

# Schedule AP, Apportionment of Income for Corporations and Partnerships—2011 Form and Instructions

## General information

Schedule AP is used for all corporations and partnerships that are doing business in more than one state and may be used with Forms 20, 20-I, 20-S, 20-INS, and 65.

Oregon income is the total of the business entity's apportioned and allocated income assigned to Oregon.

Each business carrying on a unitary business both inside and outside Oregon must complete Schedule AP.

If another method of assigning income is proposed, the business must still complete Schedule AP. A full explanation of the other method must be made.

**Apportionment and allocation.** Apportionment is dividing business income among the states by use of a formula. Allocation is the assignment of specific non-business income to a state. Most business entities having unitary business activities, as defined in Oregon Revised Statute (ORS) 317.705, both inside and outside Oregon must use the apportionment and allocation methods provided in the Uniform Division of Income for Tax Purposes Act (ORS 314.605 through 314.690). Certain types of business entities are required to use **modified apportionment factors** as specified below.

|                                     |                        |
|-------------------------------------|------------------------|
| Airlines .....                      | OAR 150-314.280-(I)    |
| Electricity and natural gas.....    | OAR 150-314.665(2)-(C) |
| Forest products industry.....       | ORS 314.650(2)         |
| Financial corporations.....         | OAR 150-314.280-(N)    |
| Health care service contractors.... | OAR 150-314.280-(E)    |
| Insurance companies.....            | ORS 317.660            |
| Interstate broadcasters.....        | ORS 314.682–314.686    |
|                                     | OAR 150-314.684(4)     |
|                                     | OAR 150-314.686        |
| Interstate river transportation     |                        |
| companies.....                      | OAR 150-314.280-(L)    |
| Long-term construction              |                        |
| contractors .....                   | OAR 150-314.615-(F)    |
| Movie and television production     |                        |
| companies.....                      | OAR 150-314.615-(H)    |
| Publishing companies.....           | OAR 150-314.670-(A)    |
| Railroads .....                     | OAR 150-314.280-(H)    |
| Sea transportation companies.....   | OAR 150-314.280-(K)    |
| Title insurance companies           |                        |
| incorporated in Oregon .....        | OAR 150-314.280-(E)    |
| Trucking companies .....            | OAR 150-314.280-(J)    |
| Utility and telecommunication       |                        |
| companies.....                      | ORS 314.280(3)(e)      |

## Schedule AP-1 line instructions

**Consolidated returns.** The denominators of the property, payroll, and sales factors include only amounts

from corporations that are included in the consolidated federal return and are part of the unitary group. The numerators of the factors must include the Oregon property, payroll, and sales from each of the corporations taxable by Oregon. Attach a schedule showing the denominators and numerators of the property, payroll, and sales factors by each entity included in the Oregon consolidated return.

**Rounding.** When computing the property, payroll, and sales factor percentages, as well as the Oregon apportionment or alternative apportionment, round the percentage to four decimal places. For example, 12.34558 percent should be 12.3456 percent.

## Line instructions

**Property factor (all companies except insurance companies).** Enter all owned or rented business property in column B of Schedule AP-1. Enter business property owned or rented within Oregon in column A. See ORS 314.655 and administrative rules.

**Lines 1 through 5.** Value owned property at original cost. Show the average value during the taxable year of real and tangible personal property used in the business. This is the average of property values at the beginning and end of the tax period. An average of the monthly values may be required if a more reasonable value results.

**Line 6.** Value rented property at eight times the annual rental value. Reduce the annual rental value by nonbusiness sub rentals.

## Real estate income (insurance companies only)

**Line 7.**

- Life companies—Annual statement, page E-01, Schedule A, part 1, column 16 minus column 17, and page E-03, Schedule A, part 3, column 19 minus column 20.
- P&C companies—Annual statement, Schedule A, part 1, pages E-01 and E-03, column 16 minus column 17, and Schedule A, part 3, column 19 minus column 20.

If you have income from a joint venture, partnership, or LLC, include real estate income and interest included on:

- Life companies—Annual statement, page 8, exhibit of net investment income, line 8, column 1.
- P&C companies—Annual statement, page 12, exhibit of net investment income, line 8, column 1.

## Real estate interest (insurance companies only)

**Line 8.**

- Life companies—Annual statement, page 8, exhibit of net investment income, line 3, column 1.

- P&C companies—Annual statement, page 12, exhibit of net investment income, line 3, column 1.

#### Line 9.

All companies except insurance companies total lines 1 through 6. Insurance companies only total lines 7 and 8.

#### Payroll factor (wage and commission)

**Lines 10 and 11.** Assign payroll to Oregon if:

- The services are performed entirely inside Oregon; or
- The services are both inside and outside Oregon but those services outside are only incidental; or
- Some of the services are performed in Oregon and (a) the base of operation or control is located in Oregon, or (b) the base of operation or control is not in any state in which the services are performed, and the employee's residence is in Oregon. See ORS 314.660 and administrative rules.

Insurance companies should use the wage and commission amounts from the annual statement.

#### Sales factor (all companies except insurance companies complete lines 13 through 17)

Assign sales to Oregon if:

- **Lines 13 and 14.** The property is shipped or delivered to a purchaser in Oregon other than the United States Government; or
- **Lines 15 and 16.** The property is shipped from a warehouse or other place of storage in Oregon; and (a) the purchaser is the United States Government or (b) the business is not taxable in the state of the purchaser. See ORS 314.665(3) for exception.

See ORS 314.620 and Public Law 86-272 to determine if a business is taxable in another state. Charges for services are Oregon sales if a greater proportion of the income-producing activity is performed in Oregon than in any other state, based on cost of performance. See ORS 314.665 and Oregon Administrative Rules (OARs). Gross receipts from the sale, exchange, or redemption of intangible assets cannot be included in the sales factor if not derived from your primary business activity. For taxpayers other than financial organizations, as defined in ORS 317.010(11), the net gain from sales, exchanges, or redemption of intangible assets that are not derived from your primary business activity are included in the sales factor if the gains are business income.

#### Insurance sales factor (insurance companies only)

**Note for insurance companies taking the workers' compensation insurance tax credit:** For purposes of calculating line 14 of the *Workers' Compensation Insurance Tax Credit Worksheet*, use only income directly attributable to the workers' compensation line of business.

**Lines 18 through 20.** Use total premiums written including Oregon premiums written.

- Life companies—Annual statement, "Premiums and Annuity Considerations," page 48, schedule T, lines 38 and 95. Insurance premiums include life insurance in column 2, annuity considerations in column 3, and accident and health insurance premiums in column 4.
- P&C companies—Annual statement, "Schedule of Premiums Written," page 92, schedule T, lines 38 and 59, columns 2 and 8. Finance and service charges are included in the apportionment factor for premiums.

ORS 317.660 provides that the insurance sales factor does not include reinsurance accepted and there is no deduction of reinsurance ceded. If the exclusion of reinsurance premiums results in an apportionment formula that does not fairly represent the extent of the insurance company's activity in Oregon, you may include reinsurance premiums in the insurance sales factor. You **must** request and receive permission from the Oregon Department of Revenue to include these premiums in the insurance factor **before** you file your return. Send your request to the **Oregon Department of Revenue, 955 Center Street NE, Salem OR 97301-2555.**

#### Apportionment percentage

##### Line 21.

All companies except insurance companies total lines 13 through 17. Insurance companies total lines 18 through 20.

##### Line 22.

Use the worksheets on page 3 to compute your Oregon apportionment percentage.

### Schedule AP-2 taxable income computation

**Line 1.** Enter amount from Form 20, line 13; Form 20-I, line 15; Form 20-S, line 4; or Form 20-INS, line 19.

To determine the Oregon-source distributive income for the owners of pass-through entities (PTEs), enter only the modified distributive income for the entity on line 1. OAR 150-314.775(1)(c) defines modified distributive income. Forms 65 and 20-S have schedules for figuring your modifications.

**Lines 2 and 7. Business and nonbusiness income (all companies except insurance companies).** "Business income" is income arising from transactions and activities in the regular course of the taxpayer's business. It includes income from tangible and intangible property related to the regular business operation.

Examples of business income are:

- Sales of products or services;
- Rents, if property rental is a related business activity;
- Royalties, if the patent, processes, etc., were developed by or used in the business operation;
- Gain or loss on the disposal of business property; and

- Interest income on trade receivables or installment contracts arising out of the business or from the investment of working capital.

“Nonbusiness income” means all income other than business income. Rents, royalties, gains or losses, and interest also can be nonbusiness income if they arise from investments not related to the taxpayer’s business. Nonbusiness income is allocated to a particular state based upon the source of the income. Gain or loss from the sale of a partnership interest may be allocable to Oregon [ORS 314.635(4)]. **A schedule of nonbusiness income must be attached to the return.** The amounts allocable to Oregon must be added to Oregon’s apportioned income. See ORS 314.610 and administrative rules.

**Line 3. Subtract: Gains from prior year installment sales included in line 1.** OAR 150-314.615-(G) requires that installment gains be apportioned to Oregon using the average percent from the year of the sale rather than the year payment is received.

**Line 8. Add: Gains from prior year installment sales apportioned to Oregon.** Multiply the installment gains subtracted on line 3 by the average percent from the year of the sale.

**Line 10. Net loss and net capital loss deduction.** Do not use line 10 when computing Oregon-source distributive income for nonresident owners of PTEs.

**Note:** If you are claiming the Oregon investment advantage subtraction allowed under ORS 317.391, include the amount of exempt certified facility income on line 10b. Attach a schedule showing your computations.

**Line 11.** Carry this amount to the appropriate line on your tax return: Form 20, line 15; Form 20-I, line 16; Form 20-S, line 6; or Form 20-INS, line 21. For nonresident owners of PTEs, this line results in Oregon-source distributive income. Report each nonresident owner’s and corporate owner’s share on their information return, along with the Oregon-source portion of (1) any guaranteed payments (for partnerships) and (2) the taxable portion of distributions.

## AP Worksheets (Oregon apportionment percentage)

**These worksheets are for businesses having business activities both inside and outside of Oregon. If the entity’s business activities are all within Oregon, do not use these worksheets.**

### Standard apportionment worksheet

Business income is apportioned to Oregon by multiplying the income by a multiplier equal to Oregon sales and other receipts as determined by Schedule AP-1, divided by total sales and other receipts from the federal return. See ORS 314.650.

|  | (a) | (b) | (c) = (a ÷ b) x 100 |
|--|-----|-----|---------------------|
| 1. Total sales and other receipts (Schedule AP-1, line 21)..... 1                  |     |     |                     |
| 2. <b>Oregon apportionment percentage</b> (enter on Schedule AP-1, line 22)..... 2 |     |     | %                   |

### Alternative apportionment worksheet (double-weighted sales factor formula) for utility or telecommunication taxpayers

Taxpayers primarily engaged in utilities or telecommunications may elect to apportion business income using the double-weighted sales factor provided in ORS 314.650 (1999 edition).

Check the box on front of your return if you’re using the alternative apportionment worksheet (Form 20, question M; Form 20-I, question L; Form 20-S, question J). All others use the standard apportionment worksheet above.

|  | (a) | (b) | (c) = (a ÷ b) x 100 |
|--|-----|-----|---------------------|
| 1. Total owned and rented property (Schedule AP-1, line 9) ..... 1   |     |     | %                   |
| 2. Total wages and salaries (Schedule AP-1, line 12) ..... 2   |     |     | %                   |
| 3. Total sales and other receipts (Schedule AP-1, line 21)..... 3  |     |     | %                   |
| 4. Total sales and other receipts (same as line 3 above)..... 4  |     |     | %                   |
| 5. Total percent (add lines 1-4, column c above)..... 5  |     |     | %                   |
| 6. Number of factors with a positive number in column b..... 6   |     |     |                     |
| 7. <b>Alternative apportionment percentage</b> (divide line 5 by line 6; enter on Schedule AP-1, line 22)..... 7 |     |     | %                   |

