

Maine Composite Income Tax Return Filing Instructions (continued)

a nonresident individual for the entire taxable year who has *no Maine-source income other than entity income*. Resident partners/shareholders may not participate in a composite filing. Also, an individual may not participate in a composite filing if he or she files married joint for federal income tax purposes and the individual's spouse has Maine-source income unrelated to the entity. A nonresident ESBT or grantor trust may also be an eligible person if the trust has no other Maine-source income other than entity income. Beginning in 2004, pass-through entities doing business in Maine may want to file a composite return on behalf of nonresident partners/shareholders to be exempt from the new withholding requirement. See information below on the new pass-through entity withholding requirement.

How do I file a composite return?

Step 1: Complete Schedule 1040C-ME and Schedule NRC and Form 1040ME in accordance with Step 2 below. Place the return in the following order: (1) Schedule NRC; (2) Schedule 1040C-ME; (3) Form 1040ME; (4) supporting documentation and mail to: Maine Revenue Services, P.O. Box 1067, Augusta, ME 04332-1067. Returns not sent in this order may not be processed correctly.

Use either Method A or Method B to calculate the tax for line 6.

Method A. This method requires a pro forma Maine income tax return (Form 1040ME) for each participating owner. Attach a schedule listing the name and social security number of each participating owner, individual ownership interest, federal adjusted gross income, income modifications, deductions, exemptions, taxable income, income tax, credits, and net tax. Enter the aggregate net tax amount on Schedule 1040C-ME, line 6 and on the composite return, Form 1040ME, line 20.

Method B. Multiply the income reported on line 5 by 8.5% (0.085). Enter this amount on Schedule 1040C-ME, line 6 and on the composite return, Form 1040ME, line 20. No Maine income modifications are allowed if using Method B.

For further guidance, see MRS Rule 805.

Step 2: Complete Form 1040ME as follows:

For Tax Period. If other than calendar year 2003, enter beginning and end dates for the year.

Your Social Security Number. Enter the entity EIN in a social security number format. Enter the entity name under **Your Last Name**.

Work Phone Number. Contact person phone number.

Home Mailing Address. Complete mailing address of the business entity.

Filing Status. Check Single.

Residency Status. Check nonresident.

Line 14. If Method B was used to calculate Schedule 1040C-ME, line 6, enter composite income from Schedule 1040C-ME, line 5. If Method A was used to calculate Schedule 1040C-ME, line 6, enter the aggregate taxable income/loss of participating eligible persons.

Line 19. Enter the same amount as entered on line 14.

Line 20: Enter the amount from Schedule 1040C-ME, line 6.

Line 23. Enter the same amount as entered on line 20.

Line 24. Use Maine Schedule A to calculate any **business credit** the entity may be eligible to claim. Lines 9-24 of Schedule A are considered Maine business credits and the amounts allocated to participating members may be claimed in their entirety, up to the Maine tax liability. Carryover provisions may apply. Attach a copy of Schedule A to the return. See MRS Rule 805.05 for more information.

Line 26. Enter the net of lines 23 and 24.

Line 27. Enter amount from line 26.

Lines 28a-d. If the participating individuals have 1099s with Maine withholding, then enter the withheld amount on line 28a (copies of the 1099s must be attached to the return). Enter the total amount of estimated tax payments, 2002 credit carried forward, and any Real Estate Withholding tax payments allocated to participating members on line 28b. Enter any payment made by extension on line 28c. Leave line 28d blank.

Line 29. If total payments are more than net tax, enter the amount of overpayment on this line. Skip to line 33.

Line 30. If net tax is greater than total payments, enter the amount of underpayment on this line. Skip to line 35.

Line 33. Enter the amount from line 29.

Lines 34a-b. Enter the amount to be carried forward to 2004 on line 34a. Enter any amount to be refunded on line 34b.

Lines 35a-c. Enter the amount from line 30 on line 35a. Enter on line 35b any underpayment penalty (attach Form 2210ME). Be sure to check the box if you used the annualized income installment method of calculating the underpayment of estimated tax penalty. Enter the total of lines 35a and b on line 35c.

Enclose with the composite return (Form 1040ME) a copy of federal Form 1120S, all pages through schedule K, or if a partnership, federal Form 1065, all pages through the distribution of income, a copy of the Maine Worksheet for Composite Filing (1040C-ME) and Schedule NRC, Income for Nonresident Partners or Shareholders Included in Composite Return. If using Method A for calculating Schedule 1040C-ME, line 6, also enclose a complete copy of each individual partner's/shareholder's federal 1040 return and related K-1s.

Do owners of a partnership/S corporation have to withhold or pay estimated tax?

All pass-through entities doing business in Maine are required to withhold income taxes from their nonresident owners. The withholding is based on the nonresident member's share of Maine-source income and the amount withheld is based on the highest appropriate tax rate (8.5% for individuals, trusts, estates and other pass-through entities, 8.93% for corporations). Trusts are included in the definition of pass-through entity for this withholding requirement. A pass-through entity may qualify for a conditional exemption of the withholding requirement for participating members under the composite filing exemption. In order to qualify for this exemption, the entity must:

- collect a Composite Filing Participation Statement (Form 941CF-ME) from each nonresident member who wants to participate in the group filing. This statement must be obtained prior to the withholding due date otherwise applicable to the member.
- make estimated payments (Form 1040ES-ME) on behalf of the composite filing group as long as the aggregate Maine income tax liability is greater than \$1,000. All members of the composite return are grouped together and treated as one filer for estimated tax purposes. If the tax liability of the composite group is anticipated to exceed \$1,000, the entity must make four equal estimate payments in order to avoid the penalty for the understatement of estimated tax.
- must file a composite return.

For more information visit our Web site at www.maine.gov/revenue. Pass-through entities required to withhold must pre-register with Maine Revenue services.