



2008

Nebraska

Corporation

Income Tax Booklet

Included in this Booklet:

Form 1120N, Schedules A, I, II, III, and IV, Form 7004N, and Business Classification Codes.

ELECTRONIC PAYMENT OPTIONS ARE AVAILABLE.

See instructions inside.

Questions?

www.revenue.ne.gov

(800) 742-7474 (toll free in NE or IA) or (402) 471-5729

2008 Nebraska Corporation Income Tax

INSTRUCTIONS

IMPORTANT REMINDERS

BONUS DEPRECIATION AND ENHANCED SECTION 179 EXPENSE. Corporations are no longer required to add back bonus depreciation or any enhanced Section 179 expense deduction on their Nebraska income tax returns. Corporations may reclaim 20 percent of the bonus depreciation previously added back in tax years 2000 through 2002 on their 2008 Nebraska income tax return. Corporations may also reclaim 20 percent of the bonus depreciation and enhanced Section 179 expense deduction previously added back in tax years 2003 through 2005 on their 2008 Nebraska income tax return. See **specific instructions**.

NOTE: Beginning with the 2009 tax year, the Department will no longer complete a mass mailing of printed Corporation Income Tax Booklets. The corporate forms and instructions continue to be available at www.revenue.ne.gov. If you are unable to access them electronically, a printed copy may be obtained from either the Department or your accountant.

WHAT'S NEW

BIODIESEL TAX CREDIT. Due to the passage of LB 343 (2007), corporations may establish a credit for investing in a Nebraska biodiesel facility.

WITHHOLDING ON CONTRACTORS. Due to the passage of LB 1001 (2008), contractors are required to withhold five percent of any payment or payments exceeding \$600 from their construction subcontractors that are not registered in the Revenue Contractor Database. The amount withheld may be used as a credit against the corporation's income tax liability. See www.revenue.ne.gov for additional information regarding the mandatory five percent withholding and the Revenue Contractor Database.

WHO MUST FILE. Every corporation engaged in business in Nebraska, or having sources of income from Nebraska and subject to federal corporate income tax, must file a Nebraska Corporation Income Tax Return, Form 1120N.

S corporations. Corporations which have elected to file under Subchapter S of the Internal Revenue Code must file a Nebraska S Corporation Income Tax Return, Form 1120-SN, **unless all shareholders are Nebraska residents and all income is derived from Nebraska sources.**

Financial institutions. Those institutions that maintain a permanent place of business in this state and actively solicit deposits from residents of this state must file a Nebraska Financial Institution Tax Return, Form 1120NF, and are **not** to file a Nebraska Corporation Income Tax Return, Form 1120N.

Cooperative organizations. These entities must file Form 1120N. Exempt farm cooperatives must attach their Exempt Cooperative Association Income Tax Return, Federal Form 990-C. Cooperatives may exclude those patronage dividends, dividends on capital stock, and nonpatronage income allocated to patrons that are allowable deductions or exclusions for federal income tax purposes.

Exempt Organizations. All exempt organizations required to file a federal return and pay tax at the federal corporate tax rates on unrelated business income are required to file the Nebraska Corporation Income Tax Return, Form 1120N.

WHEN AND WHERE TO FILE. This return must be filed on or before the 15th day of the third month following the close of the taxable year. Cooperative organizations and foreign corporations with no locations within the United States are to file on or before the original due date of their federal income tax return. Exempt organizations reporting unrelated business income are to file on or before the 15th day of the fifth month following the close of the taxable year.

The return must be filed with the Nebraska Department of Revenue, P.O. Box 94818, Lincoln, Nebraska 68509-4818.

INCOME SUBJECT TO NEBRASKA TAXATION. Nebraska income tax applies to the portion of the corporate taxpayer's taxable income derived from or attributable to sources within Nebraska. A corporate taxpayer which is subject to tax in another state must apportion its income unless approval has been granted by the Tax Commissioner for an alternative method.

A corporate taxpayer engaged in business in Nebraska which is not subject to tax in another state must report its entire taxable income to Nebraska.

COMBINED INCOME APPROACH. When a group of corporations conducts a unitary business, a **single combined return** must be filed reporting the income of the entire group. A unitary group engaged in business within and without Nebraska will determine its Nebraska income using an apportionment formula. See the Nebraska Schedule I — Apportionment of Multistate Business instructions.

PERIOD TO BE COVERED BY THE RETURN. This return must be filed for the calendar year 2008 or fiscal year beginning in 2008. A corporation reporting for a fiscal year or filing a short-period return must enter the beginning and ending dates of the taxable year in the space provided at the top of the return. The taxable year for Nebraska must be the same as the year used for federal income tax purposes. If a corporation changes its federal taxable year, it must change the Nebraska taxable year accordingly. A copy of the approval from the Internal Revenue Service (IRS) to change accounting periods must accompany the first return which reflects the change.

RATE OF TAX. The tax rate is the rate in effect on the first day of the corporation's taxable year. Corporations filing on a fiscal year or filing a short-period return will compute the tax liability for the entire taxable period by using the tax rate in effect on the first day of the taxable period. A corporation using a 52-53 week fiscal year beginning during the last week in December must use the rate in effect on the following January 1st.

PAYMENT OF TAX. The entire tax due is required to be paid on or before the original due date of the return. Any portion of the tax not paid by the original due date of the return may be subject to penalty and will be subject to interest at the statutory rate from the original due date of the return to the date the tax is paid. An extension of time to file Form 1120N does not extend the date for payment of the tax.

ELECTRONIC PAYMENT OPTIONS

ELECTRONIC FUNDS TRANSFER (EFT): To pay by EFT visit www.revenue.ne.gov and click on "Make a BUSINESS TAX Payment Electronically!" You will be able to set up your payment up to one year in advance of having your bank account debited. This payment option is free to use, and you will receive an e-mail confirmation for each payment.

CREDIT CARD: Credit card payments are originated through Official Payments Corporation (OPC). Eligible credit cards include VISA, MasterCard, Discover, and American Express. A convenience fee of 2.49% of the tax payment is charged to the card you use and is paid to OPC. You will be told about this fee during the transaction. Secure credit card payments can be initiated over the Internet at www.officialpayments.com or via telephone at (800) 2PAY-TAX. If initiating your credit card payment by telephone, you will need to provide the Nebraska Jurisdiction Code, which is 3700. At the completion of your transaction, you will be given a confirmation number. Keep this for your records.

For some corporations, EFT is mandatory for all corporate payments. If your corporation has an EFT mandate from this Department your corporate payments must be made electronically.

CHECK OR MONEY ORDER

Make check or money order payable to the Nebraska Department of Revenue. Checks written to the Department of Revenue may be presented for payment electronically.

EXTENSION OF TIME. It is not necessary to request a Nebraska extension of time when the corporation has been granted an extension to file its federal return. Attach a copy of Federal Form 7004, or other approved federal extension, to the Nebraska return. Failure to attach a copy of the extension may result in a late filing penalty. By requesting an extension of time to file your federal return using the Federal Form 7004, you are granted an automatic 6-month extension. When a federal extension of time has been granted and additional time is necessary to file the Nebraska return, the Nebraska Form 7004N needs to be filed on or before the date the federal extension expires.

An extension of time to file may be obtained from the Nebraska Department of Revenue even if the corporation does not request a federal extension of time. The extension must be requested on Application for Automatic Extension of Time to File Nebraska Corporation, Fiduciary, or Partnership Return, Form 7004N, on or before the due date of the return. Form 7004N has been included in this booklet. If granted, the extension will be for a seven-month period. No further extension can be granted.

PAYMENT OF ESTIMATED TAX, FORM 1120N-ES. Payment of estimated tax must be made by every corporation or other entity taxed as a corporation under the Internal Revenue Code, when the Nebraska tax liability can reasonably be expected to exceed allowable credits by \$400 or more. Allowable income tax credits are the credit for in lieu of intangible tax, the Community Development Assistance Act credit, Nebraska Charitable Endowment Tax credit, tax incentive credits from Form 3800N, the Beginning Farmer credit, and the Biodiesel Tax credit.

Corporation Application for Adjustment of Overpayment of Estimated Tax, Form 4466N. If a substantial overpayment of estimated income tax has been made, a corporation may file Form 4466N and request an adjustment of the overpayment. Form 4466N must be filed after the end of the tax year and by the 15th day of the third month following the close of the tax year. The application can only be filed if the adjustment requested exceeds **\$500 and 10 percent** of the estimated income tax liability of the corporation.

PENALTIES AND INTEREST. Penalties may be imposed for failure to file a complete return, failure to file a timely return, failure to file an amended return when required, or underpayment of tax by the due date of the return.

Interest at the statutory rate is due on the amount of unpaid tax whenever such amount is not paid by the due date, even though an extension of time to file the return has been granted.

ACCOUNTING METHODS. The method of accounting used for federal income tax purposes must be used for Nebraska income tax purposes. A corporate taxpayer may not change from the method of accounting used in reporting income in prior years unless the change is approved by the IRS. A copy of this approval must accompany the first return which reflects the change in the method of accounting.

ROUND TO WHOLE DOLLARS. Round any amount from 50 cents through 99 cents to the next higher dollar. Round any amount less than 50 cents to the next lower dollar. The amounts on the return and schedules must be shown in whole dollars.

FEDERAL RETURN. A copy of the actual federal return and supporting schedules as filed with the IRS must be attached to the return. This includes, at a minimum, a copy of the first four pages and supporting schedules of the Federal Form 1120. If a consolidated federal return is filed, a copy of the consolidating schedules or workpapers for income and expenses, cost of goods sold, and balance sheets, as well as Form 851, Affiliations Schedule, must also be attached. Provide actual copies of schedules and other information which support the numbers reported on the Nebraska return. Other voluminous information that is part of the federal return filed but is not directly related to the Nebraska reporting may be kept by the taxpayer on file, but must be made available upon request. **A pro-forma federal return is not acceptable.** The Nebraska return is based upon the actual federal return as filed or prepared for filing.

COMPLETE RETURN. To constitute a complete return, all informational questions and lines on the return and applicable schedules must be completed and a true copy of the federal return,

as defined above, attached. Failure to attach the federal return information or to complete all informational questions or lines on the returns or schedules will delay processing of the return. A penalty for failure to file a return may be imposed when the actual tax liability cannot be computed from the information appearing on the face of the Nebraska return.

CHANGES OR CORRECTIONS IN FEDERAL OR OTHER STATE'S RETURN. Any corporation whose reported income or deductions are changed or corrected by the IRS or through renegotiation of a contract with the United States is required to report the change or correction within 60 days of the federal determination. In addition, any corporation whose reported income or allowable tax credits in another state are changed or corrected by that state or any other competent authority in a way material to the tax liability owed to Nebraska is required to report the change or correction within 60 days after it becomes final.

Any corporation which files an amended return with the IRS, which will not result in a credit or refund, or which files an amended return with another state involving a change or correction material to its Nebraska tax liability, must file an amended return with the Nebraska Department of Revenue within 60 days of the filing of the amended federal or state return.

Any corporation which files an amended return with the IRS, which will result in a credit or refund, must report the change or correction within 60 days **after receiving proof that the IRS accepted the federal return.**

All changes or corrections in amounts previously reported to the Nebraska Department of Revenue must be made by filing an Amended Nebraska Corporation Income Tax Return, Form 1120XN. The amended return must be mailed separately from the annual return of the corporation.

NEBRASKA CHARITABLE ENDOWMENT TAX CREDIT. A corporation may qualify for a nonrefundable credit for a contribution to a qualified endowment. See page 4 (line 15 instructions) for more details.

COMMUNITY DEVELOPMENT ASSISTANCE ACT (CDA) CREDIT. This credit is allowable to business firms for contributions to **approved** projects of community betterment organizations. See the instructions on the 2008 Nebraska Community Development Assistance Act Credit Computation, Form CDN, for more information. Form CDN and a copy of Form 1099NTC must be attached to the Form 1120N to claim the credit.

More detailed information on this credit can also be obtained at www.neded.org/content/view/97/227/ or by writing to the Nebraska Department of Economic Development, Community and Rural Development Division, P.O. Box 94666, Lincoln, Nebraska 68509-4666; or by calling (402) 471-6587, or (800) 426-6505, extension 6587.

FORM 3800N CREDITS. Nebraska provides several tax incentive credits that may be earned by corporations conducting business in this state. For additional information on each of the tax credits available, see Form 3800N, www.revenue.ne.gov., or contact the Nebraska Department of Revenue, P.O. Box 94818, Lincoln, Nebraska 68509-4818, or call the Lincoln regional office at (402) 471-5729 or (800) 742-7474 (toll free in Nebraska and Iowa).

BEGINNING FARMER CREDIT. Any eligible claimant must attach the certificate, Form 1099 BFC, from the Nebraska Department of Agriculture. For detailed information on this credit see www.agr.state.ne.us/division/med/begfrm.htm, or contact the Nebraska Department of Agriculture, P.O. Box 94947, Lincoln, NE 68509-4947, or call (402) 471-6890 or (800) 446-4071.

SIGNATURES. This return must be signed by a corporate officer. If the taxpayer authorizes another person to sign this return, there must be a power of attorney on file with the Department. Include your phone number and e-mail address in case the Department needs to contact you about your account. **By including your e-mail address you are agreeing that the Department may use it to transmit confidential information.** Any person who is paid for preparing a taxpayer's return must also sign the return as preparer.

DEFINITIONS.

1. **Apportionment.** The process of determining the portion of income derived from sources within a state. **The entire federal taxable income of a unitary business operating within and without Nebraska is presumed subject to apportionment.**
2. **Corporate taxpayer.** Any corporation that is not part of a unitary business or the part of a unitary business, whether it is one or more corporations, that is doing business in this state.
3. **Sales.** All gross receipts of the taxpayer.
4. **Single economic unit.** A business where there is a sharing or exchange of value between the parts of the unit. A sharing or exchange of value occurs when the parts of the business are linked by a) common management or b) common operational resources that provide material economies of scale or transfers of value or flow of goods, capital, or services between the parts of the unit.
5. **Subject to the Internal Revenue Code (IRC).** A corporation that meets the requirements of IRC § 243 in order for its distributions to qualify for the dividends received deduction.
6. **Taxable in another state** means that another state has jurisdiction to subject the corporation to a net income tax, whether or not that state imposes such a tax, and the corporation actually pays a net income tax in that state if imposed. The corporation is not taxable in another state if it voluntarily files and pays a net income tax when not required to do so by the laws of that state.
7. **Unitary business** means a business that is conducted as a single economic unit by one or more corporations with common ownership and includes all activities in different lines of business that contribute to the single economic unit. **Common ownership** means one or more corporations owning 50 percent or more of another corporation.
8. **Unitary group** means the group of corporations that are conducting a unitary business. **A parent-subsidiary controlled group is a unitary group.**

SPECIFIC INSTRUCTIONS

BUSINESS CLASSIFICATION CODE. Enter the number from the Business Classification Code list in this booklet that best describes your principal business activity. **Please review your code carefully.**

CORPORATION FILING STATUS. All taxpayers must complete this portion of the return and answer all questions applicable to the corporation's status.

QUESTION A. Mark "Yes" if you file a federal consolidated return.

QUESTION D. Under Nebraska law, a unitary group generally encompasses all corporations included in the federal consolidated income tax return. Therefore, only under extremely unusual circumstances may a corporation compute its Nebraska liability using the separate report by a member of a controlled group of corporations method.

LINE 1. Enter the amount of federal gross sales or receipts as entered on Federal Form 1120, less returns and allowances (total of line 1 and lines 4 through 10 of Federal Form 1120). If the corporate taxpayer filing Form 1120N is included in a consolidated federal return, enter the amount of consolidated gross sales or receipts less returns and allowances.

LINE 2. Enter the federal taxable income. A unitary group must enter the amount from line 30, Converting Net Income To Combined Net Income, Nebraska Schedule III, Form 1120N.

LINE 3. Enter the federal net operating loss carryover allowed as a deduction on the federal return. See line 11 instructions for allowable Nebraska net operating losses.

LINE 4. Enter the portion of the federal capital loss carryover allowed this year.

LINE 5. Enter the net amount of other adjustments, if any, to federal taxable income for Nebraska purposes from line 12, Nebraska Schedule A.

The following examples are items which are **not** allowable adjustments decreasing federal taxable income:

1. The wage expense disallowed by the work opportunity tax credit;
2. Federal income taxes or other federal taxes paid;
3. The depreciation disallowed by the investment credit or other federally required basis reduction;
4. Income earned in another state. Instead, Nebraska Schedule I, Apportionment for Multistate Business, must be completed; and
5. Income from a partnership. For additional information see Nebraska Corporation Income Tax Regulation 24-056.

The federal deduction for state income tax is not an adjustment increasing federal taxable income.

State and local government bond interest and dividend income is to be included on line 5. See Schedule A, line 1 instructions.

LINE 8. If all income is derived from sources within Nebraska, enter the amount from line 7, Form 1120N.

Corporate taxpayers, which derive income from sources within and without Nebraska and are taxable in another state, shall enter the amount from one of the following:

1. If the apportionment method of determining Nebraska taxable income is utilized, enter the amount from line 3, Nebraska Schedule I; or
2. If an alternative method is utilized, attach a schedule showing the computation of the Nebraska apportionment factor, enter the amount from line 3, Nebraska Schedule I, and attach a copy of the approval given by the Tax Commissioner for the alternative method. **The separate accounting method of income attribution can only be used when a prior written application for use of this method has been approved.**

LINE 9. Enter the allowable Nebraska capital loss carryover. For a multistate taxpayer, a Nebraska capital loss consists of the loss on property which was used in the unitary business that did business in Nebraska, multiplied by the Nebraska apportionment factor for the year of the loss. If the corporate taxpayer reported a capital loss on corporate stock or other assets, the income from which was not previously treated as income apportionable to Nebraska, such loss cannot be treated as a Nebraska loss. Capital loss carryovers are only allowable to the extent of capital gains in the year of the deduction. Attach a detailed schedule which shows the computation of the capital loss carryover.

LINE 11. Enter the allowable Nebraska net operating loss carryover. The amount allowable is based upon the loss previously reported to Nebraska and is not based on a percentage of the federal carryover.

Attach a Nebraska Corporation Net Operating Loss Worksheet which shows the computation of the amount of Nebraska net operating loss carryover.

Any net operating loss or capital loss can only be carried forward and only for a maximum period of five tax years.

LINE 13. Use the following tax rate schedule to compute the amount of total Nebraska tax to enter on line 13.

TAX RATE SCHEDULE			
If Net Nebraska Taxable Income from line 12 is—			
Over	But Not Over	Tax Rate is	On Excess Over
\$ 0	\$100,000	5.58%	\$ 0
\$100,000		\$5,580 + 7.81%	\$100,000

LINE 14. Enter the amount paid (not accrued) by the corporate taxpayer in this taxable year as taxes in lieu of intangible tax. Credit can only be taken for taxes paid on premiums from Nebraska sources. The taxes paid by any corporation subject to tax under Neb. Rev. Stat. §§ 77-908, or 81-523, or by an electric cooperative organized under the Joint Public Power Authority Act, Neb. Rev. Stat. § 70-1401 et seq. are considered payments of in lieu of intangible tax. Such taxes include assessments paid to the Comprehensive Health Insurance Pool and allowed as an offset against premium and related retaliatory tax liability pursuant to Neb. Rev. Stat. § 44-4233. Such taxes do not include amounts shown on the Nebraska Department

of Insurance Annual Tax Return as fees or Workers' Compensation Court cash fund tax.

Attach a copy of the Nebraska Department of Insurance Annual Tax Return(s) related to any payment claimed as credit for in lieu of intangible tax. **Also attach a schedule listing the date of payment, amount of payment, the payee, and the statutory section requiring payment of in lieu of intangible tax.**

LINE 15. Enter the allowable Nebraska Charitable Endowment Tax credit amount. The credit is calculated at 10 percent of the contribution made to a qualified endowment, cannot exceed \$5,000, and is limited to the Nebraska income tax liability. The credit must be taken in the year the contribution is made and cannot be carried back or forward.

Corporations claiming the credit must attach a statement from the qualified endowment to the Form 1120N which includes:

1. Name and address of the donor;
2. Name and federal identification number of the qualified endowment;
3. Name, address, and federal identification number of the Nebraska charity;
4. Date the gift was contributed; and
5. Type of outright gift.

All other documentation required by the IRC for the particular contribution must be kept as part of the corporate records and made available to the Department upon request.

LINE 18. If the total on line 18 is greater than the Nebraska tax on line 13, the excess will not be allowed as an overpayment on line 26, nor may it be used as a carryback or carryover to other taxable years.

LINE 22. Enter the total of your 2008 estimated tax payments, less any Form 4466N adjustment. Combined filers complete and attach Nebraska Schedule IV.

LINE 28. Enter on line 28 the amount of overpayment you want refunded to you after subtracting line 27 from line 26. For the purposes of economy and efficiency, the Department encourages all taxpayers to have their refunds electronically direct deposited to their financial institution by using the instructions found on line 29 below.

LINE 29, DIRECT DEPOSIT. In order to have your refund deposited directly into your checking or savings account, it is necessary to enter the routing number and account number found on the bottom of the checks used with the account. The routing number is listed first and must be nine (9) digits. The account number is listed to the right of the routing number and can be up to seventeen (17) digits. Enter these numbers in the boxes found on lines 29a and 29c. Also complete line 29b, Type of Account.

INSTRUCTIONS FOR NEBRASKA SCHEDULE A Summary of Line 5 Adjustments

Nebraska Schedule A must be completed by all corporate taxpayers making any adjustments on line 5 of Form 1120N. Any adjustments that are summarized on Nebraska Schedule A are carried forward to line 5, Form 1120N.

Adjustments Increasing Federal Taxable Income

LINE 1. All state and local government interest or dividend income (except that issued by Nebraska state and local subdivisions), which is exempt for federal income tax purposes, must be included as an adjustment increasing federal taxable income.

For dividends received from a regulated investment company, only the portion of the dividend attributable to Nebraska obligations is not added to federal taxable income for Nebraska tax purposes. Attach a detailed workpaper or schedule showing the total state and local government obligation income and detailing the source and amount of each Nebraska obligation which reduced the total dividend income received.

Adjustments Decreasing Federal Taxable Income

LINE 2. Interest and dividend income from U.S. government obligations represents income which the state is prohibited from

taxing by federal law and is an adjustment decreasing federal taxable income.

Corporate Income Tax Regulation 24-048 lists items which can and cannot be excluded. Interest income from repurchase agreements involving U.S. government obligations is not deductible as U.S. government interest.

For dividends received from a regulated investment company, only the portion of the dividend attributable to interest on U.S. government obligations may be excluded. Attach a detailed workpaper or schedule listing the source and amount of income derived from each obligation for which a deduction is claimed.

LINE 3. Enter the amount of adjustment for foreign dividends, foreign dividend gross-up, or special foreign tax credit deduction from line 12, Nebraska Schedule II.

LINE 4. Enter any claimed allocable and nonapportionable income (nonbusiness income) on line 4. The amount of claimed allocable, nonapportionable income must be reduced by related expenses (enter on line 5), and a portion of the total interest expense of the taxpayer (enter on line 6). Related expenses include all direct expenses and all indirect expenses attributable to the activities producing the nonapportionable income. The amount of interest expense that is considered related and which must be disallowed on line 6 is determined by multiplying the total interest expense by the ratio of the investment in the activities producing the nonapportionable income to the total assets. **Entries must be made on lines 5 and 6 or the entire amount of allocable, nonapportionable income claimed may be disallowed.**

Attach a detailed description of the claimed amount, together with evidence that the income is not part of a unitary business. Also attach an affidavit from a corporate officer that the corporate taxpayer has not claimed the same income to be a part of a unitary business subject to apportionment in another state with substantially the same law as Nebraska.

LINE 8. NEBRASKA COLLEGE SAVINGS PLAN. Nebraska allows a subtraction from a participant's federal taxable income for the amount of annual contributions made to the Nebraska College Savings Plan administered by the State Treasurer. The maximum annual exempt contribution per return is \$5,000.

Donations, gifts, and grants to the Nebraska educational savings plan trust for deposit to the endowment fund are allowed to be subtracted on line 8 to the extent not deducted for federal income tax purposes. You must enclose a **copy of the letter** of receipt from the State Treasurer's office acknowledging the gift received.

LINE 9. Corporations are allowed to deduct 20 percent of the total bonus depreciation previously added back on their 2000 through 2005 tax year returns. Attach a schedule identifying the bonus depreciation previously added back in each tax year. See Revenue Ruling 24-08-2 for additional information.

LINE 10. Corporations are allowed to deduct 20 percent of the enhanced Section 179 expense deduction previously added back on their 2003 through 2005 tax year returns. Attach a schedule identifying the enhanced Section 179 expense deduction previously added back in each tax year. See Revenue Ruling 24-08-2 for additional information.

LINE 11. Enter any other adjustment not reported on lines 2 through 10. Attach a detailed explanation of the basis for each adjustment and any necessary schedules.

LINE 12. Enter total adjustments on line 5, Form 1120N.

INSTRUCTIONS FOR NEBRASKA SCHEDULE I Apportionment for Multistate Business

Nebraska Schedule I must be completed by all corporate taxpayers which derive income from sources both within and without Nebraska.

The factor on this schedule is rounded to six decimal places. It is entered as a percent.

Nebraska uses a single-factor, sales-only formula to apportion income.

When a corporate taxpayer consists of two or more corporations engaged in a unitary business, a part of which is conducted in Nebraska, the income of the corporate taxpayer apportionable

to Nebraska is determined by applying the ratio of the corporate taxpayer's sales in Nebraska to the sales of the entire unitary group. The corporate taxpayer's sales in Nebraska should include only those sales made by members of the unitary group with nexus in this state. Each corporate taxpayer must file one income tax return for the entire group. The return will include all corporations in the unitary business. Any corporation that is required or has received permission to use an alternative apportionment formula cannot be included in the unitary group.

Corporations filing combined returns must complete and attach Subsidiary or Affiliated Corporations, Nebraska Schedule IV, and Converting Net Income to Combined Net Income, Nebraska Schedule III, in addition to Nebraska Schedule I.

A corporate taxpayer that is a partner in a joint venture or partnership must compute its Nebraska taxable income in accordance with Regulation 24-056. Trucking companies with income from within and without this state, must compute their sales factor in accordance with Corporate Income Tax Regulation 24-059. For additional information see Reg-24-059 and the Apportionment Worksheet for Transportation Revenue found at www.revenue.ne.gov.

A corporation using an alternative method of apportionment must attach a copy of the approval of the alternative method and a computation of the apportionment factor. Enter the factor on line 2, Nebraska Schedule I, and complete lines 1 through 3.

SALES FACTOR. The sales factor is a fraction, the numerator of which is the total sales of the corporate taxpayer in Nebraska during the taxable year, and the denominator of which is the total sales of the taxpayer everywhere during the taxable year. The numerator should only include the sales made by entities with nexus in this state. Total sales include gross sales of real and tangible personal property, less returns and allowances, and all other items of gross receipts which constitute taxable income. Intercompany sales between unitary corporations using the combined income approach are excluded from the sales factor. Gross receipts, if substantial in amount and realized from an incidental or occasional sale of a fixed asset used in connection with the taxpayer's regular trade or business, are excluded from the sales factor since the inclusion of such receipts would not fairly reflect the extent of the taxpayer's business activity in Nebraska.

The following sales of tangible personal property are included as Nebraska sales in the sales factor:

1. Sales of property which are delivered or shipped to a purchaser, other than the U.S. government, within Nebraska regardless of the f.o.b. point or other conditions of the sale; and
2. Sales to the U.S. government of property shipped from an office, store, warehouse, factory, or other place of storage in this state.

Sales other than the sales of tangible personal property are in Nebraska if:

1. The income-producing activity is performed in Nebraska; or
2. The income-producing activity is performed both within and without Nebraska and a greater proportion of the income-producing activity is performed in Nebraska during the taxable year than in any other state, based on costs of performance.

Sales or receipts not specifically assigned by the preceding paragraphs are assigned as follows:

1. Gross receipts from the sale, rental, or lease of real property are in Nebraska if the real property is located in Nebraska;
2. Gross receipts from the rental, lease, or licensing of tangible personal property are in Nebraska if the property is in Nebraska. If the property was both within and without Nebraska during the taxable year, then the gross receipts attributable to the period, or the ratio of time the property was used in Nebraska, are considered in Nebraska;
3. Gross receipts from the performance of personal services are in Nebraska if the personal services are performed in Nebraska. If such personal services are performed partly

within and partly without Nebraska, a portion of the gross receipts from performance of the personal services shall be attributed to Nebraska based upon the ratio which the time spent in performing such services in this state bears to the total time spent in performing such services everywhere; and

4. Gross receipts from the interest income or service charges arising from the sale of tangible personal property are attributable to Nebraska if the sale is attributed to Nebraska.

SALES TO THE U.S. GOVERNMENT. The U.S. government is the purchaser when it makes direct payment to the seller. A sale to the U.S. government of tangible personal property is in Nebraska if it is shipped from an office, store, warehouse, or other place of storage in Nebraska. The above rules for sales of other than tangible personal property apply to sales made to the U.S. government.

INSTRUCTIONS FOR NEBRASKA SCHEDULE II Foreign Dividend and Special Foreign Tax Credit Deduction

Nebraska Schedule II must be completed to compute the deduction for dividends received or deemed to be received from corporations that are not subject to the Internal Revenue Code. A deduction is only allowed for those amounts included in federal taxable income (line 30, Federal Form 1120). In addition, an adjustment is allowed for income that is taxed by a foreign country or one of its political subdivisions at a rate in excess of the maximum federal corporate tax rate. The adjustment can be made for each foreign country or group of foreign countries. The amount of federal taxable income from operations within a foreign taxing jurisdiction shall be reduced by the amount of taxes actually paid to the foreign jurisdiction that are not deductible solely because the foreign tax credit was elected on the federal income tax return. The amount of after-tax income shall then be divided by one minus the maximum tax rate for corporations in the Internal Revenue Code. The result of this calculation will be subtracted from the amount of federal taxable income from foreign operations.

The difference is reported in the total adjustment computed on Nebraska Schedule A and is included as an adjustment to federal taxable income on line 5, Form 1120N. Schedule C, Federal Form 1120, and Parts I and II of Federal Form 1118 must be attached.

LINE 11. If line 10 is greater than or equal to line 7, enter -0-. If line 10 is less than line 7, enter the difference, but do not enter more than the amount on line 8.

LINE 12. Enter the total of lines 3, 4, 5, 6, and 11 on line 12 and transfer this total to line 3, Nebraska Schedule A.

INSTRUCTIONS FOR NEBRASKA SCHEDULE III Converting Net Income to Combined Net Income

Nebraska Schedule III must be completed by each corporate taxpayer filing a combined Nebraska Corporation Income Tax Return, Form 1120N. If additional space is required, attach a schedule using the same format as Nebraska Schedule III.

In lieu of Nebraska Schedule III, the corporate taxpayer may begin with amounts reported on the federal return and then make the necessary adjustments to arrive at combined income. This schedule should be in a format similar to Nebraska Schedule III, and is to be attached to Form 1120N.

INSTRUCTIONS FOR NEBRASKA SCHEDULE IV Subsidiary or Affiliated Corporations

Nebraska Schedule IV must be completed if the corporate taxpayer is a member of a unitary group or if the corporate taxpayer either individually or as a group owns 50 percent or more of another corporation or is owned 50 percent or more by another corporation. If additional space is required, attach a schedule using the same format as Nebraska Schedule IV.

The amounts on lines 21, and 22 of Form 1120N are equal to the column totals of columns A and B, respectively. The amount on line 14 in the Nebraska column of Schedule I, Form 1120N, is equal to the column total of column D.