

2009

Maryland Tax for Pass-Through Entities

**Instructions for filing pass-through entity income tax returns for
calendar year or any other tax year or period beginning in 2009.**

This booklet includes instructions for:

Form 510 - Maryland Pass-Through Entity 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 and payments.
- Sign and date the return.

New businesses can
register online &
set up tax accounts
when visiting
www.marylandtaxes.com



Peter Franchot

Maryland Pass-Through Entity Taxpayers

This booklet contains the instructions necessary for a pass-through entity to file a 2009 Maryland tax return. 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 in any other color; do not print returns on colored paper; do not write on, staple or punch holes in the barcode.

Form 510 and its related forms are to be used by partnerships, S corporations, limited liability companies 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 income tax return** is generally an information return. The entity's income or loss is passed through to the separate members for taxation purposes. If a pass-through entity is owned by a nonresident, it may be subject to the nonresident pass-through entity income tax.

Credit may be claimed on a member's income tax return for any tax paid on behalf of a nonresident member by the pass-through entity. The pass-through entity may elect to file a composite return on behalf of qualified nonresident individual members under which the entity would be the agent to receive any refund or to pay any tax due. Nonresident fiduciary and nonresident entity members may not participate in the filing of the composite return. See Administrative Release 6 for more information. You can obtain Administrative Release 6 from any Maryland taxpayer service office or from our Web site.

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

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.

Form 500CR

Form 500CR is used by individuals and businesses to claim allowable business tax credits as listed.

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.

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 of original issue discount in debt-for-debt exchanges. Such deferred amounts must be included on the Maryland Form 500DM filed with the Form 510 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 the PTE must be a qualified Maryland 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.

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 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

Formas en Español

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

MARYLAND
PASS-THROUGH ENTITY
INCOME TAX RETURN

GENERAL INSTRUCTIONS FILING FORM 510

Purpose of Form Form 510 is used by a pass-through entity (PTE) to file an information income tax return for a specific tax year or period and to remit PTE nonresident tax. The term “pass-through entity” includes partnerships as defined in IRC Section 761, S corporations as defined in IRC 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 at the federal level.

A **business trust** shall be classified as a corporation, a partnership, a trust or otherwise, as shall be determined at the federal level.

Unincorporated pass-through entities should follow the rules for partnerships throughout these instructions. **Incorporated** pass-through entities should follow the rules for S corporations.

The term **member** is used in these instructions to include partners of partnerships, shareholders of S corporations, members of LLCs, and beneficiaries of business trusts.

Entities Required to File Every Maryland PTE must file Form 510, even if it has no income or the entity is inactive. Every other PTE that is subject to Maryland income tax law must also file Form 510. This includes any PTE that has credits in Maryland and a PTE that is a member of a PTE that is required to file in Maryland.

ENTITIES NOT REQUIRED TO FILE

A multistate PTE 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 certain partnerships that do not actively conduct a business that have elected not to be treated as partnerships and for a single member LLC that is disregarded as a separate entity and the income (loss) will be included on the member(s) annual Maryland returns.

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 PTE. Preparers, other than PTE 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 PTE’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. The items of income or loss of the PTE are passed through to the members and subject to tax on the members’ Maryland income tax return.

If there are nonresident members, the **pass-through entity nonresident tax** applies and must be paid by the PTE on behalf of these members.

PTEs must pay a tax consisting of 6.25%, in addition to a special nonresident tax of 1.25%, of the **nonresident individual and nonresident fiduciary** members’ distributive or pro rata shares of income allocable to Maryland.

PTEs are also required to pay a tax at the rate of 8.25% of income allocable to Maryland on behalf of all members who are **nonresident entities**. A nonresident entity is an entity that is not formed under the laws of Maryland; and is not qualified by, or registered with, the Department of Assessments and Taxation to do business in Maryland. See Administrative Release 6.

The PTE nonresident tax does not apply to a member that is a **Real Estate Investment Trust (REIT)** or to a member that is tax-exempt under IRC Sections 408(e) or 501, unless the tax-exempt member is subject to the federal income tax on its federal return on that share of PTE income. See Administrative Release 6 for other members and certain PTEs that are considered exempt.

Nonresident members must report their distributive or pro rata shares of income or loss allowable to Maryland on their Maryland income tax return. Such income must be reported in the member’s tax year in which the PTE’s tax year ends. Credit for taxes paid by the PTE must be claimed on the same return on which the nonresident member reports the income subject to that tax.

The distributive share of income for partnerships is the net amount of lines 1 through 11 of the federal Form 1065-Schedule K. For tax year 2009, the pro rata share of income 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 PTE may be limited based on the distributable cash flow. For additional information see the instructions for distributable cash flow limitation.

A PTE may elect to file a **composite** personal Maryland income tax return Form 505 on behalf of qualified nonresident individual members. Fiduciary and nonresident entity members may not participate in composite returns. All members who qualify and elect to be included on the composite return must agree that the PTE is their agent for the receipt of any refund or for payment of any tax due. See Administrative Release 6.

Publicly-traded pass-through entities (PTPs) as defined in IRC Section 7704 are exempt from the requirement to pay a nonresident tax on behalf of their nonresident members if they file Maryland Form 510 annually, and report the name, address, taxpayer identification number (SSN or FEIN) and other information requested for each nonresident member whose share of the PTE’s nonresident taxable income exceeds \$500 for the tax year. PTPs supplying the above information are also excluded from the definition of nonresident entities.

These PTPs should enter “704” in one of the code number boxes.

S corporations subject to federal corporation income tax, such as for excess net passive income or built-in gains, are also subject to Maryland corporation income tax. Use Form 500 – Maryland 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 subtraction modifications to the extent applicable to the income subject to federal income tax; and (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 – Maryland Pass-Through Entity Income Tax Return.

OTHER MATTERS

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

The request for extension of time to file will be granted 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 IRS; and
- 3) full payment of any balance due is submitted with the application.

Properly and timely filed requests for an automatic extension of time will be granted for seven months for S corporations and six months for other PTEs.

Estimated Income Tax Every PTE that reasonably expects Maryland taxable income to develop a tax in excess of \$1,000 for the tax year or period must make quarterly estimated payments with Form 510D

Maryland Declaration of Estimated Pass-Through Entity Income Tax. If the PTE does not have the 510D, the Form 510DP may be used.

Business Tax Credits Form 500CR must be completed and attached to Form 510 if the PTE has generated a business tax credit. Such credits are not taken on Form 510, but are allocated to the members of the PTE.

The members may then claim their shares of the Maryland credit. Maryland follows the federal income tax rules as to the allocation of Maryland credits for partners of a partnership (includes LLC and business trust) and for shareholders of an S corporation, unless the terms of the Maryland tax credit permits special allocation. Allocations of credits at the federal level generally must be made in accordance with the partners' respective interests in the partnership at the time the tax credit arises and in accordance with the shareholders' pro rata shares of the S corporation's credits. Form 502H must be attached to Form 510 if claiming the Heritage Structure Rehabilitation Tax Credit.

Statements to Members The federal Schedule K-1 provided by the PTE to each of its members 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 502H and 500CR (see front inside cover) and, in the case of each nonresident member, the amount of income attributable to Maryland sources and the amount of tax paid on behalf of the member receiving the Schedule K-1.

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 PTE.

Amended Returns To correct an error in a previously filed return, complete and submit a revised Form 510. Checking the "AMENDED RETURN" box and drawing a line through any barcode on the return. **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 original return, include the amount paid on line 16b of Form 510. The PTE must give a revised statement to the members advising them of the amendment. Members may also be required to file amended income tax returns.

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.

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 member's income tax return.

Taxpayer Identification Required for Returns and Other Documents All returns, correspondence, payments or other documents must indicate the PTE name, federal employer identification number (FEIN), type of tax and tax year(s) to which the document relates.

All PTEs 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 PTE 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 www.marylandtaxes.com. (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 Return and submitted with the state copy of the wage and tax statements issued to employees as required by law.

For additional information regarding employer withholding tax see www.marylandtaxes.com or, 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 PTE name, address and identification numbers and specifying the information needed. The request must be signed by an authorized member.

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 a number to indicate a negative amount. After completing the Maryland return, **assemble your return in the following order:** Maryland Pass-through Entity Form 510 including all Form 510 Schedules B, any required Maryland forms and their related attachments, any K-1 forms showing credits earned by the PTE and for S-corporations a copy of the federal income tax return through Schedule M2.

Name, Address and Other Information

Type or print the required information in the designated area. Enter the exact PTE 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 code number. This date must be expressed numerically, using two digits each for the month, the day and the year. The federal business 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 PTE: 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 PTE; (3) this is an inactive PTE (in Maryland and elsewhere); (4) this is the final return of a PTE that has dissolved, liquidated or withdrawn from Maryland; or (5) 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 PTE is inactive in Maryland but active elsewhere.

If this is an amended return, check the applicable box and draw a line through any barcode on the front of the return.

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 PTE'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 PTE 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 members Enter the number of members that are individual residents of Maryland (including resident fiduciaries), the number that are individual nonresidents of Maryland (including nonresident fiduciaries), the number of nonresident entities, the number of other entities and the total number of all members.

Include in "Others" entities that are tax exempt under IRC Sections 408(e) or 501.

A single member LLC that is a disregarded entity for federal purposes is treated as an individual or corporation depending upon whether the single member is an individual or corporation for purposes of computing the nonresident tax.

Note: In these instructions, the term individual includes fiduciaries, unless specifically excepted.

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

The distributive share of income for partnerships is the net amount of lines 1 through 11 of federal Form 1065 - Schedule K. For tax year 2009, the pro rata share of income for S corporations is the net amount of lines 1 through 10 of federal Form 1120S - Schedule K.

ALLOCATION OF INCOME

For unistate PTEs, 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 PTEs, those conducting business in more than one state, must allocate income if any member is a nonresident individual or a nonresident entity. If there are no nonresident members, 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 of income allocable to Maryland For unistate PTEs, or multistate PTEs without nonresident members, enter the amount shown on line 2.

For multistate PTEs using separate accounting, subtract line 3a from line 2 and enter the difference. For multistate PTEs 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 19:

1. unless the PTE has members that are nonresidents of Maryland (there is an entry in 1b or 1c), or

2. if the PTE 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 nonresident tax merely because the investment decisions, trading orders, research and the like are conducted by a general partner from a Maryland location. Enter **705** in one of

the code number boxes at the bottom of Form 510.

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 5-19. See Administrative Release 6.

Line 5 - Percentage of ownership by nonresident individual members Enter the total percentage of ownership by nonresident individual members. 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 of income for nonresident individual 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 individual tax Multiply the amount on line 6 by 6.25%.

Line 8 - Special nonresident tax Multiply the amount on line 6 by 1.25%. All nonresident individuals are liable for an additional state tax on income allocable to Maryland calculated at the lowest local income tax rate in place for the tax year.

Line 9 - Total Maryland tax on individual members Add lines 7 and 8.

Line 10 - Percentage of ownership by nonresident entity members Enter the total percentage of ownership by nonresident entity members. 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 11 - Distributive or pro rata share of income for nonresident entity members Multiply line 4 by the percentage on line 10 and enter the result. If line 10 is blank because the percentage of ownership equals 100%, enter the amount from line 4.

Line 12 - Nonresident entity tax Multiply the amount on line 11 by 8.25%.

Line 13 - Total nonresident tax Add lines 9 and 12.

Line 14 - Distributable cash flow limitation PTEs may elect to use the distributable cash flow method to limit the nonresident tax which must be paid by the PTE. 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.

The distributable cash flow limitation worksheet is available as a form at www.marylandtaxes.com.

Election of the distributable cash flow limitation will not reduce the tax liability of the nonresident members.

If the distributable cash flow limitation is used, check the box and enter the result on line 14. If less than zero, enter zero. If the distributable cash flow limitation is not used, do not complete this line.

Line 15 - Nonresident tax due If the distributable cash flow limitation is not used, enter the amount shown on line 13. If the distributable cash flow method is used, enter the lesser of line 13 or line 14.

Line 16 - Payments and Credits

16a. Enter the total of amounts paid during the tax year with Form 510D or 510DP - Maryland Pass-

through Entity Declaration of Estimated Income Tax. Also include amounts paid by the PTE using Form MW506NRS - Return of Income Tax Withheld For Nonresident Sale of Real Property.

16b. Enter the amount paid with Form 510E - Maryland Application for Extension to File Pass-through Entity Income Tax Return.

16c. Enter the amount of nonresident tax paid on the PTE's behalf by another PTE. Attach the Schedule K-1 or statement supplied by the other PTE to support this credit.

16d. Total payments and credits. Enter the sum of lines 16a through 16c.

Line 17 - Balance of Tax Due Enter the difference if line 15 exceeds 16d.

Line 18 - 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.

Partnerships and LLCs with income received unevenly throughout the year, and that choose to annualize on Form 500UP, must enter **301** in one of the code number boxes at the bottom of page 1, Form 510. S corporations may not use the annualization method on Form 500UP, available at www.marylandtaxes.com

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 19 - Total Balance Due Add the amounts on lines 17 and 18 and enter the result. The total amount due must be paid with Form 510.

Continue to Line 20 only when there are no nonresident members (lines 1b and 1c are both zero).

Line 20 - Amount to be Refunded Enter the amount from line 16d if the amount on line 13 is zero.

NOTE: Overpayments will not be refunded to any PTE that has any members that are nonresident individuals or nonresident entities.

Signature and Verification An authorized general partner, officer or member of the PTE must sign and date Form 510 and enter his or her title. If a 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). Penalties may be imposed for tax preparers who fail to sign the tax return and provide their Social Security number or preparer's tax identification number.

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

INSTRUCTIONS FOR SCHEDULE A – COMPUTATION OF APPORTIONMENT FACTOR 2009

Pass-through entities (PTEs) that conduct business in more than one state must allocate income if one or more of the members are nonresident individuals or nonresident entities 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 PTEs 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. 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 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 03.04.03.08D.

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 PTE 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 PTE 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 PTEs subject to the following apportionment formulas.

PTEs 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.

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

Airline operations should see Administrative Release 22 on www.marylandtaxes.com 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, S Corporations that are 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 PTE's activity within Maryland, the Maryland Revenue Administration Division may alter the formula or components accordingly.

The PTE'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 PTE.

INSTRUCTIONS FOR SCHEDULE B – MEMBERS' INFORMATION

Enter all information requested in this schedule. Enter the information in Social Security or federal employer ID number order. Enter the name, address and Social Security number or federal employer ID number of each member. Also check the applicable box to identify the member as a resident or nonresident or nonresident entity of Maryland.

For each shareholder, the pro rata share of income/loss is a portion of the amount on line 2, page 1 of Form 510.

For other members, the distributive share of income/loss 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 member included in lines 16d and 17.

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* *Employer withholding tax*
- Bay Restoration Fee* *Sales and use tax*
- Central registration* *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. or **800-633-6100**
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 or **800-264-4943**
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 or **800-492-0479**
Baltimore, MD 21201-3785
www.wcc.state.md.us