

1 **REG. IV.18.(c). Receipts Factor.**

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4 **(1)** Definitions. As used in this Reg. IV.18(c):

5 **(A)** “Receipts” means receipts as defined in [reference to Compact Article IV.1.g  
6 MTC Model Allocation and Apportionment Regulation IV.2.(a)(6) or other similar state law];

7 **(B)** “Gross receipts” means gross receipts as defined in [reference to MTC Model  
8 Allocation and Apportionment Regulation IV.2.(a)(5) or similar state regulation] that give  
9 rise to apportionable income included in the tax base;

10 **(C)** “MTC Financial Institutions Apportionment Model” means the Multistate Tax  
11 Commission’s Recommended Formula for the Apportionment and Allocation of the Net  
12 Income of Financial Institutions, as amended July 29, 2015;

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14 DRAFTER’S NOTE: IF YOUR STATE HAS ITS OWN FINANCIAL INSTITUTIONS  
15 APPORTIONMENT RULES, YOUR STATE MAY WISH TO REFERENCE THE SPECIFIC RULES OF  
16 ASSIGNMENT IN THOSE RULES FOR THESE TYPES OF GROSS RECEIPTS. SEE SUBPARAGRAPH  
17 (3)(c)(3).

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19 **(D)** “Gross receipts from lending activities” means interest income and other gross  
20 receipts arising from the activities described in subsections 3(d) through 3(j) of the MTC  
21 Financial Institutions Apportionment Model; and,

22 **(E)** An entity’s apportionment factor is “*de minimis*” if the denominator is less than  
23 3.33 percent of the entity’s apportionable gross receipts or if the factor is insignificant in  
24 producing income.

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26 DRAFTER’S NOTE: SUBPARAGRAPH (1)(E) DOES NOT APPLY TO THE CALCULATION  
27 OF THE TAXPAYER’S RECEIPTS FACTOR UNDER PARAGRAPH (2), BELOW.  
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29 **(2)** This Reg. IV.18.(c) applies to the determination of the receipts factor if the taxpayer’s receipts  
30 are less than 3.33 percent of the taxpayer’s gross receipts. A taxpayer’s receipts subject to  
31 assignment under Compact Art. IV, Sections 16 and 17 are assigned under those sections and are  
32 not assigned by this Regulation IV.18.(c).

33 **(3)** The following gross receipts are included in the receipts factor denominator and are assigned  
34 to the receipts factor numerator in this state as follows:

35 **(A)** Dividends paid by a related party, as defined in [reference to applicable state  
36 law], are assigned to the receipts factor numerator in this state as follows:

1                   1. If paid from earnings that can be reasonably attributed to a particular  
2 year, the dividends are assigned to the receipts factor numerator in this state in a  
3 proportion equal to the dividend payor’s apportionment factors in this state for  
4 that year as determined pursuant to [reference to state law].

5                   2. If the dividends were paid from earnings that cannot reasonably be  
6 attributed to a particular year, the dividends are assigned to the receipts factor  
7 numerator in this state in a proportion equal to the dividend payor’s average  
8 apportionment factors in this state for the current and preceding year as  
9 determined pursuant to [reference to state law].

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11                   **EXAMPLE:**

12                   DRAFTER’S NOTE: TREATMENT OF DIVIDEND INCOME VARIES WIDELY  
13 AMONG THE STATES. STATES SHOULD CHECK THEIR TAX BASE WHEN  
14 ADOPTING THIS EXAMPLE TO AVOID CONFUSION.

15                   Taxpayer Bigbox Holding, Inc. (Holding) is a domestic corporation,  
16 domiciled in Delaware, with numerous foreign and domestic subsidiaries.  
17 Holding has no “receipts,” as defined under this state’s apportionment  
18 statutes. Holding is the corporate parent of Bigbox Retailing, Inc. (Retailing),  
19 a domestic corporation with its commercial domicile in State X. During the  
20 tax year, Holding receives \$100 million in dividends from Retailing and \$100  
21 million in dividends from Holding’s foreign subsidiaries. Because the  
22 foreign-source dividends are excluded from this state’s tax base pursuant to  
23 this state’s laws, they are not “gross receipts” subject to apportionment and  
24 are not included in the receipts factor. In both the current tax year and the  
25 prior tax year, Retailing conducted operations in ten states, including this  
26 state. Retailing’s apportionment factor in this state in the current year is  
27 20%, and the factor was 18% in the prior year. The dividends received from  
28 Retailing cannot be reasonably attributed to that entity’s earnings in any  
29 specific year. Therefore, pursuant to subparagraph (3)(A)(2), Holding’s  
30 receipts factor in this state is calculated by including the \$100 million of  
31 apportionable dividends received from Retailing in the denominator, and  
32 \$19 million in the receipts factor numerator in this state, based on the  
33 average of Retailing’s apportionment factors in this state in the current year  
34 (20%) and prior year (18%).

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36                   **(B)** Gains are assigned to the receipts factor numerator in this state as follows:

1           **1.** Gains (net of related losses, but not less than zero) from the disposition of  
2 stock (or other intangible property rights) representing at least a 20% ownership  
3 interest in an entity, are assigned to the receipts factor numerator in this state in a  
4 proportion equal to what the entity’s separate apportionment factor was in this  
5 state for the tax year preceding the disposition as determined pursuant to state  
6 law.

7           **2.** Gains (net of related losses, but not less than zero) from the disposition of  
8 assets of an entity or segment of a business are assigned to the receipts factor  
9 numerator in this state in a proportion equal to what the entity’s separate  
10 apportionment factor was in this state in the tax year preceding the disposition as  
11 determined pursuant to [ref. to state law].

12           **3.** In applying clauses 1 and 2 of this subparagraph (B), in any case in which  
13 the entity did not exist in the prior year, or had an apportionment factor of zero [or  
14 had only a *de minimis* apportionment factor], the gross receipts from the gain are  
15 attributed to the receipts factor numerator of this state under paragraphs (4), (5),  
16 or (6) of this Reg.IV.18.(c) as appropriate.

17           **4.** In applying this subparagraph (B), in the case of an entity which was not  
18 subject to entity-level taxation, the apportionment percentage shall be computed  
19 as if the entity were a C corporation.

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21           **EXAMPLES:**

22           (i) Taxpayer, Nuclear Corp. (Nuclear) is a holding company with no  
23 “receipts” from transactions and activities in the ordinary course of  
24 business. In the prior tax year, Nuclear formed Target Corp. (Target) and  
25 transferred its stock ownership interest in three power plants, located in  
26 three states, one of which is in this state, to Target in exchange for the stock  
27 of Target. In the current tax year, Nuclear sells the stock of Target to Risky  
28 Investments for \$500 million in cash, recognizing a gain of \$100 million. In  
29 the tax year preceding the sale, Target’s apportionment factor in this state  
30 was 30%. Based on Target’s prior year apportionment factor, Nuclear would  
31 include \$100 million in the denominator of its receipts factor and would  
32 assign \$30 million to the receipts factor numerator in this state.

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34           (ii) Same facts as (i) except during the current tax year Nuclear  
35 formed Target and then sold the Target stock on the same day. Because  
36 Target did not exist in the year preceding the disposition, Nuclear would

1 have to use paragraph (4), (5) or (6), as appropriate, to assign a portion of  
2 the \$100 million gain to its receipts factor numerator in this state.

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4 (iii) Same facts as (i) except Nuclear makes an IRC 338(h)(10)  
5 election, which this state conforms to, so the sale is treated as the sale by  
6 Target of its assets. The sale of Target's assets in this state (the power plant)  
7 generated a gain of \$150 million, and the sale of Target's remaining two  
8 power plants generated a loss of \$50 million. Target would include \$100  
9 million of gain (the net amount) in the denominator of its receipts factor and  
10 would include 30% of that gain in the receipts factor in this state based on  
11 Target's apportionment factors in this state in the year preceding the sale.

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13 DRAFTER'S NOTE: IF THE STATE HAS ADOPTED OTHER RULES FOR  
14 APOPORTIONING AND ALLOCATING THE NET INCOME OF FINANCIAL  
15 INSTITUTIONS, THE FOLLOWING SUBSECTION AND THE EXAMPLES SHOULD  
16 REFERENCE THOSE RULES IN LIEU OF REFERENCING THE MTC'S FINANCIAL  
17 INSTITUTIONS APPORTIONMENT MODEL.

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19 **(C)** Gross receipts from lending activities are included in the receipts factor  
20 denominator and assigned to the receipts factor numerator in this state to the extent those  
21 gross receipts would have been assigned to this state under the MTC Financial Institutions  
22 Apportionment Model (including the rule of assignment to commercial domicile under 3(p)  
23 of that model statute) [or your state's Financial Institutions Apportionment Rules] as if the  
24 taxpayer were a financial institution subject to the MTC Financial Institutions  
25 Apportionment Model [or your state's Financial Institutions Apportionment Rules], except  
26 that:

27 1. in the case of gross receipts derived from loans to a related party as  
28 defined by [reference to state law], which are not secured by real property,  
29 including interest, fees, and penalties, the gross receipts are included in this state's  
30 numerator in a proportion equal to the related party's apportionment factor in this  
31 state as determined by [reference to state law] in the year the gross receipts were  
32 included in apportionable income; and,

33 2. Gross receipts derived from accounts receivable previously sold to or  
34 otherwise transferred to the taxpayer are assigned under subparagraph (D).

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36 **EXAMPLES:**

1 DRAFTER’S NOTE: TREATMENT OF DIVIDEND INCOME VARIES WIDELY  
2 AMONG THE STATES. STATES SHOULD CHECK THEIR TAX BASE WHEN  
3 ADOPTING THIS EXAMPLE TO AVOID CONFUSION.  
4

5 (i) Taxpayer Bigbox Holding, Inc. (Holding) is a domestic corporation,  
6 domiciled in Delaware, with numerous foreign and domestic subsidiaries.  
7 Holding has no “receipts,” as defined under this state’s apportionment  
8 statutes. Holding is the corporate parent of Bigbox Retailing, Inc. (Retailing),  
9 a domestic corporation with its commercial domicile in state X. During the  
10 current tax year, Holding receives \$100 million in dividends from Retailing  
11 and \$100 million in dividends from Holding’s foreign subsidiaries. Because  
12 the foreign-source dividends are excluded from this state’s tax base  
13 pursuant to this state’s laws, they are not “gross receipts” subject to  
14 apportionment and are not included in the receipts factor. In both the  
15 current tax year and the prior tax year, Retailing conducted operations in  
16 ten states, including this state. Retailing’s apportionment factor in this state  
17 in the current year is 20%, and this factor was 18% in the prior year. In a  
18 prior year, Holding lent its excess capital to Retailing as an unsecured loan.  
19 In repayment of that loan, Holding received \$40 million of interest income  
20 from Retailing in the current tax year, in addition to the \$100 million of  
21 dividend income that Holding received from Retailing. Pursuant to  
22 subparagraph (3)(C), Holding’s interest income would be included in its  
23 receipts factor denominator, and 20% of Holding’s interest income (\$8  
24 million) would be included in its receipts factor numerator in this state  
25 because 20% of Retailing’s apportionment factors were in this state in the  
26 year the interest income was included in taxable income. Assuming Holding  
27 had no other gross receipts, Holding’s receipt factor numerator in this state  
28 is 19.28% (\$27 million /\$140 million).  
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30 (ii) Taxpayer Loan Participation Inc. (LPI) was formed to acquire and  
31 hold a participation in loans secured by real property originated by an  
32 unrelated financial institution. LPI has no employees or property and no  
33 other gross receipts except for payments of interest on the participation  
34 loan held. Even though LPI would not be considered a financial institution  
35 under the MTC’s Financial Institutions Apportionment Model for purposes of  
36 this state’s rules, LPI’s gross receipts are included in the denominator and  
37 assigned to the receipts factor numerator in this state under subsection 3(d)

1 of the MTC's Financial Institutions Apportionment Model, in proportion to  
2 the value of loans secured by real property in this state compared to the  
3 value of loans secured by real property everywhere.  
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5 **(D)** Gross receipts derived from accounts receivable previously sold to or otherwise  
6 transferred to the taxpayer-are included in the denominator and assigned to the receipts  
7 factor numerator in this state to the extent those accounts receivable are attributed to  
8 borrowers located in this state; provided however, that if the taxpayer is not taxable [as  
9 defined in Compact Article IV, section 3 or similar state law] in a state in which the  
10 borrowers are located, those gross receipts are excluded from the denominator of the  
11 taxpayer's receipts factor.  
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13 **EXAMPLES:**

14 (i) Taxpayer IH Factoring, Inc. (Factoring) is a Delaware corporation  
15 that has twenty employees all of whom are located in Delaware. Factoring  
16 purchases installment agreements (accounts receivable) from its parent  
17 corporation, Iron Horse Motorcycles, Inc. (Iron Horse). Factoring has access  
18 to information showing the addresses of the installment agreement  
19 customers. Factoring purchases installment agreements originating from  
20 Iron Horse's borrowers in States A and B, and this state. Factoring is taxable  
21 in State A and this state, but not State B. Factoring re-sells the agreements  
22 as securitized instruments to institutional investors. Factoring's gross  
23 receipts from selling the securitized instruments originating from Iron  
24 Horse's borrowers in State A and this state would be included in the receipts  
25 factor denominator, and Factoring's gross receipts from selling securitized  
26 instruments originating from Iron Horse's borrowers in this state would be  
27 assigned to the receipts factor numerator in this state.

28 (ii) Same facts as above, but IH Factoring retains its ownership in the  
29 installment agreements and receives principal, interest and related fees  
30 from Iron Horse's customers (borrowers). The principal, interest and related  
31 fees received by Factoring from borrowers in State A and this state would be  
32 included in Factoring's receipts factor denominator, and Factoring's receipts  
33 received from Iron Horse's customers (borrowers) in this state would be  
34 assigned to the receipts factor numerator in this state.  
35

36 **(E)** The net amount, but not less than zero, of gross receipts not otherwise assigned  
37 under this paragraph (3) arising from investment activities, including the holding, maturity,

1 redemption, sale, exchange, or other disposition of marketable securities or cash are  
2 assigned to the sales factor numerator in this state if the gross receipts would be assigned  
3 to this state under Subsections (3)(n) or (3)(p) of the MTC's Financial Institutions  
4 Apportionment Model [or similar state financial institutions receipts factor rules]; all other  
5 gross receipts from investment activities not otherwise assigned under this paragraph (3)  
6 are assigned to the receipts factor numerator in this state if the investments are managed  
7 in this state.

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9 DRAFTER'S NOTE: THIS PROVISION IS FOR STATES THAT USE A MULTI-FACTOR FORMULA. STATES  
10 WITHOUT A MULTI-FACTOR FORMULA SHOULD EXCLUDE THIS PROVISION.

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12 **(4)** Gross receipts, other than those included and assigned under paragraph (3), are  
13 included in the receipts factor denominator, and are assigned to the receipts factor numerator in  
14 this state in a proportion equal to the average of the taxpayer's other non-*de minimis*  
15 apportionment factors [or other non-*de minimis* apportionment factor] in this state as determined  
16 pursuant to [reference to state law].

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18 **EXAMPLES:**

19 (i) Taxpayer Windfall, Inc. (Windfall) is a wholly-owned subsidiary of  
20 ABC Manufacturing Corp. (ABC). During the tax year, Windfall has 10% of its  
21 property and 20% of its payroll in this state, and neither its property nor its  
22 payroll factor is *de minimis*. Windfall's only gross receipt during the year is  
23 \$1 billion received in settlement of ABC's patent infringement suit against a  
24 business competitor that has been ongoing for several years. Because this  
25 settlement amount is not assigned to the receipts factor in this state under  
26 paragraph (3), Windfall is to assign the gross receipts to its receipts factor  
27 numerator in a proportion equal to the average of its property and payroll  
28 factors. Therefore, Windfall would include \$1 billion in its receipts factor  
29 denominator and would include 15% of that amount (\$150 million) in the  
30 receipts factor numerator in this state, under this state's apportionment  
31 formula.

32  
33 (ii) Same facts as above, except that Windfall's property and payroll factors  
34 are *de minimis*. Windfall would accordingly include the \$1 billion settlement  
35 amount in the receipts factor denominator and would include a portion of  
36 that amount to the receipts factor numerator in this state in accordance  
37 with paragraphs (5) or (6) of this regulation, as appropriate.

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DRAFTER’S NOTE – FROM THIS POINT – THE DRAFT’S NUMBERING ASSUMES THAT THE STATE INCLUDES PARAGRAPH (4). IF NOT – THE FOLLOWING PROVISIONS AND CROSS-REFERENCES TO THE PROVISIONS REFERENCED BELOW WILL HAVE TO BE RENUMBERED.

DRAFTER’S NOTE: THIS PROVISION IS FOR STATES THAT ALLOW OR REQUIRE STATE-LEVEL COMBINED FILINGS. IN PARAGRAPH (5), THE TERM “COMBINED REPORT” IS USED IN THE SAME SENSE AS THAT TERM IS USED IN THE MTC MODEL COMBINED FILING STATUTE.

(5) Except for gross receipts included and assigned under paragraphs (3) or (4), gross receipts of a taxpayer whose income and factors are included in a combined report in this state are included in the receipts factor denominator and are assigned to the receipts factor numerator in this state in the same proportion as the ratio of: (A) the total of the receipts factor numerators of all members of the combined group in this state, whether taxable or nontaxable, as determined pursuant to [reference to state law], to (B) the denominator of the combined group.

**EXAMPLE:**

Taxpayer Windfall, Inc. (Windfall) is a wholly-owned subsidiary of ABC Manufacturing Company (ABC). Windfall’s only gross receipt during the year is \$1 billion received in settlement of ABC’s patent infringement suit against a business competitor that has been ongoing for several years. Windfall is included on a combined report filed by ABC on behalf of ABC, Windfall and other direct and indirect control subsidiaries of ABC (collectively, the Combined Subsidiaries). The ratio of the total numerators of ABC and Combined Subsidiaries in this state, as reported on the combined report, to the denominator of the combined group is 25 percent. Windfall would include \$1 billion in its receipts factor denominator and would include \$250 million in the receipts factor numerator in this state.

DRAFTER’S NOTE – FROM THIS POINT – THE DRAFT’S NUMBERING ASSUMES THAT THE STATE INCLUDES PARAGRAPHS (4) AND (5). IF NOT – THE FOLLOWING PROVISIONS AND CROSS-REFERENCES TO PROVISIONS REFERENCED BELOW WILL HAVE TO BE RENUMBERED.

(6) Except for those gross receipts included and assigned under paragraphs (3), (4) or (5), gross receipts of a taxpayer that files as part of a federal consolidated return are included in the receipts factor denominator and are assigned to the receipts factor numerator in this state in a proportion equal to a percentage (but not greater than 100%), the numerator of which is the total



1 of the consolidated group members' income allocated to or apportioned to this state pursuant to  
2 [ref. to state law], and the denominator of which is the total federal consolidated taxable income.

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4 **EXAMPLE:**

5 DRAFTER'S NOTE: STATES SHOULD CHOOSE ONE OF THE FOLLOWING  
6 ALTERNATIVES AS NOTED.

7 [Alternative 1– States that adopt paragraph (5)]

8 Taxpayer Windfall, Inc. (Windfall) is a wholly-owned subsidiary of  
9 ABC Manufacturing Corp. (ABC). Windfall's only gross receipt is \$1 billion  
10 received in settlement of ABC's patent infringement suit against a business  
11 competitor that has been ongoing for several years. Windfall is not included  
12 on a combined report filed in this state, but is included on a consolidated  
13 federal return filed by ABC on behalf of Windfall and other affiliated  
14 corporations that are included in such consolidated return. The total federal  
15 taxable income of that consolidated group is \$5 billion, and the total amount  
16 of that income that is apportioned to this state by members of the  
17 consolidated group other than Windfall is \$500 million. Because the  
18 percentage the consolidated group's income that would be apportioned to  
19 this state is 10%, Windfall would include \$1 billion in its receipts factor  
20 denominator and would assign 10% of that amount (\$100 million) to the  
21 receipts factor numerator in this state.

22 [Alternative 2 – States that do not adopt paragraph (5)] –

23 Taxpayer Windfall, Inc. (Windfall) is a wholly-owned subsidiary of  
24 ABC Manufacturing Corp. (ABC). Windfall's only gross receipt is \$1 billion  
25 received in settlement of ABC's patent infringement suit against a business  
26 competitor that has been ongoing for several years. Windfall is included on a  
27 consolidated federal return filed by ABC on behalf of Windfall and other  
28 affiliated corporations that are included in such consolidated return. The  
29 total federal taxable income of that consolidated group is \$5 billion, and the  
30 total amount of income of that income apportioned to this state by  
31 members of the consolidated group other than Windfall is \$500 million.  
32 Because the percentage the consolidated group's income that would be  
33 apportioned to this state is 10%, Windfall would include \$1 billion in its  
34 receipts factor denominator and would assign 10% of that amount (\$100  
35 million) to the receipts factor numerator in this state.

1           **(7)** Nothing in this Reg.IV.18.(c) shall prohibit the taxpayer from petitioning for, or the  
2 [state tax agency or administrator] from applying an alternative method to calculate the taxpayer's  
3 receipts factor in order to fairly represent the extent of the taxpayer's business activity in this  
4 state as provided for in [reference to Compact Article IV, Section 18 or similar state law], including  
5 the application of this rule in situations that do not meet the threshold of paragraph (2) of this  
6 Reg.IV.18.(c). Such alternative method may be appropriate, for example, in situations otherwise  
7 addressed under subparagraph (3)(A) where dividends were paid from earnings that were  
8 generated by the activities of a related party of the dividend payor, in which case the dividends  
9 may be more appropriately assigned to the receipts factor numerator in this state using the  
10 related party's average apportionment factors in this state.