

**2022  
SCHEDULE  
1040C-ME**

**Worksheet for Composite Filing  
of Maine Income Tax for Nonresident Owners**



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**You must attach this worksheet to Form 1040ME (composite return).  
For purposes of this worksheet, the term "owner" refers to a partner or shareholder of a pass-through entity.**

For tax period **1/1/2022** to **12/31/2022** or

**2022**

to

MM

DD

YYYY

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 next page). Enter this amount on Form 1040ME, line 20. ....	2.		.00

Enclose the completed Schedule 1040C-ME and supporting documentation **with your completed Form 1040ME**. File forms in this order:

- 1) Form 1040ME
- 2) Schedule 1040C-ME
- 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 Maine Revenue Services ("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. § 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.

## Schedule 1040C-ME Instructions (continued)

**Centralized federal audit regime for partnerships.** Maine law requires a partnership that has not elected out of the federal centralized audit regime under Internal Revenue Code, Section 6221(b) and that is subject to an IRS audit to report information affecting the Maine tax liability of its partners to MRS. The report must be filed within 180 days of the final determination date of the federal audit. A Pass-through entity that is a partner in an audited partnership is also subject to the reporting requirement. In some cases, the partnership will be subject to Maine income tax, or eligible for a refund, on some or all of the federal audit adjustments at the partnership level. For more information and Maine reporting requirements due to federal audit adjustments, see Form 1040ME, Schedule 1040PA-ME and related instructions.

### How do I file a composite return?

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

### 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 7.15% (0.0715). 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 tax 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.** Enter the phone number for the contact person.

**Mailing Address.** Enter the 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 22.** Enter the same amount as entered on line 20.

**Line 23.** 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 Credit for Wellness Programs, and non-business credits, such as the Child Care Credit, do 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 805.05 for more information.

**Line 24.** Subtract line 23 from line 22 and enter net tax amount.

**Lines 25a-e.** If participating eligible persons have Forms 1099

with Maine withholding, then enter the withheld amount(s) on line 25a (copies of the Forms 1099 must be attached to the return). On line 25b, 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 25c, enter the refundable portion of the rehabilitation of Historic Properties and New Markets Capital Investment Tax Credits related to the nonresident members participating in the composite filing. Leave lines 25d and 25e blank. On line 25f, enter the sum of lines 25a through 25c.

**Line 28.** If total payments are more than net tax, enter the amount of overpayment on this line. Skip to line 32.

**Line 29.** If net tax is greater than total payments, enter the amount of underpayment on this line. Skip to line 34.

**Line 32.** Enter the amount from line 28.

**Lines 33a-b.** Enter the amount to be carried forward on line 33a. Enter any amount to be refunded on line 33b.

**Lines 34a-c.** Enter the amount from line 29 on line 34a. Enter on line 34b 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 34a and 34b on line 34c.

**Enclose with the Form 1040ME composite return** a copy of federal Form 1120-S, pages 1 through 5 or federal Form 1065, pages 1 through 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 under-payment of estimated tax;
- Files Form 941P-ME with Schedule 3P completed; and
- Files a composite return. (Form 1040ME and Schedule 1040C-ME).

An entity that has met 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 website at [www.maine.gov/revenue/tax-return-forms](http://www.maine.gov/revenue/tax-return-forms).