

2009

Maryland Tax for Corporations

**Instructions for filing corporation income tax returns for
calendar year or any other tax year or period beginning in 2009.**

This booklet includes instructions for:

Form 500 - Maryland Corporation Income Tax Return

Important reminders:

- Read the instructions in this booklet.
- Enter the federal employer identification number and tax year beginning and ending dates on all forms.
- Be sure to enter the business code number on Form 500.
- Indicate the corporate name, federal employer identification number, type of tax and the tax year on all correspondence and payments.
- Sign and date the return.

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Peter Franchot

Maryland Corporation Taxpayers

This booklet contains the necessary instructions for a corporation to file a Maryland corporation income tax return for tax year 2009. Please read the instructions carefully.

Please use blue or black ink when completing your forms and checks.

To avoid delays in the processing of your return: do not use pencil or ink of any other color; do not print returns on colored paper; do not write on, staple or punch holes in the barcode.

S corporation instructions are not included in this booklet. S corporations, partnerships, limited liability companies and business trusts must use the pass-through entity tax return, Form 510.

Manufacturing corporations are subject to a special single factor formula of receipts. The rules for calculating this single factor can be found in Maryland Tax Regulation 03.04.03.10.

Direct Deposit of refunds is available for all corporations.

Form 500CR

Form 500CR is used by individuals and businesses to claim allowable business tax credits, as listed below. See page 4 of the instructions for more information about these tax credits.

Bio-Heating Oil Tax Credit

Biotechnology Investment Incentive Tax Credit

Businesses That Create New Jobs Tax Credit

Cellulosic Ethanol Technology Research & Development Tax Credit

Clean Energy Incentive Tax Credit

Community Investment Tax Credit

Commuter Tax Credit

Employer-Provided Long-Term Care Insurance Tax Credit

Employment Opportunity Tax Credit

Enterprise Zone Tax Credit

Green Building 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 Credits

Telecommunications Property Tax Credit

Work-Based Learning Program Tax Credit

Formas en Español

Visite nuestro sitio Web en www.marylandtaxes.com para obtener formas e instrucciones en Español.

New for tax years beginning in 2009

❖ Work-Based Learning Program Tax Credit

A non-refundable tax credit will be available for an employer who pays wages in a work-based learning program.

❖ Decoupling Modifications:

Maryland has decoupled from the provisions of the federal American Recovery and Reinvestment Act of 2009 that allow deferral of recognition of income from discharge of indebtedness, and deferral of deduction for original issue discount in debt-for-debt exchanges. Such deferred amounts must be included on the Maryland Form 500DM filed with the Form 500 return as decoupling modifications. See form 500DM for specific instructions.

❖ Biotechnology Investment Incentive Tax Credit:

Any pass-through entity (PTE) can now be a qualified investor; there is no longer any requirement that the PTE must be a qualified Maryland venture capital firm. Also, the credit must now be claimed for the taxable year in which the qualified investor makes the approved investment in the qualified Maryland biotechnology company.

❖ Corporate Group Reporting:

Certain Corporations that are members of a corporate group are required to file information reports for tax years beginning after December 31, 2005. These reports *must* be completed and submitted at www.marylandtaxes.com/reporting. The reports must be filed in addition to the actual return for each tax year, but they have no impact on Maryland corporate income tax liability. Returns for tax years 2008 through 2010 are also due by the extension due date. These reporting requirements expire after tax year 2010. Additional information regarding the corporate reporting requirements can be found on the Comptroller's Web site or by calling our dedicated hotline (410-767-3015 or toll free 1-866-588-2086). **Note: A penalty may be assessed for failure to file a required report or provide information that is accurate and timely**

❖ Amended Corporate Group Reporting:

A corporation that is part of a corporate group required to file a report under Tax-General Article 10-804.1 of the Annotated Code of Maryland, must file an amended report if this corporation or any corporation in the corporate group files an amended Maryland or federal income tax return. See:

<http://business.marylandtaxes.com/taxinfo/reporting/corporate.asp>

Filing electronically: You may file your Maryland Corporation or Pass-Through Entity returns electronically using the Modernized e-File method of Federal/State 1120/1065 filing. For further information, contact our e-File Help Desk at 410-260-7753 or visit www.marylandtaxes.com

Forms and help

For online business registration, tax forms, instructions, publications, and Maryland Tax Regulations, visit 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-MDTAXES (638-2937) from elsewhere

MARYLAND 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 — Maryland 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 that 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 their Maryland activity exceeds 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 that 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 are subject to corporation income tax and have special apportionment rules. See Maryland Tax Regulation 03.04.08.

When and Where to File File Form 500 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 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 corporation income tax and are exempt from filing an income tax return on Form 500, except as specified:

- **Pass-through entities** defined as partnerships in IRC Section 761, S corporations in IRC 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.

LLCs and Business Trusts are treated as partnerships for Maryland income tax purposes, unless they are treated as corporations for federal income tax purposes.

Pass-through entities must file an income tax return on Form 510. Additionally, each member must file an income tax return.

An S corporation that is subject to federal income tax at the corporate level, is also subject to Maryland corporation income tax and Form 500 must be filed.

Maryland will follow the IRS rules for a single member LLC that is 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.

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 IRC Section 501, except those with taxable income for federal purposes, such as unrelated business taxable income or exempt function income under IRC Section 527.

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 corporations 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 (IRS) 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), 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. Real Estate Investment Trust should see Special Requirements For Certain Organizations.

- **Individual retirement account (IRA) trusts** that are exempt from taxation under IRC Section 408 (e)(1), except those with taxable income for federal purposes. IRA trusts with such taxable income must file Form 504 reporting the taxable income.

- **Insurance companies** within the meaning of the Insurance Article, Annotated Code of Maryland, Managed Care Organizations and Health Maintenance Organizations 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 or loss on a sepa-

rate 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.

- **A Real Estate Investment Trust (REIT)** is subject to the Maryland income tax when the REIT has taxable income at the federal level, as computed on Federal Form 1120-REIT, that is taxed on the REIT's federal return. In addition, a Captive REIT may have a Maryland income tax liability even if that entity does not have a federal income tax liability on its federal return.

A Captive REIT is a corporation, trust, or association: that is considered a REIT for the taxable year under IRC Section 856; that is not regularly traded on an established securities market; and more than 50% of the voting power or value of the beneficial interests or shares of which, at any time during the last half of the taxable year, are owned or controlled (directly or indirectly) by a single entity that is a C corporation. Refer to Maryland Tax-General Article Section 10-306.1(a)(2) for certain exceptions. A Captive REIT is required to report a Maryland addition modification for the amount of its federal dividends paid deduction.

- **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.

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.

GENERAL INFORMATION FOR FORM 500

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, 52-53 week tax years, 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 tax year, Maryland follows federal treatment as to effective dates or the applicability of any provision expressed in terms of tax 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 the actual federal income tax return through Schedule M2 as filed with the IRS 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 the actual consolidated federal return through Schedule M2 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 carryforward. For more information see Administrative Release 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 certain provisions of the Job Creation and Worker Assistance Act of 2002 and the American Recovery and Reinvestment Act of 2009. The State of Maryland decoupled from the 5-year carryback provisions. If an election to forgo a carryback is made, a copy of the federal election must have been included with the Maryland return for the loss year. For more information refer to Administrative Release 38.

For the tax 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 tax 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 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 IRS.

Maryland modified income is federal taxable income after statutory addition and subtraction modifications. For a listing of the statutory addition and subtraction modifications, see 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 Instructions for Schedule A – Computation of Apportionment Factor.

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

Maryland Business Income Tax Credits For information about credits against the tax see Specific Instructions for lines 10c and 10d or the instructions provided for Form 500CR-Maryland Business Income 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 corporation tax rate is 7% of Maryland taxable income for tax years and periods beginning in 1967 through 2007. For tax years beginning after 12/31/07, the tax rate is 8.25%. The annual rate of interest charged for taxes owed to the State is 13%.

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 - Maryland Application for Extension 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 seven months beyond the original due date.

The request for extension of time to file will be granted for seven months, 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; and
- 2) full payment of any balance due is submitted with the 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.

Estimated Income Tax Every corporation that reasonably expects its Maryland taxable income to develop a tax in excess of \$1,000 for the tax year or period must make estimated income tax payments with Form 500DP - Maryland Declaration of Estimated Corporation Income Tax. If the corporation does not have the estimated tax packet containing 500DP forms, 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 tax year or 110% of the tax that was 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 tax year: 90% of the tax developed for the current (short) tax year or 110% of the tax that was 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 Forms 500DP or 500D.

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 - Maryland Amended Corporation Income Tax Return. Attach copies of the documents required and filed with the IRS. 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 amend-

ments 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.

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

Amended Corporate Group Reporting A corporation that is part of a corporate group required to file a report under Tax-General Article 10-804.1 of the Annotated Code of Maryland, must file an amended report if this corporation or any corporation in the corporate group files an amended Maryland or federal income tax return. See: <http://business.marylandtaxes.com/taxinfo/reporting/corporate.asp>

Federal Adjustments If the items of federal taxable income reported for any tax 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 IRS 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 corporation name, federal employer identification number (FEIN), type of tax and tax year(s) to which the document relates.

All corporations are required to secure a FEIN from the 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 ensures that documents and 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 26, Procedures for Computer-Printed Substitute Forms, at www.marylandtaxes.com (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 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 Returns and submitted with the state copy of the wage and tax statements issued to the employees as required by law.

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 corporation name, address and identification number and specifying the information needed. The request must be signed by an authorized corporation officer.

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 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, **assemble your return in the following order:** Maryland Corporation Form 500, any required Maryland forms and their related attachments, any K-1 forms showing credits claimed on corporation return, and the federal income tax return through Schedule M2.

NAME, ADDRESS AND OTHER INFORMATION

Type or print the correct name and address in the designated area. Enter the corporation 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 code number. The date of incorporation must be

expressed numerically, using two digits each for the month, the day and the year. The Business 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 an inactive corporation (in Maryland and elsewhere - Do not check the box for inactive if the corporation is inactive in Maryland but active elsewhere.); (3) this is the first filing of the corporation; (4) this is the final return of a corporation that has dissolved, liquidated or withdrawn from Maryland; or (5) this tax year's beginning and ending dates are different from last year's due to an acquisition or consolidation.

TAX 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 tax 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 (based on the federal return) as calculated on the worksheet below.

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, calculated using federal law as if the corporation had filed separately for federal purposes. Attach a copy of the actual consolidated federal income tax return through Schedule M2 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 tax year, and if, in the tax 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 tax year and all prior tax years

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

- total net operating loss for the loss year.

These 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 tax year consists of net operating losses from more than one tax year, calculate the modification separately for each loss and enter the total.

Attach a schedule of the calculation if, in the tax 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 18.

LINE 2d - SECTION 10-306.1 RELATED PARTY TRANSACTIONS

Enter the amount of any disallowed deductions for related party transactions in accordance with Section 10-306.1 of the Tax-General Article.

LINE 2e - DOMESTIC PRODUCTION ACTIVITIES DEDUCTION

Enter the amount of any deduction allowable under IRC Section 199 for income from domestic production activities claimed on the corporation's federal income tax return.

LINE 2f - CAPTIVE REIT

The amount of the total deduction for dividends paid that is claimed by a Captive REIT on Federal Form 1120-REIT.



LINE 2g - OTHER ADDITIONS

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

- A. The oil percentage depletion allowance as deducted on the federal return, under IRC Sections 613 or 613A. Other depletion allowances that are provided for in Sections 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, 10, 11 and 19 from Form 500CR, Part T, Business Tax Credit Summary.

TAXABLE INCOME WORKSHEET

1. Enter the federal taxable income before any net operating loss (NOL) deduction and/or Special Deductions from the federal return. \$ _____
2. Enter the amount of any Special Deductions \$ _____
3. Subtract line 2 from line 1 and enter here. If zero or less than zero, **STOP**. Enter this amount on line 1 of Form 500. If greater than zero, continue to line 4. \$ _____
4. Enter the amount of any NOL deduction and Foreign Dividend Subtraction Carryforward. (See Administrative Release 18.) \$ _____
5. Subtract line 4 from line 3 and enter here. If less than zero, enter zero. Enter this amount on line 1 of Form 500. \$ _____

- C. The amount allowed in a prior tax 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 claiming the federal depreciation allowances from which the State of Maryland has decoupled. Complete and attach Form 500DM. See Administrative Release 38.
- F. Net addition modification to Maryland taxable income when the federal special 5-year carryback period was used for a net operating loss under federal law compared to Maryland taxable income without regard to the federal provisions. Complete and attach Form 500DM. See Administrative Release 38.
- G. Amount as required to nullify the impact of federal tax changes as determined by the Comptroller.
- CD.  Net addition modification to Maryland taxable income resulting from the federal deferral of income arising from business indebtedness discharged by reacquisition of a debt instrument. See Form 500DM.
- DM. Net addition modification from multiple decoupling provisions. See the table at the bottom of Form 500DM for the line numbers and code letters to use.
- DP.  Net addition decoupling modification from a Pass-through entity. See Form 500DM.

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

LINE 3 - TOTAL

Add the amounts on lines 1 and 2h 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 IRC 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.

Any amount that exceeds the Maryland modified income calculated without regard to this subtraction may be carried forward and used as an NOL to reduce federal taxable income. See Administrative Release 18.

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 - SECTION 10-306.1 RELATED PARTY TRANSACTIONS

Enter the amount of income reported on this return to the extent included in the addition for disallowed related


party transactions on the Maryland tax return of the related party (line 2d), or if a similar addition modification is made on the related party's return filed in another state.

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 IRC 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 planter, no-till drill, 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 claiming the federal depreciation allowances from which the State of Maryland has decoupled. Complete and attach Form 500DM. See Administrative Release 38.
- K. Net subtraction modification to Maryland taxable income when the federal special 5-year carryback period was used for a net operating loss under federal law compared to Maryland taxable income without regard to federal provisions. Complete and attach Form 500DM. See Administrative Release 38.
- L. The amount of wages for which a deduction is not allowed under IRC Section 280C(a), not exceeding the credit allowed for targeted jobs (Work Opportunity Tax Credit) under IRC Section 51.
- M. Amount as required to nullify the impact of federal tax changes as determined by the Comptroller.
- N. The difference between the adjusted basis of certain 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.
- CD.  Net subtraction modification to Maryland taxable income resulting from the federal ratable inclusion of deferred income arising from business indebtedness discharged by reacquisition of a debt instrument. See Form 500DM.
- DM. Net subtraction modification from multiple decoupling provisions. See the table at the bottom of

Form 500DM for the line numbers and code letters to use.

- DP.  Net subtraction decoupling modification from a pass-through entity. See Form 500DM.

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. For unistate corporations, all income is allocable to Maryland.

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 8.25%. Enter the result.

LINE 10 - PAYMENTS AND CREDITS

10a. Enter the total of amounts paid during the tax year with Forms 500DP or 500D - Maryland Corporation Declaration of Estimated Income Tax. Include any overpayment carried forward from the prior year Form 500. Also include amounts paid by the corporation using Form MW506NRS - Return of Income Tax Withheld For Nonresident Sale of Real Property.

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

10c. Enter the total of the **nonrefundable** business tax credits from Form 500CR, Part T, Line 24. Complete and submit Form 500CR with Form 500.

Following is a list of these eligible business tax credits:

- **ENTERPRISE ZONE TAX CREDIT.** Businesses located in an enterprise zone may be eligible for tax credits based upon wages paid to qualifying employees.
- **EMPLOYMENT OPPORTUNITY TAX CREDIT.** Businesses that employ persons receiving Aid to Families With Dependent Children or Family Investment Program entitlements may be eligible for tax credits based upon wages paid to qualified employees and the child care expenses and transportation expenses paid on behalf of the qualified employees.
- **MARYLAND DISABILITY EMPLOYMENT TAX CREDIT.** Businesses that employ persons with disabilities may be eligible for tax credits based upon wages paid to the qualified employees and the child care expenses and transportation expenses paid on behalf of the qualified employees.
- **TELECOMMUNICATIONS PROPERTY TAX CREDIT.** A credit is allowed for a public utility that is a telecommunications company for 60% of corporation property taxes paid on certain Maryland property.

• **MARYLAND RESEARCH AND DEVELOPMENT TAX CREDIT.** Businesses may claim a credit for certain qualified research and development expenses.

• **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 any of the above items, an addition to income must be included on line 2g.

• **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.

• **COMMUNITY INVESTMENT TAX CREDIT.** Businesses that contribute \$500 or more to approved neighborhood and community assistance programs may be eligible for a tax credit of 50% of approved contributions with a maximum credit of \$250,000.

• **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.

• **WORK-BASED LEARNING PROGRAM TAX CREDIT.** Businesses located in Maryland that provide approved work-based learning programs for secondary or postsecondary student employees may be eligible for tax credits based on the number of qualified participating student employees or wages paid for these employees.

• **EMPLOYER PROVIDED LONG-TERM CARE INSURANCE TAX 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.

• **MARYLAND-MINED COAL TAX CREDIT.** A credit is allowed for a qualified electricity supplier, small power producer or cogenerator, as defined under the Public Utility Regulatory Policies Act of 1978, for the purchase of Maryland-mined coal.

• **ONE MARYLAND ECONOMIC DEVELOPMENT TAX CREDIT.** Businesses may claim credits for project and startup costs to establish, relocate or expand a business in a distressed county in Maryland. A portion of this credit may be refundable.

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

• **MARYLAND CLEAN ENERGY INCENTIVE TAX CREDIT.** Businesses may claim a credit for the cost to produce electricity using certain alternative energy sources.

• **GREEN BUILDING TAX CREDIT.** A business that constructs or rehabilitates a building that conforms to specific standards intended to save energy and to mitigate environmental impact may take a credit for a portion of the cost.

• **CELLULOSIC ETHANOL TECHNOLOGY RESEARCH AND DEVELOPMENT TAX CREDIT.** Businesses and individuals may claim a credit of up to 10% of the qualified research and development expenses incurred in Maryland for technology that is used to develop cellulosic biomass for conversion to ethanol fuel.

• **BIO-HEATING OIL TAX CREDIT.** Businesses and individuals may claim a credit of 3 cents for each gallon of heating oil with a blend of at least 5% biodiesel purchased for space or water heating with a maximum credit of \$500.

10d. Enter the total of **refundable** business tax credits from Form 500CR, Part V, line 3. Complete and submit Form 500CR with Form 500.

• **BIOTECHNOLOGY INVESTMENT INCENTIVE TAX CREDIT.** A credit may be claimed for up to 50% of the amount contributed during the tax year to a quali-

fied Maryland biotechnology company, subject to certain maximum amounts.

• **ONE MARYLAND ECONOMIC DEVELOPMENT TAX CREDIT.** Businesses may claim credits for project and startup costs to establish, relocate or expand a business in a distressed county in Maryland. A portion of this credit may be refundable.

For additional information regarding any of the Business income tax credits, see the instructions provided on Form 500CR, Maryland Business Income Tax Credits.

10e. 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.

10f. If the corporation was a member of a pass-through entity (PTE) doing business in Maryland and the PTE paid nonresident tax on the corporation's behalf, enter the amount on the Line 10f. Attach a Schedule K-1 or other statement from the PTE showing the amount of tax paid on behalf of the corporation. If the corporation participated in a nonresident real estate transaction as a member of a PTE that paid taxes on the corporation's behalf using Form MW506NRS, report this payment here.

10g. Add the amounts on lines 10a through 10f and enter the total.

LINE 11 - BALANCE OF TAX DUE

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

LINE 12 - OVERPAYMENT

If the amount on line 10g is greater than the amount on line 9, subtract line 9 from line 10g 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 Maryland Income Tax by Corporations and Pass-Through Entities 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 2010

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

 In order to comply with new banking rules, we ask you to indicate on your return if the

state refund is going to an account outside the United States. If you indicate that this is the case, do not enter your routing and account number, as the direct deposit option is not available to you. We will send you a paper check. 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 in the United States.

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). Omit spaces and special symbols. Enter the number from left to right.

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



Check with the financial institution to make sure the direct deposit will be accepted and to get the correct routing and account numbers. The State of Maryland is not responsible for a lost refund if you enter the wrong account information.

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 which performs banking services for the Comptroller's Office.

ADDITIONAL INFORMATION AND STATEMENTS REQUIRED

Enter all information requested in these areas on Page 2 of Form 500.

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 preparer is used, the preparer must also sign the return and enter the firm name, address and their Social Security number or Preparer's Tax Identification Number (PTIN). Penalties may be imposed for tax preparers who fail to sign the tax return and provide their Social Security number or 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 \$10,000 or more must pay by electronic funds transfer. Others may elect this method. Taxpayers must register prior to making electronic payments. To obtain a registration form visit www.marylandtaxes.com or call 410-260-7601. If payment is made by electronic funds transfer, do not mail, retain for company's records.

MAILING INSTRUCTIONS

Mail the completed return and all attachments to:

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

INSTRUCTIONS FOR SCHEDULE A – COMPUTATION OF APPORTIONMENT FACTOR – 2009

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. To review these rules, see Maryland Regulation 03.04.03.08. Specific requirements regarding each factor are set forth below:

RECEIPTS FACTOR The receipts factor includes the amounts 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 corporation 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 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 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.

Corporations 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.

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

Airline operations should see Administrative Release 22 for instructions.

Manufacturing corporations 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.

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 payroll of a partnership or joint venture is included in the corporation's factors as if they were the direct receipts, property and payroll 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 election to treat certain stock purchases under IRC Section 338(h)(10) is also recognized by the State of Maryland.

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 multi-state 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 8.25% 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.

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 6%. 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 and other tobacco products 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 \$2.00 per pack of 20 cigarettes, the rate is 15% of the wholesale price for other tobacco products.

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. When the gross receipts are also subject to the sales and use tax, the combined tax rate may not exceed 11%.

A separate State admissions and amusement tax of 30% is imposed on the net proceeds from electronic bingo or electronic tip jars. When the net proceeds are also subject to a local tax, the combined tax rate may not exceed 35%.

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 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. County governments are responsible for collecting a 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 6% 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 on this page is a brief summary of the various Maryland business requirements and is based on the law in effect as of 7/1/09. 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.*

Compliance Division

301 W. Preston Street
Baltimore, MD 21201-2383

- Bulk sales* **410-767-1579**
or **800-492-1751**
- Business tax collections* **410-767-1655**
or **888-614-6337**
- Sales & use, admissions & amusement
tax and tire fee refunds* **410-767-1538**
or **800-492-1751**
- Unclaimed property* **410-767-1700**
or **800-782-7383**

General Accounting Division

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

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

Field Enforcement Division

Goldstein Treasury Building — Room 310
Annapolis, MD 21404-2397

- Enforcement & Inspections* **410-260-7388**
or **888-674-0017**
- State License Bureau* **410-260-6240**
or **866-239-9359**
- Motor Fuel Testing Laboratory* **410-799-7777**

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,
pass-through entity) or **800-638-2937**
- Income tax refund inquiries* **410-260-7701**
or **800-218-8160**
- Tax-exempt organization registration* **410-260-7980**
or **800-638-2937**

Motor-fuel, Alcohol & Tobacco Tax Unit

P.O. Box 2229
Annapolis, MD 21404-2229

- Motor-fuel Licensing & Registration* **410-260-7131**
or **888-784-0142**
- Motor Carrier & IFTA Licensing* **410-260-7138**
or **888-784-0141**
- Alcohol & Tobacco Licenses & Permits* **410-260-7314**
or **888-784-0145**

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

- Admissions and amusement tax*
- Bay Restoration Fee*
- 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**

Department of Business and

Economic Development **410-767-6300**

217 E. Redwood Street — 23rd Floor or **800-CHOOSEMD**
Baltimore, MD 21202

Office of Regional Response **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

- Contributions* **410-767-2412**
- Unemployment insurance* **410-767-3246**
or **800-492-5524**
- Enterprise Zones — Economically
disadvantaged employee certification* **410-767-2080**
- Job services* **410-767-2148**
www.dlir.state.md.us

Department of the Environment **410-537-3000**

1800 Washington Blvd.
Baltimore, MD 21230

- Air management and radiation
(oil furnace conversion)* **410-537-3260**
- Asbestos* **410-537-3200**
www.mde.state.md.us

Injured Workers' Insurance Fund **410-494-2000**

8722 Loch Raven Boulevard
Towson, MD 21286-2235

www.iwif.com

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* **410-260-8531**
www.dnr.state.md.us

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**

Workers' Compensation Commission **410-864-5100**

6 N. Liberty Street — Room 940
Baltimore, MD 21201-3785

www.wcc.state.md.us