

MARYLAND 2017

PASS-THROUGH ENTITY INCOME TAX RETURN INSTRUCTIONS
For filing calendar year or any other tax year or period beginning in 2017



Peter Franchot, Comptroller

Maryland Pass-Through Entity Taxpayers

This booklet contains the instructions necessary for a pass-through entity (PTE) to file a 2017 Maryland tax return. Read the instructions carefully.

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 Branch 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

Maryland Form 500CR is used to claim the following business tax credits against corporation and individual income tax.

Electronic Format In accordance with SB 36 of the Acts of 2017 of the Maryland General Assembly, the Comptroller of Maryland may grant a taxpayer a waiver of the requirement to file for certain tax credit(s) by electronic means. **Form 500CRW, Request for a Waiver, must be submitted with the Form 500CR** that establishes a reasonable cause for not filing by electronic means or that there is no feasible means of filing electronically creating an undue hardship.

- Aerospace, Electronics, or Defense Contracts Tax Credit**
- Apprentice Employee Tax Credit**
- 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
- Cybersecurity Investment Incentive Tax Credit**
- Employer-Provided Long-Term Care Insurance Tax Credit
- Endow Maryland Tax Credit**
- Enterprise Zone Tax Credit**
- Film Production Activity Tax Credit**
- First-Year Leasing Costs Tax Credit for Qualified Small Businesses**
- Health Enterprise Zone Hiring Tax Credit**
- Heritage Structure Rehabilitation Tax Credit from Form 502S
- Job Creation Tax Credit**
- Maryland Disability Employment Tax Credit**
- Maryland Employer Security Costs Tax Credit**
- Maryland Wineries and Vineyards Tax Credit**
- Maryland-Mined Coal Tax Credit**
- One Maryland Economic Development Tax Credit**
- Oyster Shell Recycling Tax Credit**
- Preservation and Conservation Easements Tax Credit**
- Qualified Farms Tax Credit**
- Qualified Vehicle Tax Credit**
- Qualified Veteran Employees Tax Credit**
- Research and Development Tax Credits**

****Required Certification must be included with Form 500CR**

REMINDER

• The Maryland Form 510

A Pass Through Entity Income Tax Return must be filed electronically if the pass-through entity has generated a business tax credit from Maryland Form 500CR or a Heritage Structure Rehabilitation Tax Credit from Form 502S to pass on to its members.

Forms and help

For online business registration, tax forms, instructions, publications, and Maryland Tax Regulations, visit

www.marylandtaxes.gov

E-mail your tax questions to **taxhelp@comp.state.md.us**

For assistance, call: 410-260-7980 in Central Maryland or 1-800-MDTAXES (638-2937) from elsewhere

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 more information, contact our e-File Help Desk at 410-260-7753 or visit **www.marylandtaxes.gov**

**GENERAL INSTRUCTIONS
FILING FORM 510**

The Maryland Form 510 must be filed electronically if the pass-through entity has generated a business tax credit from Maryland Form 500CR or a Heritage Structure Rehabilitation Tax Credit from Form 502S to pass on to its members.

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 Internal Revenue Code (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.

A **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.

1 WHO MUST FILE?

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 also must 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 IRC 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 Internal Revenue Service (IRS) rules for certain partnerships that do not actively conduct a business that have elected not to be treated as partnerships. Maryland also will follow the IRS rules 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.

2 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. The return must be filed with the **Comptroller of Maryland, Revenue Administration Division, 110 Carroll Street, Annapolis, Maryland 21411-0001**.

3 SIGNATURES REQUIRED

Form 510 must be signed by a duly authorized official of the PTE. Preparers, other than PTE employees, also must sign the return.

4 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 generally is 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 5.75%, in addition to a special nonresident tax of 1.75%, of the **nonresident individual and nonresident fiduciary** members' distributive or pro rata shares of income allocable to Maryland.

PTEs also are 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. The distributive share of income for a large partnership electing to file federal Form 1065-B is the net amount derived from adding lines 1a, 2 through 4b, 7, and 8 of the federal Form 1065-B Schedule K. 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** Maryland income tax return Form 510C 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. Additionally, a PTE with only one member may not file a composite return. 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 PTPs' 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 code number "704" on one of the lines marked "code number" on the front of Form 510.

S corporations subject to federal corporation income tax, such as for excess net passive income or built-in gains, also are 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 additions and subtractions 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 and/or adjustments to income, apportionment of income and payments and credits, if applicable). Attach payment 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.

5 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;
- 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 - Declaration of Estimated Pass-Through Entity Income Tax. If the PTE is required to make multiple payments, it will use a Form 510D for each of the additional payments. This form is available at our Web site at www.marylandtaxes.gov.

Business Tax Credits The paper version of Form 500CR has been discontinued. To claim or pass on business tax credits from Maryland Form 500CR, the PTE must file Form 510 electronically if the PTE has generated a business tax credit. Form 500CR Instructions are available on our Web site at www.marylandtaxes.gov. Business credits are not taken on Form 510, but are allocated to the members of the PTE on Maryland Schedule K-1 (510).

Members then may 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 permit 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 502S must be included with Form 500CR if claiming the Heritage Structure Rehabilitation Tax Credit. You must file Form 510 electronically to claim or pass on any business tax credits.

Statements to Members The PTE should provide to its members a Maryland Schedule K-1 (510) showing the allocable share of income, additions and subtractions, and/or credit information, and nonresident tax paid by the PTE on behalf of its members.

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.

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. See Instruction 8 for completing an amended return.

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, 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 also is the primary number used by the Maryland Revenue Administration Division.

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 You may file your Maryland income tax return on a computer-prepared or computer-generated substitute form provided the form is approved in advance by the Revenue Administration Division. The fact that a software package is available for retail purchase does not guarantee that it has been approved for use.

For additional information or to see a list of Approved Software Vendors for Maryland Substitute Tax Forms, go to our Web site at www.marylandtaxes.gov.

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,

address, and phone number, see www.marylandtaxes.gov.

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. The law also 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, 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.

6 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.

7 ASSEMBLING AND COMPLETING YOUR RETURN

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 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.

8 AMENDED RETURNS

To correct an error in a previously filed return, complete and submit a revised Form 510. Check the "AMENDED RETURN" box and draw a line through the 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.

9 SPECIFIC INSTRUCTIONS

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. The distributive share of income for a partnership electing to file as a "large partnership" is the net amount derived from adding lines 1a, 2 through 4b, 7, and 8 of federal Form 1065-B Schedule K. 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 in the SCHEDULES A AND B INSTRUCTIONS and enter the apportionment factor as calculated on page 3 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 on 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 code number "705" on one of the lines marked "code number" on the front 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 5.75%.

Line 8 - Special nonresident tax Multiply the amount on line 6 by 1.75%. 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. See the DISTRIBUTABLE CASH FLOW LIMITATION WORKSHEET (9A). 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.

DISTRIBUTABLE CASH FLOW LIMITATION WORKSHEET (9A)
(Complete this worksheet only if using the distributable cash flow limitation.)

- A. Total distributive or pro rata share of income. (Enter amount from Form 510, line 2.) _____
- B. Line A adjusted, in the case of a PTE using the accrual method of accounting to report federal taxable income, to reflect the amount of taxable income that would have been reported under the cash method of accounting (if the PTE is not using the accrual method of accounting to report federal taxable income, enter amount from Line A). _____
- C. Cash receipts for the tax year that are not includable in the gross income of the PTE including capital contributions and loan proceeds. (Enter any cash receipts received by the PTE that were not included in gross income including capital contributions and loan proceeds.) _____
- D. Amounts allowable to the PTE for the tax year as deductions for depreciation, amortization and depletion. (Enter the allowable depreciation, amortization and/or depletion used as a deduction from federal taxable income.) _____
- E. The decrease, if any, in the PTE's liability reserve as of the end of the tax year. (If the PTE has established a liability reserve, enter the amount that represents the decrease, if any, in this reserve account. Liability reserve means accrued unpaid liabilities that are not deductible in computing taxable income.) _____
- F. Total. (Add lines B through E.) _____
- G. Cash expenditures for the tax year that are not deductible in computing the taxable income of the PTE. (Do not include distributions to members. Enter any cash expenditures that are not deducted when computing taxable income for the PTE. Items such as distributions to members are not included in this amount.) _____
- H. The increase, if any, in the PTE's liability reserve as of the end of the tax year. (If the PTE has established a liability reserve, enter the amount that represents the increase, if any, in this reserve account. Liability reserve means accrued unpaid liabilities that are not deductible in computing taxable income.) _____
- I. Total distributable cash flow. (Add lines G and H, and subtract the total from line F.) _____
- J. Total percentage of ownership (or profit/loss sharing if applicable) by nonresident members. (Enter the sum of the percentages from Form 510, lines 5 and 10.) _____
- K. Distributable cash flow. (Multiply line I by line J.) _____
- L. Nonresident tax previously paid. (Enter all nonresident estimated tax paid with Forms 510D or 510E.) _____
- M. Distributable cash flow limitation. (Subtract line L from line K. If less than 0, enter 0.) _____

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 - 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 Maryland Schedule K-1 (510) 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, available at www.marylandtaxes.gov.

Partnerships and LLCs with income received unevenly throughout the year, and that choose to annualize on Form 500UP, must enter code number "301" on one of the lines marked "code numbers" on the front of Form 510. S corporations may not use the annualization method on Form 500UP.

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 the rate of 11.5% annually or 0.9583% per month for any month or part of a month that a tax is paid after the original due date of the 2017 return but before January 1, 2019. Assistance in calculating interest is available through our Web site at www.marylandtaxes.gov or email your question to TAXHELP@comp.state.md.us. You may also call 1-800-638-2937 or from central Maryland 410-260-7980.

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.

10 SIGNATURE, VERIFICATION AND MAILING INSTRUCTIONS

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 also must sign the return and enter the firm name, address and Preparer's Tax Identification Number (PTIN). Penalties may be imposed for tax preparers who fail to sign the tax return and provide their PTIN.

Mail the completed return and all required attachments to:

**Comptroller of Maryland
Revenue Administration Division
110 Carroll Street
Annapolis, MD 21411-0001**

For more information, visit our Web site at www.marylandtaxes.gov or email your question to: TAXHELP@comp.state.md.us. You may also call 1-800-638-2937 or from Central Maryland 410-260-7980.

SCHEDULE A - COMPUTATION OF APPORTIONMENT FACTOR INSTRUCTIONS

1 PURPOSE OF SCHEDULE A

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.

2 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.

3 THREE-FACTOR FORMULA

Multi-state PTEs using the apportionment method of allocation generally are 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 as follows:

- **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.

4 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.gov 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.

5 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.

SCHEDULE B - MEMBER'S INFORMATION INSTRUCTIONS

Enter all information requested in this schedule. Enter the name, address and Social Security number or FEIN 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.

Enter the distributive or pro rata share of the business income tax credit being claimed by each member from Forms 500CR or 502S. For multiple credits enter the total distributive or pro rata amount for each member. See the instructions for Forms 500CR or 502S.

Reminder: The PTE must file Form 510 electronically to pass on a business tax credit from Form 500CR or from Form 502S. Enter the total distributive or pro rata share of tax paid, and the total distributive or pro rata share of tax credit for individual members, fiduciary members, pass-through entity members, and corporation members.

Do not enter a credit amount for the One Maryland Economic Development Tax Credit, see the instructions for Form 500CR, Part P, at www.marylandtaxes.gov.

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.gov.

To obtain a direct wine shipper's permit and a common carrier permit, businesses may apply with the Licensing and Registration Unit of the Revenue Administration Division.

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 multistate 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. A special 9% tax rate is also imposed on alcoholic beverages. 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.

911 Fee Surcharge

Sellers of prepaid wireless telecommunications services are required to report and remit to the Comptroller all Prepaid Wireless E-9-1-1 Fees collected by the seller for retail transactions of prepaid wireless telecommunications. The Prepaid Wireless E-9-1-1 Fee is 60 cents per retail transaction. The seller must report the fees collected on a Maryland Sales and Use Tax return, although the Prepaid Wireless E-9-1-1 Fee itself is not subject to Maryland sales and use tax.

Motor Fuel Tax Generally, this tax applies to businesses selling or using motor fuel in Maryland.

The Maryland motor fuel tax rate is currently 33.8¢ per gallon of gasoline and 34.55¢ 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 30% 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 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.

Direct Wine Shipper's Permit This permit is required for all in-state and out-of-state wine manufacturers that ship wine, including pomace brandy, directly to a Maryland consumer through a common carrier, such as Federal Express or UPS.

Common Carrier Permit This permit is required for a common carrier to deliver wine to a Maryland consumer.

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. 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 7/1/17. For additional information, see the next page for the addresses and phone numbers of the Maryland agencies most frequently contacted by businesses.

MARYLAND STATE AGENCIES MOST FREQUENTLY CONTACTED BY BUSINESSES

COMPROLLER OF MARYLAND www.marylandtaxes.gov
Online business registration www.marylandtaxes.gov

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.choosemaryland.org/blis

Compliance Division

301 W. Preston Street
Baltimore, MD 21201-2383

Bulk sales 410-767-1579
Business tax collections 410-649-0633
. or 888-614-6337
Sales & use tax and tire fee refunds 410-767-1530
. or 800-492-1752
Unclaimed property 410-767-1700
. or 800-782-7383

General Accounting Division

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

Good Standings 410-260-7373
. 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
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 2999
Annapolis, MD 21404-2999

Motor-fuel Licensing & Registration 410-260-7980
. or 800-638-2937
Motor Carrier & IFTA Licensing 410-260-7980
. or 800-638-2937
Alcohol & Tobacco Licenses & Permits 410-260-7980
. or 800-638-2937

Annapolis area office

110 Carroll Street 410-260-7980
Annapolis, MD 21411-0001. or 800-638-2937

- Admissions and amusement tax
- Bay Restoration Fee
- Central registration
- Employer withholding tax
- Sales and use tax
- Tire recycling fee

OTHER AGENCIES

Department of Agriculture

50 Harry S. Truman Parkway 410-841-5700
Annapolis, MD 21401 or 800-492-5590
. mda.maryland.gov
Conservation tillage equipment certification 410-841-5866

Department of Assessments & Taxation

301 W. Preston Street, Room 801
Baltimore, MD 21201-2395

. dat.maryland.gov
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

Department of Commerce

401 E. Pratt St. 410-767-6300
Baltimore, MD 21202 or 888-CHOOSEMD
. commerce.maryland.gov
Tax Incentives. 410-767-6438

Department of Labor, Licensing & Regulation

1100 N. Eutaw Street, Room 414

Baltimore, MD 21201 410-767-2000
. dlr.maryland.gov
Contributions 410-767-2412
Unemployment insurance 410-767-3246
. or 800-827-4839
Enterprise Zones -
Economically disadvantaged employee
certification 410-767-2047
Job services 410-767-2173

Department of the Environment

1800 Washington Blvd. 410-537-3000
Baltimore, MD 21230 or 866-633-6101
. mde.maryland.gov
Air management and radiation
(oil furnace conversion) 410-537-3260
Asbestos 410-537-3200

Chesapeake Employer's Insurance Company

8722 Loch Raven Boulevard 410-494-2000
Towson, MD 21286-2235. or 800-264-4943
. www.ceiwc.com

Maryland Insurance Administration

200 St. Paul Place, Suite 2700
Baltimore, MD 21202

. insurance.maryland.gov
Insurance company premium tax. 410-468-2000
. or 800-492-6116

Department of Natural Resources

Tawes State Office Building
580 Taylor Avenue
Annapolis, MD 21401-2397

. dnr.maryland.gov
Reforestation & timber stand
improvement information 410-260-8531

Utility surcharges

911 Telephone System Surcharge 410-585-3018
Environmental Surcharge on Electricity 410-767-8090
Telecommunications Access Surcharge 410-767-6962

Workers' Compensation Commission

10 East Baltimore Street 410-864-5100
Baltimore, MD 21202 or 800-492-0479
. www.wcc.state.md.us