



2013

SCHEDULE 1040C-ME

WORKSHEET FOR COMPOSITE FILING

OF MAINE INCOME TAX FOR NONRESIDENT OWNERS



\*1202125\*

Attach this worksheet to the composite return filed on Form 1040ME. For purposes of this worksheet, the term "owner" refers to a partner or shareholder of a pass-through entity.

For tax period 1/1/2013 to 12/31/2013 or MM / DD / 2 0 1 3 to MM / DD / YYYY

Entity Name Federal Employer ID Number

Contact Person: First Name MI Last Name

Contact Person: Phone Number

Number of owners participating in composite filing: Total number of owners of the entity:

1. Composite income 1. .00

2. Tax (See instructions on reverse side). Enter this amount on Form 1040ME, line 20 2. .00



If enclosing a check, make check payable to: Treasurer, State of Maine and MAIL WITH RETURN TO: MAINE REVENUE SERVICES P.O. BOX 1065 AUGUSTA, ME 04332-1065

If not enclosing a check, MAIL RETURN TO: MAINE REVENUE SERVICES P.O. BOX 1064 AUGUSTA, ME 04332-1064

File forms in this order: 1) Schedule 1040C-ME 2) Form 1040ME 3) supporting documentation

Maine Composite Income Tax Return Filing Instructions

Are nonresident individuals who are owners of a partnership/S corporation subject to Maine income tax?

Yes, if the partnership/S corporation operates in Maine. A nonresident individual is subject to Maine income tax based on Maine-source income. All income derived from or effectively connected with the carrying on of a trade or business within Maine is Maine-source income and that income is subject to Maine tax if the business is either domiciled in Maine or has nexus with Maine. An entity has nexus with Maine if, for example, it, directly or through agents, maintains an office or other place of business, executes a contract, exercises or enforces contract rights, buys or sells property or employs labor in Maine. See generally MRS Rule 808 (Corporate Income Tax Nexus). Nonresident individual owners of a partnership or S corporation do not have to be physically present in Maine to be subject to Maine tax.

Owners of a partnership/S corporation who are not Maine residents are subject to Maine income tax on that portion of their distributive share of partnership/S corporation income apportionable to Maine, based on sales of the partnership/S corporation. The minimum taxability threshold under 36 M.R.S.A. § 5142(8-B) does not apply to the Maine income earned by the partnership/S corporation or to the distributive share of that income to nonresident partners/shareholders. Partners/shareholders who are Maine residents are liable for Maine income tax on their entire distributive share of partnership/S corporation income.

Who may file a composite return?

A partnership/S corporation may elect to report and pay Maine income taxes on behalf of participating eligible persons on a composite (block-filing) basis. This method relieves participating

eligible persons of the obligation to each file Maine income tax returns based solely on the entity income of the partnership/S corporation, but does not relieve the participating eligible persons of the responsibility for accurate and timely reporting and payment of taxes.

Who may be included in a composite return?

A partnership/S corporation may file a composite return on behalf of its partners or shareholders who are eligible persons and who elect to participate in the composite filing. An "eligible person" is 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 filing jointly for federal income tax purposes and the individual's spouse has Maine-source income unrelated to the entity. A nonresident Electing Small Business Trust ("ESBT") or grantor trust may also be an eligible person if the trust has no Maine-source income other than entity income. Pass-through entities doing business in Maine may want to file a composite return on behalf of nonresident partners/shareholders in order to be exempt from the pass-through entity income tax withholding requirements for nonresident owners. See information below on the pass-through entity withholding requirement.

How do I file a composite return?

Complete Schedule 1040C-ME and Form 1040ME in accordance with the instructions below. Place forms in the following order: (1) Schedule 1040C-ME; (2) Form 1040ME; (3) supporting documentation. Returns not sent in this order may not be processed correctly.

## Schedule 1040C-ME Instructions (continued)

### Line Instructions.

**Line 1.** Calculate the composite income by entering the sum of positive amounts of Partner/Shareholder Maine Income for each partner/shareholder participating in the composite return. Do not include losses (negative amounts) when calculating composite income. See Form 941P-ME for more information on how to calculate the Maine income for each partner/shareholder.

**Line 2.** Multiply the income reported on line 1 by 7.95% (0.0795). Enter this amount on line 2 and on the composite return, Form 1040ME, line 20. No Maine income modifications are allowed.

For further guidance, see MRS Rule 805.

Complete Form 1040ME as follows:

**For Tax Period.** If other than the calendar year, enter begin 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.

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

**Filing Status.** Check Single and Composite Return.

**Residency Status.** Check nonresident.

**Line 14.** Enter composite income from Schedule 1040C-ME, line 1.

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

**Line 20.** Enter the amount from Schedule 1040C-ME, line 2.

**Line 21.** Enter the same amount as entered on line 20.

**Line 22.** Use Maine Form 1040ME, Schedule A to calculate qualifying business credits that participating members may be eligible to claim. Credits that require an income modification, such as the Maine Capital Investment Credit, and non-business credits, such as the Child Care Credit, do not qualify. The Credit for Contributions to a Family Development Account also does not qualify. The amounts allocated to participating members may be claimed in their entirety, subject to limitations and carryover provisions. Attach a copy of Schedule A to the return. See MRS Rule 805, Section 5, for more information.

**Line 24.** Subtract line 22 from line 21 and enter net tax amount.

**Lines 25a-e.** If participating eligible persons have 1099s with Maine withholding, then enter the withheld amount on line 25a (copies of the 1099s must be attached to the return). Enter the total amount of estimated tax payments, credit carried forward from the prior tax year, payment made with extension and any Real Estate Withholding tax payments allocated to participating eligible persons on line 25b. On line 25c, enter the refundable portion of the rehabilitation of Historic Properties Tax Credit related to the nonresident members participating in the composite filing. Leave line 25d blank. Enter the sum of lines a through c on line 25e.

**Line 26.** If total payments are more than net tax, enter the amount of overpayment on this line. Skip to line 30.

**Line 27.** If net tax is greater than total payments, enter the amount of underpayment on this line. Skip to line 32.

**Line 30.** Enter the amount from line 26.

**Lines 31a-b.** Enter the amount to be carried forward on line 31a. Enter any amount to be refunded on line 31b.

**Lines 32a-c.** Enter the amount from line 27 on line 32a. Enter on line 32b 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 32a and 32b on line 32c.

**Enclose with the composite return** (Form 1040ME) a copy of federal Form 1120S, pages 1-4 or federal Form 1065, pages 1-5 and a copy of the Maine Worksheet for Composite Filing (Schedule 1040C-ME).

### Does a pass-through entity filing a composite return have to withhold or pay estimated tax?

Pass-through entities doing business in Maine are generally required to withhold income taxes from nonresident owners' distributable income that is apportionable to Maine. However, the withholding is not required for owners participating in a composite filing, provided that the entity does the following:

- Collects a Nonresident Member Affidavit and Agreement to Participate in a Composite Filing of Maine Income Tax (Form 941CF-ME) from each nonresident eligible person who wants to participate in the group filing. This statement must be obtained prior to the withholding due date otherwise applicable to the member.
- Makes 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 participants in 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; and
- Files Form 941P-ME with Schedule 3P completed.
- Files a composite return.

An entity meeting all of the requirements above, should not have withheld from the members participating in the composite filing. However, if the entity inadvertently withheld amounts from the participating members, it may claim a withholding credit for the amount withheld. To do so, the entity must attach member copies of Form 1099ME to the composite return.

For more information, see the instructions to Form 941P-ME, available on the MRS web site at [www.maine.gov/revenue](http://www.maine.gov/revenue).