

Maryland
FORM
500DM

DECOUPLING MODIFICATION

YEAR (OR FISCAL YEAR
BEGINNING _____, _____
ENDING _____, _____)

Name of taxpayer(s)	Taxpayer identification number
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Use this form **only** if the Special Depreciation Allowance or the carryover of a net operating loss (NOL) based on the special 5-year carryback provision under the federal Job Creation and Worker Assistance Act (JCWAA) of 2002 was used on the federal income tax return.

Complete the worksheet below.

	Column 1 Federal Return as Filed	Column 2 Federal Return without JCWAA Provisions	Column 3 Difference Increase/ Decrease (-)
1. Depreciation Deduction Subtract the amount in Column 2 from the amount in Column 1 and enter in Column 3. If less than 0, enter as a negative amount (-).			
2. NOL Deduction Subtract the amount in Column 2 from the amount in Column 1 and enter in Column 3. If less than 0, enter as a negative amount (-).			
3. Decoupling Modification from a Pass-through Entity If the modification is a subtraction, enter as a negative amount (-).			
4. Other Related Changes (See instructions) For each item, enter the impact the item has on Maryland taxable income as an increase or decrease. If the change to the item increases taxable income, enter the amount as a positive number. If the change decreases taxable income, enter the amount with a minus sign (-) in front of the number.			
4a. Gain or loss on sale of property			
4b. Recapture of depreciation			
4c. Passive losses			
4d. Maryland itemized deductions			
4e. Others – Attach schedule (See instructions)			
5. Net Decoupling Modification			

Net the amounts on lines 1 through 4e of Column 3. This is the Decoupling Modification. Enter here and include (as a positive number) in the appropriate line of the Maryland return being filed. Also enter the applicable letter code(s) in the boxes provided on the return. See table below. (When determining which code to use, disregard any amounts on line 4.)

Return Filed	If line 5 is positive enter on:	Use the following code if there is an amount on:			If line 5 is negative enter on:	Use the following code if there is an amount on:		
		Line 1 only	Line 2 only	Both lines 1 and 2 and/or line 3		Line 1 only	Line 2 only	Both lines 1 and 2 and/or line 3
500	Line 2d	e	f	dm	Line 4e	j	k	dm
502	Line 5	l	m	dm	Line 14	bb	cc	dm
504	Line 3	No code required			Line 6	No code required		
505	Line 19	j	k	dm	Line 23	p	q	dm

DECOUPLING MODIFICATION

General Instructions

Purpose of Form

This form is used to calculate the Maryland addition or subtraction modification required to adjust for the federal Special Depreciation Allowance and special 5-year net operating loss (NOL) carryback period. The special treatment of depreciation and NOLs is allowed under the federal Job Creation and Worker Assistance Act (JCWAA) of 2002. Maryland has decoupled from the special treatments by enacting addition and subtraction modifications which eliminate the effect of the changes on Maryland and local taxes. This form is used to determine the amount of the required modification.

DO NOT USE this form if an election was made not to use the Special Depreciation Allowance and the special 5-year NOL carryback period.

Use of Pro Forma Returns

Separate (pro forma) federal and Maryland returns should be prepared only for use in completing Form 500DM. In addition to calculating depreciation and NOL deductions without the benefits afforded under the JCWAA, pro forma returns will also help to determine other related items that will affect Maryland and local income tax liability (certain income items, addition and subtraction modifications, deductions and credits).

Additional Information

For more information regarding these modifications, see Administrative Release 38 which is available on our website at www.marylandtaxes.com or at any office of the Comptroller.

Special Instructions

Column 1 – Federal Return as Filed

Column 1 (lines 1 and 2) is used for the amounts reported on the federal return which include the impacts of the Special Depreciation Allowance and the special 5-year NOL carryback period.

Column 2 – Federal Return Without JCWAA Provisions

Column 2 (lines 1 and 2) is for the amounts which would have been reported on the federal return using federal law in effect prior to enactment of the JCWAA (without regard to the Special Depreciation Allowance and/or the special 5-year NOL carryback period).

Column 3 – Change – increase/decrease (-)

Lines 1 and 2 – Subtract the amount in Column 2 from the amount in Column 1. Enter in Column 3. Lines 4a through 4e are for the change to taxable income in other related items (calculated before and after application of the JCWAA provisions) that would affect taxable income. If the change decreases taxable income, enter the amount with a minus sign (-) in front of the number.

Line 1 – Depreciation Deduction

Use line 1 only for property for which the Special Depreciation Allowance was used on the federal return filed with the IRS. If an election was made not to take the Special Depreciation Allowance, enter 0 in all columns for line 1.

Line 2 – NOL Deduction

Use line 2 for an NOL deduction only if the special 5-year carryback period was claimed on the federal return filed with the IRS. For Columns 1 and 2, limit the deductions as follows: For a corporation, the deduction may not exceed the federal taxable income. For all others, the deduction may not exceed the federal modified taxable income as determined on federal Form 1045, Schedule B. If an election was made not to take the special 5-year carryback period for the NOL in the loss year, enter zero in all columns for line 2.

Line 3 – Decoupling Modification from a Pass-through Entity

Use line 3 for a Decoupling Modification reported by a pass-through entity. Report only the partner's, shareholder's or member's share of the modification. Enter as a positive number if the modification is an addition and as a negative number (-) if it is a subtraction. **Do not** include this amount as an addition or subtraction modification on any pro forma returns.

Note: If 0 has been entered in Column 3 for lines 1, 2 and 3, Form 500DM should not be filed.

Line 4 – Other Related Changes

Decoupling from the Special Depreciation Allowance and the special 5-year NOL carryback period may also affect income included in federal adjusted gross income 09/02

(AGI) and allowable itemized deductions, as well as other deductions from income and addition and subtraction modifications. The Decoupling Modification must include an adjustment for these changes. If the change for any item on line 4 reduces taxable income, enter as a negative number (-).

Line 4a – Gain or Loss on Sale of Property

A change to the depreciation deducted for property may increase or decrease the gain or loss if the property is sold. For property affected by the Special Depreciation Allowance, enter the change to any gain or loss for the sale of the property.

Line 4b – Recapture of Depreciation

If depreciation must be recaptured on the federal return filed with the IRS for property for which the Special Depreciation Allowance was used, enter any change in the amount required to be recaptured.

Line 4c – Passive Loss

A change to federal AGI may affect the amount of passive losses that may be used to offset income this year. Enter the amount of any change to the allowable loss.

Line 4d – Maryland Itemized Deductions

A change to federal AGI may affect the amount of allowable itemized deductions due to certain limitations based on federal AGI. For high income taxpayers, the adjustment to itemized deductions for state and local income taxes may also change. Enter the net change to the Maryland itemized deductions.

Line 4e – Others

For all other income items, deductions, and subtraction and addition modifications that change as a result of electing JCWAA treatment, attach a schedule listing the affected items. Include the amounts both before and after the decoupling and enter the net change to Maryland taxable income.

Line 5 – Total

Net the amounts from lines 1 through 4e and enter on line 5. If line 5 is positive, include this amount in the appropriate line of the Maryland tax return being filed (Form 500, 502, 504, or 505). Also enter the appropriate code letter(s) in the box(es) provided for the type of addition modification (either depreciation or NOL, or both).

If line 5 is negative, include this amount as a positive number in the appropriate line of the Maryland tax return being filed (Form 500, 502, 504, or 505). Enter the appropriate code letter(s) in the box(es) provided for the type of subtraction modification (either depreciation or NOL, or both).

See the table at the bottom of Form 500DM for the line numbers and code letters to use.

Credits For Maryland income tax credits affected by electing JCWAA treatment, enter on the return to be filed credits as calculated on the pro forma returns without JCWAA treatment.

Pass-Through Entities (PTE) If the entity is a PTE (partnership, S-corporation, limited liability company or business trust), Form 500DM must be submitted with the PTE's Maryland income tax return (Form 510) and the PTE must provide each partner, shareholder, or member a statement showing their share of the Decoupling Modification.

Each partner, shareholder, or member that has a Decoupling Modification from a PTE must also complete Form 500DM. Do not include a Decoupling Modification on the pro forma returns. Instead, adjust income from the PTE by the Decoupling Modification on the pro-forma federal return. If the Decoupling Modification is an addition, the income will increase; if it is a subtraction, income will be reduced. Also, enter the amount of the Decoupling Modification from the PTE on line 3 of Form 500DM as a positive number for an addition and as a negative number (-) for a subtraction.

Attachment of Forms

Attach the completed Form 500DM, along with any required schedules, to the Maryland income tax return being filed.

Pro forma returns used to complete this form are not to be filed with the Comptroller or the IRS, but should be retained in the event of a future examination of your Maryland income tax return.

For questions concerning Form 500DM contact:
Revenue Administration Division
Annapolis, Maryland 21411-0001
410-260-7980 from central Maryland, or
1-800-MDTAXES from elsewhere

For additional information and forms, see our website at www.marylandtaxes.com