schedules of its parent's consolidated return.

**Caution**: Federal carryover data for NOL, charitable contributions, capital loss carryover, section 1231 loss, and credits should ONLY be entered with each member. It should never be entered at the consolidated level. Each division having carryover data will be shown separately on the Consolidated Pro Forma worksheets, similar to the processing of a regular consolidated non-divisional/DRE return.

**Caution**: State carryover data for NOL, charitable contributions, capital loss carryover, section 1231 loss, and credits should ONLY be entered at the consolidated division level. If entered at the separate entity level they will not be accumulated to the consolidated entity level. Whether entering federal or state carryover data the F/S indicator and State code should always be completed. At the consolidated division level, state proforma information will not appear on the Consolidated Pro Forma worksheets. State Pro Forma is not tracked on a separate member basis for a consolidated division/DRE return. Instead the division/DRE is treated as a single entity and its proforma data will appear on the "Carryover for NOL, Contribution, Capital Loss, Section 1231 Loss, and Credits" information sheet under the Carryover folder in government view.

Mixed Groups

Mixed Group processing is allowed when the parent of the Mixed Group files on Form 1120, 1120-PC or an 1120-L. Only two client IDs are allowed to be entered in the Membership Information section of the Consolidated worksheet. The IRS only allows electronic filing of a mixed group when the parent files on Form 1120.

The following summarizes the steps in constructing a Non-Life Mixed Group.

1. If multiple members file on Form 1120, first complete an 1120 sub-consolidated return. Only 1120 returns may be members. On this 1120 sub-consolidated return, enter the Mixed Group Member code "1120 Member" in the field entitled "Mixed Group Member" on the Basic Data Worksheet under Consolidated Return Information. Only make this entry for the sub-consolidated return. Do NOT make it for each member company. Just as for any return to be included in a consolidated return, the field entitled "Return May be Included in a Consolidated Return" should also be checked.
2. If only a single 1120 return is to be included in the non-life Mixed Group return there is no need for a sub-consolidation. Complete the single 1120 return and enter the Mixed Group Member code "1120 Member" in the field entitled "Mixed Group Member" on its Basic Data Worksheet. Just as for any return to be included in a consolidated return, the field entitled "Return May be Included in a Consolidated Return" should also be checked.
3. If multiple members file on Form 1120-PC, first complete an 1120-PC sub-consolidated return. Only 1120-PC returns may be members. On this 1120-PC sub-consolidated return, enter the Mixed Group Member code "1120-PC Member" in the field entitled "Mixed Group Member" on its Basic Data Worksheet. Do NOT make this entry for each member company. Just as for any return to be included in a consolidated return, the field entitled "Return May be Included in a Consolidated Return" should also be checked.
4. If only a single 1120-PC return is to be included in the non-life Mixed Group return there is no need for a sub-consolidation. Complete the 1120-PC return and enter the Mixed Group Member code "1120-PC" Member in the field entitled "Mixed Group Member" on the Basic Data Worksheet. Just as for any return to be included in a consolidated return, the field entitled "Return May be Included in a Consolidated Return" should also be checked.
5. Create a brand new consolidated unit. This will become your Non-Life Mixed Group return. On Membership Information section of the Consolidated Worksheet list the client ID of two of the returns created in steps 2 through 4 above. Only two client ID's should listed on Membership Information section of the Consolidated Worksheet. Company 2 is always assumed to be the parent. No other 1120, or 1120-PC returns may be listed as consolidated members. Multiple same type returns must first be sub-consolidated. In the Mixed Group Code column adjacent to client ID field, enter the appropriate code to identify the type of consolidated member as a sub-consolidation or a single corporation. For a Non-Life Mixed Group return only codes C, CG, P, and PG are allowed. Codes NG, L , and LG should NOT be used.
6. On Options section of the Consolidated worksheet select option 3 ('Subtotal Method - Show All Lower Tier Subsidiaries on Form 851") in the field entitled "List all lower tier members separately on upper tier return."

The following summarizes the steps in constructing a Life\Non-Life Mixed Group.

If a Life/Non-Life return consists of 1120 and 1120-PC members these must first be sub-consolidated. Complete steps 1 through 6 above for a Non-Life Mixed Group Return. Then do the following:

1. If multiple members file on Form 1120-L, first complete an 1120-L sub-consolidated return. Only 1120-L returns may be members. On this 1120-L sub-consolidated return, enter the Mixed Group Member code "1120-L Member" in the field entitled "Mixed Group Member" on its Basic Data Worksheet. Do NOT make this entry for each member company. Just as for any return to be included in a consolidated return, the field entitled "Return May be Included in a Consolidated Return" should also be checked.
2. If only a single 1120-L return is to be included in the life/non-life Mixed Group return there is no need for a sub-consolidation. Complete the 1120-L return and enter the Mixed Group Member code "1120-L Member" in the field entitled "Mixed Group Member" on the Basic Data Worksheet. Just as for any return to be included in a consolidated return, the field entitled "Return May be Included in a Consolidated Return" should also be checked.
3. Create a brand new consolidated unit. This will become your Life/Non-Life Mixed Group return. On Membership Information section of the Consolidated Worksheet list the client ID of the Non-Life sub-consolidated return created in step 5 above, or the 1120/1120-PC single return from step 2 or 4, respectively, or the 1120-L return created in step 7 or 8 above as company 2 or company 3. Company 2 is always assumed to be the parent. No other 1120, 1120-L, or 1120-PC returns may be listed as consolidated members. Multiple same type returns must first be sub-consolidated. In the Mixed Group Code column adjacent to client ID field, enter the appropriate code to identify the type of consolidated member as a sub-consolidation or a single corporation. For example, if company 2 is a Non-Life Mixed Group enter code NG. If it is a single 1120-L corporation enter code L. This Mixed Group Consolidated return may NOT be included in any other consolidated returns.
4. On Options section of the Consolidated worksheet select option 3 ('Subtotal Method - Show All Lower Tier Subsidiaries on Form 851") in the field entitled "List all lower tier members separately on upper tier return."

Mixed Group Processing Information

**Non-Life Mixed Group**: We compute a Non-Life return using the single entity approach used in computing a regular consolidated return. Depending on the parent, we will complete Form 1120 or 1120-PC in their entirety. For example, we will complete lines 1 through 30 of Form 1120 instead of leaving them blank. Eliminations and adjustments to Form 1120 or 1120-PC, may be made by using the Consolidated Eliminations and Adjustment worksheet.

**Caution**: The Elimination Company Method may NOT be used for Mixed Groups

**Life/Non-Life Mixed Group**: Special consolidation rules apply since members are not treated as one entity in determining taxable income, instead a subgroup method of consolidation applies. The Life subgroup and Non-Life subgroup compute their taxable income separately including net operating loss and capital loss. Income and deductions are not intermingled as in a regular or a non-life consolidated return. Any preparer Elimination and Adjustment entries are ignored on Life/Non-Life return. If a subgroup has an operating loss or capital loss it must first be carried back against that subgroup's prior year taxable income before offsetting the other subgroup's loss.

We will automatically compute Life/Non-Life taxable income by doing the following:

1. Offset Non-Life capital loss against Life capital gain
2. Offset Life capital loss against Non-Life capital gain
3. Offset Non-Life net operating loss against Life operating income (limited to the lesser of 35% of the Non-Life loss or 35% of Life income)
4. Offset Life net operating loss against Non-Life operating income (note: the 35% limit in 3 above does not apply for a Life operating loss)
5. AMT calculation of Life/Non-life income. Same as steps 1 through 4 above using AMT amounts.

Per IRS e-filing instructions for a Mixed Group return, we will NOT complete lines 1 through 29 of Form 1120 for Life/Non-Life Mixed Group. We will also suppress any supporting forms, such as the 1120(page 2), 4562, 4797, Schedule D etc... We also suppress lines 1 through 6 of Form 4626. In lieu of completing these lines we provide statements, one for Form 1120, page 1 and another for Form 4626 detailing the calculations in steps 1 through 5 above.

The IRS does not allow e-filing of a life/non-life return when the parent files on Form 1120-PC or on Form 1120-L. Similar to our treatment to the parent filing on Form 1120, when the parent files on Form 1120-PC, we will leave lines 1 through 36 on "Schedule A - Taxable Income Section 832" and all supporting schedules for Schedule A blank. For Form 1120-L we will leave lines 1 through 26 blank of Form 1120-L, page 1, and all of its supporting schedules and forms.

You may override the Non-Life portion of Life/Non-Life operating income/loss on the Life/Non-Life Mixed Group section of the Consolidated Mixed Group worksheet in the Non-Life column of the field entitled "Taxable income before additional capital loss and net operating loss offsets from other subgroup - override." This input sheet should also be used to enter any subgroup capital loss or NOLs carried back against prior subgroup income. Also, various components of our Life/Non-Life taxable income calculation may be overridden using this input sheet.

We will produce a balance sheet for the Life/Non-Life Mixed Group based on Schedule L of Form 1120 or 1120-PC. Your 1120-L subgroup balance sheet entries on the 1120-L Total Assets and Insurance Liabilities worksheet are NOT automatically converted to an 1120/1120-PC balance sheet. This requires input on your part for the 1120-L members at the separate company level on the Schedule L worksheet to complete the balance sheet as if the corporation was an 1120/1120-PC return. If these entries are not made your Life/Non-Life Mixed Group may be out of balance by your 1120-L subgroup assets.

When the parent of the Life/Non-Life mixed group files on Form 1120-L, we will carry your balance sheet asset entries for any 1120 members made on the Schedule L worksheet to Form 1120-L, Schedule L, Other Assets when completing the balance sheet for the 1120-L Life/Non-Life mixed group return. Liability entries on the Schedule L worksheet are not carried. You may override this treatment by making entries on the 1120-L Total Assets and Insurance Liabilities worksheet on the Form 1120 members return. These entries will not affect the separate 1120 or 1120 consolidated return, but will be carried up to the 1120-L Life/Non-Life mixed group return.

**Note**: An 1120-L return does not require Schedule M-1. If you wish to show Schedule M-1, instead of Schedule M-3, for the Life/Non-Life Mixed Group when Form 1120 or 1120-PC are the parent you will need to complete Schedule M-1 for the 1120-L members at the separate company level and at the 1120-L subgroup level. Do this by making entries on the regular C corporation and consolidated the Schedule M-1 and Consolidated Eliminations and Adjustments Schedule M-1 worksheets. For an electronically filed return Schedule M-3 is required.

If you wish to produce a blank Form 1120, page 5, or 1120-PC, page 8. 1120-L, page 7, for the Life/Non-Life Mixed Group you make check the option "Print blank balance sheet onthe Consolidated Life/Non-Life Mixed Group worksheet. Once this blank form is produced you may use government view overrides. If this option is used and the parent is filing on Form 1120, care should be taken to insure that the total assets reported on Form 1120, page 1, is correct.

Schedule M-3

The Mixed Group's consolidated Schedule M-3, Part II, lines 1 through 28 are left blank and Schedule M-3, Part III is NOT produced per IRS instructions.

Also per IRS instructions, the consolidated eliminations and adjustments copy for Schedule M-3 is optional for a Mixed Group. We will produce an eliminations and adjustment version of Schedule M-3. However, since the IRS instructions state to leave lines 1 through 28 blank for Part II, and to NOT produce a Part III for Schedule M-3, eliminations and adjustments are limited to Lines 29a, 29b, and 29c of Part II of the Schedule M-3. These three lines represent the Schedule M-3 reconciliation totals for Form 1120, 1120-L, and 1120-PC, respectively. You may adjust the 1120-PC and 1120-L Reconciliation Totals on the Mixed Group's Schedule M-3 by using the Schedule M-3, Part II, Income/Loss Adjustments section of the Consolidated worksheet. The Form 1120 Reconciliation Totals on the Mixed Group's Schedule M-3 may be adjusted by using the Schedule M-3 1120-PC Adjustments section of the Consolidated worksheet. You may also override these fields by using the Income(Loss) Items section of the Schedule M-3 worksheet and/or Schedule M-3 Insurance Company Items section of the 1120-PC or 1120-L worksheet, respectively.

No other adjusting entries to Schedule M-3, other than these three Reconciliation Totals adjustments described above, are applicable to the consolidated Mixed Group's Schedule M-3.

**Note**: Since only the sub-consolidated groups income are reported on the Mixed Group's Schedule M-3, detailed consolidated and combined schedules supporting lines 1 through 28 of Schedule M-3, Part II and for Schedule M-3, Part III are not produced for the consolidated Mixed Group return. We do, however, produce the sub-consolidated copy, the sub-consolidated eliminations and adjustments copy, and the separate company versions for each company in a sub-consolidate group at the Mixed Group level. To view these on screen at the Mixed Group level, open the "Mixed Group" consolidated menu/tree folder. If you wish to view all of the different types ( Form 1120, 1120-PC, and 1120-L) of the Schedule M-3's together we suggest using the Print Preview feature. In the print preview file, they follow immediately after the Combined Adjusted Current Earnings support statement of the federal consolidated return.

Mixed Group Tiered Consolidated Processing

**Note**: The Show-All method of processing a tiered consolidated return is not allowed at the Mixed Group level. This is due to the IRS requirement of having to accumulate the sub-consolidated version of each member's group Schedule M-3. Since by definition, the Show-All method excludes this sub-consolidated copy of all consolidated schedules and amounts it is not appropriate for Mixed Group processing.

**Caution**: The Show-All method, however, is allowable for a sub-consolidated member of a Mixed Group return when the sub-consolidated member is also a tiered consolidated return i.e. ., a member listed on the sub-consolidated return is also a consolidated return. In this case, use of the Show-All method should be selected on the sub-consolidated return. Use of the Show-All method at the sub-consolidated level is recommended for proper separate company Schedule M-3 presentation at the Mixed Group level.

For a more detailed discussion on Tiered Consolidated Processing Options see the field entitled "List All Lower Tier Members Separately on Upper Tier Return" in the Options section on the Consolidated Options worksheet.

Form 8916

Form 8916 is used to reconcile the Mixed Group's taxable income per Schedule M-3 to its taxable income reported on its tax return. Entries to Form 8916 are made on the Form 8916 - Mixed Group Schedule M-3 Income Reconciliation section of the consolidated Federal Overrides worksheet.

We will automatically carry taxable income per the Mixed Group's Schedule M-3, line 30, column D to line 1 of Form 8916.

For a Non-Life Mixed Group we will also make the following automatic adjustments to Form 8916:

* Non-Life Capital Loss Limitation
* Non-Life Charitable Deduction Limitation
* Non-Life Net Operating Loss Deduction
* Non-Life Dividend Received Deduction
* Non-Life Capital Loss Carryforward Used
* Non-Life Charitable Deduction Carryforward Used

All other automatic adjustments not mentioned above, which are made to taxable income in a regular consolidated return, will be posted to the "Other Adjustments to Reconcile to Taxable Income on Tax Return" line of Form 8916 for a Non-Life Mixed Group.

For a Life/Non-Life Mixed we make the following additional automatic adjustments:

* Life/Non-Life Loss Limitation Amount
* Limitation on Non-Insurance Losses
* Amount Subtracted from Policyholders Surplus Account
* Life Capital Loss limitation
* Life Charitable deduction Limitation
* Life Net Operating Loss Deduction
* Life Dividends Received Deduction
* Life Capital Loss Carryfoward Used
* Life Charitable Deduction Carryforward Used
* Additional Subgroup capital loss allowed to offset other subgroup capital gain

In a Life/Non-Life Mixed Group we will also post to the "Other Adjustments to Reconcile to Taxable Income on Tax Return" line of Form 8916, the Additional Subgroup Capital Loss Allowed to Offset Other Subgroup Capital Gain.

You may suppress all system generated automatic adjustments to Form 8916 by checking BOTH the "Suppress Automatic Consolidated Recalculations" AND the "Suppress Automatic Schedule M-3 Adjustments" fields. These fields are found on Options section of the Consolidated worksheet. Use of these options will not suppress the carrying of taxable income per Schedule M-3 to line 1 of Form 8916. If you wish to use a different amount for this line it must be overridden on the Form 8916 - Mixed Group Schedule M-3 Income Reconciliation section of the consolidated Federal Overrides worksheet.

**Note**: The taxable income appearing on the Mixed Group's Schedule M-3, Part II, lines 29a, 29b, or 29c for a sub-consolidated group or single company member can, in certain situations, not tie directly to taxable income appearing on the actual sub-consolidated's Schedule M-3. This will occur when a Mixed Group member has an amount on its Schedule M-3, Part II, line for "Capital Loss Limitation and Carryforward Used" and/or on its Schedule M-3, Part III line for "Charitable Contribution Limitation/Carryforward."**This is due to the IRS instructions for the Mixed Group Schedule M-3**. Capital loss limitation/carryforward and charitable deduction limitation and carryforward used are not taken into account in computing the three subgroup sub-consolidated taxable incomes which are carried to Schedule M-3, Part II, Lines 29a, 29b, and 29c, instead they are shown on Form 8916.

Eliminations and Adjustments

Eliminations and adjustments are performed based on your manual entries and on system generated adjustments.

You may make manual eliminations to income and deductions, the balance sheet, and Schedules M-1 and M-2 by using either the Journal Entry Method, the Direct Entry Method, or the Elimination Company Method. These three methods are mutually exclusive and should not be used together.

**Caution**: These three methods are mutually exclusive and should not be used together.

For the Journal Entry and Direct Entry Methods eliminations to Alternative Minimum tax and Adjusted Current Earnings are made by using the Alternative Minimum Tax > Adjustment, Preferences and Other Items Worksheet within the consolidated return. For example, if you wish to adjust depreciation of post 1986 property on Form 4626, an entry on this worksheet in the field entitled “Depreciation of post-1986 property – adds to automatic calculation” would be made.

To adjust Schedule M-3, for both the Direct Entry and Journal Entry Method, the Consolidated Elimination and Adjustment > Schedule M-3 > Part II, Part III, and Form 8916-A Worksheets would be used. For the Elimination Company Method your entries made on the elimination company's return will be accumulated up to the consolidated level and will be shown in the elimination column of the Consolidated Alternative Minimum Tax workpaper.

We make no assumptions to the applicability of any Schedule M-1 entries to Schedule M-3. However, if Schedule M-3 is present we will automatically transfer timing differences from Schedule M-3 to Schedule M-1 unless a code "D" is entered on the field entitled "Carry book/tax differences to Schedule M-1 Code" . This is done regardless of whether Schedule M-1 is produced in the federal return. This is done to enable completion of Schedule M-1 for state purposes.

With the Direct Entry Method a positive amount entered on the Consolidated Elimination and Adjustment Worksheets (1 through 7) for Income and Deductions, Cost of Goods Sold, Dividends, Assets, Liabilities and Stockholder’s Equity, Schedule M-1, and Schedule M-2 will increase any account listed on these forms, while a negative entry will decrease any account.

When using the Journal Entry Method, adjustments and eliminations are entered in a debit and credit format on the Consolidated Journal Entry Method Worksheet. On these worksheets an account code is entered indicating which account you wish to adjust. Each account is defined as a debit or credit balance. If you wish to increase an account defined as a credit, an entry would be made in the credit column, a decrease to the account would be entered in the debit column. The reverse is true of an account defined as a debit.

To use the Elimination Company Method a separate regular company non-consolidated return is created. Data for this newly created elimination company may be entered as you would for a regular corporate return in regards to Income and Deductions, Balance Sheets, Schedule M-1, M-2, and M-3. An entry should be made in the field entitled "Include in a Consolidated Return" and an entry indicating this is an "Elimination Company"( or if a division is being processed, an "Eliminating Division") should be made in the "Code for Consolidated Return" field on the Basic Data Worksheet. The "Elimination Company" is processed just like a regular separate company return and its totals are accumulated to the consolidated workpapers and are shown separately in the elimination column.

To utilize the elimination company method on a consolidated return, enter the client id of your designated elimination company created above in the "Elimination Company Clients ID" field on the Consolidated > Options worksheet. A consolidated return may not be an elimination company.

In a comparison of the three Direct Entry and Journal Entry Methods methods the Direct Entry Method is the simpler of the two methods to use. Whether the account is defined as a debit or credit does not matter. If you wish to increase any account a positive number would be entered, to decrease an account a negative amount would be entered. The Journal Entry Method, however, will produce a more detailed audit trail. In addition to a printed listing of all preparer and system generated journal entries, a statement for each adjustment will print after the account's respective consolidated statement. When using the Direct Entry Method a listing of the automatic system generated entries may be obtained by entering a '2' in the field entitled “Options for eliminations and adjustments methods” on the Consolidated Options Worksheet. . A listing of the preparer generated journal entries will NOT be produced. Any entries on the Consolidated Direct Entry worksheets or interview forms will cause the system to use the Direct Entry Method even if entries are also present on the Consolidated Journal Entry Method Worksheets. You may, however, force the Journal Entry Method by entering a '3' in field entitled “Options for eliminations and adjustments methods” on the Consolidated Options Worksheet. Regardless of either of these two methods selected, the method selected ScSchedule M-3 must always be adjusted using the Eliminations and Adjustments worksheets for Schedule M-3. The Journal Entry Method is not applicable for 1120-PC and 1120-L returns. Any manual entries made by you using either of these two methods will be shown in the eliminations column of the consolidated workpapers and never in the Adjustment column. The Adjustment column is reserved for automatic system recalculations.

The Elimination Company Method will be used whenever an entry is made in the "Elimination company's client ID field on the Consolidated > Options workpaperregardless of any entries in the “Options for eliminations and adjustments methods” field on the Consolidated Options Worksheet.

An elimination company will never be shown on the consolidated Form 851 and will never have a separate company Schedule M-3 produced for it at the consolidated level.

On the consolidated workpapers the first four columns are entitled “Consolidated Amounts”, “Adjustments”, “Eliminations” and “Combined Amounts.” The “Adjustment” column of the consolidated workpaper is reserved for automatic system adjustments, such as recalculation of charitable contributions, utilization of capital loss carryover, reapplication of mid-quarter convention on a consolidated basis and other tax adjustments that are applied on a consolidated basis. Manual preparer input will never be shown in this column. Your entries from the separate elimination company are shown in the elimination column and are added into the consolidated totals column. The elimination company amounts are not shown as a member company and its amounts are not reflected in the combined amount column. We will, however, show the elimination company in the consolidated open line supporting statements for items such other income, other assets etc… The corporate name you enter for the elimination company on its Basic Data worksheet will appear in these statements. With this in mind, when naming the elimination company we suggest a name to reflect its purposes, such as “Elimination Company” or “Eliminations.” For a more robust discussion of the Elimination Company method please navigate to the "Elimination Company's Client ID" field on the Consolidated > Options workpaper and view this field's help.

**Note**: After the return is processed you may easily reclassify an elimination or adjustment by utilizing government view overrides. To do so navigate to the consolidated workpapers and reclassify the adjustment or eliminations amounts you wish to using government view overrides. It is important to note your overrides will not affect the consolidated or the combined amounts or the taxable income of the return. Your entries are for reclassification presentation only. If you use this government view reclassification feature please be sure your entries cross foot.

**Caution**: Elimination company method is not supported for 1120-L, 1120PC, 1120-C, Mixed Groups, and 1120-REIT or a consolidated return containing Form 8810 – Corporate Passive Activity Loss and Credit Limitations.

In addition to adjustments submitted by you, the system will perform automatic recalculations and adjust the appropriate consolidated statements. You may suppress these automatic adjustments by making an entry in the field entitled "Suppress Automatic Consolidated Recalculations" in the Options worksheet under the Consolidated category.This entry will suppress all automatic consolidated recalculations except for charitable contributions and net operating loss. To suppress these, additional entries in the Options worksheet in the fields entitled "Suppress automatic charitable contributions and AMT charitable contributions adjustment", and "Suppress automatic NOL and AMT NOL adjustment", respectively, are required.

The following is a description of the automatic recalculations performed by the system.

Contributions

Allowable contributions are recomputed on a consolidated basis and any differences between combined contributions and the allowable consolidated contributions is carried to Schedule M-1/M-3. An override for the calculated Schedule M-1 adjustment can be entered on the Federal Overrides worksheet under the Consolidated category.

Section 1231 Gains and Losses

All items included on Form 4797 are combined from the separate companies, Section 1231 gains and losses are recomputed and any adjustments are carried to Schedule M-1 and Schedule M-3, if applicable. An adjustment is also made to the combined net income per books for the difference between separate company combined book gain (loss) and the consolidated book gain (loss) entered on the Federal Overrides worksheet under the Consolidated category.

Schedule D, Capital Gains and Losses

The System combines all Schedule D items from the separate companies plus recomputed amounts from Forms 4797, 4684, 6252 and 6781. Capital losses are limited by net capital gain and by separate return loss year calculations.

For example:

* Company A has a capital gain of $5,000.
* Company B has a SRLY capital loss carryover of $1,500 and a capital gain of $1,200.
* Company C has a capital loss of $4,000.
* The combined amounts are capital gain of $6,200 and capital loss of $5,500.

Without SRLY limitations the capital loss could be utilized in full. Since Company B's capital loss carryover is from a separate return loss year, it is only allowed to the extent of Company B's capital gain. Thus, a $300 adjustment to the combined capital loss carryover is made.

The automatic calculation can be overridden on the Federal Overrides worksheet under the Consolidated category in the "Capital gain net income - override" field. Enter SRLY information on each separate company's Gains and Losses worksheet under the Business category.

Dividends

The System automatically eliminates 100% of the dividends received from affiliated companies and wholly owned foreign subsidiaries on Form 1120, Schedule C and adjusts Schedule M-1 and Schedule M-3, if applicable, by the same amount. Other dividends on Schedule C are combined. The computed special deduction amount can be overridden on the Federal Overrides worksheet under the Consolidated category in the field entitled "Special deductions - override."

Net Operating Loss Deduction

Net operating loss carryovers from the separate companies are combined and limited by separate return loss year calculations.

For example:

* Company A has taxable income of $10,000.
* Company B has a SRLY net operating loss carryover of $6,000 but also has taxable income before NOL carryforward of $3,500.

Without SRLY limitations the net operating loss would be allowed in full. However, Company B's net operating loss carryover is only allowed to the extent of its own taxable income. Thus, the consolidated return would report an NOL deduction of $3,500.

The automatic calculation can be overridden on the "Net operating loss deduction - override" field on the Federal Overrides worksheet under the Consolidated category. Enter SRLY information with each separate company's carryover data.

Depreciation

Depreciation is automatically recomputed for regular, alternative minimum tax and adjusted current earnings purposes, including consideration of consolidated Section 179 limitations and mid-quarter conventions, and carries any adjustments to Schedule M-1 and Schedule M-3, if applicable.

Federal Tax Liability Option

When using the federal tax liability option at the consolidated level, we recommend processing all subsidiaries with the same federal tax liability option selected with the consolidated return or with no option. When option 1 (to adjust balance sheet and post tax to Schedule M-1/M-3) is selected, we will always net the current prepaid federal income tax with the current federal tax liability on the consolidated ending balance sheet. For example, if the prepaid federal tax is $1,000, and there also exists an accrued federal tax liability of $600, the consolidated return's ending balance sheet will reflect a prepaid asset of $400, while the accrued federal tax liability will be 0.

When option 2 (post both tax and the book/tax difference to Schedule M-1/M-3) is selected, we will not net the balance sheet's prepaid federal tax and accrued federal tax liability, however, we will net the Schedule M-1/M-3 accounts attributable to federal income tax not deducted on the return with the federal tax not deducted on the books. This netting will take place even if the consolidated federal income tax per line 2 of Schedule M-1(or line 1 of Schedule M-3, Part III) is equal to the federal income tax accumulated from the separate company returns.

When using option 1 with the consolidated return, an automatic journal entry will occur to net book income on Schedule M-1(or Line 1 of Schedule M-3, Part III). This adjustment will be equal to the difference between the combined federal income tax reported on line 2 of Schedule M-1(or line 1 of Schedule M-3, Part III) and the consolidated federal income tax reported on the same line of Schedule M-1/M-3. If you do not wish to have net book income adjusted, we suggest using federal tax liability option 2 or enter your own manual adjustments.

When electing federal tax liability option 1 we suggest using caution when electing the consolidated option NOT to post ending unappropriated retained earnings per Schedule M-2 to the Schedule L balance sheet. Use of these two options together may result in an unbalanced ending balance sheet. In this situation, you will be out of balance by the difference between the combined federal income tax reported on line 2 of Schedule M-1(or line 1 of Schedule M-3, Part III, line 1) and the consolidated federal income tax reported on the same line of Schedule M-1/M-3.

Use of the option to "Suppress automatic consolidated recalculations" will not suppress the automatic journal entries created by the federal tax liability option. This can only be done by NOT making any entries in the federal tax liability option field.

Any entries in the Federal Overrides worksheet under the Consolidated category for the Schedule M-1 overrides for federal income tax per books, deductions on return not on books, or deductions on books not on return will cause the federal tax liability option to be ignored.

State and City Tax Accrual Option

When the State and City Tax Accrual Option (STLO) option is selected at the consolidated level the default treatment is to only accrue the state taxes from those states that are also submitted with the consolidated return. If the STLO option was selected at the separate company level along with a state that does not exist at the consolidated level, that's state's accrued tax for the separate company would be reversed out on the consolidated return. If you wish for the state taxes to NOT be reversed out in this scenario check the field entitled "Accrue state taxes not included with this return" on the Consolidated Options worksheet.

We recommend processing all subsidiaries with the same state/city tax accrual option selected with the consolidated return. When processing a tiered consolidated return using the subtotal method each lower tier must use same STLO option as the top tiered return.

When using state/city tax accrual option 1 or 3, no automatic adjustment for book/tax differences will be made to Schedule M-1 or Schedule M-3. In effect you are telling us the amount deducted for state/city taxes is the same for book and tax purposes. Thus, any automatic adjustment made to state/city taxes deducted on Form 1120, page 1 must also be made in an equal amount to book income per Schedule M-1, or to Schedule M-3 to keep your return in balance. When Schedule M-1 is produced and option 1 or 3 is selected this adjustment will automatically be made to Schedule M-1, line 1, Net Income per Books. On Schedule M-3 this adjustment will be made to "State and Local Current Income Tax Expense", Part III, Line 3, Column A (Expenses per Income Statement) and to Column D (Expenses per Tax Return). This adjustment is in addition to the adjustment made to Schedule L, Other Current Assets or Other Current Liabilities.

When using state/city tax accrual option 2 or 4 an automatic adjustment for book/tax differences will be made to Schedule M-1 or Schedule M-3. When Schedule M-1 is produced this automatic adjustment will be made to Schedule M-1, line 5 (Expenses recorded on book and not deducted on this return) or to Schedule M-1, line 8 (Deductions on this return and not charged against book income). On Schedule M-3 this adjustment will be made to "State and Local Current Income Tax Expense", Part III, Line 3, Column B (Temporary Difference) and to Column D (Expenses per Tax Return). No automatic adjustment will be made to Schedule L, Other Current Assets or Other Current Liabilities.

Schedule M-1 processing: When the first option is selected with the consolidated return, we will always net the current prepaid state/city income tax with the current state/city tax liability on the consolidated ending balance sheet. For example, if prepaid state tax is $1,000, and there also exists an accrued state tax liability of $600, the consolidated return's ending balance sheet will reflect a prepaid asset of $400 and the accrued state tax liability will be 0. When the second option is selected, we will not net the balance sheet's prepaid state/city tax and accrued state/city tax liability, however, we will net the Schedule M-1 accounts attributable to state/city income tax not deducted on the return with the state/city tax not deducted on the books.

Franchise Tax: We will compute franchise tax on a consolidated basis. If you wish to accrue the franchise tax calculated for each separate company a manual adjustment on your part would be required. States which may be affected by this are Mississippi, Georgia, and South Carolina.

State Consolidated Returns - General Information

We currently produced a consolidated/combined return for Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Massachusetts, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New Mexico, New York, North Dakota, Ohio, Oklahoma, Oregon, Rhode Island, South Carolina, Utah, Vermont, Virginia, Washington D.C., West Virginia, and Wisconsin.

Unitary Group returns are also produced for Michigan and Texas. These returns, however, should never be submitted with a federal consolidated return.

Massachusetts - If the membership of the Massachusetts Unitary group is not the same as the federal membership information then a new Massachusetts consolidated unit should be created. If a member of this new group is an S corporation then the membership should be listed on the Massachusetts Unitary Auto Feature Worksheet. If all members are C corporations they may be listed on the federal Consolidated Membership Information Worksheet.

For those states not listed above, a state consolidated tax return can be processed by submitting the state worksheets with the consolidating unit. The state consolidated tax return generated under this input scheme is also known as the state "generic" consolidated return because we process the return as if it is a regular corporation return, except we use federal consolidated taxable income as the starting point. For those states which do not start with federal taxable income, items of income and deduction also flow from the federal consolidated return as they would for a regular non-consolidated return.

For a "generic" state return we produce detailed supporting statements from your input on the state worksheets, the compensation of officers section, depreciation, and gains(losses) on sale of assets for those states which recognize FS entries. However, we do not produce detailed supporting statements for taxable income, balance sheet, Schedules M-1 and M-2, and state consolidated/combined statements showing company-by-company detail. Hence, you may want to attach a copy of the federal consolidated return as supporting documentation.

Apportionment and allocation information will not be accumulated for any "generic" state returns. This information must be re-entered with the consolidated return. However, for the consolidated/combined states of Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Massachusetts, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New Mexico, New York, North Dakota, Ohio, Oklahoma, Oregon, Rhode Island, South Carolina, Utah, Vermont, Virginia, Washington D.C., West Virginia, and Wisconsin we will accumulate apportionment and allocation data and bring them forward to the consolidated level. Re-entry of Apportionment and Allocation data for these states is not necessary. Please refer to these state's instruction guide for further information.

General Information entered on the State/City Common Data worksheet is NOT accumulated and must be re-entered with the consolidating unit..

State/City tax payments entered on the State Tax Payments and/or the City Tax Payments worksheet will accumulated for all states and cities. This is true even for "generic" returns. To suppress this accumulation you may make an entry on the field entitled "Options to suppress separate company tax payments" on the Consolidated Options worksheet. If you elect to suppress you may enter your state/city tax payments at the consolidated level.

State/City estimate and penalty information entered on the Penalties and the Estimates and Application of Overpayment worksheets are not accumulated from the separate companies and must be reentered with the consolidated unit.

For states other than those listed above, which require state unique forms and which adopt the unitary principles of combined taxation, the return should be reviewed closely to ensure its correctness and completeness.

County, city, and annual reports for an affiliated group may also be processed with this input scheme. The following states do not allow consolidated/combined reporting:

* Delaware
* Pennsylvania
* Texas
* Louisiana
* Maryland
* New Jersey

Do not submit any of the above states with the consolidating unit unless this input scheme is used to consolidate/combine divisions or cost centers.

The federal consolidated return controls the number of companies for the state generic return. If you are processing a multistate return and a state has different membership than another state, you may reflect this different membership by changing the list of member companies in the General Information worksheet of the Consolidated category and then reprocess the federal return. For example, if the federal return and the Alabama return have 6 member companies, list these companies and process the federal and Alabama returns together. If an Alaska return with only 3 member companies is also required, change the membership in the General Information worksheet of the Consolidated category to reflect this and process the Alaska and federal return without reprocessing the Alabama return. State consolidating eliminations/adjustments can be made with the other additions or subtractions fields on the state input forms.

The states of Idaho, Rhode Island, and Utah have a minimum tax based on the number of companies in the consolidated group. You may either input the number of companies in the consolidated group on the worksheets for those states or we will automatically default to the number of companies included with the federal return.

**Note**: The state "generic" consolidated programs do not read state input from the separate company returns. Submit state worksheets with those separate company returns ONLY if you want a state return at that level.

Please refer to the state consolidated reference for state specific information.