

COMPUTATION OF TAX PREFERENCE INCOME

2001

ATTACH TO YOUR TAX RETURN

| | | |
|---------------------------------|-----------|------------------------|
| Your first name and initial | Last name | Social security number |
| Spouse's first name and initial | Last name | Social security number |

Who must file: File this form if the total tax preference items (line 2) is more than \$10,000 (\$20,000 for a joint return).

TAX PREFERENCE ITEMS

| | | |
|--|--|-----|
| 1. Tax preference items from federal Form 6251 | | |
| (a) Depletion | | |
| (b) Depreciation (pre-1987) | | |
| (c) Intangible drilling costs | | |
| (d) Exclusion for gains on sale of certain small business stock | | |
| 2. Total tax preference items (add lines 1a-1d) | | |
| 3. Exclusion. Enter \$10,000 (\$20,000 for a joint return) | | |
| 4. Subtract line 3 from line 2 | | |
| 5. Multiply line 4 by 50%(.50) | | .50 |
| 6. Taxable tax preference items. Enter on line 3 of Form 502 or Form 504, or line 19 of Form 505. | | |

COMPUTATION OF TAX PREFERENCE INCOME

GENERAL INSTRUCTIONS

A tax is imposed at state rates on certain items of income that are considered to be of a tax preference nature. The tax is computed by first totaling all the items of tax preference, then reducing this amount by a specific exemption of \$10,000 (\$20,000 for a joint return). The excess is further reduced by 50% and state tax rates are applied against the balance.

WHO MUST FILE

Any individual or fiduciary of an estate or trust with items of tax preference in excess of \$10,000 (\$20,000 for a joint return) must complete Form 502TP and file with the income tax return.

ITEMS OF TAX PREFERENCE

The items of tax preference are those listed in lines 1(a) through 1(d).

Lines 1(a)-(d) should be taken directly from your federal Form 6251 except for modifications to 1(a). On line 1(a), the amount taken from the federal return should be reduced by the amount of the oil percentage depletion allowance included in the federal figure.

The adjustments to develop alternative minimum taxable income for federal purposes do not affect your Maryland tax preference items.

HOW TO FILE

Use federal Form 6251 to determine the items of tax preference on lines 1(a)-(d) reportable on the Form 502TP regardless of whether you are required to file the federal form. Taxpayers who file separate Maryland

returns must compute their addition to income on separate Forms 502TP.

NONRESIDENT INDIVIDUALS

The items of tax preference of nonresident individuals should include only those items which are properly allocated to Maryland. Generally, this will include items of tax preference attributable to tangible property, real and personal, permanently located in Maryland and items of tax preference attributable to business, trade, occupation or profession carried on in Maryland.

Nonresident individuals having tax preference items allocable both within and without Maryland, are allowed only that proportion of the \$10,000 exclusion (\$20,000 on a joint return) as the items of tax preference allocable to Maryland bear to their total items of tax preference.

To determine the proportion of the exclusion allowable on line 3 divide the Maryland tax preference items (line 2) by the sum of the federal tax preference items.

SMALL BUSINESS CORPORATIONS

Individual shareholders of small business corporations which have elected to be S corporations under Section 1362 of the Internal Revenue Code shall account for the corporation's tax preference items as belonging to the individual shareholders. A pro rata apportionment of the items of tax preference is reportable by each shareholder on his or her individual return in a manner consistent with the method in which net operating losses are passed through and apportioned between them for federal purposes.