BUREAU OF
TAXATION

STATE OF MAINE
State Office Building, Augusta, Maine 04333

# Instructions For Maine Corporate Income Tax Return

(Including Banking Corporation and
Loan Association Franchise Tax Return)

## 1977

FORM 1120 - ME.

**IN ALL CORRESPONDENCE PLEASE REFER TO YOUR EMPLOYER FEDERAL IDENTIFICATION NUMBER.**

Part I—Contains General Instructions.

Part II—Provides line by line instructions for preparing Form 1120-ME. and Tax Rate Schedule.

Part III—Provides general instructions and line by line instructions for preparation of Schedule A—Allocation and Apportionment of Income Schedule.

## PART I—GENERAL INSTRUCTIONS

The following is a guide for Maine Corporate Income Taxpayers. Reference should be made, however, to the complete text of the State of Maine Income Tax Law, which is available upon request from the Bureau of Taxation, Income Tax Section, State Office Building, Augusta, Maine 04333.

1. **CORPORATIONS SUBJECT TO INCOME TAX:** Every entity subject to Federal Income Tax as a corporation and doing business within the State of Maine must file Form 1120-ME. and pay its applicable Maine Corporate Income Tax, **except corporations having an election under Subchapter "S" of the Internal Revenue Code [small business corporations] and insurance companies subject to tax under Sections 2511 to 2522, Title 36, M.R.S.A. [Insurance Premiums Tax and Fire Investigation and Prevention Tax].**

2. **BANKING INSTITUTIONS SUBJECT TO FRANCHISE TAX MEASURED BY INCOME:** Every corporation which is a bank, savings bank, savings institution, trust company and every savings and loan association, or loan and building association, that is doing business in this State, must file Form 1120-ME. and pay a Maine Franchise Tax, or a Maine Income Tax, whichever is greater.

3. **DATE FOR FILING RETURN:** Corporations reporting for the calendar year 1977, should file, with payment, on or before March 15, 1978. Fiscal year taxpayers should file, with payment, on or before the 15th day of the third month, following the close of their taxable year.

4. **EXTENSIONS FOR FILING:** The assessor may grant a reasonable extension of time for filing a return, for just cause. No extension will be granted unless a deposit, of not less than 100% of the estimated tax, is made on or before the original due date. Negligence penalties may be added for insufficient deposits. Form 7004-ME., Application for Extension of Time for Filing Return, is available from this office and should be used when requesting extensions.

5. **PAYMENT OF CORPORATE INCOME OR FRANCHISE TAX:** All taxable corporations are required to make a declaration of estimated tax if its Maine taxable income can reasonably be expected to exceed $800 for that taxable year. As far as practical, forms will be mailed directly to taxpayers. However, if you do not receive forms through the mail, they are available upon request from the Bureau of Taxation, Income Tax Section, State Office Building, Augusta, Maine 04333.

6. **INTEREST:** Interest will be added to any balance of tax due, at the rate of 6% per year from the original due date to the date of filing, and should be included with any payments.

7. **PENALTIES:** A 5% penalty may be applied to any tax due at the time of filing, if the payment deposited with the Application for Extension of Time to File (Form 7004-ME.) and estimated tax payments (Form 1120-ES-ME.) are not equal to:

   a. Previous year's Maine Corporate income tax liability, or
   b. at least 80% of the tax found to be due at time of filing of Maine Corporate Income Tax Return.

8. **PERIOD COVERED BY RETURN:** Your return will cover the same period as Federal Form 1120.

9. **ACCOUNTING METHODS:** A taxpayer's method of accounting for Maine Income Tax purposes must be the same as his method of accounting for Federal Income Tax purposes.

10. **FEDERAL RETURN MUST ACCOMPANY STATE RETURN: In all cases,** Maine Corporation Return, Form 1120-ME. must be accompanied by a legible copy of the Corporation's Federal Return, Form 1120, pages 1 through 4, for the same taxable period. You are not required to provide copies of supporting schedules attached to Federal Form 1120 filed with Internal Revenue Service unless specifically requested.

11. **FEDERAL AUDIT CHANGES AND AMENDED RETURNS:** All taxpayers must report any change or correction by Internal Revenue Service in Federal taxable income within 90 days after final determination of such change or correction.

Any taxpayer filing an amended Federal Income Tax Return must, within 90 days, file an amended Maine Income Tax Return. When filing returns that reflect Federal net operating losses, a copy of the Federal Form 1139 must be attached.

12. **CONSOLIDATED RETURNS:** Affiliated corporations will be permitted or required to file a consolidated return only if the assessor deems such a return necessary to fairly determine net income. Permission to file a consolidated return will not be granted to effect a tax savings.

13. **ALLOCATION AND APPORTIONMENT:** The State Tax Assessor has issued Regulation #1, relating to the determination of business and nonbusiness income. This regulation is reproduced in the Maine Income Tax Law booklet, and is available upon request.

## PART II—SPECIFIC INSTRUCTIONS FOR FORM 1120-ME., PAGE 1

**Line 1. FEDERAL TAXABLE INCOME:** Enter Federal taxable income from line 30, Federal Form 1120.

**Line 2a. INTEREST ON U.S. OBLIGATIONS:** Enter here interest on U.S. Bonds, U.S. Treasury Notes, or other obligations of the U.S., which by law are exempt from State taxes, but taxable by the Federal Government. (Line 2a should not be completed by banking institutions subject to Maine Franchise Tax.)

**Line 2b. FOREIGN DIVIDEND GROSS-UP:** See Internal Revenue Code, Section 78.
(Line 2b should not be completed by banking institutions subject to Maine Franchise Tax.)

**Line 5. INCOME TAXES IMPOSED BY MAINE OR ANY OTHER STATE:** The Maine Income Tax Law does not permit a deduction for income taxes imposed by Maine or any other state. Therefore, income taxes taken as a deduction on Federal Form 1120 must be added back to arrive at Maine taxable income. (Line 5 should not be completed by banking institutions subject to Maine Franchise Tax.)

**Line 7. MAINE TAXABLE INCOME:** Corporations having income solely from business activity within this State should enter here the same amount as on Line 6. Corporations having income from within and without the State should allocate and apportion income on Schedule A and enter on this line the amount shown on Line 15, Schedule A.

**Line 8a. MAINE CORPORATE INCOME TAX:** The applicable rate is 5% of the first $25,000 of Maine taxable income and 7% of the excess over $25,000 of Maine taxable income.

**Line 8b. MINIMUM TAX:** Enter here the amount shown on page 2, Line 20.

**Lines 9a, b and c. CREDITS:** These lines are for the use of taxpayers who have made estimated tax payments and/or deposit when requesting an extension of time for filing, as well as those taxpayers filing amended returns and claiming credit for tax paid with original return.

**Line 9d. INVESTMENT IN MAINE CAPITAL CORPORATION:** Those corporations who have invested in the Maine Capital Corporation as authorized under P.L. 1977, Chapter 531 during the tax year should contact the Bureau of Taxation, Income Tax Section, for specific instructions on the application of this credit.

**Line 10. TOTAL CREDITS:** Add Lines 9a, 9b, 9c and 9d to arrive at total credits allowable.

**Line 11. BALANCE DUE:** If this amount is less than one dollar ($1.00) no payment need be made. Otherwise, make check or money order payable to the Treasurer of State and mail with your return to Bureau of Taxation, Income Tax Section, State Office Building, Augusta, Maine 04333.

**Line 13[a]. AMOUNT OF LINE 12 YOU WISH CREDITED:** Use this block only if you elect to have all or a portion of the overpayment on Line 12 credited to your next year's estimated Maine corporate income tax.

**Line 13[b]. AMOUNT TO BE REFUNDED:** Enter here the difference between Line 12 and Line 13(A). The amount shown on this line will automatically be refunded, if less than $1.00, it must be specifically requested.

## PART III—FORM 1120-ME.—SCHEDULE A, PAGE 2

**GENERAL INSTRUCTIONS:** Schedule A is provided for corporations engaged in inter-state business. **A corporation whose income was derived solely from a trade, business or activity conducted entirely within Maine during the taxable year should not complete Schedule A.** If the allocation and apportionment provisions do not fairly represent the extent of the taxpayer's business activity in this State, the taxpayers may petition for, or the tax assessor may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

(a) Separate accounting.

(b) The exclusion of any one or more of the factors.

(c) The inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this State.

(d) The employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income.

Maine employs a three-factor formula to determine the percentage of corporate business income which is apportioned to, and taxed, by Maine. This percentage is derived by a fraction, the numerator of which is the property factor plus the payroll factor plus the sales factor, and the denominator of which is 3, or the number of factors used in Column 2, whichever is less.

"Tax period," referred to in instructions for Lines 2, 4 and 7, means the period represented by adjusted Federal taxable income on Line 6, page 1.

"Sales" means all gross receipts not allocated.

**Line 2. SALES FACTOR:** The sales factor is a fraction, the numerator of which is the total sales of the taxpayer in this State during the tax period, and the denominator of which is the total sales of the taxpayer everywhere during the tax period. For the definition of "sales" for Maine Corporate income tax purposes, please refer to Regulation #1, section 15(A).

**Sales of tangible personal property** are in this State, (1) if the property is delivered or shipped to a purchaser, other than the United States Government, within this State, regardless of the F.O.B. point or other conditions of the sale; or (2) the property is shipped from an office, store, warehouse, factory or other place of storage in this State and the purchaser is the United States Government or the taxpayer is not taxable in the State of the purchaser.

**Sales, other than sales of tangible personal property,** are in this State, if (1) the income producing activity is performed in this State; or (2) the income producing activity is performed both in and outside this State and a greater proportion of the income producing activity is performed in this State than in any other state, based on costs of performance.

**Line 4. PAYROLL FACTOR:** The payroll factor is a fraction, the numerator of which is the total amount paid in this State during the tax period by the taxpayer for compensation, and the denominator of which is the total compensation paid everywhere during the tax period. "Compensation" means wages, salaries, commissions and any other form of remunertion paid to employees for personal services. Compensation is paid in this State, (1) if the individual's service is performed entirely within this State; or (2) the individual's service is performed both within and without the State, but the service performed without the State is incidental to the individual's service within the State; or (3) some of the service is performed in the State and the base of operations or, if there is no base of operations, the place from which the service is directed or controlled is not in any state in which some part of the service is performed, but the individual's residence is in the State.

**Line 7. PROPERTY FACTOR:** The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and used in this State during the tax period and denominator of which is the average value of all the taxpayer's real and tangible personal property owned or rented and used during the tax period.

Property owned by the taxpayer is valued at original cost. Property rented by the taxpayer is valued at 8 times the net annual rental rate. Net annual rental rate is the annual rental rate paid by the taxpayer less any annual rate received by the taxpayer from subrentals. The average value of property shall be determined by averaging the values at the beginning and ending of the tax period but the tax assessor may require the averaging of monthly values during the tax period if reasonably required to reflect properly the average value of the taxpayer's property.

**Line 9.** Apportionment factor or percentage, carried out to 4 decimal places, to be applied to business income on Line 12. If number of factors used in column 2 is less than 3, divide Line 8 by number used.

**Line 10.** Enter adjusted Federal taxable income from page 1, Line 6 of the 1120-ME.

**Line 11.** Enter on Line 11 all nonbusiness income allocable to Maine or any other state during the tax period. Do not include interest on United States obligations or Foreign dividend gross-up accounted for on page 1, lines 2(a) and 2(b). Nonbusiness Income—Any income, which does not arise from activities in the regular course of trade or business, or which does not arise from property which constitutes an integral part of the taxpayers trade or business, shall be allocated to Maine to the extent it can reasonably be determined to be derived from sources within Maine.

**Line 12.** Amount on Line 12 represents business income only, as determined by subtracting nonbusiness income (Line 11) from adjusted Federal taxable income. This is the amount on which the percentage on Line 9 should be applied.

**Line 13.** Enter here the result of multiplying Line 12 by the percentage on Line 9. This is your business income apportioned to Maine.

**Line 14.** This line pertains to nonbusiness income directly allocated to the State of Maine during the tax period.

**Line 15.** This figure represents taxable income apportioned and allocated to Maine and should be entered on Line 7, page 1 of Form 1120-Me.

**Lines 16 & 17.** Supporting schedules, listing type and/or source of nonbusiness income and related expenses, must be attached to the Maine return. For specific instructions on allocation, please refer to Chapter 821, Section 5211 of the Maine Income Tax Law and Regulation #1, concerning allocation and apportionment of income. A copy of the law, Regulation #1 or further information may be obtained from: Bureau of Taxation, Income Tax Section, State Office Building, Augusta, Maine 04333.

## SCHEDULE B

**Line 18. MINIMUM TAX FOR TAX PREFERENCES:** Enter on this line 15% of the minimum tax shown on Federal Form 4626, after adjustment for capital gain tax preferences.

Effective for tax years beginning in 1977 and thereafter, there is imposed on every corporate taxpayer, for each taxable year, a tax equal to 15% of the federal minimum tax which is imposed on the taxpayer for the taxable year by the Internal Revenue Code of 1954, Section 56, as amended.

The capital gain tax preference item in the Internal Revenue Code of 1954, Section 57(a) (9) (B), as amended, shall not be included as an item of tax preference for the purpose of determining the tax liability of a corporation.

Those corporations subject to the minimum tax must attach a copy of Federal Form 4626 and a schedule showing the adjustments for capital gain tax preference items (if applicable).

**Line 19. APPORTIONMENT FACTOR:** Enter on the line the apportionment factor from Line 9 above. The apportionment factor for those corporations operating entirely in Maine will be 100%.

**Line 20.** Enter here and on page 1, Line 8B, the result of multiplying Line 18 (Minimum Tax as Adjusted) by the apportionment factor on Line 19.