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Massachusetts Company Compliance Renewal and Maintenance Guidelines

After successfully registered in Massachusetts, the Corporation or LLC are required to operate in compliance with the Business Corporation Law/Limited Liability Company Act of the State of Massachusetts. This guideline note intends to provide a summary of those on-going compliance requirements for the interest of our clients.

The first section of the guideline note briefs the basic maintenance and reporting that a Massachusetts company is required to comply with, including annual report, registered office and registered agent and business license renewal.

The second section describes income tax filing services, including federal income tax filing and state income tax filing.

The third section describes the Massachusetts State sales tax filing requirements and tax rate.

The fourth section describes federal and state payroll tax filing and foreign person's U.S. source income subject to withholding tax filing requirements. All U.S. companies are required to file tax returns on time to comply with tax laws.

The fifth section states the foreign banks and financial accounts reporting. If you have foreign financial accounts, you are required to report accounts to IRS on time.

The sixth section describes financial reporting, including bookkeeping service and the audit service of annual financial report.

The last section summarizes our compliance and maintenance services and costs to maintain a Massachusetts company in good standing. The fees listed are based on estimation and for reference purpose only. The final service fee may be different according to actual circumstances.

This guideline is not meant to cover all the compliance requirements imposed on a company by the Massachusetts and U.S. laws. If any issue of interest is not covered in this guideline, you are welcome to contact and consult our professional accountants.

1. Annual Renewal Requirements

(1) Annual Report

All active business entities registered at Massachusetts must file Annual Report with the Massachusetts Secretary of the Commonwealth. Failure to file the required Annual Report may result in late fee.

Corporations must file within two and half months after the close of the corporation's fiscal year end. All LLC must file on or before the anniversary date of the filing of its original certificate of organization.

(2) Registered Office and Registered Agent

Massachusetts law requires that every business entity must have and maintain a Registered Agent in the State of Massachusetts. The registered agent must have a physical street address in Massachusetts. Kaizen provides professional service to help clients maintain and renew the registered agent annually.

(3) Business License/Permit Renewal (extra fee required)

In the situation where a Massachusetts registered company holds a business licence or permit issued by the Federal or State Government because it engages in one or more regulated business, in general, such a licence or permit must be renewed each year.

2. Tax Relevant Services

(1) Federal Income Tax Return

According to Internal Revenue Service (IRS), all business entities must file an income tax return on or before the following April 15th (Corporation) or March 15th (LLC) of the tax year, or Oct 15th (Corporation) or Sep 15th (LLC) with extension, if the company adopts the calendar year as its accounting year. However, a business entity must still pay its tax due in full no later than the original deadline for filing of its tax return (not extended deadlines). Interest and penalty will be charged for late payment of tax if an extension of time to file is granted.

A LLC is also required to file a federal income tax return each year without paying any income tax because a LLC is by default a pass-through entity unless it choose to be taxed as a corporation. Should a LLC makes such as choice, then it will need to file the Federal Income Tax Return and at the same time pay federal income tax at company level.

(2) Massachusetts State Income Tax Return (Also Named as Excise Tax Return)

Every business entity doing business in Massachusetts is required to file a corporate excise tax return regardless of the amount. A corporation's total excise is the combination of the property measures and net income measures, or the minimum corporate excise, whichever is greater.

Massachusetts corporate excise return together with payment in full of any tax due, must be filed on or before the 15th day of the fourth month after the close of the taxable year, calendar or fiscal.

Massachusetts LLCs doing businesses in Massachusetts are taxed and classified the same as for federal income tax purposes. If the LLC is filed as a partnership by default, the LLC must file the partnership return on or before the 15th day of the third month following the close of each taxable year.

3. Sales or Use Tax

If the entity located in Massachusetts and engage in rental tangible personal property or telecommunications services, sales or resale manufacture goods or other taxable services, you will need to pay the state's sales tax. The use tax generally applies to the storage, use, or other consumption in Massachusetts of goods purchased from retailers in transactions not subject to the sales tax. Use tax may also apply to purchases shipped to a Massachusetts consumer from another state, including purchases made by mail order, telephone, or Internet. The sales /use tax rate in Massachusetts is currently 6.25%.

4. Payroll Tax Filing

(1) Federal Payroll Taxes

If the business entities have employees and pay wages in U.S., they must report income and payroll taxes withheld from their employees to Internal Revenue Service (IRS) periodically and deposit these taxes in full to an authorized bank or financial institution pursuant to Federal Tax Deposit Requirements. The business entities are also responsible for filing and paying Social and Medicare Taxes (employer share amount) and Federal Unemployment Taxes.

The deposit schedule for the payroll taxes depend upon the amount of the business entity's payroll tax liability. Employers may be subject to criminal and civil sanctions for wilfully failing to pay employment taxes.

(2) State Payroll Taxes

If Corporation or LLC have employees and pays wages in Massachusetts, they must register with Department of Revenue. Employers in Massachusetts must withhold state income taxes from salaries or payments made to employees who live in or are employed in Massachusetts and employers must send them in, along with the appropriate form or electronic return, on time.

(3) Foreign Person's U.S. Source Income

According to Internal Revenue Code, the payments that certain foreign persons received from U.S. sources, are subject to tax withholding. And withholding agent or payer must report the amount withheld to IRS, if any. The sources include dividends, interest, rents, annuities, etc. Kaizen can help you prepare Form 1042, 1042-S, W-8BEN or other forms required by government agencies.

- (a) If foreign persons received U.S source income, they are required to submit Form W-8BEN to the withholding agent or payer for tax withholding purpose.
- (b) Form 1042 is used to report the tax withheld on U.S. source income of foreign persons.
- (c) Form 1042-S is the statement of U.S. source income and amount withheld of foreign persons.

5. Foreign Banks and Financial Accounts Reporting

If your Massachusetts company owns, or has any interest in, any foreign financial accounts, Foreign financial accounts include, but are not limited to; checking, savings, securities, brokerage, deposit, or any other account held with a financial institution. Foreign financial accounts also include annuities with a cash out value, mutual funds, or whole-life insurance policies.

You must assess the balances each year to determine if your Massachusetts company is required to file an FBAR form (FinCEN Form 114) or FATCA Form 8938.

(1) FBAR Form

The FBAR form is required to be filed each year if the total balance of foreign financial accounts owned by your Massachusetts company exceeds USD10,000 during the year. The Foreign Bank Account Report (FBAR, FinCEN Form 114) will need to be filed with the Department of Treasury on or before 15 April following the calendar year you are reporting.

Anyone who are obligated to file the report but failed to do so may be subject to a fine of USD10,000 per violation. If it is determined that you purposely avoided filing, the fine can be USD100,000 or 50% of the balance of the account at the time of the violation, whichever is greater.

(2) FATCA Form 8938

The FATCA Form 8938 is required to be filed each year if the total value of foreign financial assets owned by your Massachusetts company exceeds USD50,000 during the tax year. It will need to be attached to your annual return and due on the date of that return, including any applicable extensions.

Anyone who are obligated to file the form but failed to do so may be subject to a fine of USD10,000 per violation and an additional \$10,000 for each 30 days of non-filing after IRS notice of a failure to disclose, for a potential maximum penalty of \$60,000; criminal penalties may also apply.

6. Financial Reporting

(1) Financial Reports

Massachusetts is required to keep adequate and correct business documents, such as financial statements, bank statements, and invoices. In addition, it should be noted that Massachusetts companies may still have other reporting requirements, such as filing of Federal Income Tax Return and this could not be done without properly kept accounting records and financial statements. In this regard, we suggest that you should keep all your accounting records and update the books of accounts on a regular basis.

(2) Audit of Annual Financial Reports

In Massachusetts, all entities, both corporations and LLCs, other those than listed in a stock exchange, are not required to appoint an auditor, and is also not required to arrange to have their annual financial statements audited. Public companies are required to submit the audit reports to the U.S. Securities and Exchange Commission annually per the list rules of the relevant stock exchange. It should be noted however, private companies may also want to have their financial reports audited annually or periodically for some other reasons, such as submitting the audited financial report to lending party or to investors.

7. Massachusetts Company Annual Maintenance Costs

As discussed above, all active Massachusetts Corporations and LLCs are required to operate in compliance with the Massachusetts business laws. They may also need to apply for license and permits with State Department according to industry specific requirements. Kaizen U.S. office is a professional CPA firm, offers complete compliance services and business support, such as bookkeeping, financial statement audit, filing tax return, making payroll, etc. Some of our Massachusetts company related services and fees are listed below for your reference.

| Item | Description | Service Fees (USD) | |
|------|--|--------------------|--------------------------------|
| 1 | Annual renewal including registered agent, registered office, and annual report filing fees (Note 1) | Yearly | 900(Corporation) 1300 (LLC) |
| 2 | Business license/permits renewal (Note 2) | Yearly | TBA |
| 3 | Federal and Massachusetts state income tax returns filing (Note 3) | Each filing | 800/up |
| 4 | Payroll tax filing and relevant services (Note 4) | TBA | TBA |
| 5 | Foreign banks and financial accounts filing (FBAR) (Note 5) | Each filing | 200/up |
| 6 | Financial statements and special audit (Note 6) | Yearly | 2,000/up |
| 7 | Accounting and bookkeeping (Note 7) | Yearly | 300/up |

Note:

- (1) Kaizen service fee for the annual renewal includes provision of the registered office, registered agent, preparation and filing the annual report, but not including business license endorsements renewal service, if any.
- (2) This is the official filing fee for renewal of business licence when your company holds one for reason of carrying out business in Massachusetts. Kaizen does not charge service fee for handling the renewal of business license/permits for your Massachusetts company. The final amount depends on the number of locations of business operation your company may have in Massachusetts.
- (3) Our service fee for preparation and filing of the Federal and State Corporate Income Tax Return depends on business model and complexity and transactions of financial statements of your Massachusetts company. Once we have the opportunity to review the books of accounts of your Massachusetts company, we will then prepare and provide an accurate quotation for your consideration.
- (4) Our fee for payroll tax filing and relevant services is charged based on numbers of employees and frequency of salary payments.
- (5) Our fee for handling of filing of FBAR depends on the number and type of financial accounts to be reported. If no more than three accounts, the filing fee is USD 200. For each additional account, we charge USD50.

- (6) Our service fee for audit of annual financial statements is determined taking into consideration the business model of company, the complexity of the financial positions and the types and amounts of assets etc. Once we have the opportunity to review the books of accounts and financial statements of your company, we will then prepare and provide an accurate quotation for your consideration. In addition to audit of financial statements, we can also provide special audit and review services.
- (7) Our service fee for accounting and bookkeeping is determined taking into consideration the number of transactions. Other than updating books of accounts on a monthly basis, we can also update the books of accounts of your Massachusetts company on a quarter or annual basis. We can also prepare financial statements in a language other than English.



If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at www.kaizencpa.com or contact us through the following and talk to our professionals:

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