

CORPORATION INCOME TAX RETURN



(OR FISCAL YEAR BEGINNING , 2002, ENDING )

Name, Federal Employer Identification No., Number and street, FEIN Applied for date, City or town, State, Zip code, Date of Organization or Incorporation, Business Activity Code No.

CHECK HERE IF: NAME OR ADDRESS HAS CHANGED, INACTIVE CORPORATION, YOU USE A PAID PREPARER AND DO NOT WANT MARYLAND FORMS MAILED TO YOU NEXT YEAR

SEE INSTRUCTIONS IN CORPORATION INCOME TAX BOOKLET. ATTACH A COPY OF PAGES 1 THROUGH 4 OF THE FEDERAL INCOME TAX RETURN.

1. Taxable income per attached federal return (Check applicable box: 1120/1120A, 990T, Other. IF 1120S, FILE ON FORM 510)

ADDITION MODIFICATIONS (All entries must be positive amounts)

2. a. State and local income tax, b. Dividends and interest from another state, local or federal tax-exempt obligations, c. Net operating loss modification, d. Other additions, e. Total additions, 3. Total (Add lines 1 and 2e)

SUBTRACTION MODIFICATIONS (All entries must be positive amounts)

4. a. Dividends for domestic corporations claiming foreign tax credits, b. Dividends from related foreign corporations, c. Income from U.S. obligations, d. Adjustment to the gain or loss on the disposition by a Public Service company of certain assets, e. Other subtractions, f. Total subtractions, 5. Maryland modified income (Subtract line 4f from line 3)

APPORTIONMENT OF INCOME

(To be completed by multistate corporations whose apportionment factor is less than 1, otherwise skip to line 8)

6. Maryland apportionment factor (from page 2 of this form) (If factor is zero, enter 000001), 7. Maryland apportioned income (Multiply line 5 by line 6)

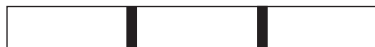
8. Maryland taxable income (from line 5 or line 7, whichever is applicable), 9. TAX (Multiply line 8 by 7%)

PAYMENTS AND CREDITS

10. a. Estimated tax paid (with Form 500DP and/or credited from 2001 overpayment), b. Tentative tax paid (with Form 500E), c. Business tax credits (Attach Form 500CR), d. Heritage Structure Rehabilitation tax credit (Attach Form 502H), e. Total payments and credits, 11. Balance of tax due (if line 9 exceeds line 10e, enter the difference), 12. Overpayment (if line 10e exceeds line 9, enter the difference), 13. Interest and/or penalty for underpayment of estimated tax (Form 500UP) late filing interest, 14. Total balance due (Add lines 11 and 13, or if line 13 exceeds line 12 enter the difference), 15. Amount of overpayment to be applied to estimated tax for 2003 (not to exceed the net of line 12 less line 13), 16. Amount of overpayment TO BE REFUNDED (Add lines 13 and 15, and subtract the total from line 12)

DIRECT DEPOSIT OF REFUND (See instructions.) Please be sure the account information is correct.

17. To choose the direct deposit option, complete the following information: 17a. Type of account: Checking, Savings, 17b. Routing number, 17c. Account number





# **CORPORATION INCOME TAX RETURN**

## **GENERAL INSTRUCTIONS**

### **FILING FORM 500**

**Purpose of Form** Form 500 is used by a corporation and certain other organizations to file an income tax return for a specific tax year or period.

**NOTE:** S corporations must use Form 510 — Pass-Through Entity Income Tax Return. (See inside front cover of this tax booklet to request forms.)

**Taxpayers Required to File** Every Maryland corporation must file an income tax return on Form 500, even if it has no taxable income or if the corporation is inactive. Every other corporation which is subject to Maryland income tax law and has income or losses attributable to sources within Maryland must also file Form 500.

Corporations operating in Maryland and in one or more other states are subject to Maryland income tax if they exceed the provisions for federal protection from state taxation. U.S.C.A. Title 15, Section 381 of the Interstate Commerce Tax Act (P.L. 86-272) prescribes the extent of business activity required before states may impose income taxes.

A multistate corporation which operates in Maryland but is not subject to the Maryland income tax law is not required to file, although a return reflecting an apportionment factor of zero may be filed for record purposes. Letters in lieu of filing will not be accepted.

All financial institutions formerly subject to financial institution franchise tax are subject to corporation income tax and have special apportionment rules. See Maryland Tax Regulations 03.04.08.

**When and Where to File** File Form 500 by the 15th day of the 3rd month following the close of the taxable year or period, or by the original due date required for filing the federal return. The return must be filed with the Comptroller of Maryland, Revenue Administration Division, Annapolis, Maryland 21411-0001.

Corporations and organizations that are afforded a later due date for federal returns under the Internal Revenue Code are afforded the same due date for Maryland income tax returns.

**Signatures Required** Form 500 must be signed by a duly authorized corporate officer. Preparers, other than corporate employees, must also sign the return.

In the case of a return filed by a fiduciary, the fiduciary must sign the return and attach verification of the authority to do so.

**ORGANIZATIONS EXEMPT FROM FILING** The following organizations are not subject to the Maryland corporate income tax and are exempt from filing an income tax return on Form 500, except as specified:

- **Business trusts** shall be classified as corporations, partnerships, trusts or otherwise, as shall be determined under United States Internal Revenue Code.
- **Pass-through entities** defined as partnerships in Internal Revenue Code Section 761, S corporations in Internal Revenue Code Sections 1361 and 1362, limited liability companies (LLC) in Maryland Corporations and Associations Article Section 4A-101 and business trusts in Maryland Corporation and Associations Article Section 12-101.

An LLC is treated as a partnership for Maryland income tax purposes, unless it is treated as a corporation for federal income tax purposes.

Maryland will follow the IRS rules for a single member LLC electing to be disregarded as a separate entity ("check-the-box") and certain partnerships that do not actively conduct a business and have elected not to be treated as a partnership.

These entities are afforded pass-through tax treatment and must file an income tax return on Form 510 for information purposes. Additionally, each partner or shareholder must file an individual income tax return on Form 502 (Form 505 for non-residents).

An exception to the pass-through tax treatment is S corporation income that is subject to federal income tax at the corporation level. This income is also subject to Maryland corporation income tax.

For additional information regarding the taxation and filing requirements of pass-through entities, see the instructions provided with Form 510. (See inside front cover of tax booklet to request information and forms.)

• **Nonprofit organizations** that are exempt from taxation under Internal Revenue Code Section 501, except those with taxable income for federal purposes, such as unrelated business taxable income.

Under Section 501, a variety of organizations, generally nonprofit groups organized for charitable or mutual benefit purposes, are exempt from income taxation. However, they may be subject to income tax if they have income from the operation of a business not related to the purpose for which they received their exemption.

The same tax treatment that is afforded for federal income tax purposes is afforded for Maryland income tax purposes. Income that is taxable for federal purposes is also taxable for Maryland purposes. Exempt organizations with federal taxable income must file Form 500 to report the income and pay the tax.

Whether or not required to file Form 500, nonprofit organizations operating in Maryland that are subject to federal exempt-status notification requirements must register with the Maryland Revenue Administration Division. To register, an authorized official must submit a letter of request accompanied by a copy of the Internal Revenue Service determination of tax-exempt status.

Other agencies such as the State Executive Department - Secretary of State, State Department of Assessments & Taxation and Attorney General's Office, each have their own specific requirements for nonprofit organizations.

- **Investment conduits** such as a Regulated Investment Company (RIC), Real Estate Investment Trust (REIT) and a Real Estate Mortgage Investment Conduit (REMIC), except those with taxable income for federal purposes. Investment conduits with such taxable income must file Form 500 reporting the taxable income.
- **Individual retirement account (IRA) trusts** that are exempt from taxation under Internal Revenue Code Section 408 (e)(1), except those with taxable income for federal purposes. IRA trusts with such taxable income must file Form 500 reporting the taxable income.

• **Insurance companies** within the meaning of the Insurance Article, Annotated Code of Maryland are subject to the insurance company premium tax. Insurance companies must contact the Maryland Insurance Administration regarding filing requirements and taxation. (See back cover of tax booklet for address and phone number.)

• **Common trust funds** as defined in the Maryland Financial Institutions Article Section 3-501(b).

• **Fiduciary** taxpayers must file an income tax return on Form 504. For additional information contact the Maryland Revenue Administration Division. (See back cover of tax booklet for address and phone number.)

### **SPECIAL REQUIREMENTS FOR CERTAIN ORGANIZATIONS**

• **Affiliated corporations** that file consolidated federal returns must file separate Maryland returns for each member corporation. Each member corporation must file and report the taxable income on a separate basis, without regard to the consolidation for federal income tax purposes. Consolidation adjustments reported for federal purposes are not allowed for Maryland purposes.

• **Qualified Sub-S Subsidiaries** are treated as divisions by the Internal Revenue Code and are not considered as separate entities for Maryland purposes. These divisions will be included on the parent company's annual Maryland return.

### **GENERAL INFORMATION FOR FORM 500**

**Accounting Periods** The taxable year or period used for the federal return must be used for the Maryland return. Accordingly, calendar tax years, fiscal tax years, 52-53 week tax years, one-day returns and short tax periods may be necessary for Maryland filing purposes.

A Maryland return must be filed for each reporting period for which a federal return is filed or required. The form used for filing must reflect the preprinted tax year in which the corporation's tax year begins.

In the case of a 52-53 week taxable year, Maryland follows federal treatment as to effective dates or the applicability of any provision expressed in terms of taxable years beginning, including or ending with reference to a specified date.

**Use of Federal Figures** In preparing Form 500, all items that are reported for federal purposes must be reported on the Maryland return in the same manner. The character of an item cannot be changed from that required or elected for federal purposes.

**Copy of Federal Return Required** A copy of pages 1 through 4 of the actual federal income tax return as filed with the Internal Revenue Service for the corresponding tax period must be attached to Form 500. The Maryland filing will not be complete unless the required federal copy is attached.

Corporations included in a consolidated filing for federal income tax purposes must file separate returns for Maryland purposes and attach a copy of pages one through four of the actual consolidated federal return to each Maryland filing. Each Maryland filing must also include a copy of the columnar schedules of income and expense and of balance sheet items (which are required for the federal filing), reconciling the separate items of each member corporation to the consolidated totals.

**Taxable Income** The starting point for Form 500 is the taxable income as developed for the federal income tax return after net operating loss and special deductions for dividends. (See "Specific Instructions" for line 1.) No modification of the federal net operating loss or special deductions is allowed under Maryland income tax law except in the case of a Foreign Source Dividend Subtraction. For more information see Administrative Release No. 18.

The federal **net operating loss deduction** is effectively allowed for the Maryland filing by using federal taxable income. The federal provisions for carryback and carryover also apply for purposes of the Maryland return unless you are following the additional carryback provisions or claiming the bonus depreciation based on the Federal Jobs Creation and Worker Assistance Act (JCWAA) of 2002. For more information regarding the JCWAA, see Administrative Release No. 38. If an election is made to relinquish a carryback and to carryover the net operating loss, a copy of the federal election must be included with the Maryland return for the taxable year of the net operating loss.

For the taxable year in which a net operating loss occurs, that current operating loss is used to offset Maryland modifications. If the total of addition modifications exceeds the total subtraction modifications in the taxable year of the net operating loss, a modification to recapture the excess of additions over subtractions is required when claiming the corresponding net operating loss deduction. See the Specific Instructions for additional information.

The federal **special deduction for dividends** is treated as a current year deduction. It is deducted from federal taxable income before application of the net operating loss deduction. The deduction reduces taxable income and may create a net operating loss.

In the case of an affiliated group of corporations filing a consolidated return for federal purposes, each member corporation must calculate any net operating loss and special deductions based on its separate federal taxable income and loss. The deductions must be calculated in strict accordance with federal income tax provisions, as if the member corporation is not involved in a consolidated filing and files a separate return with the Internal Revenue Service.

**Maryland modified income** is federal taxable income after statutory addition and subtraction modifications. For a listing of the statutory addition and subtraction modifications, see the Specific Instructions.

**Maryland apportioned income** is applicable only for multistate corporations and is developed by applying the apportionment factor to Maryland modified income. For an explanation of apportionment provisions, see the Instructions for Computation of Apportionment Factor.

**Maryland taxable income** is federal taxable income after statutory modifications and applicable apportionment.

**Business Tax Credits** For more information about credits against the tax see specific Instructions for line 10c or the Instructions provided for Form 500CR Business Tax Credits. Form 500CR is available from the Maryland Revenue Administration Division. (See inside front cover of tax booklet to request forms.)

**Tax, Interest and Penalty** The corporate tax rate is 7% of Maryland taxable income for taxable years and periods beginning in 1967 through 2002. The annual rate of interest charged for taxes owed to the State is shown in the table below.

Period	Interest Rate
1/1/1967 to 6/30/1975	6%
7/1/1975 to 6/30/1982	9%
7/1/1982 to 12/31/1983	15%
1/1/1984 to 12/31/1984	12%
1/1/1985 to 12/31/1985	13%

1/1/1986 to 12/31/1989	12%
1/1/1990 to 12/31/1990	13%
1/1/1991 to 12/31/1992	12%
1/1/1993 to 12/31/2003	13%

(The rate for calendar year 2004 will be set and available by 10/1/2003.)

A penalty is applicable for late filing of tax returns and/or late payment of any taxes due. Additional penalties are applicable for the filing of false, fraudulent or frivolous returns and civil and/or criminal fines and imprisonment may apply.

In the case of delinquent taxes, the State will record a lien and judgment and proceed with legal action as necessary to effect collection of the balance due.

## OTHER MATTERS

**Extension of Time to File** If unable to file Form 500 by the due date, a corporation must submit Form 500E - Application for Extension of Time to File Corporation Income Tax Return. Maryland law provides for an extension of time to file, but in no case can an extension be granted for more than 6 months beyond the original due date.

The request for extension of time to file will be automatically granted for six months and will not be acknowledged, provided that:

- 1) the application is properly filed and submitted by the 15th day of the 3rd month following the close of the tax year or period, or by the original due date required for filing of the federal return;
- 2) full payment of any balance due is submitted with the application; and
- 3) an application for extension of time has been filed with the Internal Revenue Service or an acceptable reason has been provided with the Maryland application.

The application extends only the time allowed to file the annual income tax return and not the time allowed to pay the tax.

For additional information regarding extensions of time to file, see the instructions provided with Form 500E. (Form 500E is included in this booklet.)

**Estimated Income Tax** Every corporation that reasonably expects their Maryland taxable income to develop a tax in excess of \$1,000 for the taxable year or period must make estimated income tax payments with Form 500DP - Declaration of Estimated Corporation Income Tax. If the corporation does not have the estimated tax packet containing the Form 500DP vouchers, Form 500D may be used.

Declaration of estimated income tax payments are due by the 15th day of the 4th, 6th, 9th and 12th months following the beginning of the tax year or period. The total estimated tax payments for the year must be at least 90% of the tax developed for the current taxable year or 100% of the tax developed for the prior tax year. At least 25% of the total estimated tax must be remitted by each of the four installment due dates.

In the case of a short tax period the total estimated tax required is the same as for a regular taxable year: 90% of the tax developed for the current (short) taxable year or 100% of the tax developed for the prior tax year. The minimum estimated tax for each of the installment due dates is the total estimated tax required divided by the number of installment due dates occurring during the short tax year.

For additional information regarding estimated income tax, see the instructions provided with Form 500DP or 500D. (Form 500D is included in this booklet.)

**Audits and Appeals** All items reported on Form 500 are subject to audit, verification and revision, including items reported for federal purposes. Returns and amendments are subject to audit and adjustment for a period of 3 years from the date the return was due (including extensions) or the date the return was filed, whichever is later.

In the event of revision and assessment or reduced refund, the Comptroller will notify the corporation. If in disagreement with the assessment or denial of the refund, the corporation may file with the Compliance Division a written request for revision of the assessment or reconsideration of the refund denial. The request, in either case, must be done by submitting an application for an informal hearing with the Compliance Division within 30 days of the assessment or denial of the refund.

Failure to file a written request or attend the informal hearing will result in the assessment or denial of refund becoming final and non-appealable.

You may file an appeal with the Maryland Tax Court within 30 days of a final determination by the Compliance Division hearing officer.

**Amended Returns** To correct an error in a previously filed return, complete and submit Form 500X - Amended Corporation Income Tax Return. Attach copies of the documents required and filed with the Internal Revenue Service. If the corrections affect only the Maryland return and not items of federal taxable income, include a thorough explanation of the changes.

Each affected member of a consolidated federal filing must also include a schedule reconciling the amendments of each member corporation to the consolidated totals.

Federal income tax law provides for both a capital loss carryback and carryover. Any carryover is effectively allowed when reporting federal taxable income on the Maryland return. The carryback deduction is not allowed on the Maryland return and must be added to federal taxable income.

Do not attach amended returns to an original corporation income tax filing.

**Internal Revenue Service (IRS) Adjustments** If the items of federal taxable income reported for any taxable year or period are adjusted by the IRS and will increase Maryland taxable income, an amended return together with a copy of the final IRS adjustment report must be submitted within 90 days.

Each affected member of a consolidated federal filing must also include a schedule reconciling the separate adjustments of each member corporation to the consolidated totals.

**Refund Claims** Generally, a claim for a refund (amended return) must be filed within 3 years from the date the original return was filed or within 2 years from the date the tax was paid, whichever is later. A return filed early is considered filed on the date it was due.

If the claim for refund resulted from an Internal Revenue Service adjustment or final decision of a federal court which is more than 3 years from the date of filing the return or more than 2 years from the time the tax was paid, a claim for refund must be filed within 1 year from the date of the adjustment or final decision.

A claim for refund based on a federal net operating loss carryback must be filed within 3 years after the due date of the return for the tax year of the net operating loss.

**Taxpayer Identification Required for Returns and Other Documents.** All returns, correspondence, payments or other documents must indicate the corporate name, Federal Employer Identification Number, type of tax and tax year(s) to which the document relates.

All corporations are required to secure a Federal Employer Identification Number (FEIN) from the Internal Revenue Service (IRS). The FEIN is the number used by the IRS for processing purposes and is also the primary number used by the Maryland Revenue Administration Division. For returns filed without the federal number a temporary number will be assigned for processing purposes until the actual number is provided.

The type of tax and tax year(s) are necessary to identify the subject of the document and the intention of payments. This information insures that documents are directed to the correct area and that payments are applied to the correct account.

**Use of Paid Preparers** The corporation is responsible for the timely filing of returns, payment of tax, responding to requests and all other requirements, even if a paid preparer is used.

**Substitute Forms** Maryland corporation income tax returns may be reproduced and filed on computer-prepared or computer-generated substitute forms provided that they are approved in advance by the Maryland Revenue Administration Division. Reproductions or substitutes of forms in which machine-readable taxpayer information has been preprinted by the Revenue Administration Division may not be used.

For additional information, see Administrative Release No. 26, Procedures for Computer-Printed Substitute Forms, which can be obtained from any office of the Maryland Revenue Administration Division. (See back cover of tax booklet for address and phone number for substitute forms information.)

**Employer Withholding of Income Tax** Employers that make payments to individuals of salaries, wages, or compensation for personal services must withhold income tax as prescribed in published tables and remit the withholding to the Maryland Revenue Administration Division.

The tax withheld must be remitted with Form MW506 - Employer's Return of Income Tax Withheld on a monthly basis if the quarterly withholding is \$700 or more. If the quarterly withholding is less than \$700 the tax withheld is to be remitted quarterly. Employers may not change from monthly to quarterly withholding without approval of the Revenue Administration Division.

An annual reconciliation is required to be filed on Form MW508 - Annual Employer Withholding Reconciliation Report and submitted with the state copy of the wage and tax statements issued to the employees. If the employer is required to submit wage and tax statement information on magnetic media for federal reporting purposes, it is required to submit magnetic media for state reporting purposes. A separate Form MW 508 is not required for magnetic media filers.

For additional information regarding employer withholding tax, contact the Maryland Revenue Administration Division. (See back cover of tax booklet for address and phone number.)

**Privacy Notice** The Maryland Revenue Administration Division requests tax return information to administer the income tax laws of Maryland, including the determination and collection of the correct taxes and other amounts. Failure to provide all or part of the requested information may result in the disallowance of claimed amounts and an increased tax liability. In addition, the law makes provision for securing information from taxpayers that fail to supply required information, and a penalty may apply.

Taxpayers have a right to access their tax records maintained by the Revenue Administration Division, and may inspect, amend or otherwise correct them. To obtain a copy of such tax records, submit a written request containing the corporate name, address and identification numbers and specifying the information needed. The request must be signed by an authorized corporate officer.

As authorized by law, information furnished to the Revenue Administration Division may be given to the Internal Revenue Service, a proper official of any state that exchanges tax information with Maryland, and to an officer of this State having a right to the information in that officer's official capacity. Also, the information may be obtained in accordance with a proper judicial or legislative order.

## SPECIFIC INSTRUCTIONS

**SPECIAL NOTE:** Complete the federal income tax return first and use it in preparation of the Maryland return. After completing the Maryland return, ATTACH A COPY OF PAGES 1 THROUGH 4 OF THE FEDERAL INCOME TAX RETURN TO FORM 500.

### NAME, ADDRESS AND OTHER INFORMATION

**IMPORTANT — PLEASE REMOVE THE LABEL FROM THE TAX BOOKLET COVER AND ATTACH IT TO THE DESIGNATED AREA ON THE FORM 500. IF SOMEONE ELSE IS PREPARING THE RETURN, GIVE THE PREPARER THE BOOKLET SO THAT THE LABEL MAY BE USED.** If any of the information on the label is incorrect, **DO NOT USE THE LABEL.**

If you do not have a label, type or print the correct name and address in the designated area. Enter the corporate name exactly as specified in the Articles of Incorporation, or as amended, and continue with any "Trading As" (T/A) name if applicable.

Enter the Federal Employer Identification Number (FEIN). If a FEIN has not been secured, enter "APPLIED FOR" followed by the date of application. If a FEIN has not been applied for, do so immediately.

Enter the date of incorporation and the Federal Business Activity Code Number. The date of incorporation must be expressed numerically, using two digits each for the month, the day and the year. The Business Activity Code is a six-digit number available from the federal return which identifies the principal business activity.

Check the applicable box if: (1) the name or address has changed; (2) this is the first filing of the corporation; (3) this is an inactive corporation (in Maryland and elsewhere – Do not check the box for inactive if the corporation is inactive in Maryland but active elsewhere.); (4) this is the final return of a corporation that has dissolved, liquidated or withdrawn from Maryland; (5) you use a paid preparer and do not want Maryland forms mailed to you next year; or, (6) this is a manufacturing corporation.

### TAXABLE YEAR OR PERIOD

ENTER THE BEGINNING AND ENDING DATES IN THE SPACE PROVIDED AT THE TOP OF FORM 500. The form used in filing must reflect the preprinted tax year in which the corporation's tax year begins.

The same taxable year or period used for the federal return must be used for Form 500.

### LINE 1 - TAXABLE INCOME PER FEDERAL RETURN

Enter the taxable income (after net operating loss and special deductions) as it appears on the federal income tax return filed with the Internal Revenue Service.

Only in the instance of a current net operating loss may line 1 be reported at less than zero. Use a minus sign (-) in front of the number to indicate a loss. In the case of a net operating loss deduction, taxable income cannot be reported at less than zero.

A corporation included in a consolidated filing for federal income tax purposes must enter its separate federal taxable income. Attach a copy of pages one through four of the actual consolidated federal income tax return and a schedule reconciling the income and expenses of each member of the consolidated filing.

A corporation included in a consolidated federal filing and claiming net operating loss or special deductions must attach a schedule detailing the deduction(s) on a separate return basis.

### ADDITION MODIFICATIONS:

**All entries must be positive amounts.**

#### LINE 2a - STATE AND LOCAL INCOME TAX

Enter the total of all net income taxes and all other taxes based on income that are imposed by any state or by a political subdivision of any state and deducted on the federal return.

Attach a schedule listing the type and amount of all taxes deducted on the federal return. The schedule of taxes must reconcile to the amount of tax expense reported on the federal return.

#### LINE 2b - DIVIDENDS AND INTEREST FROM ANOTHER STATE, LOCAL OR FEDERAL TAX EXEMPT OBLIGATION

Enter dividends and interest (less related expenses) attributable to any obligation or security of another state, a political subdivision or authority of another state. Also include interest and dividends that are exempted by federal law or treaty from federal but not state income tax, and attributable to the United States or a foreign government or an authority, commission, instrumentality or territory.

Attach a schedule listing the source and amount of all dividends and interest reported on line 2b and any related expenses. Also include in the schedule any interest and dividends exempt by federal law or treaty from federal but not state income tax.

#### LINE 2c - NET OPERATING LOSS MODIFICATION

If a net operating loss deduction is allowed for this taxable year, and if, in the taxable year of the corresponding net operating loss, total addition modifications exceed total subtraction modifications, enter the smaller of:

Net operating loss deduction attributable to the loss year (tax year in which the net operating loss occurred)

OR

Cumulative net operating loss deductions attributable to the loss year that are allowed for this taxable year and all prior taxable years

+ net addition modification (amount that addition modifications exceed subtraction modifications) for the loss year

– total net operating loss for the loss year.

The above items are each considered to be a positive amount for purposes of this calculation. If the result of combining amounts is negative, use zero.

If the total net operating loss deduction for this taxable year consists of net operating losses from more than one taxable year, calculate the modification separately for each loss and enter the total.

Attach a schedule of the calculation if, in the taxable year of the net operating loss, total addition modifications exceed total subtraction modifications.

**NOTE:** This entry is a modification and not the net operating loss. The net operating loss is shown only on line 1. For more information see Administrative Release No. 18.

#### LINE 2d - OTHER ADDITIONS

If one or more of these apply, enter the total amount on line 2d and identify each item using the code letter.

a. The oil percentage depletion allowance as deducted on the federal return, under Internal Revenue Code Section 613 or 613A. Other

depletion allowances that are provided for in Section 613 or 613A are not required as an addition modification.

- b. The total amount of additions associated with business tax credits. Enter the total of lines 1, 2, 3, 7, 11, 12 and 13 from Form 500CR, Part R, Business Tax Credit Summary.
- c. The amount allowed in a prior taxable year for reforestation or timber stand improvement if the commercial forest land was decertified in the previous year. See the corresponding subtraction modification listed under line 4e for more information.
- d. The amount of federal income tax expenses attributable to a child care center or family day care home, if the center or home is not licensed or registered as required by Maryland law.
- e. Net addition modification to Maryland taxable income when using the federal bonus depreciation allowance under the Job Creation and Worker Assistance Act (JCWAA) of 2002 compared to Maryland taxable income without regard to JCWAA provisions. Complete and attach Form 500DM. See Administrative Release 38.
- f. Net addition modification to Maryland taxable income when the federal special 5-year carry-back period was used for a net operating loss under the Job Creation and Worker Assistance Act (JCWAA) of 2002 compared to Maryland taxable income without regard to JCWAA provisions. Complete and attach Form 500DM. See Administrative Release 38.

Attach a schedule of all items and amounts reported on line 2d in the same categories as specified above.

**LINE 3 - TOTAL**

Add the amounts on lines 1 and 2e and enter the total.

**SUBTRACTION MODIFICATIONS:**

All entries must be positive amounts.

**LINE 4a - DIVIDENDS FOR DOMESTIC CORPORATIONS CLAIMING FOREIGN TAX CREDITS**

Enter the amount included in the income of a domestic corporation claiming a foreign tax credit as dividends under Internal Revenue Code Section 78 (foreign dividend gross-up).

**LINE 4b - DIVIDENDS FROM RELATED FOREIGN CORPORATIONS**

Enter dividends received from a corporation if the receiving corporation owns, directly or indirectly, 50% or more of the paying corporation's outstanding shares of capital stock and the paying corporation is organized under the laws of a foreign government.

This subtraction is limited to the amount of dividends included in federal taxable income.

**LINE 4c - INCOME FROM UNITED STATES OBLIGATIONS**

Income attributable to an obligation of the United States or an instrumentality of the United States. (This includes dividends from mutual funds

that invest in U.S. government obligations. Only that portion of dividends attributable to interest from U.S. obligations can be subtracted. Income from Government National Mortgage Association securities may not be subtracted.)

**LINE 4d - GAIN OR LOSS ON THE DISPOSITION BY A PUBLIC SERVICE COMPANY OF CERTAIN ASSETS**

Enter the difference between the adjusted basis of the disposed or transferred assets as recorded in the books of the public service company and the adjusted basis of the assets for federal purposes calculated as of January 1, 2000. Add to this the amount of any carryover from a previous year. Complete the worksheet below to determine the amount of any carryover of this subtraction.

**LINE 4e - OTHER SUBTRACTIONS**

If one or more of these apply, enter the total amount on line 4e and identify each item using the code letter.

- a. The percentage of the dividends received from an affiliated domestic international sales corporation equal to the percentage that would be excluded if the corporation did not qualify under Internal Revenue Code Section 992(a).
- b. Profit (without regard to losses) realized from the sale or exchange of bonds issued by Maryland or a political subdivision of Maryland.
- c. The amount of payment for relocation and assistance under the Maryland Real Property Article, Title 12, Subtitle 2.
- d. Refunds of income tax received from a state or a political subdivision of a state.
- e. Expenses incurred to buy and install conservation tillage equipment (no-till planters, no-till drills, deep no-till ripper, and liquid manure soil injection apparatus), as certified by the Maryland Department of Agriculture. (See back cover of tax booklet for address and phone number.) Attach a copy of the certification.
- f. Twice the amount of expenses for reforestation or timber stand improvement activity on 10 to 100 acres of commercial forest land, exclusive of federal funds. For information regarding qualification and a computation of expenses, contact the Maryland Department of Natural Resources. (See back cover of tax booklet for address and phone number.)
- g. For a Regulated Investment Company, the amount of the addition for interest and dividends from state or local obligations of another state.
- h. Purchase cost of certain poultry or livestock manure spreading equipment as certified by the Maryland Department of Agriculture. Attach a copy of the certification.
- i. Expenses incurred to buy and install handrails in an existing elevator in a healthcare facility (as defined in Section 19-114 of the Health General Article) or other building in which at least 50% of the space is used for medical purposes.
- j. Net subtraction modification to Maryland taxable income when using the federal bonus depreciation

allowance under the Job Creation and Worker Assistance Act (JCWAA) of 2002 compared to Maryland taxable income without regard to JCWAA provisions. Complete and attach Form 500DM. See Administrative Release 38.

- k. Net subtraction modification to Maryland taxable income when the federal special 5-year carry-back period was used for a net operating loss under the Job Creation and Worker Assistance Act (JCWAA) of 2002 compared to Maryland taxable income without regard to JCWAA provisions. Complete and attach Form 500DM. See Administrative Release 38.
- l. The amount of wages for which a deduction is not allowed under Internal Revenue Code Section 280C(a), not exceeding the credit allowed for targeted jobs (Work Opportunity Tax Credit) under Internal Revenue Code Section 51.

Attach a schedule identifying all items and amounts claimed on line 4e in the same categories as specified above. Additionally, (1) list by source and amount the interest attributable to U.S. obligations and profit from the sale or exchange of bonds issued by Maryland or its political subdivisions, and (2) reconcile the income tax refunds to the federal return.

**LINE 5 - MARYLAND MODIFIED INCOME**

Subtract line 4f from line 3 and enter the result. THIS LINE MUST BE COMPLETED.

**APPORTIONMENT OF INCOME**

**NOTE: To be completed by multistate corporations — unistate corporations skip to line 8.**

**LINE 6 - MARYLAND APPORTIONMENT FACTOR**

Enter the apportionment factor as calculated on Page 2 of Form 500. (The factor must be rounded to six decimal places.)

For detailed instructions, see instructions for Computation of Apportionment Factor on page 6.

**LINE 7 - MARYLAND APPORTIONED INCOME**

Multiply the amount on line 5 by the factor shown on line 6 and enter the result.

**LINE 8 - MARYLAND TAXABLE INCOME**

Enter the amount from line 5 or line 7, whichever is applicable.

**LINE 9 - TAX**

Multiply the amount on line 8 by 7%. Enter the result.

**LINE 10 - PAYMENTS AND CREDITS**

**10a.** Enter the total of amounts paid during the taxable year with Form 500DP or 500D - Declaration of Estimated Corporation Income Tax. Also include any overpayment carried forward from the prior year Form 500.

**10b.** Enter any amount paid with Form 500E - Application for Extension of Time to File Corporation Income Tax Return.

**CARRYOVER WORKSHEET FOR LINE 4d**

- 1. Enter the amount from Form 500, line 4d. . . . . \$ \_\_\_\_\_
- 2. Enter the amount from Form 500, line 3. . . . . \$ \_\_\_\_\_
- 3. Enter the total of lines 4a, b, c and e from Form 500 . . . . . \$ \_\_\_\_\_
- 4. Subtract line 3 from line 2. If less than 0, enter 0. . . . . \$ \_\_\_\_\_
- 5. Subtract line 4 from line 1. If less than 0, enter 0. This is your carryover amount for future periods. . . . . \$ \_\_\_\_\_

**10c.** Enter the total of your business tax credits as listed below. Complete and submit Form 500CR with Form 500.

a. **ENTERPRISE ZONE TAX CREDIT.** Businesses located in an enterprise zone may be eligible for tax credits based upon wages paid to qualifying employees.

b. **EMPLOYMENT OPPORTUNITY TAX CREDIT.** Businesses that employ persons receiving "Aid to Families With Dependent Children" (AFDC) may be eligible for tax credits based upon wages paid to qualified employees, child care expenses and transportation expenses paid on behalf of the qualified employees.

c. **MARYLAND DISABILITY EMPLOYMENT TAX CREDIT.** Businesses that employ persons with disabilities as certified by the State Department of Education may be eligible for tax credits based upon wages paid to the qualified employees, child care expenses and transportation expenses paid on behalf of the qualified employees.

d. **ELECTRIC AND GAS UTILITY CREDITS.** A public utility may claim a credit against the State income tax in an amount equal to 60% of the total property taxes paid by the public utility on its operating real property in the State, other than operating land, that is used to generate electricity or steam for sale. A credit is also available for wages paid to qualified employees at a multi-jurisdictional electric company's qualified corporate headquarters in Maryland.

e. **TELECOMMUNICATIONS PROPERTY TAX CREDIT.** A credit is allowed for a public utility that is a telecommunications company in an amount limited to 60% of the total state, county and municipal corporation property taxes paid on certain Maryland property.

f. **MARYLAND RESEARCH AND DEVELOPMENT TAX CREDIT.** Businesses may claim a credit against the state income tax for certain qualified research and development expenses.

g. **LONG-TERM EMPLOYMENT OF QUALIFIED EX-FELONS.** Businesses that employ ex-felons under a program certified by the Department of Labor, Licensing and Regulation may be eligible for a credit based upon wages paid to the qualified employee.

**NOTE:** If you claim a business tax credit for items a through g, an addition to income must be included on line 2d.

h. **JOB CREATION TAX CREDIT.** Certain businesses that create new qualified positions in Maryland may be eligible for tax credits based on the number of qualified positions created or wages paid for these positions.

i. **NEIGHBORHOOD PARTNERSHIP PROGRAM TAX CREDIT.** Businesses that contribute \$500 or more to approved Neighborhood and Community Assistance Programs may be eligible for a tax credit equal to 50% of approved contributions with a maximum credit of \$125,000.

j. **BUSINESSES THAT CREATE NEW JOBS TAX CREDIT.** Certain businesses located in Maryland that create new positions or establish or expand business facilities in the state may be entitled to an income tax credit if a property tax credit is granted by Baltimore City or any county or municipal corporation of Maryland.

k. **WATER QUALITY IMPROVEMENT CREDIT.** A credit may be claimed for additional commercial fertilizer costs necessary to convert agricultural production to a nutrient management plan.

l. **EMPLOYER PROVIDED LONG-TERM CARE INSURANCE CREDIT.** A credit may be claimed for costs incurred by an employer that provides long-term care insurance as part of an employee benefit package.

m. **WORK-BASED LEARNING PROGRAM CREDIT.** A credit may be claimed for a percentage of wages paid to students employed as part of a work-based learning program.

n. **CREDIT FOR MARYLAND-MINED COAL.** A credit is allowed for a qualifying electricity supplier or cogenerator, as defined under the Public Utility Regulatory Policies Act of 1978, for the purchase of Maryland-mined coal.

o. **ONE MARYLAND ECONOMIC DEVELOPMENT TAX CREDIT.** Businesses may claim a credit for the project cost and startup cost of relocating or expanding a business in a distressed county in Maryland.

p. **COMMUTER TAX CREDIT.** Businesses may claim a credit for the cost of providing qualifying commuter benefits to the business entities' employees.

q. **MARYLAND CLEAN ENERGY INCENTIVE ACT.** A credit may be claimed for the cost incurred to install solar energy property or photovoltaic property. A credit is also allowed for electricity produced using certain alternative energy sources.

**For additional information regarding any of the above income tax credits, see the instructions provided on Form 500CR, Business Tax Credits. This form is available from any office of the Comptroller.**

**10d. HERITAGE STRUCTURE REHABILITATION TAX CREDIT.** A credit is allowed for 20% of qualified rehabilitation expenditures as certified by the Maryland Historical Trust. Complete and submit Form 502H with Form 500.

**10e.** Add the amounts on lines 10a,10b,10c and 10d and enter the total.

**LINE 11 - BALANCE OF TAX DUE**

If the amount on line 9 is greater than the amount on line 10e, subtract line 10e from line 9 and enter the result.

**LINE 12 - OVERPAYMENT**

If the amount on line 10e is greater than the amount on line 9, subtract line 9 from line 10e and enter the result.

**LINE 13 - INTEREST AND/OR PENALTY**

Interest and/or penalty may be due as a result of the underpayment of estimated tax and as a result of late filing of Form 500 and payment of the tax. If applicable, enter each amount in the space provided and enter total.

If the estimated tax was underpaid, use Form 500UP - Underpayment of Estimated Corporation Income Tax to calculate any interest and/or penalty due.

**NOTE:** If Form 500UP is not submitted with the return, the Maryland Revenue Administration Division will calculate the interest and penalty for failure to pay the required amount of estimated income tax and notify the corporation of any balance due.

If Form 500 is filed late, calculate interest on the amount of tax that was not paid by the original due date. Interest is due at an annual rate of 13% or 1.08% per month or part of a month that tax is paid after the due date of the return.

A penalty may be imposed if any tax is not paid when due. Any penalty due will be calculated and assessed after filing of Form 500.

**LINE 14 - TOTAL BALANCE DUE**

Add the amounts on lines 11 and 13 and enter the result, or if the amount on line 13 exceeds line 12, enter the difference. The total amount due must be paid with the filing of Form 500.

**LINE 15 - AMOUNT OF OVERPAYMENT TO BE APPLIED TO ESTIMATED TAX FOR 2003**

Enter the portion of overpayment to be applied to the estimated tax for the next tax year. For information regarding estimated income tax requirements, see the General Instructions.

**LINE 16 - AMOUNT OF OVERPAYMENT TO BE REFUNDED**

Add the amounts on lines 13 and 15 and subtract the total from line 12. This is the amount requested to be refunded to the corporation.

**LINE 17 - DIRECT DEPOSIT OF REFUND**

Complete lines 17a, b, and c of Form 500 if you want us to deposit the refund directly into the corporation's account at a bank or other financial institution instead of sending a check.

**17a. TYPE OF ACCOUNT.** Check the appropriate box to identify the type of account that will be used (checking or savings). You must check one box only or a refund check will be mailed.

**17b. ROUTING NUMBER.** The routing number must be nine digits. If the first two digits are not 01 through 12 or 21 through 32, the direct deposit will be rejected and a check sent instead. If you are not sure of the correct routing number, contact your financial institution.

**17c. ACCOUNT NUMBER.** The account number can be up to 17 characters (both numbers and letters). Include hyphens but omit spaces and special symbols. Enter the number from left to right and leave any unused boxes blank.

If we are notified by the financial institution that the direct deposit is not successful, a refund check will be mailed.

Please have a bank statement for the deposit account available if you contact us concerning the direct deposit of the refund.

**DISCLOSURE**

Entering the bank account routing number, account number and account type in the area provided on the Maryland income tax return to effect a direct deposit of the income tax refund authorizes the Comptroller's Office to disclose this information and the refund amount to the Maryland State Treasurer's Office who performs banking services for the Comptroller's Office.

**ADDITIONAL INFORMATION AND STATEMENTS REQUIRED**

Enter all information requested in these areas on Page 2.

**SIGNATURE AND VERIFICATION**

An authorized officer must sign and date Form 500 at the bottom of Page 2 and enter his or her corporate title. If a paid preparer is used, the preparer must also sign the return and enter the firm name, address and Preparer's Tax Identification Number (PTIN).

**PAYMENT INSTRUCTIONS**

Include a check or money order made payable to the Comptroller of Maryland for the full amount of any balance due. All payments must indicate the Federal Employer Identification Number, type of tax and tax year beginning and ending dates. **DO NOT SEND CASH.** Taxpayers making payments of \$20,000 or more must pay by electronic funds transfer. Others may elect this method. Taxpayers must register prior to making electronic payments. For registration information call 410-260-7601.

**MAILING INSTRUCTIONS**

Use the envelope provided in the tax booklet and place an "X" in the appropriate box in the lower left corner to indicate the type of return enclosed. Also, be sure to read and follow the reminders listed on the back of the envelope.

# INSTRUCTIONS FOR COMPUTATION OF APPORTIONMENT FACTOR – 2002

**Multistate corporations** are those that are operating in more than one state and beyond the protection of U.S.C.A. Title 15, Section 381 of the Interstate Commerce Tax Act (P.L. 86-272). Multistate corporations operating in Maryland as a unitary business must allocate income using an apportionment formula.

**Unistate corporations** are those that are operating in only one state, or are operating in more than one state but the extent of the activity in the other states is within the protection of P.L. 86-272. Unistate corporations subject to the Maryland income tax law may not apportion income.

**Allocation** means the assignment of income to a particular state. **Apportionment** means the allocation of income among states by the use of a formula containing apportionment factors.

All factors of the apportionment formula are developed as fractions, the numerator of which is the total of Maryland items and the denominator is the total of items everywhere during the tax year. Each factor is calculated to six decimal places and the number of factors used is averaged to arrive at the final apportionment factor. The items of both numerator and denominator should reconcile to the items as categorized and reported on the federal income tax return.

If a return is filed by a multistate corporation which reflects a loss and there is no income to be apportioned, an apportionment factor must be calculated for the filing to be complete.

## THREE-FACTOR FORMULA

Multistate corporations are generally required to use a three-factor formula of property, payroll and double-weighted receipts. The sum of the property factor, payroll factor and twice the receipts factor is divided by four to arrive at the final apportionment factor. Specific requirements regarding each factor are set forth below:

**RECEIPTS FACTOR** The receipts factor includes the amounts of income reported during the taxable year as gross receipts or sales less returns and allowances, dividends, interest, gross rents, royalties, capital gains and other income on the federal return.

Gross receipts from sales of **tangible personal property** are included in the numerator if the property is delivered or shipped to a purchaser that takes possession in Maryland, regardless of f.o.b. point or other conditions of sale. Sales of tangible personal property to an out-of-state purchaser are also included in the numerator if the purchaser takes possession in Maryland. Sales of property in transit which are destined to Maryland are included in the numerator.

Gross receipts from **service-related activities** are included in the numerator if the receipts are derived from customers within this State. There are specific rules to determine "Customers Within this State." To review these rules see Maryland Regulation 03.04.03.08 D.

Gross income from **intangible items** such as dividends, interest, royalties and capital gains from the sale of intangible property are included in the numerator based upon the average of the property and payroll factors.

Gross receipts from the **rental, leasing or licensing of real or tangible personal property** are included in the numerator if the property is located within Maryland. If tangible personal property is located in this State for a portion of the tax year, only the income received for that portion is included in the numerator.

Capital gains from the **sale of real and tangible personal property** are included in the numerator if the property is located within Maryland. Ordinary net gain or loss derived from the sale of depreciable assets is excluded from the factor.

**Other income items** are included in accordance with the provisions previously stated depending upon the nature and type of each item.

**PROPERTY FACTOR** The property factor includes owned as well as rented tangible personal property used in the trade or business during the taxable year. Such properties are inventory, machinery and equipment, buildings and land, and other tangible assets. Property is included in the numerator if it has a situs within Maryland.

**Property owned** by the corporation is valued at its original cost and is reflected in the factor at the average of the tax year beginning and ending amounts. If there are material changes during the tax year and the yearly average is not a fair representation, the average must be calculated on a monthly or daily basis.

**Property in transit** is considered to be at its destination for purposes of the factor. Property under construction during the tax year is excluded from the factor until actually placed in service.

**Property leased or rented** by the corporation is included in the factor at a capitalized value. To arrive at the capitalized value, expenses are associated with the privilege of occupying or using the property, including such items as fixed rent, percentage rent, real estate taxes, insurance and maintenance, are multiplied by eight. Expenses for gas, electricity, oil, water or other items normally consumed are excluded.

**Lease or rental expense below the market rate** must be adjusted to reflect a reasonable market rate and then capitalized. Sublease income cannot be used to arrive at the capitalized value of leased or rented property, but must be included in the receipts factor.

**Improvements to the leased or rented property** that revert to the owner at expiration of the lease or rental term are amortized and not capitalized. The actual cost of the improvements is divided by the number of years remaining for the lease or rental term and the result is included in the factor for each tax year.

**Property that has remained idle** and has not produced any revenue for a period of five or more years is not included in the factor.

**PAYROLL FACTOR** All compensation is to be included in the numerator, both when the individual's service is performed entirely within Maryland, and when the individual's service is performed both within and without Maryland but the service performed outside Maryland is incidental to the individual's service within.

Compensation is also included in the numerator if some part of the service is performed within Maryland and the base of operations or place from which the service is controlled is in Maryland. If the base of operations or place from which the service is controlled is not in any state where the service is performed but the individual's residence is in Maryland, the compensation is also included in the numerator.

## OTHER APPORTIONMENT FORMULAS

**NOTE:** Double-weighted receipts factor provisions are not applicable for corporations subject to the following apportionment formulas.

**Corporations engaged primarily in leasing or rental operations** are required to use an equally weighted two-factor formula of receipts and property. The receipts and property factors are calculated in accordance with the provisions for those factors of the three-factor formula, except that receipts from intangible items are excluded.

Corporations engaged primarily in certain types of transportation operations are required to use a one-factor formula as follows:

- **Trucking operations** (motor freight carriers) must use total road mileage traveled in Maryland divided by total road mileage traveled everywhere.
- **Railroad operations** must use total track mileage traveled in Maryland divided by total track mileage traveled everywhere.
- **Shipping operations** must use total voyage days in Maryland divided by total voyage days everywhere. Voyage days are the number of days that ships spend in ports and on waterways.
- **Airline operations** should see Administrative Release No. 22 for instructions.

**Banks and similar institutions** are subject to special apportionment rules. To review these rules, see Maryland Regulation 03.04.08 or contact the Maryland Revenue Administration Division for instructions. (See back cover of booklet for address and phone number.)

All **manufacturing corporations** are subject to a special single factor formula of receipts. The rules for calculating the single factor can be found in Maryland Regulation 03.04.03.10 or contact the Maryland Revenue Administration Division for forms and instructions. (See back cover of booklet for address and phone numbers.)

In addition, manufacturing corporations with more than 25 employees must complete Form 500MC if apportionment is used. All three (3) factors must be completed on page 2 of Form 500 for the purpose of completing Form 500MC.

## SPECIAL RULES

If the apportionment formula does not fairly represent the extent of the corporation's activity within Maryland, the Maryland Revenue Administration Division may alter the formula or components accordingly.

The corporation's share of receipts, property and wages of a partnership or joint venture is included in the corporation's receipts, property and wage factors as if they were the direct receipts, property and wages of the corporation. The partnership share is included only to the extent of the factors required for the corporation.

Income may be allocated by separate accounting when the activity of the corporation within Maryland is nonunitary. A corporation may not use the separate accounting method without prior approval of the Revenue Administration Division.

An Internal Revenue Code Section 338(h) (10) election is also recognized by the State of Maryland. Contact the Maryland Revenue Administration Division for instructions. (See back cover of the tax booklet for address and phone numbers.)