



- Remove the label and attach it to the return you are filing.
- If any information on the label is incorrect, please do not use the label.

2004

Maryland Tax Forms for Pass-Through Entities

**Forms and instructions for filing pass-through entity income tax returns
for calendar year or any other tax year or period beginning in 2004.**

This booklet includes:

- Form 510 - Pass-Through Entity Income Tax Return
- Form 510E - Application for Extension of Time to File Pass-Through Entity Income Tax Return
- Form 510D - Declaration of Estimated Pass-Through Entity Nonresident Tax

Important reminders:

- Read the instructions in this booklet.
- Use the above label on Form 510.
- Enter the Federal Employer Identification Number (FEIN) and tax year beginning and ending dates on all forms and payments.
- Sign and date the return.

New businesses can
register online &
set up tax accounts
when visiting our
Web site at
www.marylandtaxes.com
See the back of this
booklet for more
details.



William Donald Schaefer

Maryland Pass-Through Entity Taxpayers

This booklet contains the forms and instructions necessary for a pass-through entity to file a 2004 Maryland tax return. Please read the instructions and forms carefully.

Form 510 and its related forms are to be used by partnerships, S corporations, limited liability companies (LLC) and business trusts.

A **business trust** shall be classified as a corporation, a partnership, a trust or otherwise, as determined under the United States Internal Revenue Code.

The **pass-through entity return** is generally an information return. The entity's income or loss is passed through to the individual partners, shareholders or members for taxation purposes.

Pass-through entities are required to pay the personal income tax on behalf of individual nonresidents at a tax rate of 4.75 percent of the nonresident individual partner's, shareholder's or member's distributive or pro rata share of income allocable to Maryland.

Pass-through entities are not permitted to pay the Maryland income tax on behalf of corporations, other pass-through entities, estates or trusts by means of Form 510. Such entities must pay estimated taxes directly on their own behalves. Tax reported and paid for a non-individual entity using Form 510 will not be credited to the partner, shareholder or member's Maryland income tax account. The entity making such a payment will be required to amend the Form 510 and request in writing a refund of the disallowed payment, and the non-individual partner, shareholder or member will be subject to interest and penalty for late payment of tax.

Nonresident individual partners and shareholders must file a nonresident Maryland personal income tax return, Form 505. Credit may be claimed on the nonresident return for any tax paid on behalf of the nonresident by the pass-through entity. Taxpayers may elect to file a composite return on behalf of qualified nonresident partners, shareholders and members under which the entity would be the agent to receive any refund or to pay any tax due. See Administrative Release #6 for more information. You can obtain Administrative Release #6 from any Maryland taxpayer service office or from our Web site at www.marylandtaxes.com.

Certain investment partnerships are not subject to the nonresident tax. See the Specific Instructions for line 4.

Form 500CR

Form 500CR is used by individuals and businesses to claim allowable business tax credits as listed. You can obtain Form 500CR from any Maryland taxpayer service office or our Web site at www.marylandtaxes.com.

- Businesses That Create New Jobs Tax Credit
- Clean Energy Incentive Tax Credit
- Community Investment Tax Credit (formerly the Neighborhood Partnership Program Tax Credit)
- Commuter Tax Credit
- Electric and Gas Utility Tax Credits
- Employer Provided Long-Term Care Insurance Tax Credit
- Employment Opportunity Tax Credit
- Enterprise Zone Tax Credit
- Green Buildings Tax Credit
- Job Creation Tax Credit
- Long-Term Employment of Qualified Ex-Felons Tax Credit
- Maryland Disability Employment Tax Credit
- Maryland-Mined Coal Tax Credit
- One Maryland Economic Development Tax Credit
- Research and Development Tax Credit
- Telecommunications Property Tax Credit
- Water Quality Improvement Tax Credit
- Businesses that claim a credit for the rehabilitation of a heritage structure must complete **Form 502H** for the **Heritage Structure Rehabilitation Tax Credit**.

Forms and help

For online business registration, tax forms, instructions, publications, and Maryland Tax Regulations, visit our Web site at:

www.marylandtaxes.com

E-mail your tax questions to us at:
taxhelp@comp.state.md.us

For assistance, call:

410-260-7980

in Central Maryland or
1-800-MD TAXES (638-2937)
from elsewhere

MARYLAND
PASS-THROUGH ENTITY
INCOME TAX RETURN

GENERAL INSTRUCTIONS FILING FORM 510

Purpose of Form Form 510 is used by a pass-through entity to file an information income tax return for a specific tax year or period. The term pass-through entity includes partnerships as defined in Internal Revenue Code Section 761, S corporations as defined in Internal Revenue Code Sections 1361 and 1362, limited liability companies (LLC) as defined in Maryland Corporations and Associations, Article, Section 4A-101 and business trusts as defined in Maryland Corporations 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.

A business trust shall be classified as a corporation, a partnership, a trust or otherwise, as shall be determined under the United States Internal Revenue Code.

NOTE: If you are an unincorporated pass-through entity please follow the rules for partnerships and partners throughout these instructions. If you are an incorporated pass-through entity please follow the rules for S corporations and shareholders.

Entities Required to File Every Maryland pass-through entity must file a return on Form 510, even if it has no income or the entity is inactive. Every other pass-through entity that is subject to Maryland income tax law must also file on Form 510.

Entities Not Required to File A multistate pass-through entity that operates in Maryland but is not subject to the Maryland income tax law is not required to file, although a return reflecting no income allocable to Maryland may be filed for record purposes. Letters in lieu of filing will not be accepted.

Qualified Sub-S Subsidiaries are treated as divisions under 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.

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 that have elected not to be treated as a partnership.

When and Where to File File Form 510 by the 15th day of the 4th month following the close of the tax year or period if a partnership or by the 15th day of the 3rd month if an S corporation. The return must be filed with the Comptroller of Maryland, Revenue Administration Division, Annapolis, Maryland 21411-0001.

Signatures Required Form 510 must be signed by a duly authorized official of the pass-through entity. Preparers, other than pass-through entity employees, must also sign the return.

GENERAL INFORMATION FOR FORM 510

Accounting Periods The tax year or period used for the federal return must be used for the Maryland return. Accordingly, calendar tax years, fiscal tax years, and short tax periods may be necessary for Maryland filing purposes.

If a federal return is filed or required, a corresponding Maryland return must be filed. The

form used for filing must reflect the preprinted tax year in which the pass-through entity's tax year begins.

Use of Federal Figures In preparing Form 510, 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.

Taxability Form 510 is generally an information return and payment of income tax is not required. The items of income or loss are passed through to the individual partner or shareholder and taxed at that level. Each partner or shareholder must file a personal income tax return on Form 502 (Form 505 for nonresidents).

If there are nonresident partners or shareholders the **pass-through entity nonresident tax** applies. Pass-through entities are required to pay an income tax on behalf of nonresidents. The tax is 4.75% of the nonresident individual partners' or shareholders' distributive or pro rata share of income allocable to Maryland. When the tax is expected to exceed \$1,000, the pass-through entity must make quarterly estimated payments. See Form 510D for instructions.

NOTE: The terms nonresident partner and shareholder do not include a partner or shareholder that is: 1) a corporation, including an S corporation; 2) a partnership; 3) an organization that is exempt under IRS code; 4) an estate; or 5) a trust.

The distributive share for partnerships is the net amount of lines 1 through 11 of the federal Form 1065-Schedule K. The pro rata share for S corporations is the net amount of lines 1 through 10 of the federal Form 1120S-Schedule K.

The amount of tax payable by the pass-through entity may be limited based on the distributable cash flow. For additional information see the instructions for distributable cash flow limitation.

Nonresident partners and shareholders must file a personal nonresident return, Form 505. Nonresident partners and shareholders must report their distributive or pro rata share of income received from a partnership or S corporation attributable to business conducted in Maryland. Such income must be reported in the partner's or shareholder's tax year in which the partnership's or S corporation's tax year ends. Credit for taxes paid by the partnership or S corporation must be claimed on the same return on which the nonresident reports the income which is subject to that tax.

A partnership or S corporation may elect to file a composite return on behalf of qualified nonresident partners and shareholders. All partners and shareholders who qualify and elect to be included on the composite return must agree that the partnership or S corporation is their agent for the receipt of any refund or for payment of any tax due. See Administrative Release 6.

If there is S corporation **income subject to federal corporation income tax**, such as excess net passive income, built-in gains or LIFO recapture, that income is also subject to Maryland corporation income tax. Use Form 500 – Corporation Income Tax Return to calculate the amount of Maryland corporation income tax.

On the Form 500: (1) Enter the corporation name, Federal Employer Identification Number and tax year. (2) Enter the total taxable income on line 1, check the applicable box labeled "Other" and enter "1120S". (3) Report addition and sub-

traction modifications to the extent applicable to the income subject to federal income tax. (4) Complete all other lines as necessary to calculate the amount due (including the lines for modification to income, apportionment of income and payments and credits, if applicable). Attach payment of the balance due to the front of Form 500.

In addition to filing Form 500 to calculate and pay the corporation income tax, also file Form 510 – Pass-Through Entity Income Tax Return.

OTHER MATTERS

Extension of Time to File If unable to file Form 510 by the due date, the pass-through entity must submit Form 510E – Application for Extension of Time to File Pass-through Entity Income Tax Return.

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

- 1) the application is properly filed and submitted by the 15th day of the 4th month following close of the tax year or period for partnerships or by the 15th day of the 3rd month for S corporations;
- 2) an application for extension of time has been filed with the Internal Revenue Service; and
- 3) full payment of any balance due is submitted with the application.

Properly and timely filed requests for extension of time will be automatically granted for three months for partnerships and six months for S corporations.

Estimated Income Tax Every pass-through entity that reasonably expects its nonresident tax due to exceed \$1,000 for the tax year or period must make quarterly estimated tax payments using Form 510D - Declaration of Estimated Pass-through Entity Nonresident Tax. See the Form 510D instructions for due dates and further information.

Audits and Appeals All items reported on Form 510 are subject to audit, verification and revision. 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, the Maryland Revenue Administration Division will notify the pass-through entity.

Amended Returns To correct an error in a previously filed return, complete and submit a revised Form 510 checking the box for "AMENDED RETURN" on page 1. **A separate page should be attached containing a detailed explanation of the changes being made, and if the federal return has been amended, a copy of the federal amended form must be attached to Form 510.** If additional tax was paid with the filing of the original return, include the amount paid on line 10b of Form 510. A Form 502X – Amended Maryland Tax Return must also be submitted for each partner's or shareholder's income tax return (Form 502 or 505).

NOTE: Changes made as part of an amended return are subject to audit for up to three years from the date the amended return is filed.

Business Tax Credits Form 500CR must be completed and attached to Form 510 if the pass-through entity has generated a business tax credit. Such credits are not taken on Form 510, but are allocated to the partners or shareholders.

Statements to Partners or Shareholders The federal Form K-1 provided by the pass-through entity must be modified to include: the share of Maryland addition and subtraction modifications (including decoupling modifications from Form 500DM), the share of credits from Forms 500CR and 502H (see front inside cover) and, in the case of nonresident individuals, the amount of income attributable to Maryland sources and the amount of tax paid on behalf of the partner or shareholder receiving the Form K-1.

Internal Revenue Service (IRS) Adjustments

If the items on the federal return are adjusted by the IRS, a copy of the final IRS adjustment report must be submitted within 90 days. Copies of the IRS adjustment report must be submitted for each partner's or shareholder's personal income tax return (Form 502 or 505).

Taxpayer Identification Required for Returns and Other Documents

All returns, correspondence, payments or other documents must indicate the pass-through entity name, Federal Employer Identification Number (FEIN), type of tax and tax year(s) to which the document relates.

All pass-through entities are required to secure a FEIN from the IRS. The FEIN is the only 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 ensures that documents are directed to the correct area and that payments are applied to the correct account.

Use of Paid Preparers The pass-through entity is responsible for the timely filing of returns, payment of tax, responding to requests and all other requirements, even though a paid preparer is used.

Substitute Forms Maryland 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 26, Procedures for Computer-Printed Substitute Forms, which can be obtained from any office of the Maryland Revenue Administration Division. (See back cover of 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 an income tax as prescribed in published tables and remit the withholdings to the Maryland Revenue Administration Division with Form MW506 or MW506M – Employer's Return of Income Tax Withheld.

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 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 MW508 is not required for magnetic media filers.

For additional information regarding employer withholding tax, contact the Maryland Revenue

Administration Division. (See back cover of 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 pass-through entity name, address and identification numbers and specifying the information needed. The request must be signed by an authorized partner or shareholder.

As authorized by law, information furnished to the Revenue Administration Division may be given to the IRS, 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 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. Use a minus sign (-) in front of the number to indicate a negative amount.

Name, Address and Other Information If any of the information on the label is incorrect, or if using a computer-generated form, **DO NOT USE THE LABEL.**

If you do not have a label, type or print the required information in the designated area. Enter the exact pass-through entity name 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 organization or incorporation and the Federal Business Activity Code. This date must be expressed numerically, using two digits each for the month, the day and the year. The Federal Business Activity Code is a six-digit number available from the federal return which identifies the principal business activity.

Be sure to check the applicable box to indicate the type of pass-through entity: partnership, S corporation, limited liability company or business trust.

Check the applicable box if: (1) the name or address has changed; (2) this is the first filing of the pass-through entity; (3) this is an inactive pass-through entity (in Maryland and elsewhere); (4) this is the final return of a pass-through entity that has dissolved, liquidated or withdrawn from Maryland; (5) this is an amended return or (6) this tax year's beginning or ending dates are different from last year's because of an acquisition or consolidation. Do not check the box for inactive or final if the pass through entity is inactive in Maryland but active elsewhere.

Tax Year or Period THE TAX YEAR IS SHOWN AT THE TOP OF FORM 510. The form used for filing must reflect the preprinted tax year in which the pass-through entity's tax year begins. The same tax year or period used for the federal return must be used for Form 510.

If the tax year of the pass-through entity is other than a calendar year, enter the beginning and ending dates of the fiscal year in the space provided at the top of Form 510.

Line 1 - Number of partners, shareholders, or members Enter the number of partners, shareholders, or members that are individual residents of Maryland, the number that are individual nonresidents of Maryland, the number of other entities, and the total number of all partners, shareholders or members.

A single member LLC electing to be a disregarded entity for federal purposes is treated as an individual for purposes of computing the non-resident tax.

Line 2 - Total distributive or pro rata income per federal return Enter the distributive or pro rata income from the federal pass-through entity return. Distributive or pro rata share is defined for this purpose as the net amount of income/loss for the partnership or S corporation, less interest from federal obligations.

The distributive share for partnerships is the net amount of lines 1 through 11 of federal Form 1065 - Schedule K. The pro rata share for S corporations is the net amount of lines 1 through 10 of federal Form 1120S - Schedule K.

ALLOCATION OF INCOME

For unistate pass-through entities, all income is allocable to Maryland. If the entity is unistate, meaning that business is conducted only in Maryland, do not complete this area.

Multistate pass-through entities, those conducting business in more than one state, must allocate income if there are one or more nonresident partners or shareholders. If there are no nonresident partners or shareholders do not complete this area.

Line 3a - Non-Maryland income Multistate partnerships with one or more nonresident partners may use separate accounting to allocate income. Multistate S corporations with one or more nonresident shareholders may use separate accounting if the activity of the corporation within Maryland is nonunitary. If using separate accounting, enter the amount of income or loss allocable to other states and attach a worksheet detailing the allocation between or among the states.

Line 3b - Maryland apportionment factor Multistate partnerships with one or more nonresident partners may elect the apportionment method of allocation. Multistate S corporations with one or more nonresident shareholders must use the apportionment method unless the activity of the corporation within Maryland is nonunitary. If using the apportionment method, see the instructions for computation of apportionment factor on page 4 and enter the apportionment factor as calculated on Page 2 of Form 510.

Line 4 - Distributive or pro rata share allocable to Maryland For unistate pass-through entities or multistate pass-through entities without nonresident partners or shareholders, enter the amount shown on line 2.

For multistate pass-through entities using separate accounting, subtract line 3a from line 2 and enter the difference. For multistate pass-through entities using the apportionment method of allocation, multiply line 2 by the factor on line 3b and enter the result.

NOTE: Do not complete lines 5 through 13:
1. unless the pass-through entity has partners or shareholders that are individual nonresidents of Maryland.
2. if the pass-through entity is a partnership whose activities and assets are limited

to investment in stocks, bonds, futures, options or debt obligations other than debt instruments directly secured by real or tangible personal property. It is not subject to the partnership tax merely because the investment decisions, trading orders, research and the like are conducted by a general partner from a Maryland location.

Partnerships, however, such as brokerage firms that deal with the general public, are not exempt if the business is conducted within Maryland and should complete lines 5-13.

Line 5 - Percentage of ownership by individual nonresident partners or shareholders Enter the total percentage of ownership by individual nonresident partners or shareholders. If the profit/loss allocation is different from the ownership percentage, use the profit/loss allocation to complete this line. If 100% leave blank.

Line 6 - Distributive or pro rata share for nonresident partners, shareholders or members Multiply line 4 by the percentage on line 5 and enter the result. If line 5 is blank because the percentage of ownership equals 100%, enter the amount from line 4.

Line 7 - Nonresident tax Multiply the amount on line 6 by 4.75%.

Line 8 - Distributable cash flow limitation Pass-through entities may elect to use the distributable cash flow method to limit the nonresident partner or shareholder tax which must be paid by the entity. If the distributable cash flow is less than the nonresident tax, the required payment is limited to the amount determined by the distributable cash flow method.

Election of the distributable cash flow limitation will not reduce the tax liability of the nonresident partners or shareholders.

If the distributable cash flow limitation is used, check the box and enter the result on line 8. If less than zero, enter zero. If the distributable cash flow limitation is not used, do not complete this line.

Line 9 - Nonresident partner or shareholder tax due If the distributable cash flow limitation is not used, enter the amount shown on line 7. If the distributable cash flow method is used, enter the lesser of the amount on line 7 or line 8.

Line 10 - Payments

10a. Enter the total of amounts paid during the tax year with Form 510D-Declaration of Estimated Pass-through Entity Nonresident Tax Return.

10b. Enter any amount paid with Form 510E-Application for Extension of Time to File Pass-through Entity Income Tax Return.

10c. Add the amounts on lines 10a and 10b and enter the total.

Line 11 - Balance of Tax Due If the amount on line 9 is greater than the amount on line 10c subtract line 10c from line 9 and enter the result.

Line 12 - Interest and/or Penalty Calculate the amount of interest and/or penalty due as a result of the underpayment of estimated tax. Use Form 500UP.

Partnership and LLCs with income received unevenly throughout the year, and that choose to annualize on Form 500UP, must enter 301 in the code number box on the bottom of page 1, Form 510.

If Form 510 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 510.

Line 13 - Total Balance Due Add the amounts on lines 11 and 12 and enter the result. The total amount due must be paid with Form 510.

NOTE: Overpayments will not be refunded or applied to next year's estimated tax.

Partners', Shareholders' or Members' Information Enter all information requested in this area. Enter the name, address and social security number of each partner, shareholder or member. Also check the applicable box to identify the partner, shareholder or member as a resident or nonresident of Maryland.

For each partner or member, the distributive share of income is a portion of the amount on line 2, page 1 of Form 510. For each shareholder, the pro rata share of income is a portion of the amount on line 2, page 1 of Form 510. Enter the amount of tax paid on behalf of each nonresident individual included in lines 10c and 11.

Additional Information Required Enter all information requested in these areas on Page 2.

Signature and Verification An authorized officer of the pass-through entity must sign and date Form 510 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 social security number or Preparer Tax Identification Number (PTIN).

Mailing Instructions Mail the completed return and all required attachments to: Comptroller of Maryland, Revenue Administration Division, Annapolis, MD 21411-0001

DISTRIBUTABLE CASH FLOW LIMITATION WORKSHEET

(Complete this worksheet only if using the distributable cash flow limitation.)

- A. Total distributive or pro rata income. See instructions. _____
- B. Cash receipts for the tax year that are not includable in the gross income of the entity including capital contributions and loan proceeds _____
- C. Amounts allowable to the entity for the tax year as deductions for depreciation, amortization and depletion _____
- D. The decrease, if any, in the entity's liability reserve as of the end of the tax year. _____
- E. Total (Add lines A through D). _____
- F. Cash expenditures for the tax year that are not deductible in computing the taxable income of the entity, not including distributions to partners or shareholders _____
- G. The increase, if any, in the entity's liability reserve as of the end of the tax year _____
- H. Total distributable cash flow (Add lines F and G, and subtract the total from line E). _____
- I. Total percentage of ownership (or profit/loss sharing if applicable) by nonresident partners or shareholders _____
- J. Distributable cash flow (Multiply line H by line I) _____
- K. Nonresident tax previously paid _____
- L. Distributable cash flow limitation (Subtract line K from line J. If less than 0, enter 0) _____

WORKSHEET INSTRUCTIONS

Line A - Enter amount from Form 510, line 2 (adjusted, in the case of an entity using the accrual method of accounting to report federal taxable income, to reflect the amount of taxable income that would have been reported under the cash method of accounting).

Line B - Enter any cash receipts received by the entity that were not included in gross income including capital contributions and loan proceeds.

Line C - Enter the allowable depreciation, amortization and/or depletion used as a deduction from federal taxable income.

Line D - If the entity has established a liability reserve, enter the amount that represents the

decrease, if any, in this reserve account. Liability reserve means accrued unpaid liabilities that are not deductible in computing taxable income.

Line E - Add lines A through D and enter total.

Line F - Enter any cash expenditures that are not deducted when computing taxable income for the entity. Items such as distributions to partners or shareholders are not included in this amount.

Line G - If the entity has established a liability reserve, enter the amount that represents the increase, if any, in this reserve account. Liability reserve means accrued unpaid liabilities that are not deductible in computing taxable income.

Line H - Add lines F and G and subtract the total from line E. This is the total distributable cash flow for the year.

Line I - Enter the amount from Form 510, line 5.

Line J - Multiply line H by line I. This is the portion of distributable cash flow for individual nonresidents.

Line K - Enter all individual nonresident estimated tax paid with Forms 510D or 510E.

Line L - Subtract line K from line J. This is the distributable cash flow limitation for the entity. If this amount is less than 0, enter 0.

INSTRUCTIONS FOR SCHEDULE A – COMPUTATION OF APPORTIONMENT FACTOR - 2004

Pass-through entities that conduct business in more than one state must allocate income if one or more of the partners or shareholders are nonresidents of Maryland. Partnerships may use separate accounting or the apportionment method of allocation. S corporations must use the apportionment method unless the activity in Maryland is nonunitary. If the activity within Maryland is nonunitary, S corporations may use separate accounting.

APPORTIONMENT FORMULA

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 used 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.

THREE-FACTOR FORMULA

Multistate pass-through entities using the apportionment method of allocation 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 formula. Specific requirements regarding each factor are set forth below:

RECEIPTS FACTOR The receipts factor includes the amount of income reported during the tax 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 that are destined for 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 in 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 in 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 on 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 tax 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 pass-through entity is valued at its original cost 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 pass-through entity is included in the factor at a capitalized value. To arrive at the capitalized value, expenses 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 pass-through entities subject to the following apportionment formulas.

Pass-through entities engaged primarily in leasing or rental operations must 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.

Pass-through entities engaged primarily in certain types of transportation operations must 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 22 for instructions.

Banks and similar financial institutions are subject to special apportionment rules. To review these rules, see Maryland Regulation 03.04.08.

Manufacturing entities are subject to a special single-factor formula based on receipts. The rules for calculating the single factor can be found in Maryland Regulation 03.04.03.10.

SPECIAL RULES

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

The pass-through entity's share of receipts, property and payroll of a partnership or joint venture is included in the entity's factors as if they were the direct receipts, property and payroll of the entity. The partnership share is included only to the extent of the factors required for the pass-through entity.

FORM **510** **MARYLAND**
PASS-THROUGH ENTITY
 INCOME TAX RETURN



2004
 \$

OR FISCAL YEAR BEGINNING _____, 2004, ENDING _____

Please Print
 Blue or Black Ink Only

Name _____	Federal Employer Identification No. (9 digits) _____	Do not write in this space ME ▶
Number and street _____	FEIN Applied for date _____	YE ▶
City or town _____ State _____ Zip code _____	Date of Organization or Incorporation (MMDDYY) _____	Business Activity Code No. (6 digits) _____

TYPE OF ENTITY: S Corporation Partnership Limited Liability Company Business Trust

CHECK HERE IF: Name or address has changed First filing of the entity Inactive entity Final return **AMENDED RETURN**

▶ This tax year's beginning and ending dates are different from last year's because of an acquisition or consolidation

1. Number of partners, shareholders or members:

a) Individual residents (of Maryland) _____ b) Individual nonresidents _____ c) Others _____ d) Total _____

2. Total distributive or pro rata income per federal return (Form 1065 or 1120S) — Unistate entities or multistate entities with no nonresident partners, shareholders or members also enter this amount on line 4 ▶ **2** _____

ALLOCATION OF INCOME
 (To be completed by multistate pass-through entities with one or more individual nonresident partners, shareholders or members — unistate entities, and multistate entities with no nonresidents, go to line 4)

3a. Non-Maryland income (for entities using separate accounting.) Subtract this amount from line 2 and enter the difference on line 4 ▶ **3a** _____

3b. Maryland apportionment factor from computation worksheet on Page 2 (for entities using the apportionment method.)
 Multiply line 2 by this factor and enter the result on line 4 (If factor is zero, enter 000001) ▶ **3b** . [] [] [] [] [] [] [] [] [] []

4. Distributive or pro rata share allocable to Maryland **4** _____

NOTE: Complete lines 5 through 13 only if there is an entry on line 1b. Tax is calculated only for individual nonresident partners or shareholders. (Investment partnerships see Specific Instructions.)

5. Percentage of ownership by individual nonresidents shown on line 1b (or profit/loss percentage if applicable).
 If 100% leave blank and enter the amount from line 4 on line 6. ▶ **5** . [] [] [] [] [] [] [] [] [] []

6. Distributive or pro rata share for nonresident partners, shareholders or members (Multiply line 4 by the percentage on line 5) ▶ **6** _____

7. Nonresident tax (Multiply line 6 by 4.75%) ▶ **7** _____

8. Distributable cash flow limitation from worksheet on page 3 of instructions. If worksheet used, check here ◀ ▶ **8** _____

9. Nonresident tax due (Enter the lesser of line 7 or 8) ▶ **9** _____

PAYMENTS

10a. Estimated pass-through entity nonresident tax paid with Form 510D ▶ **10a** _____

b. Pass-through entity nonresident tax paid with an extension request (Form 510E) ▶ **10b** _____

c. Total payments (Add lines 10a and 10b) ▶ **10c** _____

11. Balance of tax due (If line 9 exceeds line 10c enter the difference) ▶ **11** _____

12. Interest and/or penalty from Form 500UP _____ or late payment interest _____ .Total ▶ **12** _____

13. Total balance due (Add lines 11 and 12) Pay in full with this return ▶ **13** _____

NOTE: The total tax paid from line 10c and 11 is to be reported either on the composite return or on the returns of the nonresident partners or shareholders. (For additional information see the instructions.)

SIGNATURE AND VERIFICATION: Under penalties of perjury, I declare that I have examined this return (including attachments) and, to the best of my knowledge and belief, it is true, correct and complete. (Declaration of preparer other than the taxpayer is based on all information of which preparer has any knowledge.)
 Check here if you authorize your preparer to discuss this return with us.

Partner's, officer's or member's signature _____ Date _____

Preparer's SSN or PTIN _____ Preparer's signature _____

Title _____ Preparer's name, address and telephone number _____

Make checks payable to: **COMPTROLLER OF MARYLAND.**
 Write federal employer identification number on check using blue or black ink.
 Mail to: **Comptroller of Maryland, Revenue Administration Division,**
Annapolis, Maryland 21411-0001

[] [] [] [] [] [] [] [] [] []
 CODE NUMBERS



**SCHEDULE A –
COMPUTATION OF APPORTIONMENT FACTOR**

(Applies only to multistate pass-through entities – see instructions)

NOTE: Special apportionment formulas are required for rental/leasing, transportation, financial institutions and manufacturing companies. See Instructions.

	Column 1 TOTALS WITHIN MARYLAND	Column 2 TOTALS WITHIN AND WITHOUT MARYLAND	Column 3 DECIMAL FACTOR (Column 1 ÷ Column 2) (rounded to six places)
1A. Receipts			
a. Gross receipts or sales less returns and allowances . . .			
b. Dividends			
c. Interest			
d. Gross rents			
e. Gross royalties			
f. Capital gain net income			
g. Other income (Attach schedule)			
h. Total receipts (Add lines 1A(a) through 1A(g), for Columns 1 and 2)			<input type="text"/>
1B. Receipts Enter the same factor shown on line 1A, Column 3. Disregard this line if special apportionment formula used.			<input type="text"/>
2. Property			
a. Inventory			
b. Machinery and equipment			
c. Buildings			
d. Land			
e. Other tangible assets (Attach schedule)			
f. Rent expense capitalized (multiplied by eight)			
g. Total property (Add lines 2a through 2f, for Columns 1 and 2) . .			<input type="text"/>
3. Payroll			
a. Compensation of officers			
b. Other salaries and wages			
c. Total payroll (Add lines 3a and 3b, for Columns 1 and 2)			<input type="text"/>
4. Total of factors (Add entries in Column 3)			<input type="text"/>
5. Maryland apportionment factor Divide line 4 by four for three-factor formula, or by the number of factors used if special apportionment formula required (If factor is zero, enter 000001 on line 3b, Page 1.)			<input type="text"/>

**SCHEDULE B –
PARTNERS', SHAREHOLDERS' OR MEMBERS' INFORMATION**

(Attach continuing schedule in same format if there are more than five partners, shareholders or members)

	Name and social security number or federal employer identification number	Address	Check here if Maryland:		Distributive or pro rata share of income (See Instructions)	Distributive or pro rata share of tax paid (See Instructions)
			Resident	Non-resident		
1						
2						
3						
4						
5						

ADDITIONAL INFORMATION REQUIRED (Attach a separate schedule if more space is necessary)

- Address of principal place of business (if other than indicated on page 1): _____
- Address at which tax records are located (if other than indicated on page 1): _____
- Telephone number of **pass-through entity** tax department: _____
- State of organization or incorporation: _____
- Has the Internal Revenue Service made adjustments (for a tax year in which a Maryland return was required) that were not previously reported to the Maryland Revenue Administration Division? Yes No
If "yes", indicate tax year(s) here: _____ and submit an amended return(s) together with a copy of the IRS adjustment report(s) under separate cover.
- Did the pass-through entity file withholding tax reports/forms with the Maryland Revenue Administration Division for the last calendar year? . . . Yes No



**SCHEDULE A –
COMPUTATION OF APPORTIONMENT FACTOR**

(Applies only to multistate pass-through entities – see instructions)

NOTE: Special apportionment formulas are required for rental/leasing, transportation, financial institutions and manufacturing companies. See Instructions.

	Column 1 TOTALS WITHIN MARYLAND	Column 2 TOTALS WITHIN AND WITHOUT MARYLAND	Column 3 DECIMAL FACTOR (Column 1 ÷ Column 2) (rounded to six places)
1A. Receipts			
a. Gross receipts or sales less returns and allowances . . .			
b. Dividends			
c. Interest			
d. Gross rents			
e. Gross royalties			
f. Capital gain net income			
g. Other income (Attach schedule)			
h. Total receipts (Add lines 1A(a) through 1A(g), for Columns 1 and 2)			<input type="text"/>
1B. Receipts Enter the same factor shown on line 1A, Column 3. Disregard this line if special apportionment formula used.			<input type="text"/>
2. Property			
a. Inventory			
b. Machinery and equipment			
c. Buildings			
d. Land			
e. Other tangible assets (Attach schedule)			
f. Rent expense capitalized (multiplied by eight)			
g. Total property (Add lines 2a through 2f, for Columns 1 and 2) . .			<input type="text"/>
3. Payroll			
a. Compensation of officers			
b. Other salaries and wages			
c. Total payroll (Add lines 3a and 3b, for Columns 1 and 2)			<input type="text"/>
4. Total of factors (Add entries in Column 3)			<input type="text"/>
5. Maryland apportionment factor Divide line 4 by four for three-factor formula, or by the number of factors used if special apportionment formula required (If factor is zero, enter 000001 on line 3b, Page 1.)			<input type="text"/>

**SCHEDULE B –
PARTNERS', SHAREHOLDERS' OR MEMBERS' INFORMATION**

(Attach continuing schedule in same format if there are more than five partners, shareholders or members)

	Name and social security number or federal employer identification number	Address	Check here if Maryland:		Distributive or pro rata share of income (See Instructions)	Distributive or pro rata share of tax paid (See Instructions)
			Resident	Non-resident		
1						
2						
3						
4						
5						

ADDITIONAL INFORMATION REQUIRED (Attach a separate schedule if more space is necessary)

- Address of principal place of business (if other than indicated on page 1): _____
- Address at which tax records are located (if other than indicated on page 1): _____
- Telephone number of **pass-through entity** tax department: _____
- State of organization or incorporation: _____
- Has the Internal Revenue Service made adjustments (for a tax year in which a Maryland return was required) that were not previously reported to the Maryland Revenue Administration Division? Yes No
If "yes", indicate tax year(s) here: _____ and submit an amended return(s) together with a copy of the IRS adjustment report(s) under separate cover.
- Did the pass-through entity file withholding tax reports/forms with the Maryland Revenue Administration Division for the last calendar year? . . . Yes No

FORM **510E** MARYLAND APPLICATION FOR EXTENSION TO FILE **PASS-THROUGH ENTITY** INCOME TAX RETURN



2004

OR FISCAL YEAR BEGINNING 2004, ENDING

CHECK HERE IF THIS IS THE FIRST FILING OF THE PASS-THROUGH ENTITY

CHECK HERE IF THIS IS A CHANGE OF ADDRESS

Federal Employer Identification Number (9 digits) ▶		
Name		
Number and street		
City or town	State	Zip Code

For Office Use Only			
ME	YE	EC	EC

ENTITY TYPE:

S CORPORATION PARTNERSHIP LIMITED LIABILITY COMPANY BUSINESS TRUST

IF NO TAX IS DUE WITH THIS EXTENSION, FILE THE EXTENSION ON OUR WEBSITE AT: www.marylandtaxes.com OR CALL 410-260-7829 FROM CENTRAL MARYLAND OR 1-800-260-3664 FROM ELSEWHERE TO TELEFILE THIS FORM.

TAX PAYMENT WORKSHEET

- 1. Tax liability1. _____
- 2. Estimated tax payments2. _____
- 3. Tax due - Subtract line 2 from line 1.3. _____

TAX PAID WITH THIS EXTENSION	▶	\$	
------------------------------------	---	----	--

INSTRUCTIONS FOR TAX PAYMENT WORKSHEET

- Line 1 – **Tax liability** Enter the total amount of nonresident income tax the pass-through entity is expected to owe. Use Form 510 as a worksheet.
- Line 2 – **Estimated tax payments** Enter the total amount of Maryland estimated tax paid with Form 510D or 510DP for the tax year.
- Line 3 – **Tax due** Subtract line 2 from line 1 and enter the result. This is the tax to be paid with the application for extension.

Signature and Verification

Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct and complete, and, if prepared by someone other than the taxpayer, that I am authorized to prepare this form.

_____ Signature of officer or preparer	_____ Date
_____ Title or preparer's firm name and address	_____ Telephone Number

Make checks payable to:
COMPTROLLER OF MARYLAND
(Write federal employer identification number of check)

MARYLAND
APPLICATION FOR EXTENSION TO FILE
PASS-THROUGH ENTITY
INCOME TAX RETURN



Purpose of Form Maryland law provides for an extension of time to file the pass-through entity income tax return (Form 510), but not to pay the tax due. Use Form 510E to remit any tax that may be due. Also use Form 510E if this is the first filing of the entity, even if no tax is due.

Note: Do not use this form for corporations or to remit employer withholding tax.

General Requirements Extensions are allowable for up to six months for S corporations and three months for partnerships from the original due date. An automatic extension will be granted if Form 510E is filed by the original due date. An additional three month extension can be requested by a partnership.

• **If no tax is due** - File the extension online, telefile or use Form 510E if this is the first filing of the entity.

• **If tax is due** - Make full payment by using the Form 510E.

Do not mail the Form 510E if, after completing the Tax Payment Worksheet, no additional tax is due. Instead, you may telefile or file on our website unless this is the first filing of the pass-through entity. However, if an unpaid liability is disclosed when the return is filed, penalty and interest charges may be due in addition to the tax.

When to file File Form 510E by the 15th day of the third month following the close of the tax year or period for an S corporation or by the 15th day of the fourth month for a partnership.

Name, Address and Other Information Type or print the required information in the designated area. DO NOT USE THE LABEL FROM THE TAX BOOKLET COVER.

Enter the exact pass-through entity name 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.

Check the applicable box if the name or address has changed or if this is the first filing of the pass-through entity. Check the applicable box for type of entity.

Tax Year or Period Enter the beginning and ending dates of the tax year in the space provided if the tax year is other than a calendar year.

The same tax year or period used for the federal return must be used for Form 510E.

How to file Complete the Tax Payment Worksheet on page 1.

If line 3 is zero, file in one of the following ways:

1) **Telefile** - Request an automatic extension by calling 410-260-7829 from Central Maryland or 1-800-260-3664 from elsewhere to telefile this form. Please have the form available when making this call.

NOTE: Telefile service is available 24 hours a day, 7 days a week. Calling during non-peak hours will make it easier to file.

2) **Internet** - File the extension on the Comptroller's website at www.marylandtaxes.com

3) **First filing of entity** - Mail Form 510E.

If line 3 shows an amount due, mail payment and completed Form 510E to:

Comptroller of Maryland
Revenue Administration Division
Annapolis, MD 21411-0001

Payment Instructions Include a check or money order made payable to **Comptroller of Maryland** for the full amount of any balance due. All payments must indicate the FEIN, type of tax and tax year beginning and ending dates. DO NOT SEND CASH.



OR FISCAL YEAR BEGINNING

2005, ENDING

CHECK HERE IF THIS IS A CHANGE OF ADDRESS

CHECK HERE IF YOU NEED VOUCHERS FOR REMAINING PAYMENTS

Form fields for Federal Employer Identification Number, Name, Number and street, City or town, State, and Zip Code.

For Office Use Only table with columns ME, YE, EC, EC.

ENTITY TYPE:

Entity type selection options: S CORPORATION, PARTNERSHIP, LIMITED LIABILITY COMPANY, BUSINESS TRUST.

IMPORTANT: Please review the instructions before completing this form.

ESTIMATED TAX WORKSHEET

Table with 2 rows and 3 columns for tax calculations: 1. Estimated nonresident tax due, 2. Estimated tax due per quarter.

ESTIMATED TAX PAID FOR 2005 WITH THIS DECLARATION field with a dollar sign and arrow.

Purpose of Form Form 510D is used by a pass-through entity to declare and remit estimated nonresident tax.

General Requirements Pass-through entities are required to pay tax on behalf of individual nonresidents; the tax is 4.75% of the nonresident partners' or shareholders' distributive or pro rata share of income allocable to Maryland.

When the tax is expected to exceed \$1,000 for the tax year, the pass-through entity must make quarterly estimated payments. The total estimated tax payments for the tax year must be at least 90% of the tax developed for the current tax year or 110% of the tax developed for the prior tax year to avoid interest and penalty.

In the case of a short tax period the total estimated tax required is the same as for a regular tax year: 90% of the tax developed for the current (short) tax year or 110% of the tax developed for the prior tax year.

Maryland law provides for the accrual of interest and imposition of penalty for failure to pay any tax when due.

If it is necessary to amend the estimate, recalculate the amount of estimated tax required using the estimated tax worksheet above. Adjust the amount of the next installment to reflect any previous underpayment or overpayment.

The pass-through entity must issue a statement to each nonresident partner or shareholder showing the amount of tax paid on their behalf. Nonresidents must include the statement with their personal income tax returns (Form 505) to claim credit for taxes paid on their behalf.

When and Where to File File Form 510D on or before the 15th day of the 4th, 6th, 9th and 12th months following the beginning of the tax year or period for S corporations or by the 4th, 6th, 9th and 13th months following the beginning of the tax year for partnerships, LLC's and business trusts.

The estimated tax must be filed with the Comptroller of Maryland, Revenue Administration Division, Annapolis, Maryland 21411-0001.

MARYLAND
PASS-THROUGH ENTITY
DECLARATION OF ESTIMATED INCOME TAX



SPECIFIC INSTRUCTIONS

Tax Year or Period THE TAX YEAR IS SHOWN AT THE TOP OF FORM 510D. The form used for filing must reflect the preprinted tax year in which the pass-through entity's tax year **begins**.

If the tax year of the pass-through entity is other than a calendar year, enter the beginning and ending dates of the fiscal year in the space provided at the top of Form 510D.

Name, Address and Other Information

Type or print the required information in the designated area. Enter the exact pass-through entity name 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.

Check the applicable boxes if this is a change of address, to request payment vouchers for the remainder of the tax year and to indicate the type of entity.

Amount of Tax Enclosed Enter the amount of estimated nonresident tax due in the space provided and remit full payment with Form 510D.

Payment Instructions Include a check or money order made payable to the

Comptroller of Maryland for the full amount due. All payments must include the Federal Employer Identification Number, type of tax and tax year. **DO NOT SEND CASH.**

Mailing Instructions Mail the completed Form 510D and payment to:
Comptroller of Maryland
Revenue Administration Division
Annapolis, MD 21411-0001

MARYLAND BUSINESS REGISTRATION & TAXATION

COMPTROLLER OF MARYLAND REGISTRATION & TAXES

Registration and Licensing All new businesses (corporations, S corporations, partnerships, limited liability companies, business trusts, and sole proprietorships) can file a single application with the Central Registration Unit of the Revenue Administration Division of the Comptroller's Office to establish accounts for employer income tax withholding, sales and use tax, admissions and amusement tax, tire recycling fee, motor fuel tax, alcohol and tobacco tax and unemployment insurance. The Revenue Administration Division offers assistance for filing applications and establishing accounts.

The Central Registration Unit assigns a single state identification number for the taxes listed above. Register online at www.marylandtaxes.com

Corporation Income Tax The corporation income tax applies to every Maryland corporation and every other corporation which has a nexus with Maryland. Nexus is the term used to indicate a taxable connection between a corporation and a taxing authority. If a corporation conducts business activity within Maryland and exceeds the provisions of U.S.C.A. Title 15, Section 381 of the Interstate Commerce Act (P.L. 86-272) it has a nexus and must file an income tax return.

The tax is based on federal taxable income after state modifications. Corporations engaged in multistate operations must allocate income using an apportionment formula, generally consisting of receipts, property and payroll factors. The tax is imposed at a flat rate of 7% of Maryland taxable income.

Employer Withholding of Income Tax Employers making payments to individuals of salaries, wages or compensation for personal services must withhold income tax and remit the withholding to the Maryland Revenue Administration Division. The amount of tax to be withheld is prescribed in published tables which are based on the individual income tax rates. See the General Instructions for Form 510 for additional information on employer withholding requirements.

Sales and Use Tax This tax applies to businesses selling in Maryland or purchasing out of state for Maryland use.

The general Maryland sales and use tax rate is 5% (1¢ tax on each 20¢ or fraction of price). A special 8% rate is imposed on rental trucks, and a special rate of 11½% is charged on rentals of passenger cars and recreational vehicles. Most sales of food by substantial grocery or market businesses are not subject to tax. Specific prepared foods purchased in grocery stores are subject to tax. Other exemptions include all sales solely for resale, medicine, energy for residential use, manufacturing machinery and equipment, and certain agricultural equipment and supplies.

Motor Fuel Tax Generally, this tax applies to businesses selling or using motor fuel in Maryland.

The Maryland motor fuel tax rate is currently 23½¢ per gallon of gasoline and 24¼¢ per gallon of diesel fuel. There are other requirements for motor carriers, dealers, special fuel users, sellers, and service station operators.

Maryland implemented the International Fuel Tax Agreement (IFTA) for motor carriers on 1/1/96.

Alcohol and Tobacco Tax These taxes apply to businesses manufacturing, selling, distributing or storing alcoholic beverages or selling and/or distributing cigarettes in Maryland.

The Maryland excise tax rates on alcoholic beverages are \$1.50 per gallon of distilled spirits, 40¢ per gallon of wine, and 9¢ per gallon of beer. The tobacco tax rate is \$1.00 per pack of 20 cigarettes.

Admissions and Amusement Tax This tax is imposed on a variety of activities, such as admission to any place, including motion pictures, athletic events, races, shows or exhibits. Also subject to this tax are receipts from athletic equipment rentals, bingo, coin-operated amusement devices, boat rides and excursions, amusement rides, golf green fees, golf cart rentals, skating, bowling shoe rentals, lift tickets, riding academies, horse rentals, and merchandise, refreshments, or a service sold or served in connection with entertainment.

The admissions and amusement tax is a local tax collected by the Comptroller's Office on behalf of Maryland's counties, Baltimore City, other incorporated cities and towns. The tax is set by the localities at rates varying from one-half of 1% to 10% of the admissions and amusement receipts.

Tire Recycling Fee This fee applies to tire wholesalers or a tire retailer who buys tires from out-of-state sources. Registration and payment of the fee is handled by the Revenue Administration Division.

Utility Surcharges These surcharges are collected by electric companies that deliver electricity in Maryland and by telephone companies doing business in Maryland. The electricity surcharges are then paid to the Comptroller for deposit in the Environmental Trust and Universal Service Program Funds. The telecommunications surcharges are paid to the Comptroller for deposit in the 911 Emergency Telephone System and Communications Access of Maryland Funds.

The utility surcharges are collected by the Revenue Administration Division.

OTHER REGISTRATIONS & TAXES

New Corporations In addition to registering with the Central Registration Unit of the Comptroller's Office, all corporations doing business in Maryland must register with the Department of Assessments and Taxation. This is also the office to contact to form a new corporation.

Bay Restoration Fee Effective 1/1/05 this fee is collected by all non-exempt local governmental entities, billing authorities, drinking water and sewage water treatment plant owners, who provide water or sewage services to residential, multi-residential, and non-residential users. Effective 10/1/05, county governments will be responsible for collecting a \$30 septic fee from owners of private wells and septic systems. The fees are remitted by these entities quarterly to

the Comptroller for deposit to the Bay Restoration Fund.

Public Service Company Franchise Tax In addition to corporation income tax, public service companies are subject to the franchise tax on gross receipts. This tax is administered by the Department of Assessments and Taxation.

Insurance Company Premium Tax Insurance companies are exempt from the corporation income tax but are subject to the premium tax that is administered by the Maryland Insurance Administration.

Unemployment Insurance Employers are subject to the Department of Labor, Licensing and Regulation unemployment insurance requirements and must file a combined registration application to establish an account.

Workers' Compensation Employers in Maryland must provide workers' compensation insurance for all employees. Employers may obtain coverage from a private insurance company, by becoming self-insured or by contacting the State Injured Workers' Insurance Fund. Employers believing they are not required to obtain this insurance may contact the Workers' Compensation Commission for certification of compliance.

Business Licenses Licenses are required for certain businesses to operate in Maryland. To determine if a license is necessary, contact the clerk of the circuit court in the Maryland county (or Baltimore City) where the business operates. A circuit court is located in each of those jurisdictions.

OTHER REQUIREMENTS

Bulk Sales When an existing business is bought, the purchaser must pay a 5% bulk sales and use tax on the price of tangible personal property, such as furniture and fixtures, that is part of the business. This tax is collected by the Compliance Division of the Comptroller's Office.

Dissolution of Corporation Articles of Dissolution must be filed with the Department of Assessments and Taxation for the dissolution of a corporation. As of 10/1/99, a tax clearance certificate is no longer required for the dissolution of a corporation.

Unclaimed Property Unclaimed funds such as wages, insurance benefits, bank accounts or security deposits must be reported if they remain unclaimed for three years. This property must be reported to the Compliance Division.

NOTE: The information provided above is a brief summary of the various Maryland business requirements and is based on the law in effect as of 7/1/04. For additional information, see the reverse side for the addresses and phone numbers of the Maryland agencies most frequently contacted by businesses.

MARYLAND STATE AGENCIES

(MOST FREQUENTLY CONTACTED BY BUSINESSES)

COMPTROLLER OF MARYLAND
www.marylandtaxes.com

Online business registration
www.marylandtaxes.com
New businesses can register online and set up tax accounts any time 24 hours a day.
For other new business information, visit the Business License Information System at www.blis.state.md.us.

Alcohol & Tobacco Tax Division 410-260-7314
Goldstein Treasury Building — Room 310 or 888-784-0145
Annapolis, MD 21404-2999

Compliance Division
301 W. Preston Street
Baltimore, MD 21201-2383

Bulk sales 410-767-1579
or 800-648-9638

Business tax collections 410-767-1655
or 888-614-6337

Sales & use, admissions & amusement tax and tire fee refunds 410-767-1538

State License Bureau 866-239-9359
or 410-260-6240

Unclaimed property 410-767-1700
or 800-782-7383

Utility surcharges

911 Telephone System Surcharge 410-585-3015

Environmental Surcharge on Electricity . . . 410-767-8025

Telecommunications Access Surcharge . . . 410-767-6962

Electric Universal Service Surcharge 410-767-7415

General Accounting Division
Goldstein Treasury Building — Room 200
Annapolis, MD 21404-0746

Tax clearances 410-260-7813
or 888-784-0144

Motor Fuel Tax Division
Goldstein Treasury Building — Room 315
Annapolis, MD 21404-1751

Motor Fuel Licensing & Registration 410-260-7127
Room 317 or 888-784-0142

Motor Carrier & IFTA Licensing 410-260-7138
Room 317 or 888-784-0141

Revenue Administration Division
Revenue Administration Center
Annapolis, MD 21411-0001

Facsimile transmittal 410-974-2967

Forms (all income tax and employer withholding) 410-260-7951

Substitute/computer-generated 410-260-7442

Income tax information 410-260-7980
(corporation, individual, fiduciary, or 800-638-2937
pass-through entity)

Income tax refund inquiries 410-260-7701
or 800-218-8160

Tax-exempt organization registration 410-260-7980
or 800-638-2937

Baltimore area office 410-767-1300
301 W. Preston Street — Room 206 or 800-492-1751
Baltimore, MD 21201-2383

Admissions and amusement tax

Central registration

Employer withholding tax

Sales and use tax

Tire recycling fee

OTHER AGENCIES

Department of Agriculture 410-841-5700
50 Harry S. Truman Parkway or 800-492-5590
Annapolis, MD 21401

Conservation tillage equipment certification 410-841-5863
www.mda.state.md.us

Department of Assessments & Taxation
301 W. Preston Street — Room 806
Baltimore, MD 21201-2395

Charter/incorporation information 410-767-1350

Public service company franchise tax 410-767-1940

New corporation information 410-767-1350

Resident agent information 410-767-1330

Personal property tax assessments 410-767-1170
or 888-246-5941

Property tax credits 410-767-4433
www.dat.state.md.us or 800-944-7403

Office of Business and Economic Research 410-767-6300
217 E. Redwood Street — 23rd Floor or 800-CHOOSEMD
Baltimore, MD 21202

Office of Regional Response 410-767-0523

Enterprise Zones — Economically disadvantaged employee certification 410-767-6438
www.dbed.state.md.us

Department of Labor, Licensing & Regulation 410-767-2000
1100 N. Eutaw Street — Room 414
Baltimore, MD 21201

Unemployment insurance 410-767-3246
or 800-492-5524

Job services 410-767-2148
www.dllr.state.md.us

Department of the Environment 410-537-3000
1800 Washington Blvd. or 800-633-6101
Baltimore, MD 21230

Air management and radiation (oil furnace conversion) 410-537-3265

Asbestos 410-537-3801
www.mde.state.md.us

Injured Workers' Insurance Fund 410-494-2000
8722 Loch Raven Boulevard or 800-264-4943
Towson, MD 21286-2235
www.iwif.state.md.us

Maryland Insurance Administration
525 St. Paul Place
Baltimore, MD 21202

Insurance company premium tax 410-468-2000
www.mdinsurance.state.md.us or 800-492-6116

Department of Natural Resources
Tawes State Office Building — 580 Taylor Avenue
Annapolis, MD 21401-2397

Reforestation & timber stand improvement information 410-260-8507
www.dnr.state.md.us

Workers' Compensation Commission 410-864-5100
6 N. Liberty Street — Room 940 or 800-492-0479
Baltimore, MD 21201-3785
www.wcc.state.md.us