

# TAX CREDITS FOR INCOME TAXES PAID TO OTHER STATES

## ATTACH TO YOUR TAX RETURN

**IF YOU WERE A PART-YEAR RESIDENT, DO NOT USE THIS FORM TO CLAIM A  
CREDIT FOR NONRESIDENT INCOME YOU SUBTRACTED ON LINE 13 OF FORM 502.**

**READ INSTRUCTIONS BEFORE COMPLETING THIS FORM.**

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

1. Taxable net income (line 22, Form 502) .....		
2. Taxable net income in other state .....		
3. Revised taxable net income (subtract line 2 from line 1) (if less than zero, write zero) .....		
4. Maryland tax (line 27, Form 502) .....		
5. Tax on amount on line 3 (from Maryland Tax Table or Computation Worksheet) .....		
6. Tentative tax credit (subtract line 5 from line 4) .....		
7. State tax shown on the tax return filed with the state of _____. (Do not enter state tax withheld from your W-2 forms.) (Attach copy of return) .....		
8. Credit for income tax paid to other state (Write the smaller of line 6 or 7 here and on line 46, Form 502) .....		

**GENERAL INSTRUCTIONS**

If you are a Maryland resident and you paid income tax to another state, you may be eligible for a credit on your Maryland return.

Find the state to which you paid a nonresident tax in the groups listed on the back. The instructions for that group will tell you if you are eligible for credit and if you should complete Form 502CR.

**If you are eligible for a credit** you must file your Maryland income tax return on Form 502 and you should first complete lines 1 through 27 of that form before preparing Form 502CR.

Form 502CR must be completed and attached to Form 502. A completed, signed copy of the income tax return filed in the other state must also be attached to Form 502.

**CAUTION:** Do not use the income or withholding tax reported on the wage and tax statement issued by your employer for the credit computation. Use the taxable income and the income tax calculated on the return you filed with the other state.

If you are claiming credit for taxes paid to more than one state, a separate Form 502CR must be completed for each state. Credit cannot be allowed against the local portion of the tax calculated on the return of the other state or on the Maryland return (line 38 of Form 502).

**SPECIFIC INSTRUCTIONS**

**Line 1** — Enter your taxable net income as determined on line 22, Form 502. This amount includes all income received by you.

**Line 2** — Write on this line only the net income which is taxable in both the other state and Maryland. If you are taxed in the other state on income which is not taxable in Maryland, do not include that amount on line 2.

**NOTE:** When the tax in the other state is a percentage of a tax based on your total income regardless of source, you must apply the same percentage to your taxable income in the other state to determine the income taxable in both states.

**Line 4** — Enter the Maryland tax as determined on line 27, Form 502. This is the Maryland tax based on your total income for the year.

**Line 5** — Compute the Maryland tax that would be due on the revised taxable net income (line 3) by using the Maryland Tax Table or Computation Worksheet contained in the instructions for Form 502. **Do not include the local income tax.**

**Line 7** — Enter the total amount of your 1998 income tax liability to a state other than Maryland. In the space provided, enter the name of the state. **It is important that a copy of the tax return that was filed with the other state be attached to your Maryland return.**

**Line 8** — Your credit for taxes paid to another state is the smaller of the tax actually paid (line 7) or the reduction in Maryland tax resulting from the exclusion of income in the other state (line 6).

# TAX CREDITS FOR INCOME TAXES PAID TO OTHER STATES

**GROUP A** — Nonreciprocal — Credit is taken on the Maryland resident return.

Alabama	New Jersey
Arizona	New Mexico
Arkansas	New York
California	North Carolina
Colorado	North Dakota
Connecticut	Ohio
Delaware	Oklahoma
Georgia	Oregon
Hawaii	Pennsylvania
Idaho	(except wage income)
Illinois	Rhode Island
Indiana	South Carolina
Iowa	Tennessee
Kansas	Utah
Kentucky	Vermont
Louisiana	Virginia
Maine	(except wage income)
Massachusetts	Washington, D.C.
Michigan	(except wage income)
Minnesota	West Virginia
Mississippi	(except wage income)
Missouri	Wisconsin
Montana	Territories and
Nebraska	Possessions of the
New Hampshire	United States

**Group A** — A Maryland resident having income from one of these states must report the income on the Maryland resident return Form 502. To claim a credit for taxes paid to the other state, complete Form 502CR and attach it and a copy of the other state's **nonresident** income tax return (not just your W-2 Form) to your Maryland return.

**GROUP B** — Reciprocal for wages, salaries, tips and commission income only.

Pennsylvania	Washington, D.C.
Virginia	West Virginia

**Group B** — Maryland has a reciprocal agreement with the states included in Group B. The agreement applies only to wages, salaries, tips and commissions. It does not apply to business income, farm income, rental income, etc. If you had earned income other than wages, salaries, tips and commissions in these states, complete Form 502CR and attach it and a copy of the other state's **nonresident** income tax return to your Maryland return.

If you had wages, plus income other than wages, you should contact the taxing authorities in the other state to determine the proper method for filing the nonresident return.

**GROUP C** — No State income tax — No credit allowed.

Alaska	Texas
Florida	Washington
Nevada	Wyoming
South Dakota	

**Group C** — You must report income from these states on your Maryland resident return. You cannot claim any credit for income earned in these states because you did not pay any income tax to the other state.

## IMPORTANT NOTE FOR DUAL RESIDENTS

A person may be a resident of more than one state at the same time for income tax purposes. If you must file a resident return with both Maryland and another state, use the following rules to determine where the credit should be taken:

1. A person who is domiciled in Maryland and who is subject to tax as a resident of any of the states listed in Group A or B can claim a credit on the Maryland return (Form 502) using Form 502CR.
2. A person domiciled in any state listed in Group A or B who must file a resident return with Maryland must take the credit in the state of domicile.

## SPECIAL INSTRUCTIONS

**Composite Returns** — When a partnership, S Corporation or limited liability company (LLC) files a composite return on behalf of its partners or shareholders with states in Groups A and B, Maryland resident partners or shareholders may claim a credit for their share of the tax paid. No credit is available for taxes paid to states in Group C, or for taxes paid to cities or local jurisdictions. If the Maryland resident must file an individual nonresident return reporting the partnership, S Corporation or LLC income, a separate Form 502CR must be completed for each state and submitted with a copy of the return filed with the other state.

**Shareholders of S Corporations** — Maryland resident shareholders can claim a credit for taxes paid by an S Corporation to a state which does not recognize federal S Corporation treatment. A copy of the corporation return filed in the other state is required to be attached to the Maryland return. A separate Form 502CR should be completed for each state showing the following information:

$$\frac{\text{Stock Ownership Percentage}}{\text{Stock Ownership Percentage}} \% \times \frac{\text{Corporation Taxable Income}}{\text{Corporation Taxable Income}} = \frac{\text{Line 2, Form 502CR}}{\text{Line 2, Form 502CR}}$$

$$\frac{\text{Stock Ownership Percentage}}{\text{Stock Ownership Percentage}} \% \times \frac{\text{Corporation Tax}}{\text{Corporation Tax}} = \frac{\text{Line 7, Form 502CR}}{\text{Line 7, Form 502CR}}$$

NOTE: A preliminary calculation using Form 502 must be made before calculating the credit on Form 502CR. Complete lines 1 through 27 on Form 502 to determine the amounts to be used for the 502CR computation.

The credit amount shown on line 8 of Form 502CR must then be included as an addition to income on line 5 of the Form 502 you will file.

**D.C. Unincorporated Business Franchise Tax** — Self-employed individuals and partners in a partnership that are subject to the D.C. unincorporated business franchise tax may claim a credit on Form 502CR. A copy of the D.C. return is required for self-employed individuals and for partners a K-1 or other statement from the partnership showing the partner's share of income and the partner's share of the D.C. tax.

**Sale of Residence in Another State** — If you sell or exchange a residence **located in another state in the current taxable year** you may be entitled to a credit if:

1. You included the gain in your federal adjusted gross income;
2. You deferred recognition of gain for federal purposes on a previous principal residence in a prior taxable year; and
3. Paid tax on the gain to the state where the previous principal residence was located.

If you satisfy all of these conditions do not complete Form 502CR. Contact any office of the Revenue Administration Division to receive additional information for claiming this credit.

**Installment Sales in Another State** — You may be eligible for credit for taxes paid to another state for gain recognized on installment sales proceeds, even if the other state required the total gain be recognized in an earlier tax year. Contact any office of the Revenue Administration Division to receive additional information for claiming this credit.