

## Form CT-1120AB

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

# 2006

For Income Year	
Beginning	2006, and Ending

Corporation Name	Connecticut Tax Registration Number
------------------	-------------------------------------

Complete this form in blue or black ink only. **Form CT-1120AB, Add Back and Exceptions to Add Back of Interest and Intangible Expenses**, must be completed by each corporation that paid, accrued, or incurred interest expenses to a related member or intangible expenses and costs, and interest expenses and costs related to intangibles to a related member. All interest expenses and intangible expenses and costs that are paid, accrued, or incurred to a related member must be added back to income and may be subtracted if any one or more of the statutory exceptions are met. (See Conn. Gen. Stat. §§12-218c and 12-218d.)

To be entitled to an exception from the add back of expenses and a corresponding deduction from net income, the taxpayer must complete this form.

#### PART I - Add Back

A - Total Interest Expenses Add Back			
1.	<b>Total interest expenses paid to a related member</b> (Do not include any interest expense and costs related to intangibles. Enter amount here and on <b>Form CT-1120, Corporation Business Tax Return, Schedule D, Line 4.</b> ) .....	1.	00

B - Total Intangible Expenses Add Back			
1.	<b>Total intangible expenses and costs paid to a related member</b> (Enter amount here and on Form CT-1120, <i>Schedule D, Line 5.</i> ) .....	1.	00

#### PART II - Exceptions to Add Back

A - Exceptions to Interest Expenses Add Back			
1.	Enter amount from Part III, <i>Schedule A, Line 5</i> or <i>Schedule B, Line 1</i> . Enter here and on Form CT-1120, <i>Schedule D, Line 12.</i> .....	1.	00
2.	Enter amount from Part III, <i>Schedule C, Line 5</i> . Enter here and on Form CT-1120, <i>Schedule D, Line 13.</i> .....	2.	00
3.	Enter amount from Part III, <i>Schedule D, Line 5</i> . Enter here and on Form CT-1120, <i>Schedule D, Line 14.</i> .....	3.	00
4.	<b>Total Exceptions.</b> Add Lines 1 through 3 and enter total here. ....	4.	00

B - Exceptions to Intangible Expenses Add Back			
1.	Enter amount from Part V, <i>Schedule A, Line 5</i> or <i>Schedule B, Line 1</i> . Enter here and on Form CT-1120, <i>Schedule D, Line 15.</i> .....	1.	00

**PART III - Exceptions to Interest Expenses Add Back**

<b>Schedule A - Exception for Interest Paid, Accrued, or Incurred to a Related Member That is Taxed at a Similar Rate in This State, in Another State, or in a Foreign Nation</b>			
This exception does not apply to transactions with a related member when the related member: <ul style="list-style-type: none"> <li>• Files in another jurisdiction with the taxpayer on a combined, consolidated, or unitary basis which results in the interest expense of the taxpayer and the interest income of the related member being offset or eliminated;</li> <li>• Has a net operating loss; <b>or</b></li> <li>• Pays tax on a basis other than net income including, but not limited to a gross receipts tax, capital base tax, or a business and occupational tax.</li> </ul>			
A.	Can the taxpayer establish by clear and convincing evidence that a principal purpose of the payment of interest to a related member was not to avoid the payment of taxes due under Chapter 208 of the Connecticut General Statutes? <input type="checkbox"/> Yes <input type="checkbox"/> No		
B.	Was the interest that the taxpayer paid to a related member paid according to a written contract that reflects an "arm's length" rate of interest and sets forth the terms of the loan? <input type="checkbox"/> Yes <input type="checkbox"/> No		
If the answer to Question A and Question B above is <b>Yes</b> , enter the following information:			
1.	Enter the amount of deductible interest claimed by taxpayer and paid to a related member.	1.	00
2.	Enter the taxable income of the related member in this state, in another state, or in a foreign nation. ....	2.	00
3.	Enter the tax paid by the related member in this state, in another state, or in a foreign nation. ....	3.	00
4.	Divide Line 3 by Line 2. ....	4.	.
5.	<b>Exception Amount</b> (If Line 4 is equal to or greater than .045 (4.5%), enter the amount from Line 1 here and on Part II A, Line 1. Otherwise enter "0.") .....	5.	00
Name of related member		Federal Employer ID Number (FEIN) of related member	Fiscal period of related member
Name of state or foreign nation in which the related member is subject to a tax on net income		Date of written contract	
Amount of interest income included in the measure of net income subject to tax by the state or foreign nation			
If claiming this exception for transactions with more than one related member, complete the above schedule for each related member and enter the total for all related members on Part II A, Line 1.			

<b>Schedule B - Other Exceptions</b>			
A.	Has the taxpayer received written confirmation from the Commissioner of Revenue Services (the Commissioner) that the adjustments required under Conn. Gen. Stat. §12-218d are unreasonable? <input type="checkbox"/> Yes <input type="checkbox"/> No		
If the answer to Question A above is <b>Yes</b> , enter the letter date: _____ and complete Line 1, below.			
If the answer to Question A above is <b>No</b> , answer Question B.			
B.	Can the taxpayer establish by clear and convincing evidence that the required add back of interest paid, accrued, or incurred to a related member is unreasonable? <input type="checkbox"/> Yes <input type="checkbox"/> No		
If the answer to Question B above is <b>Yes</b> , complete Line 1 below. The taxpayer must attach a statement containing the following: <ul style="list-style-type: none"> <li>• A description of the business purpose of the loan, which must include a statement as to whether or not the loan that is generating the payment of interest to a related party relates to either acquisition indebtedness or a dividend in the form of a note;</li> <li>• An affirmation that there is no circular flow of funds;</li> <li>• An affirmation that the interest is not being paid to a related party in a unitary state, paid to a related party that is in a jurisdiction that does not subject the interest income to tax or paid to a related party that has sufficient net operating losses (NOLs) to offset the interest income; <b>and</b></li> <li>• An explanation of the: date the loan originated, relevant terms of the loan, dates interest payments were made, amount of interest paid to the related party during the relevant tax period, and the tax jurisdiction in which the payee files its corporate tax returns. If the taxpayer is making a claim of double taxation, because tax is paid on the interest income by a related party that files in more than one jurisdiction, the taxpayer should provide an explanation that includes each jurisdiction that taxes the interest income, the amount of interest income taxed in each jurisdiction, and the amount of taxes paid to each jurisdiction.</li> </ul>			
1.	<b>Exception Amount</b> (Enter here and on Part II A, Line 1.) .....	1.	00

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

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

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

	Name of Related Member	FEIN	Contract Date	State in Which Taxes Were Paid	Amount Deducted
1.					00
2.					00
3.					00
4.					00
5.	<b>Total</b> (Enter here and on Part II A, Line 2.) .....				00

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

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

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

	Name of Related Member	Name of Foreign Nation	Description of Treaty	Amount Deducted
1.				00
2.				00
3.				00
4.				00
5.	<b>Total</b> (Enter here and on Part II A, Line 3.) .....			00

**PART IV - Unitary Election**

If a taxpayer is subject to the interest expenses add back, the taxpayer may elect to calculate its tax on a unitary basis (including all members of the unitary group) provided the taxpayer clearly establishes that there are substantial intercorporate business transactions among the included corporations. The election to file on a unitary basis is irrevocable for, and applicable for five successive income years.

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

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

1.	<b>Exception Amount</b> (Enter here and on Form CT-1120U, <i>Schedule D</i> , Line 16.) .....	00
----	---	----

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

A.	Did the taxpayer deduct intangible expenses and costs in connection with a transaction with a related member involving: <ul style="list-style-type: none"> <li>• The direct or indirect acquisition, use, maintenance or management, ownership, sale, exchange, or any other disposition of intangible property; ..... <input type="checkbox"/> Yes <input type="checkbox"/> No</li> <li>• Factoring transactions or discounting transactions; ..... <input type="checkbox"/> Yes <input type="checkbox"/> No</li> <li>• Royalty, patents, technical and copyright fees; <b>or</b> ..... <input type="checkbox"/> Yes <input type="checkbox"/> No</li> <li>• Licensing fees? ..... <input type="checkbox"/> Yes <input type="checkbox"/> No</li> </ul>
B.	Did the taxpayer deduct directly or indirectly, interest expenses and costs in connection with a transaction with a related member that involved the direct or indirect acquisition, maintenance, management, ownership, sale, exchange, or disposition of intangible property? <input type="checkbox"/> Yes <input type="checkbox"/> No
If the answer to any of the above questions is <b>Yes</b> , the total expenses must be added back and reported on Part I B, Line 1; and Form CT-1120, <i>Schedule D</i> , Line 5.	

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

<b>Schedule B - Exception for Intangible Expenses Subject to Written Agreement With the Commissioner</b>			
A.	Has the taxpayer received written confirmation from the Commissioner that the adjustments required under Conn. Gen. Stat. §12-218c are unreasonable? <input type="checkbox"/> Yes <input type="checkbox"/> No		
If the answer to Question A above is <b>Yes</b> , enter the letter date: _____ and complete Line 1, below. If the answer to Question A above is <b>No</b> , answer Question B.			
B.	Can the taxpayer establish by clear and convincing evidence that the required add back of intangible expenses and costs paid, accrued, or incurred to a related member is unreasonable? <input type="checkbox"/> Yes <input type="checkbox"/> No		
If the answer to Question B above is <b>Yes</b> , complete Line 1. The taxpayer must attach a statement containing the following: <ul style="list-style-type: none"> <li>• A description of the intangibles for which a payment is being made including who developed the intangibles;</li> <li>• A description of the terms of the written agreement that requires the payment of the intangible expenses and costs;</li> <li>• An affirmation that there is no circular flow of funds; <b>and</b></li> <li>• An affirmation that the intangible expenses and costs are not being paid to a related party in a unitary state, a related party that has sufficient NOLs to offset the intangible income or a related party that is located in a jurisdiction that does not tax the intangible income.</li> </ul>			
1.	<b>Exception Amount</b> (Enter here and on Part II B, Line 1.) .....	1.	00