

MAINE

1989

CORPORATE
INCOME TAX
RETURN



FORM 1120-ME

GENERAL INSTRUCTIONS

1. CORPORATIONS SUBJECT TO INCOME TAX: Every entity subject to Federal Income Tax as a corporation (including exempt organizations) and doing business in Maine must file Form 1120-ME and pay its applicable Maine Corporate Income Tax. Corporations who elect to file under Subchapter "S" of the Internal Revenue Code, insurance companies subject to tax under 36 M.R.S.A., Chapter 357 (Insurance Premiums Tax and Fire Investigation and Prevention Tax) and financial institutions subject to tax under 36 M.R.S.A., Chapter 819 (Franchise Tax) are not subject to Maine Corporate Income Tax. Corporate small business investment companies, licensed under the United States Small Business Investment Act of 1958 who are commercially domiciled in Maine and do business primarily in Maine are also not subject to this tax. **NOTE: S-Corporations that incur Federal taxable income (e.g. certain capital gains, certain built-in gains) that is taxed at the corporate level are required to file Form 1120-ME and report only the income on 1120-ME that is taxed at the corporate level for federal purposes.**

2. BANKING INSTITUTIONS SUBJECT TO FRANCHISE TAX: Every corporation which is a financial institution, except a credit union; any service corporation or subsidiary as defined in 9B M.R.S.A., Section 131 and any financial institution holding company that is doing business in this State must file Form 1120B-ME and pay Maine Franchise Tax. **Please do not use Form 1120-ME.**

3. DATE FOR FILING RETURN: Corporations reporting for the calendar year 1989 should file, with payment, on or before March 15, 1990. 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 State Tax Assessor may grant a reasonable extension of time for filing a return, for just cause, providing a deposit of 100% of the tax is made on or before the original due date. Failure to Pay penalties are added for insufficient deposits. Use the Extension Voucher provided on Form 1120ES-ME when requesting extensions that necessitate an additional deposit. If the estimated tax has been paid in full, it is not necessary to file a request for extension. In this case, attach a copy of the Federal Form 7004 to the Maine Corporate Income Tax return when filed.

5. PAYMENT OF CORPORATE INCOME TAX: All corporations subject to income taxes shall pay an estimated tax unless the liability for the current taxable year or for the prior tax year reduced by any allowable credits is less than \$500. See instructions for Form 1120ES-ME for details.

6. INTEREST: Interest at 12% per annum will be added to any balance of tax due from the original due date to the date of payment and should be included with any payment.

7. PENALTIES:

a. Underpayment of estimated tax penalty (at 12% per annum) may be assessed if the sum of quarterly estimated tax pay-

ments are not at least equal to the lesser of the previous year's Maine income tax liability or ninety percent (90%) of the tax liability for the current year.

b. Late filing – late payment – penalties (in addition to interest) will be assessed for late filing of your return and for late payment of tax. Each of these penalties is 5% or \$5 per month, whichever is greater, up to 25% or \$25. Both will be assessed if the return is filed late and the tax is paid late. The law also provides for penalties for preparing or filing a fraudulent income tax return and for understatement of income.

8. ACCOUNTING PERIOD COVERED BY RETURN: Your Maine return covers the same accounting period as your Federal corporate return.

9. ACCOUNTING METHODS: A taxpayer's accounting method for Maine income tax purposes must be the same as that used 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. Any corporation which is part of an affiliated group is required to file Schedule CB and must include a legible copy of pages 1 through 4 of the Federal consolidated return. If any member(s) of the affiliated group is a FSC or Possession Corporation which is not included in the Federal Consolidated Return, also attach a copy of the Federal return for that member(s). For exempt organizations, the Maine corporate return, Form 1120-ME, must be accompanied by a legible copy of the corporation's federal return, Form 990T. For S-Corporations, the Maine corporate return, Form 1120-ME must be accompanied by a complete legible copy of the S-Corporation's federal return.

11. FEDERAL AUDIT CHANGES AND AMENDED RETURNS: All taxpayers must file a Maine amended return for any change or correction by the Internal Revenue Service in Federal taxable income within 90 days after final determination of such change or correction. Attach a copy of the Internal Revenue Agent's report to your Maine amended return.

Any taxpayer filing an amended Federal Income Tax Return must, within 90 days, file an amended Maine Income Tax Return and attach a copy of Federal Form 1120X. When filing returns that reflect federal net operating losses, a copy of the Federal Form 1139 must be attached.

The State does not provide a form for amended returns. Use Form 1120-ME for the year(s) you are amending and print or type "amended" in the upper right corner of the form.

12. CONSOLIDATED RETURNS: Affiliated non-unitary corporations will be permitted or required to file a consolidated return only if the State Tax Assessor deems such a return necessary to fairly determine net income.

13. COMBINED REPORTS: A taxable corporation which is a member of an affiliated group and which operates in a unitary fashion must file a combined return based upon Federal Taxable Income. Corporations which may be part of an affiliated unitary group but are not required to file a Federal income tax return are to be excluded from combined filing. Additionally, 80-20 corporations are excluded from the combined group.

Maine law defines affiliated group to mean a group of two or more corporations in which more than 50% of the voting stock of each member corporation is directly or indirectly owned by a common owner or owners, either corporate or non-corporate, or by one or more of the member corporations. Unitary is defined as a business activity which is characterized by unity of owner-

ship, functional integration, centralization of management and economies of scale.

Effective for tax years beginning on or after January 1, 1986 a single return may be filed on which the aggregate Maine income tax liability of the Maine-nexus members of a unitary group is reported. All members of the affiliated group are to be listed on Schedule CB. For detailed instructions see Schedule CB.

14. 80-20 CORPORATION DEFINED: An 80-20 corporation is an entity with more than 80% of its aggregate property and payroll located outside the 50 states and District of Columbia and none of its property and payroll located in this State.

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

SPECIFIC INSTRUCTIONS FOR PAGE 1 OF FORM 1120-ME

Line 1. FEDERAL TAXABLE INCOME: Enter Federal Taxable Income from Line 30 of Federal Form 1120 or Line 26 of Federal Form 1120A. Corporations which are members of an affiliated unitary group should see the instructions under "Combined Reports" on page 3, paragraph 13 and on Schedule CB.

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.

Interest from bonds issued by Maine municipalities is exempt from Maine income tax even if taxed on the federal return. Taxpayers may subtract from federal taxable income interest income and capital gains from the sale of bonds issued by the Waste Management Agency to the extent included in federal taxable income.

Line 2b. FOREIGN DIVIDEND GROSS-UP: This amount is from Federal Form 1120, Schedule C, Line 15.

Line 2c. FEDERAL JOBS CREDIT ADJUSTMENT: An adjustment equal to the taxpayer's Federal Jobs Credit is allowed. Enter the amount of the required reduction of salaries and wages on your Federal return due to the Jobs Credit. Also attach a copy of Federal Form 5884, "Jobs Credit."

Line 2d. DIVIDENDS FROM AFFILIATED CORPORATIONS: Enter 10% of all dividends from affiliated corporations which are not included with the taxpayer in a Maine combined report.

Line 4a. INCOME TAXES IMPOSED BY MAINE OR ANY OTHER STATE: Maine Law does not permit a deduction for income taxes imposed by Maine or any other state. Income taxes taken as a deduction on Federal Form 1120 must be added back to arrive at Maine taxable income.

Line 4b. UNRELATED EXPENSES: If the corporation(s) included on this return is (are) part of a group but filing separately for Maine, then any expenses incurred by the corporation(s), on

behalf of subsidiaries or other members of a group who are not included on this return, must be added back. If these expenses are not readily identifiable, or specifically assignable to a particular entity or entities, a reasonable formula may be employed. Attach supporting schedules.

Line 4c. NET OPERATING LOSS RECOVERY ADJUSTMENT: Enter on this line:

- (1) The amount of any net operating loss for this taxable year which is being carried back to previous taxable years pursuant to United States Internal Revenue Code, Section 172, and
- (2) Any net operating loss amount which has previously been used to offset the modifications provided by 36 M.R.S.A., Section 5200A, Subsection 1.

Line 6. MAINE TAXABLE INCOME: Corporations that are not part of an affiliated-unitary group and have income solely from business activity within Maine should enter on Line 6 the same amount as on Line 5. Corporations having income from within and without the State should apportion income on Schedule A and enter on this line the amount shown on Line 21 of Schedule A. All corporations who are members of an affiliated-unitary group must complete Schedule A. See General Instructions in paragraph 13, page 3 of this booklet and instructions on Schedule CB.

Line 7a. MAINE CORPORATION INCOME TAX: For tax years beginning on or after January 1, 1983 the Maine Corporate Tax Rate is as follows:

<i>If the Maine Taxable Income is:</i>		<i>The Tax is:</i>		
Not over \$25,000		3.5% of Maine Taxable Income		
	<i>But not over</i>		<i>of excess over:</i>	
\$ 25,000	\$ 75,000 . . .	\$ 875 plus 7.93%	\$ 25,000	
	75,000	250,000 . . .	4,840 plus 8.33%	75,000
	250,000	or more . . .	19,417 plus 8.93%	250,000

An affiliated group of corporations subject to Maine tax engaged in a unitary business, the respective preferential rates shall be applied only to the first \$250,000 of Maine net income of the entire group and shall be divided equally among the taxable corporations

unless those taxable corporations jointly elect a different assignment. The balance of the Maine net income of the entire group shall be taxed at 8.93%. Schedule B, page 2, 1120-ME must be completed.

Line 7b. MINIMUM TAX: Minimum tax is imposed, for each taxable year, upon every corporate taxpayer required to file a Maine Corporate Income Tax Return. Minimum tax is based on the taxpayer's tax preference as defined in the United States Internal Revenue Code, Section 57. Complete Schedule C to compute the amount to be entered on this line.

Lines 8a, b, 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 8d. OTHER CREDITS: Enter on this line the amount on

line g, Schedule D, page 2, 1120-ME. (Note the amount on line g cannot be greater than the tax liability on line 7c, page 1, 1120-ME). See instructions for Schedule D on page 5.

Line 9b. If the corporation underpaid estimated tax, attach Form 2220-ME to report the penalty or which exception(s) avoid the penalty.

Line 11a. AMOUNT OF LINE 10 YOU WISH CREDITED: Use this block only if you want to have all or a portion of the overpayment on Line 10 credited to your next year's estimated Maine corporate income tax.

Line 11b. AMOUNT TO BE REFUNDED: Enter here the difference between Line 10 and 11(a). The amount shown on this line if \$1.00 or greater will be refunded automatically.

SCHEDULE A INSTRUCTIONS

GENERAL INSTRUCTIONS: Schedule A is for corporations engaged in inter-state business and/or filing combined returns. Maine employs a three-factor formula to determine the percentage of corporate 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. If the 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:

- (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 apportionment of the taxpayer's income.

"Tax period," referred to in instructions for Lines 2, 4 and 6 means the period represented by adjusted Federal taxable income on Line 5, page 1.

"Sales" means all gross receipts.

Those corporations that are members of an affiliated unitary group see further instructions on Schedule CB.

Line 13. SALES FACTOR: The sales factor is a fraction, the numerator of which is the total sales of the taxpayer in the State during the tax period, and the denominator of which is the total sales of the taxpayer everywhere during the tax period.

Sales of tangible personal property are attributed to Maine if (1) the property is delivered or shipped to a purchaser, other than the United States Government, in Maine, 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 Maine 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 attributed to Maine if (1) the income producing activity is performed in this State; or (2) the income producing activity is performed both in and outside Maine 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 15. PAYROLL FACTOR: The payroll factor is a fraction, the numerator of which is the total paid in Maine 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 remuneration to employees for personal services, including deferred compensation. Compensation is paid in Maine if (1) the individual's service is performed entirely within this State; or (2) the individual's service is performed both within and outside Maine, but the service performed outside the State is incidental to the individual's service within Maine; 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 Maine.

Line 17. 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 Maine during the tax period and the 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 19. The apportionment percentage should be rounded to 4 decimal places. If the number of factors used in Column 2 is less than 3, divide Line 19 by number used.

Line 20. Enter adjusted Federal taxable income from page 1, Line 5 of the 1120-ME.

Line 21. Enter here the result of multiplying Line 20 by the percentage on Line 19. This is the income apportioned to Maine.

SCHEDULE D

a. **Maine Seed Capital Tax Credit:** Enter on this line the tax credit as authorized by the Finance Authority of Maine. A copy of the tax credit certificate must be attached to the return. The amount of credit is subject to limitations as outlined in 36 M.R.S.A., Section 5216B.

b. **Jobs and Investment Credit:** A tax credit for qualifying jobs and investment credit is entered on this line. Eligibility for the credit requires the addition of \$5 million of IRC Section 38 property based on the Internal Revenue Code of 1954, as of December 31, 1985, Section 38, (b) (1), and 200 new jobs in the 12 month period following the date the property was placed in service. For further details see 36 M.R.S.A. Section 5215.

c. **Employer Assisted Child Care Tax Credit:** A taxpayer constituting an employing unit is allowed a credit against tax for providing or paying day care expenses of employees subject to the limitations of 36 M.R.S.A., Section 5217. The tax credit is limit-

ed to the lowest of: A. five thousand dollars, B. twenty percent of the cost incurred by the taxpayer in providing day care services for children of employees of the taxpayer or C. one hundred dollars for each child of an employee of the taxpayer enrolled on a full-time basis. 36 M.R.S.A., Section 5217.

d. **Employer-Provided Long-Term Care Benefits Credit:** A taxpayer constituting an employing unit is allowed a credit against the tax subject to the limitations of 36 M.R.S.A., Section 5217-B. The tax credit is limited to the lowest of: a. Five thousand dollars b. Twenty percent of the costs incurred by the taxpayer in providing long-term care; or one hundred dollars for each employee-provided long-term care policy.

Any unused credit may be carried over to the following year or years for a period not to exceed 15 years.

e. **Solid Waste Reduction Investment Tax Credit:** A taxpayer constituting an employing unit may claim this credit for up to 30% of the cost of certain machinery and equipment used for reducing, reusing or recycling solid waste generated principally by the employing unit. This provision applies to purchases of eligible machinery and equipment made after January 1, 1990. The credit is limited but carry-back and carry-forward provisions apply. 36 M.R.S.A., Section 5219-C.

f. **Machinery and Equipment Investment Tax Credit:** A taxpayer is allowed a credit of 1.5% of the basis of manufacturing machinery and equipment as defined in 36 M.R.S.A., Section 1752, subsection 7-B installed in Maine during the previous three years. The credit is effective for tax years ending on or after July 1, 1990 for manufacturing equipment installed after January 1, 1989. The credit is limited but carry-back and carry-forward provisions apply. 36 M.R.S.A., Section 5219-C.

(NOTE: The total of these credits cannot be more than the tax liability on Line 7c, page 1, 1120-ME.)



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TAX LAW HIGHLIGHTS

Bonds Issued by The Maine Waste Management Agency – Taxpayers may subtract from federal taxable income interest income and capital gains from the sale of bonds issued by the Maine Waste Management Agency to the extent included in federal taxable income.

Solid Waste Reduction Investment Tax Credit – A business may claim this nonrefundable credit for up to 30% of the cost of certain machinery and equipment used for reducing, reusing or recycling solid waste. Any unused credit may be carried over to the following year or years for a period not to exceed 15 years or may be carried back for a period not to exceed 3 years. The credit will apply to such equipment purchased after January 1, 1990.

Employer-Provided Long-Term Care Benefits Credit – Employers who provide long-term care insurance for employees as a benefit may claim a nonrefundable credit for a portion of the cost incurred. This credit is effective with tax years ending on or after September 30, 1989.

Investment Tax Credit – A taxpayer is allowed a credit of 1.5% of the basis of manufacturing machinery and equipment as defined in 36 M.R.S.A., section 1752, subsection 7-B installed in Maine during the previous three years. The credit is effective for tax years ending on or after July 1, 1990 for manufacturing machinery and equipment installed after January 1, 1989. The credit is limited but carry-back and carry-forward provisions apply.

IMPORTANT INFORMATION

Federal Revenue Agent Changes and Federal Corrections – Maine law requires taxpayers to report within 90 days of final determination changes in federal taxable income. Unfortunately, many taxpayers do not comply with this requirement of law. The Bureau has started applying penalties for failure to file and/or pay as appropriate when the required reporting is ignored. These penalties for failure to file and/or pay could amount to 50% of the tax due or \$50.00, whichever is greater.

INFORMATION:
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FORMS: order by calling
toll-free within Maine
1-800-338-5811