

Form CT-1120A-FS

Instructions

Purpose

Use **Form CT-1120A-FS, Corporation Business Tax Return Apportionment Computation of Income From Financial Service Company Activities**, if the company is a financial service company (as defined in Conn. Gen. Stat. §12-218b) whose business activity is taxable inside Connecticut, whether or not it is taxable outside Connecticut.

This form shall **not** apply to net income from services or activities described in:

- Conn. Gen. Stat. §12-218(f), services provided to a regulated investment company. Use **Form CT-1120A-IRIC**;
- Conn. Gen. Stat. §12-218(g), security brokerage services. Use **Form CT-1120A-SBC**; and
- Conn. Gen. Stat. §12-218(j), credit card activities. Use **Form CT-1120A-CCA**.

Such income shall be apportioned in accordance with subsection (f), (g), or (j). In the case of net income from credit card activities described in subsection (j) that is earned by a taxpayer, such income shall be apportioned in accordance with Conn. Gen. Stat. §12-218(b).

International banking facility: Any receipts attributable to an international banking facility shall not be included in the numerator or denominator of the receipts factor. In lieu of such exclusion of receipts attributable to an international banking facility, the taxpayer may, on or before the due date (or extended due date) of its corporation business tax return, make an election to exclude receipts attributable to an international banking facility from the numerator of its receipts factor and to include such receipts in the denominator of its receipts factor.

If the taxpayer makes the election, the taxpayer may not, in arriving at its net income, deduct the gross income attributable to the international banking facility from its gross income. Expenses or losses attributable to the international banking facility, to the extent deductible under the Internal Revenue Code, may be deducted from its gross income. The election shall be irrevocable for, and applicable for, five successive income years.

Definitions

Financial service company means:

- (a) Any corporation or other business entity registered under the laws of any state as a **bank holding company** or registered under the federal Bank Holding Company Act of 1956, as amended, or registered as a savings and loan holding company under the federal National Housing Act, as amended;
- (b) A **national bank** organized and existing as a national bank association pursuant to the National Bank Act, 12 USC §21 et seq.;
- (c) A **savings association or federal savings bank**, as defined in the Federal Deposit Insurance Act, 12 USC §1813(b)(1);
- (d) Any **bank, banking association, trust company, savings and loan association, or thrift institution** incorporated or organized under the laws of any state, or any other corporation or other business entity, the deposits or accounts of which are insured under the Federal Deposit Insurance Act or by the Federal Deposit Insurance Corporation;
- (e) Any corporation organized under the provisions of 12 USC §§611 to 631;

- (f) Any **foreign bank** that has an agency or branch, as defined in 12 USC §3101;
- (g) A **credit union** organized under the laws of any state, the loan assets of which exceed fifty million dollars as of the first day of its income year;
- (h) A **production credit association** organized under the federal Farm Credit Act of 1933, all of whose stock held by the Federal Production Credit Corporation has been retired;
- (i) Any company whose voting stock is more than fifty percent owned, directly or indirectly, by any person described in subparagraph (a) through (h) above, or by an insurance company, with exceptions for companies with more than fifty percent gross income from certain unrelated sources (manufacturing, construction, mining, transportation and public utilities, retail or wholesale trade, other than the retail or wholesale delivery of the services described in (j) below, or agriculture, forestry, and fishing); **and**
- (j) (1) Any company, other than an insurance company or a real estate broker, which derives fifty percent or more of its gross income from one or more of the following sources or activities:
 - Loans;
 - Letters of credit and acceptance of drafts;
 - Underwriting, purchase, placement, sale or brokerage of securities, commodities contracts, or other financial instruments or contracts on its own account or for the account of others;
 - Exchanges, exchange clearinghouses, and other services allied with the exchange of securities or commodities contracts;
 - Investment advisory or management services;
 - Investment banking services, corporate trust, and escrow services;
 - Securities information processing;
 - Securities and financial rating agency services;
 - Transfer agent, clearing agent, securities custodial and depository services;
 - Securities exchange or quotation services;
 - Services described in Conn. Gen. Stat. §12-218(f);
 - Services described in Conn. Gen. Stat. §12-218(g);
 - Management, distribution, or administrative services to or on behalf of an investment entity;
 - Management, distribution, or administrative services to or on behalf of pension funds or retirement accounts;
 - Leasing or acting as an agent, broker, or adviser in connection with leasing real and personal property that is the functional equivalent of an extension of credit and that transfers substantially all of the benefits and risks incident to the ownership of property, including any direct financing lease or leverage lease that meets the criteria of Financial Accounting Standards Board Statement No. 13, "Accounting for Leases" or any other lease that is accounted for as a financing by a lessor under generally accepted accounting principles;

- Activities of a Morris plan company;
 - Credit card activities;
 - Third party insurance administration services, claim administration services, claim adjusting services, premium billing and collection services, or employee benefit plan administration services;
 - Insurance underwriting or policy issuance services;
 - Actuarial services;
 - Trust company services;
 - Financial planning services;
 - Insurance brokerage services; **or**
 - Risk management services;
- (2) Any company, which derives fifty percent or more of its gross income from an activity in which a person described in (b) through (h) above, is authorized to transact;
- (3) Any company classified as a financial service company solely by virtue of subparagraph (j) for any income year shall continue to be classified as a financial service company until the second consecutive year the taxpayer would not otherwise qualify as a financial service company.

Loan means any extension of credit resulting from direct negotiations between the taxpayer and its customer, or the purchase or receipt, in whole or in part, of such extension of credit from another.

Loan secured by real property means that fifty percent or more of the aggregate value of the collateral used to secure a loan or other obligation, when valued at fair market value as of the time the original loan or obligation was incurred, was real property.

Billing address means the location indicated in the books and records of the taxpayer or, as applicable, the investment entity, pension fund or retirement fund on the first day of the taxable year or on such later date in the taxable year when the relationship with the customer or, in the case of an investment entity, pension fund or retirement account, investor or participant began as the address where any notice, statement or bill relating to a customer's, investor's or participant's account is mailed.

Regular place of business means an office at which the taxpayer carries on its business in a regular and systematic manner and which is continuously maintained, occupied, and used by employees of the taxpayer.

Borrower located in this state means (a) a borrower that is engaged in a trade or business which maintains its commercial domicile in Connecticut, or (b) a borrower that is not engaged in a trade or business whose billing address is in Connecticut.

Investment entity means (a) an investment partnership; a real estate investment trust, as defined in I.R.C. §856; a real estate mortgage investment conduit, as defined in I.R.C. §860D; a financial asset securitization investment trust, as defined in I.R.C. §860L; or a similar investment entity which is exempt from, or is not subject to, federal income tax, or (b) a separate account of an insurance company.

Real property owned and **tangible personal property owned** means real and tangible personal property, respectively, (a) on which the taxpayer may claim depreciation for federal income tax purposes, or (b) property to which the taxpayer holds legal title and on which no other person may claim depreciation for federal income tax purposes or could claim depreciation if subject to federal income tax. Real and tangible personal property does not include coin, currency, or property acquired in lieu of or pursuant to a foreclosure.

Administrative services includes, but is not limited to, clerical, fund or investment or account holder accounting, participant recordkeeping, transfer agency, bookkeeping, data processing, custodial, internal auditing, legal and tax services performed for an investment entity, pension fund or retirement account, but only if the provider of such service or services during the income year in which such service or services are provided also provides, or is a related person of a person that provides, management or distribution services to such an investment entity, pension fund or retirement account.

Distribution services means the services of advertising, servicing, marketing or selling interests in an investment entity, pension fund or retirement account, but, in the case of advertising, servicing or marketing interests, only where such service is performed by a person that is, or, in the case of a closed-end company, was, either engaged in the service of selling such interests or a related person of a person that is engaged in the service of selling such interests.

Management services when performed on behalf of an investment entity, pension fund or retirement account, means the rendering of investment advice directly or indirectly to an investment entity, pension fund or retirement account, making determinations as to when sales and purchases of property are to be made on behalf of the investment entity, pension fund or retirement account, or the selling or purchasing of property constituting assets of an investment entity, pension fund or retirement account and related activities, but only where such activity or activities are performed (a) pursuant to a contract with the investment entity, pension fund or retirement account, (b) for a person who has entered into such contract with the investment entity, pension fund or retirement account, or (c) for a person who is a related person of a person that has entered into such contract with an investment entity, pension fund or retirement account.

General Instructions

The net income of a financial service company shall be apportioned to Connecticut by multiplying such income by the receipts factor. The receipts factor for a financial service company is a fraction, the numerator of which is the receipts of the taxpayer, in Connecticut during the income year, and the denominator of which is the receipts of the taxpayer within and outside Connecticut during the income year. The method of calculating receipts for purposes of the denominator is the same as the method used in determining receipts for purposes of the numerator.

Line Instructions

Enter in Column A Connecticut receipts. Enter in Column B the total receipts.

Line 1 - Enter in Column A receipts from the lease, sublease, or rental of real property owned by the taxpayer if the property is located within Connecticut.

Line 2 - Enter in Column A receipts from the lease, sublease, or rental of tangible personal property owned by the taxpayer if the property is located within Connecticut when it is first placed in service by the lessee.

Line 3 - Enter in Column A receipts from the lease or rental of transportation property owned by the taxpayer to the extent that the property is used in Connecticut. An aircraft will be deemed to be used in Connecticut and the amount of receipts that is to be included in the Connecticut's receipts factor is determined by multiplying all of the receipts from the lease or rental of the aircraft by a fraction, the numerator of which is the number of landings of the aircraft in Connecticut, and the denominator of which is the

total number of landings of the aircraft. If the extent of the use of any transportation property within Connecticut cannot be determined, the property shall be deemed to be used wholly in the state in which the property has its principal base of operations. A motor vehicle shall be deemed to be used wholly in the state in which it is registered.

Line 4 - Enter in Column A receipts from interest and fees or penalties in the nature of interest from loans secured by real property if the property is located within Connecticut.

- If the property is located both within Connecticut and one or more other states, the receipts are included in the numerator of the receipts factor if more than fifty percent of the fair market value of the real property is located within Connecticut.
- If more than fifty percent of the fair market value of the real property is not located within any one state, the receipts shall be included in the numerator of the receipts factor if the borrower is located in Connecticut.
- The determination of whether the real property securing a loan is located within Connecticut shall be made at the time of the original agreement. All subsequent substitutions of collateral are disregarded.

Line 5 - Enter in Column A interest and fees or penalties in the nature of interest from loans not secured by real property if the borrower is located in Connecticut.

Line 6 - Enter in Column A the amount of net gains, but not less than zero, from the sale of loans secured by real property determined by multiplying such net gains by a fraction, the numerator of which is the amount included in the numerator of the receipts factor pursuant to Line 4, Column A, and the denominator of which is the total amount of interest and fees or penalties in the nature of interest from loans secured by real property everywhere.

Net gains from the sale of loans includes income recorded under the coupon stripping rules of I.R.C. §1286.

Line 7 - Enter in Column A the amount of net gains, but not less than zero, from the sale of loans not secured by real property, determined by multiplying such net gains by a fraction, the numerator of which is the amount included in the numerator of the receipts factor pursuant to Line 5, Column A, and the denominator of which is the total amount of interest and fees or penalties in the nature of interest from loans not secured by real property everywhere.

Line 8 - Enter in Column A loan servicing fees derived from loans secured by real property multiplied by a fraction, the numerator of which is the amount included in the numerator of the receipts factor pursuant to Line 4, Column A, and the denominator of which is the total amount of interest and fees or penalties in the nature of interest from loans secured by real property everywhere.

Line 9 - Enter in Column A loan servicing fees derived from loans not secured by real property multiplied by a fraction, the numerator of which is the amount included in the numerator of the receipts factor pursuant to Line 5, Column A, and the denominator of which is the total amount of interest and fees or penalties in the nature of interest from loans not secured by real property everywhere.

In circumstances in which the corporation receives loan servicing fees for servicing either secured or unsecured loans of another, the numerator of the receipts factor shall include such fees if the borrower is located in Connecticut.

Line 10 - Enter in Column A interest, dividends, net gains (but not less than zero), and other income from investment assets and activities and from trading assets and activities that are attributable to Connecticut.

In general, interest, dividends, net gains (but not less than zero), and other income from investment assets and activities and from trading assets and activities shall be included in the computation.

Investment assets and activities and trading assets and activities include, but are not limited to, investment securities, trading account assets, federal funds, securities purchased and sold under agreements to resell or repurchase, options, futures contracts, forward contracts, and notional principal contracts such as swaps, equities, and foreign currency transactions.

- The receipts factor shall include the amount by which interest from federal funds sold and securities purchased under resale agreements exceeds interest expense on federal funds purchased and securities sold under repurchase agreements.
- The receipts factor shall include the amount by which interest, dividends, gains, and other income from trading assets and activities, including, but not limited to, assets and activities in the matched book, in the arbitrage book, and foreign currency transactions, exceed amounts paid in lieu of interest, amounts paid in lieu of dividends, and losses from such assets and activities.
- The taxpayer shall have the burden of proving that an investment asset or activity or trading asset or activity was properly assigned to a regular place of business outside of Connecticut by demonstrating that the day-to-day decisions regarding the asset or activity occurred at a regular place of business outside Connecticut. Where the day-to-day decisions regarding an investment asset or activity or trading asset or activity occur at more than one regular place of business and one such regular place of business is in Connecticut and one such regular place of business is outside Connecticut, such asset or activity shall be considered to be located at the regular place of business of the taxpayer where the investment or trading policies or guidelines with respect to the asset or activity are established. Unless the taxpayer demonstrates to the contrary, such policies and guidelines shall be presumed to be established at the commercial domicile of the taxpayer.

Election. The taxpayer may elect, or the Commissioner may require in order to fairly represent the business activity of the taxpayer in Connecticut, one of the following methods:

Average Value Method:

- The amount of interest, dividends, net gains (but not less than zero), and other income from investment assets and activities in the investment account to be attributed to Connecticut and included in the numerator, is determined by multiplying all such income from such assets and activities by a fraction, the numerator of which is the average value of such assets which are properly assigned to a regular place of business of the taxpayer within Connecticut and the denominator of which is the average value of all such assets.
- The amount of interest from federal funds sold and purchased, and from securities purchased under resale agreements and securities sold under repurchase agreements attributable to Connecticut and included in the numerator, is determined by multiplying the amount from such funds and such securities by a fraction, the numerator of which is the average value of federal funds sold and securities purchased under agreements to resell which are properly assigned to a regular place of business of the taxpayer within Connecticut, and the denominator of which is the average value of all such funds and such securities.
- The amount of interest, dividends, gains, and other income from trading assets and activities, including, but not limited to, assets and activities in the matched book, in the arbitrage book, and foreign currency transactions attributable to

Connecticut and included in the numerator is determined by multiplying the amount by a fraction, the numerator of which is the average value of such trading assets which are properly assigned to a regular place of business of the taxpayer within Connecticut, and the denominator of which is the average value of all such assets.

- The average value of property owned by the taxpayer is computed on an annual basis by adding the value of the property on the first day of the income year and the value on the last day of the income year and dividing the sum by two. If averaging on this basis does not properly reflect average value, the Commissioner may require averaging on a more frequent basis. The taxpayer may elect to average on a more frequent basis. When averaging on a more frequent basis is required by the Commissioner or is elected by the taxpayer, the same method of valuation must be used consistently by the corporation with respect to property within and outside Connecticut and on all subsequent returns, unless the taxpayer receives prior permission from the Commissioner, or the Commissioner requires a different method of determining average value.

Gross Income Method:

- The amount of interest, dividends, net gains (but not less than zero), and other income from investment assets and activities in the investment account to be attributed to Connecticut and included in the numerator is determined by multiplying all such income from such assets and activities by a fraction, the numerator of which is the gross income from such assets and activities which are properly assigned to a regular place of business of the taxpayer within Connecticut, and the denominator of which is the gross income from all such assets and activities.
- The amount of interest from federal funds sold and purchased from securities purchased under resale agreements and securities sold under repurchase agreements attributable to Connecticut and included in the numerator is determined by multiplying the amount from such funds and such securities by a fraction, the numerator of which is the gross income from such funds and such securities which are properly assigned to a regular place of business of the taxpayer within Connecticut, and the denominator of which is the gross income from all such funds and securities.
- The amount of interest, dividends, gains, and other income from trading assets and activities, including, but not limited to, assets and activities in the matched book, in the arbitrage book, and foreign currency transactions attributable to Connecticut and included in the numerator is determined by multiplying the amount by a fraction, the numerator of which is the gross income from such trading assets and activities which are properly assigned to a regular place of business of the taxpayer within Connecticut, and the denominator of which is the gross income from all such assets and activities.
- If the taxpayer elects or is required by the Commissioner to use this method, it shall use this method on all subsequent returns unless the taxpayer receives prior permission from the Commissioner to use or the Commissioner requires a different method.

Line 11 - Enter in Column A receipts received for management, distribution, and administrative services performed on behalf of an investment entity in an amount equal to the product of such receipts for the income year multiplied by a fraction:

- a) The numerator of which shall be the average of (1) the fair market value of the interests in the investment entity issued and outstanding on the first day of such investment entity's

taxable year for federal income tax purposes, which ends within or at the same time as the income year of the financial service company, that are owned by investors in such investment entity if the billing address of such investors is in Connecticut, and (2) the fair market value of the interests in the investment entity issued and outstanding on the last day of such investment entity's taxable year for federal income tax purposes, which ends within or at the same time as the income year of the financial service company, that are owned by investors in such investment entity if the billing address of such investors is in Connecticut; **and**

- b) The denominator of which shall be the average of the fair market value of the interests in the investment entity issued and outstanding that are owned by investors in such investment entity on such dates.

Line 12 - Enter in Column A receipts for management, distribution, and administrative services performed on behalf of a pension fund or retirement account in an amount equal to the product of such receipts for the income year multiplied by a fraction:

- a) The numerator of which shall be the average of (1) the number of participants with an interest in the pension fund or retirement account on the first day of the pension fund or retirement account taxable year, for federal income tax purposes, which ends within or at the same time as the income year of the financial service company, whose billing address is in Connecticut, and (2) the number of participants with an interest in the pension fund or retirement account on the last day of the pension fund or retirement account taxable year, for federal income tax purposes, which ends within or at the same time as the income year of the financial service company, whose billing address is in Connecticut; **and**
- b) The denominator of which shall be the total number of participants with an interest in the pension fund or retirement account on such dates.

Fair Market Value Election. In lieu of the billing addresses of the participants with an interest in the pension fund or retirement account, the taxpayer may elect to determine receipts based upon the average of the fair market value of funds under management in each income year allocated to the commercial domicile of the sponsor of the pension fund or retirement account and, where there is no sponsor for a particular pension fund or retirement account, the billing address of the participant. The election shall be irrevocable for, and applicable for, five successive income years, and shall be applicable to all receipts from the rendering of management, distribution, or administrative services performed for any pension fund or retirement account.

Line 13 - Enter in Column A all other receipts not otherwise specifically addressed, if the billing address of the customer is in Connecticut, otherwise the numerator will include all other receipts according to Conn. Gen. Stat. §12-218.

Line 14 - Add Lines 1 through 13 in Column A and Column B, and enter the total amount here.

Line 15 - Divide Line 14, Column A, by Line 14, Column B. Enter the result here and on **Form CT-1120, Schedule A**, Line 2.