



IDAHO

WATER'S EDGE ELECTION PAMPHLET

INCLUDES:

- ! DOMESTIC DISCLOSURE
SPREADSHEET INSTRUCTIONS
- ! IDAHO WATER'S EDGE INCOME
TAX CODE
- ! IDAHO WATER'S EDGE INCOME
TAX ADMINISTRATIVE RULES
- ! SPREADSHEETS AND ELECTION AND
CONSENT FORM

Filing Requirements

If your corporation and its affiliates make the water's edge election, Section 63-3027E of the Idaho Income Tax Act requires you to file the Idaho Domestic Disclosure Spreadsheet (Spreadsheet). For each state that requires unitary combined reporting, the Spreadsheet lists the income reported, the state's tax liability, and the method used to allocate or apportion income to the state. For all states, the spreadsheet lists the property, payroll, and destination sales. It also identifies your water's edge group and affiliates of which more than 20% of the voting stock is directly or indirectly owned or controlled.

You may elect not to file the Spreadsheet. However, if you do not file it, you will receive an 80% dividend exclusion rather than the 85% allowed to those who file the Spreadsheet. You may make this election annually by checking the "Yes" box on line 10.b., Form 41 (Idaho Corporation Income Tax Return).

If you do not file the Spreadsheet, you must include with your Form 41, a schedule that identifies all foreign and domestic affiliated corporations of which more than 20% of the voting stock is directly or indirectly owned or controlled. The schedule must list each affiliate's federal employer identification number, primary business activity, percentage of ownership by members of the combined group, and the dates acquired and sold (if applicable). You can provide this information on the Form DDS-1, Affiliated Corporations, included with the Spreadsheet.

If you file the Spreadsheet, it is due no later than six months after filing the Form 41. Any substitute or computer-produced version of the spreadsheet or subschedules must have the same format as the Tax Commission's forms and include the same information.

Form DDS-1, Affiliated Corporations

You must file this schedule or a comparable schedule regardless of whether you file the Spreadsheet. The Form DDS-1 lists all affiliated corporations, foreign and domestic, of which more than 20% of the voting stock is directly or indirectly owned or controlled by the corporate parent of your Idaho water's edge group.

The following descriptions correspond to the columns in Form DDS-1:

Column (a). Assign a number to each corporation included in the water's edge combined group. The common parent corporation is assigned "corporation number 1," with the other corporations numbered in consecutive order. The number assigned to each corporation may be used to refer to that corporation in all subsequent schedules of the Spreadsheet.

Column (b). Enter the name and address of the corporate parent of the Idaho combined group and all corporations of which more than 20% of the voting stock is directly or indirectly owned by the parent.

Column (c). Enter the federal employer identification number, if any, for each listed corporation.

Column (d). Identify the principal business activity.

Column (e). Enter the percent of voting stock owned by the group.

Column (f). Enter the number from column (a) of the affiliated corporation that owns the voting stock.

Column (g). Enter the date the affiliate was acquired. If the affiliate is disposed of, enter the date of the disposition.

Column (h). Enter the following code, if applicable, for each corporation. If the corporation does not meet any of the following descriptions, leave this column blank.

Code A = Foreign: Corporation incorporated outside the United States or the District of Columbia.

Code B = FSC: "Foreign Sales Corporation" as defined in Section 922(a) of the Internal Revenue Code (IRC).

Code C = Possession Corporation: A U.S. corporation that makes an election under IRC Section 936 for federal tax purposes.

Code D = Domestic: Corporation incorporated within the United States or the District of Columbia.

Form DDS-2, Schedule of Income and State Tax Liabilities

List each state that requires unitary combined reporting in which the taxpayer or an affiliate has a presence for franchise or income tax purposes and for which a tax return is filed. For this purpose, "state" includes the District of Columbia and U.S. possessions.

The following descriptions correspond to the columns in Form DDS-2.

Column (a). Using the two-letter state abbreviation, identify each state that requires unitary combined reporting in which the taxpayer or affiliate has a presence for franchise or income tax purposes and for which a return has been filed.

Column (b). Enter the name of each corporation or corporation number from Form DDS-1, column (a) required to file a return with that state.

If a single return is filed in the state for a number of corporations (e.g., Idaho allows a single corporation return or group return to be filed for all corporations under Idaho Income Tax Administrative Rule 365), enter the name of the corporation that filed the return. As to the other corporations included in the filing, attach Form DDS-2A, State Filing Requirements. This subschedule lists by state and key name the other corporations included in the return that are also taxable in the state.

The information required in columns (c) through (i) may be supplied on a cumulative basis opposite the name of the key filing entity.

Column (c). Enter the combined filing designation code (C1, C2, C3, etc.) from Form DDS-2B. Designations are necessary if there are either multiple combined groups in one state or different combined groups between states. If identical combined groups are reported in more than one state, they should be denoted by the same designation. Designations are also required if a corporation conducts, or is part of, more than one business.

Example: *Corporations A, B, C and D were included in the combined report in State S. A similar*

filing was made in State T. A, B and C were the only corporations included in the combined report filed in State U. A and B filed one combined report in State V, and C and D filed another combined report in V. The combined group in States S and T would be C1. The combined group in State U would be C2. The combined groups in State V would be C3 and C4.

Column (d). Enter the amount shown on the state tax return that represents net income before state adjustments. This amount should be equivalent to taxable income, as reported on line 30 of Federal Form 1120.

Column (e). Enter the amount shown on the state tax return that represents net income after state adjustments (e.g., interest on state and municipal obligations, state and local income taxes, etc.)

Column (f). Enter total business income subject to apportionment as it appears on the state tax return. Column (f) should equal column (e) less column (h).

Column (g). Enter the apportionment percentage reported to the state. This percentage must be supported by Form DDS-2C, Apportionment Percentage.

Column (h). Enter the amount of total nonbusiness income/loss as shown on the state tax return. This is not the amount specifically assigned to the state, but the total amount of nonbusiness income/loss reported by the filer or filing group. This amount must be supported by Form DDS-2D, Nonbusiness Income/Loss.

Column (i). Enter the amount of column (h), Nonbusiness Income/Loss Total, that is attributable to the state under its rules. This amount must be supported by Form DDS-2D, Nonbusiness Income/Loss.

Column (j). Enter total state net income as it appears on the state tax return. This should be the result of column (f) multiplied by the apportionment percentage shown in column (g), plus the nonbusiness income assigned to the state shown in column (i). To the extent it is not, attach a schedule which reconciles and explains the difference.

Column (k). Enter the amount of total income tax or franchise tax, based upon net income, paid to the state. To the extent this amount does not equal column (j) multiplied by the tax rate for the state, attach a schedule which reconciles and explains the difference.

Column (l). Enter the amount of sales with a destination into the state. This includes sales of other than tangible personal property. Sales are to be assigned to a destination state. For purposes of this schedule, throw-back sales rules are disregarded. This amount must be supported by Form DDS-2E, Destination Sales.

FORM DDS-2 SUBSCHEDULE INSTRUCTIONS

Form DDS-2A, State Filing Requirements

Form DDS-2A is used to list each state in which the taxpayer or an affiliate has filed a single return reporting the tax liabilities of a number of corporations. The subschedule must list all corporations included in the single return that have a taxable presence and filing requirement in that state.

The following descriptions correspond to the columns in Form DDS-2A:

Column (a). Using the two-letter state abbreviation, identify the state in which a single return is filed for a number of corporations.

Column (b). Enter the name (or corporation number from Form DDS-1, column (a)) of the key corporation that filed the return. This name, if listed, must correspond to the entry in column (b) of Form DDS-2.

Column (c). Enter the names (or corporation numbers from Form DDS-1, column (a)) of the other corporations included in the return that have a taxable presence and filing requirement in that state.

Form DDS-2B, Combined Filing Group

Form DDS-2B is used to list each combined filing group used by the taxpayer or an affiliate. The subschedule must list all corporations included in the group.

The following descriptions correspond to the columns in Form DDS-2B:

Column (a). Enter a combined filing designation code (C1, C2, etc.)

Column (b). Enter the name or corporation number from Form DDS-1, column (a) of each corporation included in the combined filing.

Form DDS-2C, Apportionment Percentage

Form DDS-2C is used to detail the amount of property, payroll and sales attributable to each state and to calculate the apportionment percentage. If a factor other than property, payroll, or sales is used by the state, attach a schedule that identifies and details the other factor used. If the factors are not equally weighted, note the weighting of all factors used.

The following descriptions correspond to the columns in Form DDS-2C:

Column (a). Using the two-letter state abbreviation, identify each state for which a tax return is filed.

Column (b). Enter the corporation number (from Form DDS-1, column (a) of the key corporation from column (b) of the Form DDS-1.

Column (c). Enter the combined filing designation code from column (c) of Form DDS-2, if applicable. If filing a separate return in the state, enter an S.

Column (d). If the taxpayer uses a property factor in determining the amount of income attributable to a state, enter the value of the property used in the state, the value of the total property everywhere, and the resulting property factor reported on the return as filed.

Column (e). If the taxpayer uses a payroll factor in determining the amount of income attributable to a state, enter the amount of compensation paid in the state, total compensation paid everywhere, and the resulting payroll factor reported on the return as filed.

Column (f). If the taxpayer uses a sales factor in determining the amount of income attributable to a state, enter the amount of sales attributable to the state, total sales everywhere, and the resulting sales factor reported on the return as filed.

Column (g). Enter the average apportionment percentage reported on the return filed.

Form DDS-2D, Nonbusiness Income/Loss

Form DDS-2D is used to detail the amount of nonbusiness income/loss as shown on the return, the state to which the income/loss is assigned, and states in which the income/loss is treated as business income/loss.

The following descriptions correspond to the columns in Form DDS-2D:

Column (a). Use the two-letter state abbreviation to identify each state.

Column (b). Enter the name or corporation number from Form DDS-1, column (a) of the key corporation from column (b) of the Form DDS-2.

Column (c). List the types of income/loss reported as nonbusiness income/loss on the return (i.e., dividends, interest, rents, gain/loss from sale of assets, royalties, etc.)

Column (e). Enter the state(s) to which each item of income was assigned. If this nonbusiness income was not reported on the return filed in the state to which it was assigned, explain why.

Example: *For State A, \$1,000,000 of dividend income is classified as nonbusiness income, which is not assigned to State A. If this income is not assigned to and reported on the return filed with any other state, no entry would be made in this column. If a portion of the dividend income was assigned to and reported on the returns filed with three other states (States B, C, and D), list B, C, and D in column (e) and identify amounts assigned to each.*

Column (f). If an item of nonbusiness income/loss reported on the return is treated as business income/loss in another state(s), indicate the state in which the income/loss is treated as business income/loss.

Form DDS-2E, Destination Sales

Form DDS-2E is prepared on a state-by-state basis. The corporation or group of corporations having destination sales is identified and the amount is computed. The corporations must also indicate whether they are immune under P.L. 86-272.

The following descriptions correspond to the columns in Form DDS-2E:

Column (a). Enter the name of each state. For sales made to foreign countries, enter "FC" in this column (sales made to foreign countries should be collectively listed).

Column (b). Enter the names (or corporation numbers from Form DDS-1, column (a) of all corporations that have destination sales into the state. For sales made to foreign countries, enter the names of all corporations that have sales with a destination outside the United States.

Column (c). Enter the amount of destination sales (including receipts from services or sales of other than tangible property) into the state. For sales made to foreign countries, enter the amount of sales with a destination outside the United States.

WATER'S EDGE INCOME TAX CODE

63-3027B. WATER'S-EDGE ELECTION. (a) Notwithstanding the provisions of subsections (s) and (t) of section 63-3027, Idaho Code, a qualified taxpayer, as defined in paragraph (3) of subsection (b) of this section whose income is subject to the tax imposed under this chapter, may elect to determine its income derived from or attributable to sources within this state pursuant to a water's-edge election in accordance with the provisions of this chapter, as modified by sections 63-3027B through 63-3027E, Idaho Code. A taxpayer who makes a water's-edge election shall take into account the income and apportionment factors of only affiliated corporations in a unitary relationship with the taxpayer, other than corporations filing elections under section 936 of the Internal Revenue Code, and which either file a federal income tax return under the Internal Revenue Code or are included in a federal consolidated return.

(b) For purposes of this section:

(1) The phrase "over fifty percent (50%) of the voting stock directly or indirectly owned or controlled" shall be substituted for the phrase "at least eighty percent (80%)" each place it appears in section 1504 of the Internal Revenue Code.

(2) Any combined return shall include only corporations the voting stock of which is more than fifty percent (50%) owned directly or indirectly by a common owner or owners.

(3) A "qualified taxpayer" is a corporation which files, with the state income tax return on which the water's-edge election is made, a consent to the reasonable production of documents within the taxing jurisdiction. The consent shall remain in effect so long as the water's-edge election is in effect.

(4) "Water's-edge combined group" shall mean all corporations or entities properly includable in the election of a taxpayer in subsection (a) of this section.

(5) The only income of a foreign sales corporation to be taken into account shall be the income subject to federal taxation, taking into account the provisions of section 921 of the Internal Revenue Code.

(c) A water's-edge election may be disregarded, and the income of the taxpayer determined without regard to the provisions of this section pursuant to those conditions which may be required by the state tax commission under subsection (b) of section 63-3027C, Idaho Code, if any corporation fails to comply with:

(1) The domestic disclosure spreadsheet filing requirements defined in section 63-3027E, Idaho Code; or

(2) This state's legal and procedural requirements.

63-3027C. ELECTION IS BINDING -- TREATMENT OF DIVIDENDS. (a) A water's-edge election shall be made in the original return for a year and shall be binding for all years thereafter, except as follows:

(1) If, in the future, the United States supreme court or the supreme court of the state of Idaho rules that there is a state or federal constitutional right for a group of corporations to use the worldwide unitary method, a water's-edge combined group of corporations may, without permission of the tax commission, change its future filing to the worldwide unitary method.

(2) Any changes to use of the water's-edge method or any other changes beyond those described in paragraph (1) of this subsection may only occur with the written permission of the tax commission.

(3) No water's-edge election shall be made for an income year beginning prior to the operative date of sections 63-3027B through 63-3027E, Idaho Code.

(b) When disregarding an election or granting a change of election, the tax commission shall impose conditions which are necessary to prevent the avoidance of tax or to clearly reflect income for the period the election was made.

(c) For purposes of this section:

(1) Dividends received from payors incorporated outside the fifty (50) states and District of Columbia, to the extent taxable, shall be treated as income subject to apportionment.

(2) The income of corporations filing elections under section 936 of the Internal Revenue Code shall be deemed dividends received from payors incorporated outside the fifty (50) states and District of Columbia.

(3) Eighty-five per cent (85%) of all dividends described in subsection (c)(1) or (c)(2) of this section shall be excluded from income subject to apportionment.

(4) The dividends subject to apportionment shall be in lieu of any expenses attributable to such dividend income.

(5) Any actual dividend received from a corporation filing an election under section 936 of the Internal Revenue Code shall be eliminated from income.

(d) Any dividend from any payor required to be combined under the water's-edge election shall be eliminated from the calculation of apportionable income. Dividends received from a corporation described in section 922 of the Internal Revenue Code (defining "FSC") will be treated as follows:

(1) Dividends received from an FSC will be eliminated in the proportion that FSC federal taxable income for the year, out of which the dividend was paid, bears to the total FSC income before taxes for such year.

(2) The portion of FSC dividend not eliminated under paragraph (1) of this subsection will be subject to the eighty-five per cent (85%) exclusion provided for in subsection (c)(3) of this section.

(e) For purposes of this section:

(1) Amounts included in income by reference to subpart F of part III of subchapter N of chapter 1 of the Internal Revenue Code shall constitute dividends from payors outside the fifty (50) states and District of Columbia;

(2) Amounts included in income under part VI of subchapter P of chapter 1 of the Internal Revenue Code shall constitute dividends from payors outside the fifty (50) states and the District of Columbia; and

(3) Deemed distributions defined by Section 78 of the Internal Revenue Code shall be excluded from the income of the water's-edge combined group.

63-3027D. PRESUMPTIONS AND BURDENS OF PROOF. (a) A qualified taxpayer and its affiliates shall be presumed to be a part of a unitary business and all income of that business shall be presumed to be apportionable business income if a valid water's-edge election has been made, except as provided in subsections (c) and (d) of section 63-3027C, Idaho Code.

(b) A taxpayer shall have the burden of proof regarding the issue of whether or not a corporation is a member of a water's-edge combined group.

63-3027E. OPERATIVE DATES. (a) Sections 63-3027B through 63-3027E, Idaho Code, shall be operative for the computation of taxes for the earlier of either of the following:

(1) Taxable years beginning on or after January 1, 1988.

(2) Taxable years beginning on or after January 1 of the year after the year in which the board of examiners, upon advice of the attorney general, certifies to the tax commission that action has been taken by the United States, whether by statute, regulation, executive order, or any other means as may be appropriate, to comply substantially with the following:

(A) A requirement that any corporation required to file a United States tax return or which could be included in a consolidated federal tax return be required to file with the Internal Revenue Service a domestic disclosure spreadsheet if its payroll, property, or sales in a foreign country exceeds one million dollars (\$1,000,000). The spreadsheet shall provide for full disclosure as to the income reported to each state, the state tax liability, and the method used for apportioning or allocating income to the states, and any other information as provided for by regulations as may be necessary to determine properly the amount of taxes due to each state and to identify the water's-edge corporate group and those of its affiliates of which more than twenty per cent (20%) of the voting stock is directly or indirectly owned or controlled by a common owner or owners.

(B) That the information filed pursuant to paragraph (2)(A) of this subsection will be available to qualified states. A "qualified state" is any state that does not require the use of the worldwide unitary method of taxation except in circumstances substantially similar to those authorized in subsection (c) of section 63-3027B, Idaho Code.

(C) That qualified states are authorized access to all material developed by the Internal Revenue Service in its examination of multinational operations.

(b) If sections 63-3027B through 63-3027E, Idaho Code, become operative pursuant to paragraph (1) of subsection (a) of this section, the tax commission may require, and taxpayers described in this subsection must file, no later than six months after filing the Idaho income tax return, a spreadsheet to provide disclosure as to the income reported for the year to the other states that require unitary combined reporting, the tax liability for each such state, the method used for

allocating or apportioning income to such states, the property, payroll, and destination sales of the water's edge corporate group in each state, and to identify the water's-edge corporate group and those of its affiliates of which more than twenty per cent (20%) of the voting stock is directly or indirectly owned or controlled by a common owner or owners. The provisions of this subsection shall apply only to corporations which both make a water's-edge election and have during the taxable year, payroll, property or sales in a foreign country which exceeds one million dollars (\$1,000,000). Notwithstanding the requirement to file a spreadsheet in any tax year, a taxpayer may forego filing such a spreadsheet by submitting to the state tax commission a written declaration of its intention to forego filing such spreadsheet for such year. In the event such declaration is filed in any tax year, no spreadsheet shall be required of such taxpayer and the percentage to be applied under section 63-3027C(c)(3) for such year shall be eighty per cent (80%) rather than eighty-five per cent (85%).

Water's Edge Income Tax Administrative Rules -- IDAPA 35.01.01.640 - 35.01.01.646

640. WATER'S EDGE -- MAKING THE ELECTION (Rule 640).

Section 63-3027B, Idaho Code.

(3-20-97)

01. In General. Rules 640 through 649 of these rules apply to taxpayers electing to use the water's edge filing method. To the extent that these rules conflict with any other rules pursuant to this Act, Rules 640 through 649 of these rules control. (3-20-97)

02. The Election. The water's edge election is made for purposes of determining which corporations are included in a combined report for Idaho income tax purposes. The election must be made in accordance with Sections 63-3027B through 63-3027E, Idaho Code, and Rules 640 through 649 of these rules. (3-20-97)

a. The election can be made for a year beginning on or after January 1, 1993. See Rule 643 of these rules for Change of Election. (3-20-97)

b. All taxpayers required to file an Idaho return and included in the water's edge combined group must make the election. The election must be made on a form provided by the Tax Commission. If the group makes a joint election, a list of each corporation required to file must be provided. A joint election must be signed by an individual authorized to bind all companies to the election. (3-20-97)

c. Idaho taxpayers having a valid water's edge election shall compute Idaho taxable income in accordance with Sections 63-3027 and 63-3022, Idaho Code, except as modified by Sections 63-3027B through 63-3027E, Idaho Code, and Rules 640 through 649 of these rules. (3-20-97)

03. Failure To Include Election. Failure to include the election with the first return to which the election applies results in Idaho taxable income being determined in accordance with Sections 63-3027 and 63-3022, Idaho Code. (3-20-97)

641. WATER'S EDGE -- ELEMENTS OF A COMBINED REPORT (Rule 641).

Section 63-3027B, Idaho Code.

(3-20-97)

01. Income. Income for the water's edge combined group is computed on the same basis as taxable income subject to modifications contained in Sections 63-3022 and 63-3027, Idaho Code, and related rules. Intercompany transactions between members of the water's edge combined group shall

be eliminated. Transactions between a member of the water's edge combined group and a nonincluded affiliated corporation shall be included in the computation of the income of the water's edge combined group. (3-20-97)

02. Factors. The rules for inclusion, value, and attribution of apportionment factors by location for the water's edge combined group shall be determined pursuant to Section 63-3027, Idaho Code, and related rules. When computing the apportionment factors of the water's edge combined group, intercompany transactions between members of the group shall be eliminated. Transactions between a member of the water's edge combined group and a nonincluded affiliated corporation shall be included, if appropriate, when determining apportionment factors. Dividends, to the extent included in apportionable income, shall be included in the sales factor computation. (3-20-97)

642. WATER'S EDGE -- LEGAL AND PROCEDURAL REQUIREMENTS (Rule 642). Section 63-3027B, Idaho Code. (3-20-97)

01. Required Form. Proper filing of the water's edge election and consent for production of records must be made on the form provided by the Tax Commission and included in the original income tax return for the first tax year to which the election applies. (3-20-97)

02. Required Information. The following information must be included with each year's tax return for which a water's edge election applies: (3-20-97)

a. A complete list of all affiliated corporations, foreign and domestic, of which more than twenty percent (20%) of the voting stock is, directly or indirectly, owned or controlled by a common owner; (3-20-97)

b. Identifying information for each member of the water's edge combined group, including: federal identification number, primary business activities, percent of ownership by members of the combined group, and dates of acquisition or disposition of interest; (3-20-97)

c. A copy of the federal consolidated return, if applicable; and (3-20-97)

d. A schedule of taxable income for each possession corporation excluded from the water's edge group pursuant to Section 63-3027B(a), Idaho Code. (3-20-97)

643. WATER'S EDGE -- CHANGE OF ELECTION (Rule 643). Section 63-3027C, Idaho Code. (3-20-97)

01. In General. Except as provided in Section 63-3027C(a) (1), Idaho Code, the taxpayer must submit a written petition to the Tax Commission and be granted written permission to change its reporting method from water's edge for any subsequent tax year. (3-20-97)

a. A change in the reporting method includes conversion from the water's edge filing method to the worldwide filing method as well as the addition of companies previously omitted or the exclusion of companies previously included in the water's edge combined group, except in the case of companies acquired or disposed of during the taxable year. (3-20-97)

b. The Tax Commission may determine that one or more affiliated corporations should be included or excluded from the water's edge combined group. Income and apportionment factors shall be modified accordingly. (3-20-97)

02. Written Petition. A written petition must include the following: (3-20-97)

a. An explanation of the legal or factual basis for requesting the change of reporting method;
and (3-20-97)

b. A computation of the taxpayer's Idaho taxable income and tax liability computed using both the prior reporting method and the method the taxpayer is petitioning to use for the year of change. (3-20-97)

03. Due Date For Filing The Written Petition. The written petition requesting the change of reporting method must be filed with the Tax Commission at least thirty (30) days prior to the due date for filing the tax return. (3-20-97)

04. Failure To Provide Required Information. Failure to provide complete and accurate information necessary for the Tax Commission's review of the petition constitutes grounds for denial of the taxpayer's petition or disregard of the taxpayer's election. (3-20-97)

05. Approval Attached To Original Return. A copy of the Tax Commission's written approval of the change in reporting method must be attached to the original return for the year in which the change is first made. (3-20-97)

06. Appeal Rights. A taxpayer may appeal the Tax Commission's denial of a request to change the method of filing, by submitting a written letter of protest within sixty-three (63) days from date of the denial. If permission to change its filing method is denied, the taxpayer shall continue to file its income tax return with the method used in the previous year. If the appeal is resolved in the taxpayer's favor, the taxpayer may file an amended return for the year of change. (3-20-97)

644. WATER'S EDGE -- DISREGARDING THE ELECTION (Rule 644).

Sections 63-3027B and 63-3027C, Idaho Code. If a taxpayer fails to comply with Sections 63-3027B through 63-3027E, Idaho Code, and Rules 640 through 649 of these rules, the Tax Commission may disregard the water's edge election or recompute the water's edge combined income and apportionment factors, and assert penalties pursuant to Section 63-3046, Idaho Code, and Rules 400 through 419 of the Administration and Enforcement Rules. (3-20-97)

645. WATER'S EDGE -- TREATMENT OF DIVIDENDS (Rule 645).

Section 63-3027C, Idaho Code. (3-20-97)

01. Dividends Received From Payors Incorporated Outside The United States. Dividends received from payors who are incorporated outside the fifty (50) states and District of Columbia but are not included in the combined report are treated as business income. These dividends are treated as business income of the water's edge combined group even if paid from earnings included in the taxpayer's combined report in prior years. (3-20-97)

02. Dividends Received From Payors Incorporated In The United States. Dividends received from payors who are incorporated within the fifty (50) states and District of Columbia but not included in the combined return are presumed to be business income of the water's edge combined group. (3-20-97)

03. Deemed Dividends From Possession Corporations. The income of a possession corporation, excluded in Section 63-3027B(c), Idaho Code, shall be included in business income as a deemed dividend received from a payor incorporated outside the fifty (50) states and District of Columbia. The income of a possession corporation means taxable income greater than zero (0). Losses from posses-

sion corporations may not offset income of other possession corporations in determining the amount of deemed dividends. (4-5-00)

04. Dividends From Foreign Sales Corporations. (4-5-00)

a. As provided in Section 63-3027C(d)(1), Idaho Code, dividends received from a Foreign Sales Corporation (FSC) shall be eliminated in the proportion that FSC federal taxable income for the year during which the dividend was paid bears to the total FSC income before taxes for that year. For purposes of computing the dividend elimination, total FSC income before taxes means book income before the deduction of federal income taxes. (4-5-00)

b. For example, a FSC paid one million dollars (\$1,000,000) in dividends during the taxable year. For that same taxable year, the FSC had federal taxable income totaling ten million dollars (\$10,000,000) and total FSC income before taxes of twenty million dollars (\$20,000,000). The dividends eliminated would be five hundred thousand dollars (\$500,000) computed as follows: $(\$10,000,000 \text{ federal taxable income} / \$20,000,000 \text{ total FSC income before taxes}) \times \$1,000,000 \text{ FSC dividend paid} = \$500,000 \text{ dividend elimination}$. (4-5-00)

05. Interest Expense Offset. The interest expense offset provided in Section 63-3022M, Idaho Code, does not apply to any dividends subject to the eighty-five percent (85%) or eighty percent (80%) exclusion provided in Section 63-3027C or 63-3027E, Idaho Code. (4-5-00)

646. WATER'S EDGE -- DOMESTIC DISCLOSURE SPREADSHEET (Rule 646). Section 63-3027E, Idaho Code. (3-20-97)

01. Filing Requirements. The domestic disclosure spreadsheet required by Section 63-3027E(b), Idaho Code, must be filed no later than six (6) months after filing the original return unless the taxpayer makes a declaration to forego the filing of the spreadsheet. The declaration is made on a year by year basis. (7-1-98)

02. Spreadsheet Information. The spreadsheet information must be submitted using the forms contained in the Tax Commission's "Idaho Water's Edge Election Pamphlet," or on identically formatted forms that disclose the same information. (7-1-98)

**IDAHO DOMESTIC DISCLOSURE SPREADSHEET
AFFILIATED CORPORATIONS
FORM DDS-1**

FILER: _____

ADDRESS: _____

F.E.I.N.: _____

INCOME YEAR ENDED: _____

(a) No.	(b) Name and Address of Corporation	(c) FEIN (if any)	(d) Principal Business Activity	(e) Percentage of Ownership	(f) Corporation Number of Owners (from (a))	(g) Date(s) Acquired (Sold)	(h) Type of Corporation *
1.	Common Parent Corporation						

* Type of Corporation: A - FOREIGN B - DISC/FSC C - POSSESSION CORPORATION D - DOMESTIC

IDAHO DOMESTIC DISCLOSURE SPREADSHEET
NONBUSINESS INCOME/LOSS
FORM DDS-2, Page 1

FILER: _____

INCOME YEAR ENDED: _____

(a) State	(b) Key Name or Corporation Number	(c) Combined Filing Designation Code	(d) Net Income Before State Adjustments	(e) Net Income After State Adjustments	(f) Business Income

IDAHO DOMESTIC DISCLOSURE SPREADSHEET
 SCHEDULE OF INCOME AND STATE TAX LIABILITIES
 FORM DDS-2, Page 2

FILER: _____

INCOME YEAR ENDED: _____

State	Key Name or Corporation Number	(g) Apportionment Percentage (From Form DDS-2C)	(h) Nonbusiness Income/Loss Total (From Form DDS-2D)	(i) Nonbusiness Income/Loss Allocated to State (From Form DDS-2D)	(j) State Income Total	(k) State Tax	(l) Destination Sales (From Form DDS-2E)

IDAHO DOMESTIC DISCLOSURE SPREADSHEET APPORTIONMENT PERCENTAGE FORM DDS-2C

FILER: _____

INCOME YEAR ENDED: _____

(In support of column (g) of the Schedule of State Tax Liabilities (Form DDS-2))

(a) State	(b) Corporate Number	(c) Filing Designa- tion Code	(d) PROPERTY			(e) PAYROLL			(f) SALES			(g) Average Factor per Return as Filed
			Numerator	Denominator	Percent	Numerator	Denominator	Percent	Numerator	Denominator	Percent	

IDAHO WATER'S EDGE ELECTION AND CONSENT FORM

Name as shown on return _____	Federal employer identification number _____
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Calendar year _____ or fiscal year ending _____

Attach this form to the Idaho Corporation Income Tax Return, Form 41, for the first year the election is made. For subsequent years a new election and consent form is necessary only if a corporation with an Idaho filing requirement is added to the water's edge combined group.

ELECTION

We elect to determine the income derived from, or attributed to, sources within Idaho, pursuant to a Water's Edge Election.

CONSENT

By electing the water's edge method, we agree to identify the water's edge combined group and those of its affiliates of which more than 20% of the voting stock is directly or indirectly owned or controlled by a common owner or owners.

In order to receive the 85% dividend exclusion, we consent to file the Idaho Domestic Disclosure Spreadsheet (Spreadsheet) no later than six months after filing our Idaho Corporation Income Tax Return. We also agree to provide the required information and supporting documents as requested regarding the income reported to each state that requires unitary combined reporting for the year, the tax liability for each such state, the method used for allocating or apportioning income to such states, and the property, payroll, and destination sales in each state.

If we elect to forego filing the Spreadsheet, we will receive an 80% dividend exclusion. An election to forego filing the Spreadsheet will be made by checking the "Yes" box on Form 41, Idaho Corporation Income Tax Return.

CHANGE OF METHOD

We understand that the Water's Edge Election is binding and may be changed only with written permission from the Tax Commission. A written petition requesting the change of reporting method must be filed at least 30 days prior to the due date for filing the tax return not including extensions of time to file.

REVOCACTION - ADJUSTMENT

Failure to provide the required information and supporting documents may result in revocation of the Water's Edge Election or recomputation of the Water's Edge combined income and apportionment factors as well as the imposition of penalties.

JOINT ELECTION

List the separate corporations included in the Water's Edge combined group that are required to file in Idaho.

Corporation Name	Corporation's Federal E.I.N.
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

AUTHORIZED SIGNATURE

I am authorized to bind the corporation (corporations) named above to this Water's Edge Election and Consent.

Signature _____	
Title _____	Date _____