STATE OF DELAWARE

2016 Corporate Income Tax 2016 Instructions and Returns

INSTRUCTION HIGHLIGHTS
CALENDAR YEAR 2016 AND FISCAL YEAR ENDING 2017 TAX YEAR

Contained within this booklet you will find Form 1100EZ, in addition to Form 1100. Please see page 2 of this instruction booklet for the eligibility requirements for use of Form 1100EZ.

Title 30 of the Delaware Code authorizes seven different credits to be applied against Delaware corporate income tax. The corporate income tax credits that are available are the Economic Development, Green Industries, Research & Development, Land & Historic Resource Conservation, Travelink Traffic Mitigation, Neighborhood Assistance and Historic Property Preservation tax credits. Please see page 6 of this instruction booklet for details concerning the corporate income tax credits.

House Bill 403 of the 142nd General Assembly creates a new Chapter 64 of Title 30 of the Delaware Code. This new chapter relates to the formation, powers and taxation of a new corporate entity known as a Delaware Headquarters Management Corporation (HMC). The HMC will be exempt from taxation under Chapter 19 of Title 30 of the Delaware Code but will be subject to an alternative tax calculation under the new Chapter 64. The purpose of this legislation and the creation of the HMC is to allow for the opportunity to attract investment management activities and headquarter support operations to the State of Delaware to create new employment within the State. Any corporation may elect to be classified as an HMC if the corporation limits its activities in Delaware to investment activities and/or providing headquarters management services to itself and to members of its affiliated group. The election to become an HMC may be made anytime before the last day of the end of the first taxable year commencing after December 31, 2003. Form 6401-HMC, APPLICATION AND ELECTION FOR A HEADQUARTERS MANAGEMENT CORPORATION STATE OF DELAWARE BUSINESS LICENSE must be completed and submitted to the Director of Revenue with the $5,000 license fee on or before the last day for making an election to become an HMC. Additional information regarding the creation and taxation of an HMC can be obtained by reading Delaware Technical Information Memorandunm 2004-4.

Any provisions of the Jumpstart Our Business Strength (JOBS) Act of 2004, H.R. 4520, which affect the Delaware taxable income of a corporation have been automatically adopted by the Delaware Division of Revenue.

Many Delaware corporate income tax returns received by the Division of Revenue have an erroneous entry on Line 2(g). The erroneous entry results from the corporation entering the federal loss carryfoward from Line 29(a) of the federal corporate income tax return on Line 2(g) of the Delaware corporate income tax return. **The carryforward loss on Line 2(g) must only be the amount of loss carried back for federal tax purposes and disallowed for Delaware tax purposes.** The Delaware corporate income tax statute does not allow loss carrybacks in excess of $30,000 to each carryback year. Federal loss carrybacks in excess of $30,000 for any carryback year must be carried forward for Delaware corporate income tax purposes. The carryforwards disallowed as a carryback are entered on Line 2(g) of the Delaware corporate income tax return. **The amount of carryforward loss used in one year can only equal the amount of federal taxable income in the carryforward year. A carryforward loss can not be used to offset any Delaware addition modification or income allocation for the purpose of reducing Delaware taxable income to zero.** Please see Page 7 of this instruction booklet for details concerning net operating loss deductions.

Corporations who are incorporated in Delaware and whose activities are limited to maintaining a statutory corporate office and not conducting business within Delaware are exempt from filing the Delaware corporate income tax return under Section 1902(b)(6) of Title 30 of the Delaware Code.

While a corporation may be exempt from filing an income tax return under Section 1902(b)(6), an annual Franchise Tax is imposed upon all corporations for the privilege of being incorporated in Delaware unless specifically exempted by law. The Franchise Tax is administered by the Secretary of State. Companies may incorporate under the General Corporate Law of Delaware by filing the proper documents with the Secretary of State, Division of Corporations, P.O. Box 898, Dover, Delaware 19903. General information can be obtained by calling (302) 739-3073, or by visiting their website www.corp.delaware.gov.

Step by step instructions for completing the Delaware corporate income tax return are provided in this booklet. The Division of Revenue is committed to provide quality services to all businesses. To assist, the Division's Office of Business Taxes has created a Home Page within the website of the Delaware Division of Revenue. The internet address is www.revenue.delaware.gov. Select *Business Taxpayers* from the *Services* column. This site contains information for registering your business, Tax Tips to guide you in filing various business tax returns and the ability to electronically contact a representative of the Office of Business Taxes with your tax questions. A new feature added to this site enables any business whose current Delaware business license expires on December 31, 2016 to renew their business license for 2017 online and pay their license fee by using a credit card. The business will have the ability to print a temporary license directly from the website and subsequently be mailed a permanent license. In addition, any business renewing a license online may also elect a one or three year business license.

LOCATION OF OFFICES

TOLL-FREE TELEPHONE NUMBER (DELAWARE ONLY) 1 - 800 - 292 - 7826

WILMINGTON
Division of Revenue
State Office Building
820 N. French Street
Wilmington, Delaware 19801

Telephone: (302) 577 - 8205
Fax: (302) 577 - 8662

DOVER
Division of Revenue
Thomas Collins Building, Suite 2
540 S. DuPont Highway
Dover, Delaware 19901

Telephone: (302) 744 - 1085
Fax: (302) 744 - 1095

GEORGETOWN
Division of Revenue
20653 DuPont Blvd, Suite 2
Georgetown, Delaware 19947

Telephone: (302) 856 - 5358
Fax: (302) 856 - 5697

CORPORATION INCOME TAX RETURN INSTRUCTIONS

GENERAL INSTRUCTIONS

FORM SELECTION

Contained within this booklet you will find Form 1100EZ, in addition to Form 1100. The specific instructions for Form 1100EZ are printed on the back of the form. Form 1100EZ has been created to simplify the filing of the Delaware corporate income tax return for eligible taxpayers. File Form 1100EZ only if:

1. Federal taxable income (Line 30, Federal Form 1120) is less than $10,000,000,
2. The addback of Delaware corporate income taxes deducted in computing Federal taxable income is the only modification to Federal taxable income and
3. All property owned and rented is located in Delaware, all wages and salaries are paid to employees working in Delaware and goods sold or services rendered are delivered or performed in Delaware.

The corporation must file Form 1100 if it does not meet all three eligibility requirements.

CORPORATIONS REQUIRED TO FILE RETURNS

Every domestic and foreign corporation doing business in Delaware, not specifically exempt under the provisions of Section 1902(b), Title 30, Delaware Code, is required to file a corporation income tax return regardless of the amount, if any, of its gross income or its taxable income.

Corporations whose activities in Delaware are limited to the maintenance and management of their intangible investments may be exempt under Section 1902(b)(8). Corporations may obtain a specific ruling from the Division of Revenue by submitting an Application of Exemption, Form 1902AP, describing their operations and stating the grounds for the exemption under Section 1902(b)(8).

Section 1904(f), Delaware Code, requires that corporations exempt under Section 1902(b)(8) file an Annual Information Return [Division of Revenue Form 1902(b)] reporting sources of income and services provided within and without Delaware.

Consolidated corporate income tax returns are not permitted under Delaware Law. Each corporation which is a member of a consolidated group must file a separate return reporting income and deductions as if a separate Federal income tax return was filed.

The State of Delaware has not adopted by statute or by regulation, the provisions of the Uniform Division of Income Tax Purposes Act nor is the State a member of the Multistate Tax Commission. The State of Delaware does not recognize or approve using Combined Reporting, Unitary or Waters Edge methods of filing a Delaware corporate income tax return.

The State of Delaware has issued regulations (Technical Information Memorandum 98-1) regarding the Federal "check the box" classification of Limited Liability Companies (LLC's), where such LLC's conduct business within Delaware.

An LLC, which makes an election to be treated as a corporation and has a single or multiple members, will file a Delaware corporate income tax return. The corporate attributes of the LLC do not flow through to the individual member(s). Delaware recognizes the existence of the LLC as a separate legal entity which does not create nexus for the individual LLC member(s) when the LLC has elected to be taxed as a corporation.

An LLC, which does not make a Federal election to be treated as a corporation and has a single corporate member, will not be recognized as a corporation for Delaware income tax purposes. The LLC will be considered a division of the single corporate member. The single corporate member will be required to file a Delaware corporate income tax return. The corporate apportionment percentage will reflect the operation of the entire corporation and the property, wage and sales factors of the LLC will be included with the factors of the corporate single member.

PERIOD COVERED BY RETURN

The income tax year of a corporation is the same as the taxable year for which the corporation reports for purposes of the Federal income tax. Accordingly, this return is to be filed for the calendar year 2016 or fiscal year beginning in 2016 and ending in 2017.

Short period returns are required when there is a change of the annual accounting period or where the taxpayer is not in existence for the entire year. Short period returns are also required when there is a change of ownership as in the case of a subsidiary required to file a consolidated Federal income tax return with its parent. Chapter 19 (Corporation Income Tax) of Title 30 of the Delaware Code does not contain a specific provision for the filing of a short period corporate final income tax return. Section 1901(7) provides that the "income year" of a corporate taxpayer shall be the taxable year for which a taxpayer computes its net income for purposes of the Federal income tax. Section 1903 provides that the entire net income of a corporation is the amount of its Federal taxable income with specific modifications. As a result, if a short period Federal return is due, a short period Delaware return is also due for the same tax period. Short period returns resulting from acquisitions or mergers are due on the first day of the fourth month after the end of the taxable preacquisition and postacquisition periods.

WHEN TO FILE AND EXTENSIONS

File Form 1100 or 1100EZ on or before the first day of the fourth month following the close of the taxable year. A request for an automatic extension of six months to the Internal Revenue Service will automatically extend by six months the filing date for the Delaware return. If an automatic Federal extension has been granted, a copy of the extension must be attached to the final return when filed.

An extension of time with payment for filing the Delaware corporate income tax return is made by filing Form 1100 T-EXT contained in the Delaware Corporate Tentative Tax coupon book on or before the due date of the original return. Please note that a timely filed extension extends the period for filing a final return but does not extend the period of time for making payment. **Payment of the anticipated liability must be made with the extension request, 1100 T-EXT coupon.** Section 511 of Title 30 of the Delaware Code provides that the Director may grant an extension of time for filing any return and may require a bond not exceeding twice the amount of the tax.

An extension beyond the automatic six month period must be requested by letter on or before the extended due date of the return. A copy of the Division of Revenue Approval Letter must be attached to the final return when filed.

PENALTIES AND INTEREST

Returns filed late are subject to a penalty of 5% per month, up to a maximum of 50% of the tax liability due, plus interest of 1/2% per month from the original due date until paid. In addition to the above penalties and interest, an additional penalty of 1% per month (not to exceed 25%) is imposed for failure to pay (in whole or in part) the tax liability shown to be due on a timely filed return.

TENTATIVE TAX FILING REQUIREMENTS

Every corporation is required to declare the amount of its estimated tax liability and prepay the amount of its estimated tax liability in four installments. The declaration and remittance, equal to **50%** of the corporation's estimated tax liability, are due on or before the first day of the fourth month of the taxable year. The **declaration** (Form T-1) is due even if the estimated tax liability is zero and no remittance is required. The remaining coupons -- T-2, T-3 and T-4 -- are not required to be filed if the estimated tax liability is zero for the remainder of the taxable year. If the estimated tax liability is greater than zero during any of the remaining three quarters of the taxable year, quarterly tentative tax payments are due according to the following schedule: **20%** on the 15th day of the 6th month of the taxable year; **20%** on the 15th day of the 9th month of the taxable year and **10%** on the 15th day of the 12th month of the taxable year. House Bill No. 257, signed July 23, 1997, eliminates the requirement for the corporation to file and remit tentative tax when the corporation's taxable period is less than 92 calendar days.

Declarations of tentative tax and payments must be made by filing Form 1100-T, Tentative Tax Return. Failure to make a declaration or file and pay the required tentative tax payments will result in a penalty. A penalty of 1.5% per month is imposed on any underpayment or late payment of tentative taxes from the due date of the tentative payment to the date the tax was paid. The penalty will not be imposed if total tentative taxes timely paid equal or exceed 80% of the current year's tax liability or equal or exceed 100% of the tax liability of the first preceding taxable year.

Corporations whose Delaware taxable income was $200,000 or more in any of the last three preceding taxable years must make estimated payments equal to **80%** of the current year's tax liability.

A program has been established enabling a corporation to remit tentative tax payments electronically. This program is made available to all corporations on a voluntary basis. The Electronic Funds Transfer options available to you include:

1. ACH Debit Option: The corporation initiates a transaction by contacting the State of Delaware's Data Collector at least one business day prior to the due date of the payment. This call authorizes the State of Delaware to electronically transfer tax payments from the corporation's depository to the State's depository.

2. ACH Credit Option: The corporation initiates an ACH transaction through their depository. This ACH transaction will be in the Cash Concentration and Disbursement Plus (CCD+) format and must be initiated at least one day prior to the due date of the payment.

To participate in the EFT program, you must complete the **State of Delaware Electronic Funds Transfer Program, ACH Authorization**

Form. This form and its instructions are available by contacting the Division of Revenue, Electronic Funds Coordinator, Carvel State Office Building, P.O. Box 8763, Wilmington, DE 19899-8763, (302) 577-8231.

EXEMPT CORPORATIONS

The following corporations are exempt from filing a Delaware corporate income tax return:

1. Fraternal beneficiary societies,
2. Cemetery corporations and corporations created for religious, charitable, scientific or educational purposes,
3. Business and civic leagues, chambers of commerce, fire companies, merchants associations or boards of trade not organized for profit.
4. Clubs organized and operated exclusively for pleasure and recreation,
5. Corporations maintaining a statutory corporate office in Delaware but not doing business within Delaware,
6. Insurance companies paying taxes upon gross premiums to the Insurance Commissioner,
7. Corporations whose activities within Delaware are confined to the maintenance and management of their intangible investments and the collection and distribution of the income from such investments or from tangible property physically located outside of Delaware,
8. S Corporations for taxable years beginning on or after January 1, 1992,
9. Export trading companies defined in Section 7401 of Title 6, Delaware Code,
10. Real Estate Mortgage Investment Conduit as defined in Section 860D of the Internal Revenue Code of 1986,
11. Corporations registered as an investment company under the Investment Company Act of 1940,
12. Corporations that are a real estate investment trust as defined in Section 856 of the Internal Revenue Code of 1986 and
13. Real Estate Mortgage Investment Conduit as defined in Section 860D of the Internal Revenue Code of 1986,
14. An entity that is a homeowners association as defined in Section 528 of the Internal Revenue Code or successor provision.

NOTICE OF FEDERAL TAX ADJUSTMENT

If a taxpayer files an amended Federal income tax return, the corporation is required within 90 days to file an amended State of Delaware corporation income tax return, Form 1100X, together with a copy of the amended Federal return. If the net income reported by the taxpayer to the Internal Revenue Service for Federal income tax purposes is changed or corrected by the Internal Revenue Service, or the tax computed on the return is redetermined by the Internal Revenue Service, notice of such changes, corrections or adjustments must be reported to the Division of Revenue within 90 days after the final determination by the Internal Revenue Service is made. Form 1100X is available from the Division of Revenue.

ATTACH COPY OF FEDERAL RETURN

You must attach a copy of your Federal return for the income year, including all schedules and exhibits, when filing your Delaware return. If the corporation is a member of an affiliated group for Federal income tax purposes, the corporation must furnish a spread sheet of all items of income and deduction reconciling the separate items of each member corporation to the consolidated totals.

MAGNETIC REPORTING OF FORM 1099 INFORMATION

Any corporation required to report Form 1099-MISC or 1099-R information to the Internal Revenue Service on magnetic media must also report to the Delaware Division of Revenue on magnetic media. The duty to report 1099-MISC information to the Division of Revenue applies in the case of Forms 1099-MISC issued to persons resident in Delaware or to non-residents of Delaware for work performed within Delaware. Forms 1099-R are required to be reported to Delaware in the case of any person issued a Form 1099-R on which Delaware taxes are reported as withheld. Even though Delaware participates in the Combined Federal/State Filing Program, the 1099-MISC and 1099-R forms are required to be filed directly with Delaware. All others, including 1099-DIV and 1099-INT need not be □led Please see Technical Information Memorandum 2006-3 for the complete reporting requirements.

SPECIFIC INSTRUCTIONS FOR FORM 1100

IMPORTANT

To ensure the timely and proper processing of your corporate income tax return, ALL lines and schedules must be completed. Specific line items, supported by separate attached schedules, must be entered on the appropriate line of this return. Failure to complete all lines and schedules will delay the processing of your return.

CALENDAR OR FISCAL YEAR OPERATION

This 2016 Form 1100 is used to report your Delaware corporate income tax for calendar year 2016 or fiscal year beginning in 2016 and ending in 2017 If the corporation conducts business on a fiscal year basis, insert the beginning and ending dates of the fiscal year in a MM/DD/YYYY format.

EMPLOYER IDENTIFICATION NUMBER, NAME AND ADDRESS

Enter the employer identification number, complete name, corporate headquarters address and Delaware address (if different from the corporate headquarters address) of the corporation. Employer identification numbers are issued by the Internal Revenue Service by filing Federal Form SS-4.

DATE AND STATE OF INCORPORATION AND NATURE OF BUSINESS

Enter the date in MM/YYYY format and the state in which the corporation is incorporated. Enter a short phrase to describe the nature of business conducted by the corporation.

CHECK THE APPLICABLE BOX

Check the Initial Return box if this is the first time the corporation is filing a Delaware corporate income tax return. Check the Change Of Address box if the address of the corporation has changed from the previous year's filing. Check the Extension Attached box if the corporation has obtained an approved Federal or Delaware extension of time to file a Delaware corporate income tax return.

OUT OF BUSINESS

Enter the exact date in MM/DD/YYYY format when the corporation ceased business operations. Only enter a date if the corporation went out of business during, or on the last day of the corporation's tax year ending.

SCHEDULE 1 - INTEREST INCOME

Enter in Schedule 1, Column 1, the total amount of interest income received from a foreign source to the extent that a foreign tax was actually paid or accrued on the foreign interest income. Also, include this amount on Form 1100, Page 1, Line 2(a). Interest income received from a foreign source on which a foreign tax was not actually paid is classified as "Other Interest Income" and included in Schedule 1, Column 5.

Enter in Schedule 1, Column 2, the total amount of interest income received from bonds or securities of the United States or U. S. Instrumentalities, less applicable expenses. Also, enter this amount on Form 1100, Page 1, Line 2(b). Interest received on obligations for which the United States is not the primary obligor or which are not guaranteed by the full faith and credit of the United States are not exempt from tax.

Enter in Schedule 1, Column 3, the total amount of interest income (include discount) received on intercorporate obligations representing advances, loans or similar contractual transactions that meet the following requirements: (1) The debtor and creditor corporations are subject to taxation under Delaware Law, and (2) The debtor corporation does not claim a deduction for such interest payments in determining its entire net income for Delaware corporation income tax purposes. Also, enter this amount on Form 1100, Page 1, Line 2(c).

Enter in Schedule 1, Column 4, the total amount of interest income received from obligations issued by any State or political subdivisions, other than the State of Delaware or its political subdivisions. Also, include this amount on Form 1100, Page 1, Line 4(c) and Form 1100, Page 2, Schedule 2, Column 3, Line 5. The interest must be allocated to the state where the transaction took place that resulted in creation of the obligation.

Enter in Schedule 1, Column 5, the total amount of all other interest income received and not included in any other column of Schedule 1. Also, include this amount on Form 1100, Page 2, Schedule 2, Column 3, Line 5. The interest must be allocated to the state where the transaction took place that resulted in creation of the obligation.

LINE 1 - FEDERAL TAXABLE INCOME

Enter on Line 1 the amount of your Federal taxable income. The State of Delaware does not recognize an affiliated group of corporations as a taxable entity. Consolidated and combined returns are not permitted. The starting point for Delaware corporate income taxes is Federal taxable income of the separate corporation, as if each corporation had filed a separate Federal corporate income tax return.

LINE 2 - SUBTRACTIONS FROM FEDERAL TAXABLE INCOME

Enter on Line 2 (a) the amount of dividends received from foreign sources to the extent that a foreign tax was actually paid or accrued or the dividends were included in the dividend gross-up for Federal income tax purposes. Dividends not eligible for the deduction on Line 2(a) are to be apportioned to the state of corporate domicile. Also enter on Line 2(a) the amount of interest (from Schedule 1, Column 1) and royalties received from foreign sources to the extent that a foreign tax was actually paid or accrued. Interest and royalty income received from a foreign source on which a foreign tax was not actually paid are required to be allocated within or without Delaware in Schedule 2 of the Delaware corporate income tax return. Please see Line 6 for specific allocation rules.

Federal Form 1118 must be attached to substantiate the deduction claimed on Line 2(a). Dividends from Domestic International Sales Corporations, foreign capital gains, rents and miscellaneous income are not considered exempt income for purposes of this exclusion. These items of income are subject to the rules of allocation or apportionment. Please refer to the specific instructions for apportionable and non-apportionable income.

Enter on Line 2(b) (from Schedule1, Column 2) the amount of interest income received from bonds or securities of the United States or U.S. Instrumentalities, less applicable expenses.

Enter on Line 2(c) (from Schedule 1, Column 3) the amount of interest income (including discount) received on intercorporate obligations representing advances, loans or similar contractual transactions that meet the following requirements: (1) The debtor and creditor corporations are subject to taxation under Delaware Law, and (2) The debtor corporation does not claim a deduction for such interest payments in determining its entire net income for Delaware corporation income tax purposes.

Enter on Line 2(d) the gain received from the sale or other disposition of bonds or securities issued by the United States or its instrumentalities or by the State of Delaware or its political subdivisions.

Enter on Line 2(e) an amount equal to the portion of wages paid or incurred for the taxable year which is disallowed as a deduction for Federal purposes under Subsection (a) of Section 280 C, IRC, relating to the portion of wages for which the jobs tax credit is claimed. Attach copy of Federal Form 5884 - Jobs Credit.

Enter on Line 2(f) the cost incurred (not to exceed $5,000) of a renovation project to remove physical design features in a building that restricts the full use of the building by physically handicapped persons. The term "building" means a building or structure, or a portion thereof, located in Delaware and open to the general public, and includes sidewalks, curbing, driveways, and entrances connected with or related to the use of the building structure. Expenditures incurred to remove architectural barriers or physical design features for the purpose of making the building more accessible to, or usable by, handicapped individuals will generally qualify for the deduction, subject to the $5,000 limitation.

Under this provision, qualified renovation expenses incurred after December 31, 1978 are deductible in the taxable year in which the project is completed. Attach a statement to your return describing the project, the date of commencement, location, date of completion, and costs incurred.

Enter on Line 2(g) the amount of any allowable net operating loss carryovers for State of Delaware purposes (See "NET OPERATING LOSS DEDUCTION", PAGE SEVEN). **Do not make an entry on Line 2(g) unless your carryback loss was limited under Delaware Law and you are carrying forward an amount which differs from your Federal net operating loss carryforward.**

Enter on Line 2(h) the amount of non-business income or loss. The corporation may exclude, under limited circumstances, "non-business" income (net of related expenses) earned in the course of non-business activities unrelated to those carried out in Delaware.

An entry on this line must be supported by Form 1100NBI (available by contacting the Division of Revenue) identifying, by description and amount, each item of non-business income and demonstrating that: (1) Delaware is not the state of commercial domicile of the corporation. Commercial domicile is the principal place from which the trade or business of the corporation is directed or managed. (2) There is lack of a unitary relationship between the corporation and the payer of the income. If the payer and the corporation are at all functionally integrated, if they have any centralized management, or if, between them, they take advantage of economies of scale, then there is not a lack of a unitary relationship. (3) The income at issue is of an investment, as opposed to an operational, nature. Interest earned on temporary investment of working capital, or on investments meant at maturity or at a later time to be applied to operations, is of an operational nature. And (4) The income and apportionment factors have been appropriately adjusted by related expenses and items used to produce the income.

Enter on Line 2(i) the total of Lines 2(a) through 2(h).

LINE 3 - SUBTOTAL

Subtract Line 2(i) from Line 1 and enter result on Line 3.

LINE 4 - ADDITIONS TO FEDERAL TAXABLE INCOME

Enter on Line 4(a) the amount of all net income taxes computed on the basis of, or in lieu of, net income or net profit that are imposed by any state or political subdivision of any state and were deducted in computing Federal taxable income.

Enter on Line 4(b) the amount of loss incurred from the sale or other disposition of bonds or securities issued by the United States or its instrumentalities or by the State of Delaware or its political subdivisions.

Enter on Line 4(c) (from Schedule 1, Column 4) the amount of interest income received from obligations issued by any State or political subdivisions, other than the State of Delaware or its political subdivisions.

Enter on Line 4(d) the amount of any percentage depletion expense allowable under Federal Law, to the extent it is in excess of cost depletion.

Enter on Line 4(e) the amount of interest (including discounts) paid on intercorporate obligations, where creditor corporation eliminated such interest income from its income on Line 2(c).

Enter on Line 4(f) charitable donations claimed as a deduction in computing Federal taxable income for which the Neighborhood Assistance or the Land & Historic Resource Conservation Delaware income tax credits were granted.

Enter on Line 4(g) the total of Lines 4 (a) through 4(f).

LINE 5 - ENTIRE NET INCOME

Enter on Line 5 the amount of Federal taxable income (Line 1) reduced by the subtractions entered on Line 2(i), and increased by the additions entered on Line 4(g). This amount represents entire net income for purposes of the Delaware Income Tax Law.

If the net income reported on Line 5 is derived entirely from Delaware sources, and no part of such income is apportionable to business activities conducted in other states, enter the amount on Line 5 on Line 11 and omit Lines 6 through 10.

LINE 6 - TOTAL NON-APPORTIONABLE INCOME

Enter on Line 6 the total amount of non-apportionable income (or loss) from Schedule 2, Column 3, Line 8, which is explained below:

SCHEDULE 2 - NON-APPORTIONABLE INCOME ALLOCATED WITHIN AND WITHOUT DELAWARE

The State of Delaware has not adopted by statute or regulation the provisions of the Uniform Division of Income for Tax Purposes Act (UDITPA). The following items of income (less related or applicable expenses) must be allocated to Delaware or to another state. If an item of income, such as domestic dividends, miscellaneous income, is not specifically exempted or directly allocated under this Section, the item of income must be placed in the numerator of the gross receipts factor if Delaware is the state of commercial domicile. Please refer to the following rules of allocation.

Enter on Line 1, Column 3, Schedule 2, the total income received from rents and royalties from tangible property. Rent and/or royalty income received from property physically located in Delaware is allocated in Column 1. Rent and/or royalty income received from property physically located outside of Delaware is allocated in Column 2.

Enter on Line 2, Column 3, Schedule 2, the total income received from patent and copyright royalties. Patent and copyright royalties are to be allocated proportionately to Delaware (Column 1) or other States (Column 2) based on the State in which the product or process protected by the patent is manufactured or used, or in which the publication protected by the copyright is produced or printed.

Enter on Line 3 the amount of gains (or losses) realized from the sale or other disposition of real property, allocated to the State in which the property is physically located.

Enter on Line 4 the amount of gains (or losses) realized from the sale or other disposition of depreciable tangible property, allocated to the State in which the property is physically located or normally used in the taxpayer's business. The gain on the sale of rolling stock must be apportioned to the State(s) in which the property was used regardless of the location at the time of the sale.

Enter on Line 5 the amount of interest income (including discount) to the extent included in determining entire net income as reported in Schedule 1, Columns 4 and 5, allocated to the state where the transaction took place which resulted in creation of the obligation. In determining the state in which the obligation was created, the taxpayer must provide conclusive physical evidence indicating the state in which the obligation was created. Absent conclusive proof to the contrary, interest income will be allocated to the state of corporate domicile or to the state in which the investment or credit decisions were made.

Enter on Line 6 the total of Line 1 through Line 5 for Columns 1, 2 and 3.

Enter on Line 7 the total expenses applicable or directly related to Lines 1 through 5 of Schedule 2. Indicate the portion of the expenses applicable to the non-apportionable income allocated within Delaware (Column 1), without Delaware (Column 2) and total of both within and without Delaware (Column 3). All expenses related to the production of allocable income must be supported by appropriate documentation. If direct expenses cannot be documented, such expenses will be determined by multiplying total expenses by a fraction, the numerator of which is allocable

income subject to expense reduction and the denominator is total income.

Subtract Line 7 from Line 6 for Columns 1, 2 and 3. Enter the remainder on Line 8. Enter the remainder from Line 8, Column 1, on Line 10 on the front of the return. Enter the remainder from Line 8, Column 3, on Line 6 on the front of the return.

LINE 7 - INCOME SUBJECT TO APPORTIONMENT

Subtract Line 6 (total non-apportionable income) from Line 5 (entire net income) and enter the result (income or loss) on Line 7.

SCHEDULE 3(A) - GROSS REAL AND TANGIBLE PERSONAL PROPERTY

Enter on Line 1 the original cost value of all real and tangible personal property owned at the beginning and at the end of the taxable year allocable (a) within the State of Delaware and (b) within and without the State of Delaware. Enter on Line 2 the value of all real and tangible personal property rented at the beginning and at the end of the taxable year allocable (a) within the State of Delaware and (b) within and without the State of Delaware. The rented real and tangible property is valued at 8 times the annual rental. Include in the factor on the appropriate line, the taxpayer's share of real and tangible property owned and rented resulting from the taxpayer's proportionate ownership as a general or limited partner in an active partnership. Goods in transit should be included in the property factor of the state to which the goods are to be delivered. Real and tangible personal property owned by the United States Government that is used or operated by the taxpayer shall be disregarded.

Enter on Line 3 the total of Lines 1 and 2.

Enter on Line 4 of Schedule 3(a) the original cost of real and tangible personal property, the income from which is separately allocated in Schedule 2 or is excluded as non-business income on Line 2(h). Also enter on Line 4 the value of property currently under construction or property not used in the taxpayer's business.

Subtract Line 4 from Line 3 and enter the remainder on Line 5.

Calculate the average value of the property by adding on Line 5 the total beginning and total ending values of property within the State of Delaware and property within and without the State of Delaware respectively and divide each sum by two.

Enter on Line 6 the calculated average value of the property.

SCHEDULE 3(B) - WAGES, SALARIES AND OTHER COMPENSATION

Enter on Line 1 the total wages, salaries, bonuses and other compensation paid or accrued to employees engaged in employment within the State of Delaware and within and without the State of Delaware during the taxable year. Include in the factor on the appropriate line, the taxpayer's share of wages, salaries, bonuses and other compensation paid or accrued to employees, resulting from the taxpayer's proportionate ownership as a general or limited partner in an active partnership. Enter on Line 2 the wages, salaries, bonuses and other compensation paid or accrued to general executive officers. "General Executive Officers" means the officers of record in the state in which the taxpayer is incorporated.

Subtract Line 2 from Line 1 and enter the remainder on Line 3.

SCHEDULE 3(C) - GROSS RECEIPTS SUBJECT TO APPORTIONMENT

Enter on Line 1 in the column headed "Within Delaware", the gross receipts from the sales of tangible property physically delivered within Delaware to the purchaser or his agent located within the State of Delaware (but not including delivery to the United States Mail or to a common or contract carrier for shipment to a place outside Delaware). Enter in the column headed "Within and Without Delaware", the total gross receipts from the sales of tangible personal property both within and without Delaware during the income year. Include in the factor on the appropriate line, the taxpayer's share of gross receipts from the sale of tangible property and gross income from other sources resulting from the taxpayer's proportionate ownership as a general or limited partner in an active partnership.

Enter on Line 2 in the column headed "Within Delaware" <u>all other gross income</u> (if any) including receipts from services rendered within Delaware which are not tax exempt and which are not directly allocated in Schedule 2. Gross income from sources within Delaware must include taxable dividends, net gains or losses on the sale of intangible property and distributions from partnerships in which the taxpayer is a corporate partner, when the State of Delaware is maintained as the principal place from which the trade or business of the taxpayer is directed or managed. Other income is considered gross income from a Delaware source when the activity that gives rise to the income is performed within the State of Delaware. Enter on Line 2 in the column headed "Within and Without Delaware", <u>all other gross income</u> (if any) from other sources both within and without Delaware which are not tax exempt and which are not directly allocated in Schedule 2 (attach statement). Do not include on Line 2 the income which is excluded as non-business income on Line 2(h). Add the amounts on Line 1 and Line 2 and enter the total on Line 3.

If you are selling tangible personal property or providing services within Delaware, you are liable for a Delaware Business License and the payment of a gross receipts tax on the receipts received from such sales or services.

SCHEDULE 3(D) - DETERMINATION OF APPORTIONMENT PERCENTAGE

Enter in the numerator on Line 1 the average value of all real and tangible personal property owned or rented in the State of Delaware. Enter in the denominator on Line 2 the average value of all real and tangible property owned or rented both within and without the State of Delaware as reported in Schedule 3(A) and compute the percentage.

Enter in the numerator on Line 3 the wages, salaries, and other compensation paid or accrued to employees within the State of Delaware.

Enter in the denominator on Line 4 the wages, salaries, and other compensation paid or accrued to employees within and without the State of Delaware, as reported in Schedule 3(B) and compute the percentage.

Enter in the numerator on Line 5 the gross receipts apportioned to the State of Delaware. Enter in the denominator on Line 6 the total gross receipts subject to apportionment as reported in Schedule 3(C) and compute the percentage.

Compute the respective percentages, carried to at least six decimal places, and enter in the appropriate column. Total the percentages and divide by: A factor of three if all three apportionment factors (property, wages, and sales) are present; A factor of two if only two apportionment factors (property or wages or sales) are present; A factor of one if only one apportionment factor (property or wages or sales) is present. For example, if the corporation has property and sales but does not pay any salaries, the apportionment percentage should be determined by the average of the two factors of property and sales. Enter the resulting percentage on Line 8, Schedule 3(D) and on Line 8 on the front of the return.

LINE 8 - APPORTIONMENT PERCENTAGE

Enter on Line 8 the apportionment percentage calculated on the back of the return in Schedule 3-D, Line 8.

LINE 9 - DELAWARE APPORTIONABLE INCOME

Multiply the income (or loss) subject to apportionment on Line 7 by the apportionment percentage on Line 8 and enter the result on Line 9.

LINE 10 - DELAWARE NON-APPORTIONABLE INCOME

Enter on Line 10 the income (or loss) calculated on the back of the return in Schedule 2, Column 1, Line 8.

LINE 11 - TOTAL DELAWARE INCOME

Enter on Line 11 the sum of Lines 9 and 10.

LINE 12 - DELAWARE TAXABLE INCOME

Enter on Line 12 the amount shown on Line 5 or Line 11, whichever is less. This is your Delaware Taxable Income.

LINE 13 - TAX COMPUTATION

To compute the tax liability on Line 13, multiply Line 12, Delaware Taxable Income by 8.7%.

LINE 14 - DELAWARE TENTATIVE TAX PAID

Enter on Line 14 the amount of Delaware tentative tax paid on Forms 1100T. Include on this line amounts paid with requests for extensions of time to file.

LINE 15 - CREDIT CARRYOVER FROM PRIOR YEARS

Enter on Line 15 the amount of credit carryover from the immediately preceding taxable year.

LINE 16 - OTHER PAYMENTS

Enter on Line 16 the amount of other corporate income tax payments made for the taxable year that are not included on Lines 14 and 15. Attach an explanation and evidence of payment.

LINE 17 - APPROVED INCOME TAX CREDITS

Enter on Line 17 the approved income tax credits from Delaware Form 700, Delaware Income Tax Credit Schedule.

LINE 18 - TOTAL PAYMENTS AND CREDITS

Enter on Line 18 the sum of the payments and credits from Lines 14 through 17. This amount represents the total credits available to be applied against the tax liability on Line 13.

LINE 19 - BALANCE DUE

Subtract Line 18 from Line 13. If Line 13 is greater than Line 18, enter on Line 19 the **BALANCE DUE** to be paid in full.

LINE 20 - OVERPAYMENT

Subtract Line 18 from Line 13. If Line 18 is greater than Line 13, enter on Line 20(a) the total overpayment available for refund and/or credit carryover.

Enter on Line 20(b) the amount of refund requested.

Enter on Line 20(c) the amount of credit carryover requested. The sum of Lines 20(b) and 20(c) must be equal to the amount entered on Line 20(a).

DELAWARE CORPORATE INCOME TAX CREDITS

Title 30 of the Delaware Code authorizes seven different credits to be applied against Delaware income tax. The income tax credits that are available are the Economic Development, Green Industries, Research & Development, Land & Historic Resource Conservation, Travelink Traffic Mitigation, Neighborhood Assistance and Historic Property Preservation tax credits. All of the seven income tax credits are available to a qualified corporation.

Becoming a qualified corporation, eligible for any of the seven income tax credits, requires pre-approval by the State agency responsible for the approval of such credits.

A qualified corporation must report all approved income tax credits on Delaware Form 700, Delaware Income Tax Credit Schedule. Delaware Form 700 must be completed and attached to the qualified corporation's Delaware corporate income tax return to receive credit for the approved income tax credits. The Delaware Income Tax Credit Booklet containing Delaware Form 700 and detailed instructions on qualifying and claiming any of the Delaware income tax credits is available at any of the Division of Revenue offices and is available at our website www.revenue.delaware.gov.

ECONOMIC DEVELOPMENT CREDIT

Any corporation conducting a qualified activity within Delaware which has placed in service a qualified new or expanded facility may be eligible for Delaware corporate income tax credits equal to $400 for each qualified employee hired and $400 for each $100,000 invested in the qualified facility. The facility may also be eligible for a ten year reduction in the Delaware gross receipts tax. The qualified new or expanded facility must hire 5 or more qualified employees and invest a minimum of $200,000 in property, plant and equipment to be eligible for the credit.

A qualified activity is defined as:

1. Engaging in business as a manufacturer or wholesaler,
2. Operation of a facility for the purpose of scientific, agricultural or industrial research,
3. Administration, management or support operation of a manufacturer, wholesaler or research facility,
4. Any activity more than 50% of whose annual gross receipts are derived from computer processing, data preparation, engineering services, consumer credit reporting services, and wholesale sale of computer software,
5. Any activity more than 50% of whose annual gross receipts are derived from aviation services and employing at least 100 qualified employees,
6. Telecommunications services which shall include the administration, supervision, maintenance, repair and deployment of the physical infrastructure associated with telecommunications services. This qualified activity requires 50 qualified employees and $750,000 in capital investment to qualify for the Ecomonic Development Credits.

A facility may be considered a qualified facility without hiring any qualified employees if the capital investment equals the greater of $1 million or 15% of the unadjusted basis in the facility at the close of the taxable year preceding the date on which installation or construction of the investment commenced.

Any corporation that places a qualified facility into service in a "targeted area" may be eligible for increased Delaware corporate income tax credits equal to $650 for each qualified employee hired and $650 for each $100,000 invested in a qualified facility. A targeted area is defined as:

1. Any real property located within Delaware that is owned by this State, any political subdivision of the State or any agency or instrumentality of the State or its political subdivisions,
2. Any real property located within Delaware that is owned by a nonprofit organization as defined by Section 501(c) of the Internal Revenue Code,
3. Any area located within Delaware that has been approved by the United States Department of Commerce as a general purpose foreign trade zone,
4. Any 1980 Delaware census tracts, as defined by the United States Department of Commerce, Bureau of the Census.

Any corporation that places a qualified facility into service on a qualified "brownfield" site may be eligible for Delaware corporate income tax credits equal to $650 for each qualified employee hired and $650 for each $100,000 invested in the brownfield site. A brownfield site is defined as a vacant or unoccupied site that has been environmentally contaminated by commercial or industrial activity as verified by the Department of Natural Resources and Environmental Control. If the brownfield site is located in a targeted area, the corporation may be eligible for Delaware corporate income tax credits equal to $900 for each qualified employee hired and $900 for each $100,000 invested in the brownfield site.

GREEN INDUSTRIES CREDIT

Reductions in Waste Release - Any manufacturer that voluntarily reduces by at least 20% the weight of wastes in the current year in comparsion to the amount of wastes in the immediately preceeding 12 months and are reported under the Toxic Release Inventory reflected by Inventory Report forms filed for the year may be eligible for Delaware corporate income tax credits equal to $400 for each 10% of waste reduction during the year and for each of the 4 succeeding years during which the reduced amount of release is maintained.

Any manufacturer that voluntarily reduces by at least 50% the weight of other wastes released in the current year in comparison to the amount of wastes in the immediately preceeding 12 months may be eligible for Delaware corporate income tax credits equal to $400 for each 10% of waste reduction during the year and for each of the 4 succeeding years during which the reduced amount of release is maintained.

Use of Recycled Materials as Raw Materials - Any manufacturer who derives at least 25% by weight of its raw materials from either recycled materials or materials removed from the Delaware solid waste stream, satisfies the requirements of Section 2011(a) of Title 30 of the Delaware Code and uses such materials in its qualified facility may be eligible for Delaware corporate income tax credits equal to $650 for each qualified employee hired and $650 for each $100,000 invested in the qualified facility.

If the qualified facility is located in a targeted area, the manufacturer may be eligible for Delaware corporate income tax credits equal to $900 for each qualified employee hired and $900 for each $100,000 invested in the qualified facility.

Processing of Waste Materials - Any corporation who is engaged in the business of processing materials removed from the Delaware solid waste stream for resale as raw materials to manufacturers, satisfies the requirements of Section 2011(a) of Title 30 of the Delaware Code and whose qualified investment is devoted entirely to the processing and resale of materials removed from the Delaware solid waste stream may be eligible for a Delaware corporate income tax credit equal to $650 for each qualified employee hired and $650 for each $100,000 invested in the qualified facility.

If the qualified facility is located in a targeted area, the corporation may be eligible for Delaware corporate income tax credits equal to $900 for each qualified employee hired and $900 for each $100,000 invested in the qualified facility.

Collection and Distribution of Recycled Materials - Any corporation who is engaged in the business of collecting materials for recycling and distributing recycled materials, satisfies the requirements of Section 2011(a) of Title 30 of the Delaware Code and whose qualified investment is devoted entirely to collection of materials for recycling and distribution of recycled materials may be eligible for a Delaware corporate income tax credit equal to $650 for each qualified employee hired and $650 for each $100,000 invested in the qualified facility.

If the qualified facility is located in a targeted area, the corporation may be eligible for Delaware corporate income tax credits equal to $900 for each qualified employee hired and $900 for each $100,000 invested in the qualified facility.

RESEARCH AND DEVELOPMENT CREDIT

Any corporation that incurs qualified research and development expenses may be eligible for Delaware corporate income tax credits.

A corporation may elect Delaware research and development tax credits for the taxable year equal to: (1) 10% of the excess of the corporation's total Delaware qualified research and development expenses for the taxable year over the corporation's Delaware base amount, or (2) 50% of Delaware's apportioned share of corporation's federal research and development tax credit calculated using the alternative incremental credit method under Section 41(c)(4) of the Internal Revenue Code of 1986, using federal definitions and methodology. Delaware's apportioned share of the federal credit shall be the amount of the alternative incremental credit the corporation can claim under Section 41(c)(4), multiplied by a percentage equal to the ratio of the corporation's Delaware qualified research and development expenses for the taxable year to the corporation's total qualified research and development expenses for the taxable year.

LAND AND HISTORIC RESOURCE CONSERVATION CREDIT

Any corporation may be eligible for Delaware corporate income tax credits equal to 40% of the fair market value of any land or interest in land

located in Delaware which is conveyed for the purpose of open space, natural resource, and/or biodiversity conservation or historic preservation as an unconditional donation in perpetuity by the landowner/taxpayer to a public or private conservation agency eligible to hold such land and interests therein for conservation or preservation purposes.

TRAVELINK TRAFFIC MITIGATION CREDIT

Any corporation that accomplishes mitigation of traffic congestion associated with commuting to and from the work site during peak travel periods may be eligible for Delaware corporate income tax credits. The credit is the lesser of the product of the total commuter trip reductions divided by the total commuter trips generated under the program, multiplied by the direct costs to the employer or the total commuter trip reductions by $250.

NEIGHBORHOOD ASSISTANCE CREDIT

Any corporation that contributes to a neighborhood organization, community development corporation, or community-based development organization or that provides neighborhood assistance, job training or education for individuals not employed by the corporation, community services, crime prevention, housing or economic development in an impoverished area may be eligible for Delaware corporate income tax credits equal to 50% of the amount invested by the corporation in a program or in a community-based development organization.

HISTORIC PROPERTY PRESERVATION CREDIT

Beginning with taxable years that commence on or after January 1, 2001, any corporation incurring qualified expenditures in the rehabilitation of any certified historic property may be eligible for Delaware corporate income tax credits equal to:

1. 20% (30% if any part of the certified rehabilitation of a residential property is determined by the Delaware State Historic Preservation Office to be committed to low income housing) of the qualified expenditures made in the rehabilitation of any certified historic property which is eligible for a federal tax credit under Section 47 of the Internal Revenue Code; and
2. 30% (40% if any part of the certified rehabilitation of a residential property is determined by the Delaware State Historic Preservation Office to be committed to low income housing) of the qualified expenditures made in the rehabilitation of any certified historic property which is not eligible for a federal tax credit under Section 47 of the Internal Revenue Code.

   Qualified expenditures for the credit may be incurred after December 31, 2000, but the income tax credit may not be claimed until after July 1, 2002.

NET OPERATING LOSS DEDUCTION

The amount of the net operating loss recognized for Delaware corporate income tax purposes is only to the extent of the amount recognized for Federal purposes. The deduction is calculated in accordance with the provisions of the Internal Revenue Code, and no modification to the amount of the net operating loss is allowed.

The provisions of the Internal Revenue Code have been changed. Previously, the NOL carryback period was generally three years and the carryforward period was fifteen years. For a NOL in a tax year beginning after August 5, 1997, the carryback period is reduced to two years and the carryforward period is increased to 20 years.

Section 382 of the Internal Revenue Code of 1986 puts limitations on the use of NOL carryforwards by purchasing corporations acquiring corporations with tax losses which are to be used to offset the income of the purchasing corporation. The limitation requirements affect Federal taxable income of the purchasing corporation. There are no provisions within the Delaware Corporate Income Tax Code for modification of Federal taxable income due to the Section 382 limitations.

A corporation that has a net operating loss and has filed an application on Federal Form 1139 for a tentative adjustment or refund of taxes for a year affected by the carryback of such loss must attach a copy of Federal Form 1139 to any Claim for Refund of Delaware corporation income taxes. If Federal Form 1139 was not filed, copies of the carryback/over(s) taxable years must be attached to the Claims for Refund. A schedule must be attached indicating the computation of the net operating loss deduction for the respective year(s). Claims for refund must be filed using Form 1100X, Amended Delaware Corporation Income Tax Return.

Effective for taxable years ending after June 30, 1990 net operating loss carrybacks **in excess of $30,000** for each carryback year will no longer be deductible for Delaware corporate income tax purposes. **In amending the carryback year**, enter on Line 2(g), Form 1100X, **as a negative figure,** the amount of the net operating loss carried back in calculating Federal taxable income, to the extent such loss exceeds $30,000 and which is disallowed as a carryback for Delaware corporate income tax purposes. **For the carryforward year** and consistent with the operation of Section 172 of the IRC, relating to the computation of a net operating loss deduction, the taxpayer must enter on Line 2(g), Form 1100, **as a positive figure,** the amount of any carryforward losses which were carried back in calculating Federal taxable income but which were prevented from being carried back for Delaware corporate income tax purposes. **Do not make an entry on Line 2(g) unless your carryback loss was limited under Delaware Law and you are carrying forward an amount which differs from your Federal net operating loss carryforward. For the loss year,** Federal taxable income must be adjusted to reflect the carryback of the net operating loss. **You must attach a schedule to your return indicating the loss year(s) and the amount(s) carried back and/or carried forward.**

Under no circumstances is there to be an adjustment on an Amended Return, Form 1100X, to reflect a decrease on Line 4(a) of the Delaware Corporation Income Tax Return of the carryback year for the refund of such taxes arising as a result of the net operating loss deduction.

Cash method taxpayers must include any refund of state corporation income taxes as a negative amount on Line 4(a) in the year received, while other taxpayers will include such refunds as a negative amount on Line 4(a) under their regular method of accounting. Refund accruals made in the current year of a net operating loss for prior year state corporation income taxes must be shown as a negative amount on Line 4(a). However, such refund accruals do not increase the current year net operating loss carryback or carryovers for State purposes.

A corporate taxpayer may file a claim for refund resulting from a net operating loss carryback on a separate return basis even though a consolidated Federal income tax carryback is not available. It is not relevant to determine if the net operating loss occurred while the corporation was doing business in Delaware.

In the case of a merger of two or more **unrelated** corporations, each corporation's unused carryover net operating loss is carried over into the surviving corporation. However, if there is a merger of two or more **related** corporations, then the net operating loss is limited to the amount of net operating loss not absorbed through consolidation prior to the merger.

CAUTION: Do not make an entry on Line 2(g) unless your carryback loss was limited under Delaware Law and you are carrying forward an amount which differs from your Federal net operating loss carryforward. Erroneous entries on Line 2(g) will delay the processing of the corporate income tax return.