

Form CT-1120AB

Summary of Add Back and Exceptions to Add Back of Interest and Intangible Expenses

For Income Year Beginning: _____, _____, and Ending: _____, _____.

| | |
|------------------|-------------------------------------|
| Corporation name | Connecticut Tax Registration Number |
|------------------|-------------------------------------|

Complete this form in blue or black ink only.

Form CT-1120AB, *Summary of Add Back and Exceptions to Add Back of Interest and Intangible Expenses*, must be completed by each corporation that paid, accrued, or incurred interest expenses to a related member or intangible expenses and costs, and interest expenses and costs related to intangibles to a related member. See **Special Notice 2003(22)**, *Interest Expense Add Back*.

To be entitled to an exception from the add back of expenses and a corresponding deduction from net income, the taxpayer **must** complete and attach this form to **Form CT-1120**, *Corporation Business Tax Return*.

Failure to complete Form CT-1120AB and attach all supporting documentation will result in a disallowance of the exception(s).

Part I - Required Add Back

All interest expenses and intangible expenses and costs that are paid, accrued, or incurred to a related member must be added back to income and may be subtracted if any one or more of the statutory exceptions are met.

| A - Interest Expenses Add Back | | | |
|---|--|----|----|
| 1. | Total interest expenses paid to a related member: Do not include any interest expense and costs related to intangibles. Enter amount here and on Form CT-1120, <i>Schedule D</i> , Line 4. | 1. | 00 |
| B - Total Intangible Expenses Add Back | | | |
| 1. | Intangible expenses and costs paid to a related member. | 1. | 00 |
| 2. | Interest expenses and costs related to the intangible property. | 2. | 00 |
| 3. | Total: Add Line 1 and Line 2. Enter here and on Form CT-1120, <i>Schedule D</i> , Line 5. | 3. | 00 |

Part II - Exceptions to Add Back

| A - Exceptions to Interest Expenses Add Back | | | |
|---|--|----|----|
| 1. | Enter amount from Part III, <i>Schedule A</i> , Line 6. Enter here and on Form CT-1120, <i>Schedule D</i> , Line 15. | 1. | 00 |
| 2. | Enter amount from Part III, <i>Schedule B</i> , Line 1. Enter here and on Form CT-1120, <i>Schedule D</i> , Line 16. | 2. | 00 |
| 3. | Enter amount from Part III, <i>Schedule C</i> , Line 5 or <i>Schedule D</i> , Line 5. Enter here and on Form CT-1120, <i>Schedule D</i> , Line 17. | 3. | 00 |
| 4. | Total Exceptions: Add Lines 1 through 3 and enter total here. | 4. | 00 |
| B - Exceptions to Intangible Expenses Add Back | | | |
| 1. | Enter amount from Part V, <i>Schedule A</i> , Line 5 or <i>Schedule B</i> , Line 3. Enter here and on Form CT-1120, <i>Schedule D</i> , Line 18. | 1. | 00 |

Part III - Exceptions to Interest Expenses Add Back

Schedule A - Exception for Interest Paid, Accrued, or Incurred to a Related Member That is Taxed at a Similar Rate in This State, in Another State, or in a Foreign Nation

The exception **only** applies to transactions with a related member when that related member files on a separate company basis in another state.

This exception **does not** apply to transactions with a related member when the related member:

- Files in another jurisdiction with the taxpayer on a combined, consolidated, or unitary basis which results in the interest expense of the taxpayer and the interest income of the related member being offset or eliminated;
- Has a net operating loss; **or**
- Pays tax on a basis other than net income including but not limited to a gross receipts tax, capital base tax, or a business and occupational tax.

A. Can the taxpayer establish by clear and convincing evidence that a principal purpose of the payment of interest to a related member was **not** to avoid the payment of taxes due under Chapter 208 of the Connecticut General Statutes? Yes No

B. Was the interest that the taxpayer paid to a related member paid according to a written contract that reflects an *arm's length* rate of interest and sets forth the terms of the loan? Yes No

If the answers to both questions above are Yes, attach a copy of pertinent parts of the contract that support this exception, provide related member's information in Question C, and complete Lines 1 through 6.

Failure to provide the requested information will result in a denial of the exception.

C. Related Member Information

| | |
|---|---|
| Name of Related Member | Federal Employer ID Number (FEIN) |
| Fiscal period of related member | Date of written contract <div style="text-align: right; margin-top: 5px;"> M / D / YYYY </div> |
| Name of state or foreign nation in which the related member is subject to a tax on net income | |

| | | | | |
|----|--|----|----|----|
| 1. | Enter the amount of deductible interest added back by taxpayer and paid to a related member. | 1. | | 00 |
| 2. | Amount of interest income included in the measure of net income of the related member subject to tax in Connecticut, another state, or in a foreign nation | 2. | | 00 |
| 3. | Enter the taxable income before apportionment and before application of net operating losses of the related member in Connecticut, in another state, or in a foreign nation. | 3. | | 00 |
| 4. | Enter the tax paid by the related member in Connecticut, in another state, or in a foreign nation. (Do not include tax paid in a unitary state or in a state in which a combined return is filed.) | 4. | | 00 |
| 5. | Divide Line 4 by Line 3 | 5. | 0. | |
| 6. | Exception amount: If Line 5 is equal to or greater than 4.5% (.045), enter the amount from Line 1 here and on Part II A, Line 1. Otherwise enter "0." | 6. | | 00 |

If claiming this exception for transactions with more than one related member, complete the above schedule for each related member and enter the total for all related members on Part II A, Line 1.

| Schedule B - Unreasonable Exception | | | |
|---|---|----|----|
| A. | Has the taxpayer received written confirmation from the Commissioner of Revenue Services (the Commissioner) that the adjustments required under Conn. Gen. Stat. §12-218d are unreasonable? <input type="checkbox"/> Yes <input type="checkbox"/> No | | |
| If the answer to Question A above is Yes , enter the letter date: _____ and complete Line 1, below. If the answer to Question A above is No , answer Question B. | | | |
| B. | Can the taxpayer establish by clear and convincing evidence that the required add back of interest paid, accrued, or incurred to a related member is unreasonable? <input type="checkbox"/> Yes <input type="checkbox"/> No | | |
| If the answer to Question B above is Yes , the taxpayer must complete Questions C through H in their entirety and provide the requested information. | | | |
| Failure to answer every question in Part III, Schedule B and to provide the requested information will result in a denial of the exception. | | | |
| C. | Provide a description of the business purpose of each loan which includes: <ul style="list-style-type: none"> • The date the loan originated; • The relevant terms of the loan; • An explanation of how the principal was transferred; • The dates interest payments were made; and • The tax jurisdictions in which the related member filed or will file its corporate income tax returns. | | |
| D. | Was the interest that the taxpayer paid to a related member paid according to a written contract or contracts signed by both the taxpayer and related member? <input type="checkbox"/> Yes <input type="checkbox"/> No | | |
| E. | Did the taxpayer enter into the written contract or contracts after corporate changes that were undertaken based, in whole or in part, on advice relating to the reduction of state taxes? <input type="checkbox"/> Yes <input type="checkbox"/> No | | |
| F. | Were the written contract or contracts: <ul style="list-style-type: none"> • Negotiated at <i>arm's length</i>? <input type="checkbox"/> Yes <input type="checkbox"/> No • Signed by both the taxpayer and related member? <input type="checkbox"/> Yes <input type="checkbox"/> No | | |
| G. | Did the written contract or contracts relate to a: <ul style="list-style-type: none"> • Related member's acquisition of the taxpayer? <input type="checkbox"/> Yes <input type="checkbox"/> No • Cash management program? <input type="checkbox"/> Yes <input type="checkbox"/> No | | |
| H. | Was the interest payment made to a related member that: <ul style="list-style-type: none"> • Had net operating losses (NOLs) that offset the interest income received? <input type="checkbox"/> Yes <input type="checkbox"/> No • Received a dividend from the taxpayer in the form of a debt instrument? <input type="checkbox"/> Yes <input type="checkbox"/> No • Filed or will file in a state or states that calculate the corporate income tax on a unitary basis? <input type="checkbox"/> Yes <input type="checkbox"/> No • Filed or will file in a state that does not subject the interest income to tax? <input type="checkbox"/> Yes <input type="checkbox"/> No • Paid or will pay dividends (directly or indirectly) to the taxpayer? <input type="checkbox"/> Yes <input type="checkbox"/> No | | |
| 1. | Exception amount: Enter here and on Part II A, Line 2. | 1. | 00 |

Schedule C - Exception for Certain Related Members That are Insurance Companies

- A. Can the taxpayer establish by clear and convincing evidence that a principal purpose of the payment of interest to a related member was not to avoid the payment of taxes due under Chapter 208 of the Connecticut General Statutes? Yes No
- B. Was the interest that the taxpayer paid to a related member paid according to a written contract or contracts that reflects an *arm's length* rate of interest and sets forth the terms of the loan? Yes No
- C. Is the related member that received the interest income a company subject to tax under Chapter 207 of the Connecticut General Statutes or subject to a tax in another state that is comparable to the tax under Chapter 207 of the Connecticut General Statutes? Yes No

If the answers to Question A, B, and C above are **Yes**, complete the following schedule.
 If the answers to Question A, B, or C above are **No**, the taxpayer **does not** qualify for this exception.

| | Name of Related Member | FEIN | Contract Date | State in Which Taxes Were Paid | Amount Deducted |
|----|---|------|---------------|--------------------------------|-----------------|
| 1. | | | | | 00 |
| 2. | | | | | 00 |
| 3. | | | | | 00 |
| 4. | | | | | 00 |
| 5. | Total: Enter here and on Part II A, Line 3. | | | | 00 |

Schedule D - Exception for Interest Paid to a Related Member Located in a Country With Which the U.S. Has a Comprehensive Income Tax Treaty

- A. Was any interest paid, accrued, or incurred to a related member in a foreign nation which has in force a comprehensive income tax treaty with the United States? Yes No

If the answer to Question A above is **Yes**, complete the following schedule:

| | Name of Related Member | Name of Foreign Nation | Description of Treaty | Amount Deducted |
|----|---|------------------------|-----------------------|-----------------|
| 1. | | | | 00 |
| 2. | | | | 00 |
| 3. | | | | 00 |
| 4. | | | | 00 |
| 5. | Total: Enter here and on Part II A, Line 3. | | | 00 |

Part IV - Unitary Election

If a taxpayer is subject to the interest expenses add back, the taxpayer may elect to calculate its tax on a unitary basis including all members of the unitary group, provided the taxpayer clearly establishes that there are substantial intercorporate business transactions among the included corporations. The election to file on a unitary basis is irrevocable for, and applicable for five successive income years. For additional information regarding the unitary election and unitary filing methodology, see **Special Notice 2003(22)**, *Interest Expense Add Back*, and instructions to **Form CT-1120U, Unitary Corporation Business Tax Return**.

- A. Does the taxpayer file on a unitary basis in another state? Yes No
- B. Are all the same companies that are filing on a unitary basis in another state included in the Connecticut **Form CT-1120U, Unitary Corporation Business Tax Return**? Yes No

If the answers to Question A and Question B above are **Yes**, the taxpayer may elect to file on a unitary basis. Complete Line 1 below:

| | | |
|----|---|----|
| 1. | Exception amount: Enter here and on Form CT-1120U, <i>Schedule D</i> , Line 20. | 00 |
|----|---|----|

Part V - Intangible Expenses and Costs Paid to a Related Member As Provided in Conn. Gen. Stat. §12-218c

| | |
|--|--|
| A. | Did the taxpayer deduct intangible expenses and costs in connection with a transaction with a related member involving: <ul style="list-style-type: none"> • The direct or indirect acquisition, use, maintenance or management, ownership, sale, exchange, or any other disposition of intangible property? <input type="checkbox"/> Yes <input type="checkbox"/> No • Factoring transactions or discounting transactions? <input type="checkbox"/> Yes <input type="checkbox"/> No • Royalty, patents, technical and copyright fees? <input type="checkbox"/> Yes <input type="checkbox"/> No • Licensing fees? <input type="checkbox"/> Yes <input type="checkbox"/> No |
| B. | Did the taxpayer deduct directly or indirectly, interest expenses and costs in connection with a transaction with a related member that involved the direct or indirect acquisition, maintenance, management, ownership, sale, exchange, or disposition of intangible property? <input type="checkbox"/> Yes <input type="checkbox"/> No |
| If the answer to Question B above is Yes , the taxpayer must add back all intangible expenses and costs and interest expenses or costs directly or indirectly related to the intangible property unless an exception in Schedule A or Schedule B can be claimed. | |
| Failure to complete Part V, Schedule A or Schedule B will result in a denial of the exception. | |

| Schedule A - Exception for Intangible Expenses Paid to Unrelated Third-Party | | | |
|--|--|-------------------------------|-----------------|
| A. | Did the related member to whom the taxpayer paid the intangible expenses and costs, directly or indirectly pay the amount deducted to an unrelated third-party during the same income year? <input type="checkbox"/> Yes <input type="checkbox"/> No | | |
| B. | Can the corporation establish by a preponderance of evidence that the transaction giving rise to the intangible expenses and costs between the corporation and the related member did not have as a principal purpose the avoidance of any portion of the corporation business tax. <input type="checkbox"/> Yes <input type="checkbox"/> No | | |
| If the answer to Question A above is Yes , provide documentation that supports this claim. If the answers to Question A and Question B above are Yes , enter the following information: | | | |
| | Name of Related Member | Name of Unrelated Third-Party | Amount Deducted |
| 1. | | | 00 |
| 2. | | | 00 |
| 3. | | | 00 |
| 4. | | | 00 |
| 5. | Total: Enter here and on Part II B, Line 1. | | 00 |

Schedule B - Unreasonable Exception

A. Has the taxpayer received written confirmation from the Commissioner that the adjustments required under Conn. Gen. Stat. §12-218c are unreasonable? Yes No

If the answer to Question A above is **Yes**, enter the letter date: _____ and complete Line 1, below.
 If the answer to Question A above is **No**, answer Question B.

B. Can the taxpayer establish by clear and convincing evidence that the required add back of intangible expenses and costs paid, accrued, or incurred to a related member and interest expenses or costs directly or indirectly related to the intangible property is unreasonable? Yes No

If the answer to Question B above is **Yes**, the taxpayer **must** complete Questions C through H in their entirety and provide the requested information.

Failure to answer every question in Part V, Schedule B and to provide the requested information will result in a denial of the exception.

C. Provide a description of the intangible expenses and costs, including the following information:

- The date of the contract relating to the payment of intangible expenses and costs;
- The relevant terms of the contract relating to the payment of intangible expenses and costs;
- An explanation of how the intangible property was used in the taxpayer's business;
- The dates the intangible expenses and costs were paid or incurred; **and**
- The tax jurisdictions in which the related member filed or will file its corporate income tax returns.

D. Did any entity, other than the related member, ever own the intangible property? Yes No

E. Were the intangible expenses and costs paid to a related member according to a written contract or contracts signed by both the taxpayer and related member? Yes No

F. Did the taxpayer rely on a transfer pricing study to determine the amount of intangible expenses and costs? Yes No

G. Did the taxpayer enter into the contract or contracts relating to the payment of intangible expenses and costs after corporate changes that were undertaken based, in whole or in part, on advice relating to the reduction of state taxes? Yes No

H. Were the intangible expenses and costs paid to a related member that:

- Has NOLs that offset the intangible expenses and costs it received? Yes No
- Filed or will file in a state or states that calculate the corporate income tax on a unitary basis?..... Yes No
- Filed or will file in a state that does not subject income from intangibles to tax? Yes No
- Paid or will pay dividends (directly or indirectly) to the taxpayer? Yes No

Total Exception Amount

| | | | | |
|----|---|----|--|----|
| 1. | Intangible expenses and costs paid to a related member. | 1. | | 00 |
| 2. | Interest expenses and costs related to the intangible property. | 2. | | 00 |
| 3. | Total: Add Line 1 and Line 2. Enter amount here and on Part II B, Line 1. | 3. | | 00 |