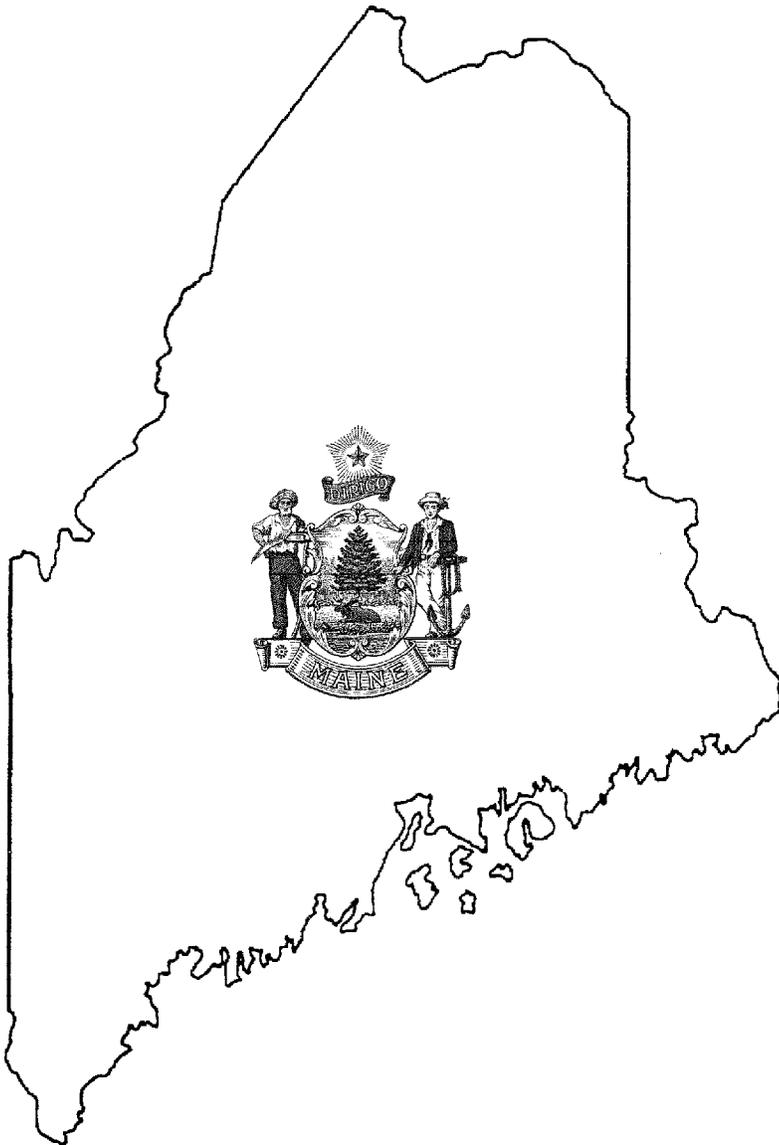


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MAINE

1999

CORPORATE INCOME TAX BOOKLET

INCLUDES FORMS:

1120ME

1120X-ME

4477ME

2220ME

ESTIMATED TAX
VOUCHERS

QUESTIONS?

C-Corporation
S-Corporation, Partnership
& Individual
Withholding
To order forms:

207-624-9670

E-mail: corporate_tax@state.me.us

207-626-8475

E-mail: income_estate_tax@state.me.us

207-626-8475

E-mail: withholding_tax@state.me.us

207-624-7894

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IMPORTANT CHANGES

NORTHERN MAINE TRANSMISSION CORPORATION – TAX EXEMPTION. The Northern Maine Transmission Corporation is established as an instrumentality of the state and subsidiary of the Finance Authority of Maine. The purpose of the corporation is to connect electric utilities in northern Maine with the transmission grid of the United States. Bonds, notes, other evidences of indebtedness; interest and profits from bonds, notes, other evidences of indebtedness; any other income or money of the corporation are exempt from all state taxes except transfer, property, inheritance and estate taxes. This bill becomes effective September 18, 1999 (10 MRSA, §9205).

PAYROLL PROCESSORS. Beginning with registrations due January 30, 2000, each payroll processor must provide proof of liability insurance equal to twice the highest weekly payroll processed by the business in the preceding year or \$5,000,000, whichever is less. For liability insurance coverage, the processor may choose from one of the following: fidelity bond, employee dishonesty bond, third-party fidelity coverage or liability insurance that includes crime coverage (10 MRSA, §1495-A(3)).

SELF-EMPLOYED HEALTH INSURANCE DEDUCTION ADD-BACK. For tax years beginning in 1999, taxpayers must add back to federal adjusted gross income 25% of any self-employed health insurance deduction claimed on the federal return as an income adjustment. For tax years beginning in 2000 and 2001, taxpayers must add back to federal adjusted gross income 16.67% of any self-employed health insurance deduction claimed on the federal return as an income adjustment (36 MRSA, §5122(1)(L)).

JOBS AND INVESTMENT TAX CREDIT. A technical change clarifies that the new retirement, health coverage and income level requirements placed on qualified jobs relate to jobs created after August 1, 1998, but before October 1, 2001 (36 MRSA, 5215(3)(B)).

FAMILY DEVELOPMENT ACCOUNT (FDA) CREDIT. Individuals whose family income is below 200% of the poverty level may open a family development account in connection with an approved community development organization. Use of these funds include educational expenses, home and auto purchases or repairs, emergency expenses for basic needs, capital to start a business and health care costs. Accounts are funded by deposits made by family members participating in the program and matching funds from community development organizations. Deposits to the fund are not exempt from tax; however, withdrawals (both principal and interest) are exempt from Maine income tax (10 MRSA, §1077(4)).

New legislation provides a credit to contributors to family development accounts. The credit per tax return is equal to the lesser of \$25,000 or 50% of the amount contributed. The credit is limited to the tax liability on the return and must be taken after the allowance of all other credits. Maine itemized deductions must exclude any contributions claimed for this credit. The aggregate allowable credit amount in a state fiscal year is limited to \$200,000. The Finance Authority of Maine is required to certify the allowable credit for each contributor. The credit applies to tax years beginning on or after January 1, 2000 (36 MRSA, §5216-C).

EMPLOYER-ASSISTED DAY CARE CREDIT. The allowable credit under this section doubles if the day care provided constitutes quality child care as defined by the Department of Human Services, Office of Head Start and Child Care. This change applies to tax years beginning on or after January 1, 2001 (36 MRSA, §5217).

EMPLOYER-PROVIDED LONG-TERM CARE CREDIT. For tax years beginning on or after January 1, 2000, employers are eligible for the Employer-provided Long-term Care Credit only if the policy on which the premiums are paid meets the federal definition of a qualified long-term care insurance contract. Premiums paid on long-term care insurance policies previously certified by the Bureau of Insurance as being eligible for this credit will continue to be eligible even if the policy does not meet the federal definition for a qualified long-term care insurance contract. Premiums claimed as Maine itemized deductions may not be used as a basis for this credit (36 MRSA, §5217-C).

HIGH-TECHNOLOGY INVESTMENT TAX CREDIT. Eligible persons must be “primarily” engaged in high-technology activities. Primarily is defined as “more than 50% of the time.” The credit applies to tax years beginning on or after January 1, 1998 (36 MRSA, §5219-M(1)(D)).

CREDIT FOR DEPENDENT HEALTH BENEFITS PAID. Employers who offer a qualified health benefit plan and employ fewer than five low-income employees may qualify for this credit. The credit is equal to the lesser of 20% of the dependent health benefits paid by the employer or \$125 per employee with dependent health benefits coverage. The credit is limited to 50% of the income tax due. Any unused credit may be carried over for two years (36 MRSA, §5219-O(1)).

CLEAN FUEL VEHICLE CREDIT. This credit is based on expenditures for the construction or installation of or improvements to any filling or charging station in Maine for the purpose of providing clean fuels to the general public for use in motor vehicles. Clean fuels include compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, alcohol fuels, electricity, solar energy and others. The credit applies to expenditures incurred on or after January 1, 1999 (36 MRSA, §5219-P(2)).

QUALITY CHILD CARE INVESTMENT CREDIT. Corporate taxpayers that incur expenses for investments in quality child care services, as defined by the Department of Human Services, Office of Head Start and Child Care, qualify for a credit equal to 30% of the eligible expenditures or \$30,000, whichever is less. The credit is nonrefundable. Any unused credit amount may be carried over until exhausted. This credit applies to tax years beginning on or after January 1, 2001 (36 MRSA, §5219-Q).

HISTORIC REHABILITATION CREDIT. A taxpayer is allowed a credit equal to the amount of the federal credit for rehabilitation of certified historic structures located in Maine. The credit is nonrefundable and is limited to \$100,000 annually per taxpayer. The credit is subject to the same recapture provisions as under the Internal Revenue Code. The credit applies to tax years beginning on or after January 1, 2000 (36 MRSA, §5219-Q).

STATE INCOME TAX REFUNDS: Corporate income taxpayers may reduce Maine taxable income by the amount of state income tax refunds included in federal taxable income provided the amount has already been taxed by Maine. The modification may not reduce Maine Net Income to less than zero. Any unused portion of the modification may be carried forward or back. Applies retroactively to tax years beginning on or after January 1, 1996; effective September 18, 1999.

STATUTE OF LIMITATIONS ON REFUND CLAIMS. The statute of limitations for claiming a refund is three years from the date of the payment of the tax or three years from the date the original return is filed, whichever is later. This change applies retroactively to tax years beginning on or after January 1, 1996 (36 MRSA, §5278(1 & 2)).

EMPLOYMENT TAX INCREMENT FINANCING (ETIF), BASE PERIOD. The base period for determining the labor market unemployment rate and the state unemployment rate is changed from the three most recently reported months preceding the date of application under the program to the twelve most recently reported months preceding the date of application. In determining qualified employees, the average annual per capita income is now calculated relative to the county in which the employees are employed instead of the labor market area in which the employees are employed. Also, the reimbursement period under the ETIF program now begins on the date benefits commence instead of on the date the ETIF program was approved (36 MRSA, c. 917).

GENERAL INSTRUCTIONS

1. CORPORATIONS SUBJECT TO INCOME TAX: Every entity (including exempt organizations) must file Form 1120ME and pay the applicable Maine corporate income tax if it meets the following criteria:

1. The entity is subject to federal income tax as a corporation and;
2. The entity realizes Maine net income.

Maine Net Income. Maine net income is the taxpayer's federal taxable income modified by Maine law and apportionable to Maine. Income is apportionable to Maine if the taxpayer conducts business in Maine or owns or uses property in Maine in a corporate capacity.

Conducting business in Maine – without limitation, a corporation conducts business in Maine if it engages in any of the following activities in this state:

1. Maintains an office or other place of business;
2. Executes a contract;
3. Exercises or enforces contract rights;
4. Buys, sells or procures services or property; or
5. Employs labor.

Owning or using property – without limitation, a corporation owns or uses property in Maine if it:

1. Owns property that is held by another person in this state under a lease, consignment or other arrangement;
2. Uses in this state property that it holds under a lease, license or other arrangement; or
3. Maintains a stock of goods in this state.

Exception for Certain Activities under Public Law 86-272. A foreign corporation that does business in Maine or owns or uses property in Maine is not subject to Maine income tax if its activities in the State are all activities that are set forth in Public Law 86-272.

a. Solicitation Activities. P. L. 86-272 precludes Maine from imposing a tax on the income of a foreign corporation if the sole activity of the corporation in this State is the solicitation by the corporation's representatives (in the name of the corporation or in the name of a prospective customer) of orders for the sale of tangible personal property, provided that the orders are sent outside of the State of Maine for approval or rejection, and provided that the orders are filled by shipment or delivery outside of Maine.

Limitations. P.L. 86-272 restricts a state's tax jurisdiction with respect to sales solicitation activities only if the taxpayer's activity is limited to solicitation of orders for the sale of **tangible personal property**. P.L. 86-272 does not afford protection in the following circumstances:

1. A **combination** of solicitation activities and non-solicitation activities in Maine;

2. The solicitation of orders for the sale or provision of **services**, either standing alone or in combination with the solicitation of orders for tangible property. Some examples of the combined sale of services and tangible personal property are photographic development and the provision of architectural or engineering services; and

3. The solicitation of orders for the sale, lease, rental, license, or other disposition of **real property** or **intangibles**.

b. De minimis activities. Non-solicitation business activities conducted by a corporation in Maine will not subject the corporation to taxation if the activities, taken together, are *de minimis*. For additional information, request a copy of Rule 808.

2. CORPORATIONS NOT SUBJECT TO THE MAINE CORPORATE INCOME TAX: Corporations that elect to file under Subchapter "S" of the Internal Revenue Code (except those with federal taxable income at the corporate level), insurance companies subject to tax under 36 MRSA, Chapter 357 (Insurance Premiums Tax and Fire Investigation and Prevention Tax) and financial institutions (see **b.** below) are not subject to Maine corporate income tax. Corporate small business investment companies, licensed under the United States Small Business Investment Act of 1958 that are commercially domiciled in Maine and do business primarily in Maine are also not subject to this tax.

a. LIMITED LIABILITY COMPANIES: Maine law allows for the formation of limited liability companies. It provides that a domestic limited liability company or foreign limited liability company doing business in Maine is classified as a partnership for Maine income tax purposes, unless classified otherwise for federal income tax purposes, in which case the limited liability company is classified in the same manner for Maine income tax as for federal income tax purposes.

b. BANKING INSTITUTIONS SUBJECT TO FRANCHISE TAX: Every corporation that is a financial institution, except a credit union, any service corporation or subsidiary as defined in 9B MRSA, §131 and any financial institution holding company that is doing business in this state must file Form 1120B-ME and pay Maine franchise tax. This requirement also applies to any financial institution organized as an S corporation, partnership or entity disregarded as separate from its owner. **Do not use Form 1120ME.**

3. DATE FOR FILING RETURN: Corporations reporting for the calendar year 1999 should file, with payment, on or before March 15, 2000. Fiscal year taxpayers should file, with payment, on or before the 15th day of the third month following the close of the taxable year.

GENERAL INSTRUCTIONS CONTINUED

4. EXTENSIONS FOR FILING: The Executive Director may grant a reasonable extension of time for filing a return. The request for extension must be filed by the 15th day of the third month following the close of the taxable year - even if no additional tax is due. The Maine extension period is the same as the federal extension plus 30 days. Use extension Form 4477ME provided in this booklet to request an extension. If you owe money, you must pay at least 90% of that amount by the original due date for filing your return in order to avoid the penalty for late payment of tax.

5. PAYMENT OF CORPORATE INCOME TAX: All corporations subject to income taxes shall make payments of estimated tax unless the liability for the current taxable year or for the prior tax year reduced by any allowable credits is less than \$1,000 (for tax years beginning on or after January 1, 1999). See instructions for Form 1120ES-ME for details.

6. INTEREST: Interest at 9% per annum, compounded monthly, will be added to the balance of any 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. Beginning January 1, 1999, the penalty is 9% per annum compounded monthly. The penalty will be assessed if the sum of quarterly estimated tax payments is 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. Exception: certain large corporations cannot use the previous year's liability in determining the required amount of estimated tax payments.

b. Late filing and late payment penalties. If a past due return is filed before the receipt or within 30 days of the receipt of a demand notice, the penalty for failure to file is the greater of \$25 or 10% of the amount of tax due. If the return is filed more than 30 days after the receipt of a demand notice, the failure to file penalty increases to 100% of the tax otherwise due.

For failure to pay a tax liability, the penalty is 1% of the tax liability for each month the payment is delinquent, up to a maximum of 25%.

c. Other penalties. The law also provides for penalties for substantial understatement of tax, negligence, fraud and for payment of tax by check that is returned for insufficient funds.

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. ADDITIONAL FORMS TO ACCOMPANY STATE RETURN:

a. The Maine corporate return, Form 1120ME, must be accompanied by a legible copy of the corporation's federal return, Form 1120, pages 1 through 4, for the same taxable period (if a member of a **Federal Consolidation**, the federal return, Consolidated Form 1120, pages 1 through 4 must be provided).

b. Any corporation subject to Maine corporate income tax that is a member of an affiliated group, whether or not unitary as defined by Maine law, **must complete Schedule CB.** Exempt organizations filing the Maine corporate return, Form 1120ME, must attach a legible copy of the corporation's federal return, Form 990T.

11. FILING REQUIREMENTS FOR S CORPORATIONS AND PARTNERSHIPS:

S corporations and partnerships, except financial institutions, that have Maine source income or that have resident shareholders or partners are required to file an information return consisting of Form 1065ME/1120S-ME, a copy of the federal return and Schedules K-1. If you are filing an information return for an S corporation that is not subject to tax at the corporate level, do not file Form 1120ME.

Shareholders and partners are subject to Maine income tax. Those who are nonresident individuals and who have no other Maine source income may satisfy the filing requirement with a composite return. In that event, the entity would file a return on behalf of its shareholders or partners using Form 1040ME labeled "composite return." For additional information, see Rule 805.

S corporations that incur federal taxable income (e.g. certain capital gains and certain built-in gains) at the corporate level are required to file Form 1120ME and report only the income on Form 1120ME that is taxed at the corporate level for federal purposes.

12. 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 with all supporting schedules to your Maine amended return, Form 1120X-ME.

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 federal Form 1139 must be attached.

In addition, an amended Maine income tax return is required to correct errors on a previously filed return. The amended return must be filed within 90 days of the discovery.

13. MAINE SALES AND USE TAX INFORMATION: Taxable items bought from out-of-state sellers that do not collect Maine sales tax are subject to a "use" tax. The use tax equals 5.5% of the purchase price where no sales tax has been paid. Use

tax is also due on mail orders where there is no sales tax. There is no use tax liability on purchases where sales tax has been **paid** to states with a sales tax rate equal to or greater than the Maine sales tax rate. If you are registered for sales/use tax purposes and are receiving returns, report purchases on the applicable "Taxable Purchases" line of that return. Call 207-287-2336 if you have questions about Maine Use Tax Law.

To obtain an application, a copy of the rule or to get more information, call 207-287-8276 or write: EFT Unit, Maine Revenue Services, 24 State House Station, Augusta, ME 04333-0024. The ACH Credit Method application and Rule 102 can also be downloaded from Maine Revenue Services' web page: <http://janus.state.me.us/revenue>.

14. ELECTRONIC FUNDS TRANSFER: Corporate taxpayers may make payments electronically using the ACH Credit Method. Credit method means that you can electronically transfer funds from your bank account to the State of Maine in the appropriate format. Taxpayers with an annual corporate liability of \$400,000 or more are mandated by Rule 102 to pay electronically. You will be separately notified if mandated.

Penalty for failure to pay by electronic funds transfer. Any person required to pay by electronic funds transfer who fails to do so is liable for a penalty equal to the lesser of 5% of the tax due or \$5,000.

Penalty for insufficient funds. The penalty for insufficient funds also applies to electronic funds transfers. The penalty is \$10 or 1% of the payment amount, whichever is greater.

AFFILIATED/UNITARY BUSINESS Combined Reporting

A taxable corporation that is a member of an affiliated group and is engaged in a multi-corporate unitary business must file a combined report based on the federal taxable income of the unitary group. Corporations that are part of an affiliated unitary group but are not required to file a federal income tax return are to be excluded from the combined filing.

Maine 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. A "**unitary business**" is one that is characterized by unity of ownership, functional integration, centralization of management and economies of scale. The cumulative effect of these characteristics is analyzed to determine if the affiliated businesses are unitary.

Unity of ownership is generally demonstrated when 50% or more of the voting stock is owned directly or indirectly by a common owner or owners, either corporate or non-corporate, or by one or more of the member entities.

Centralized Management is indicated when directors, officers, and/or other management personnel jointly participate in management decisions which effect the respective companies. Centralized management still exists when day-to-day management responsibilities are decentralized, as long as the overall strategy of the whole group is effected centrally. Other indicators of centralized management include management actions to ensure that the business segments are operated for the benefit of the entire group and not just for their own individual interest, transferring knowledge and expertise among the segments, common standards of professionalism, profitability and/or ethical practices, transferring or rotating of officers or other management employees among the business segments.

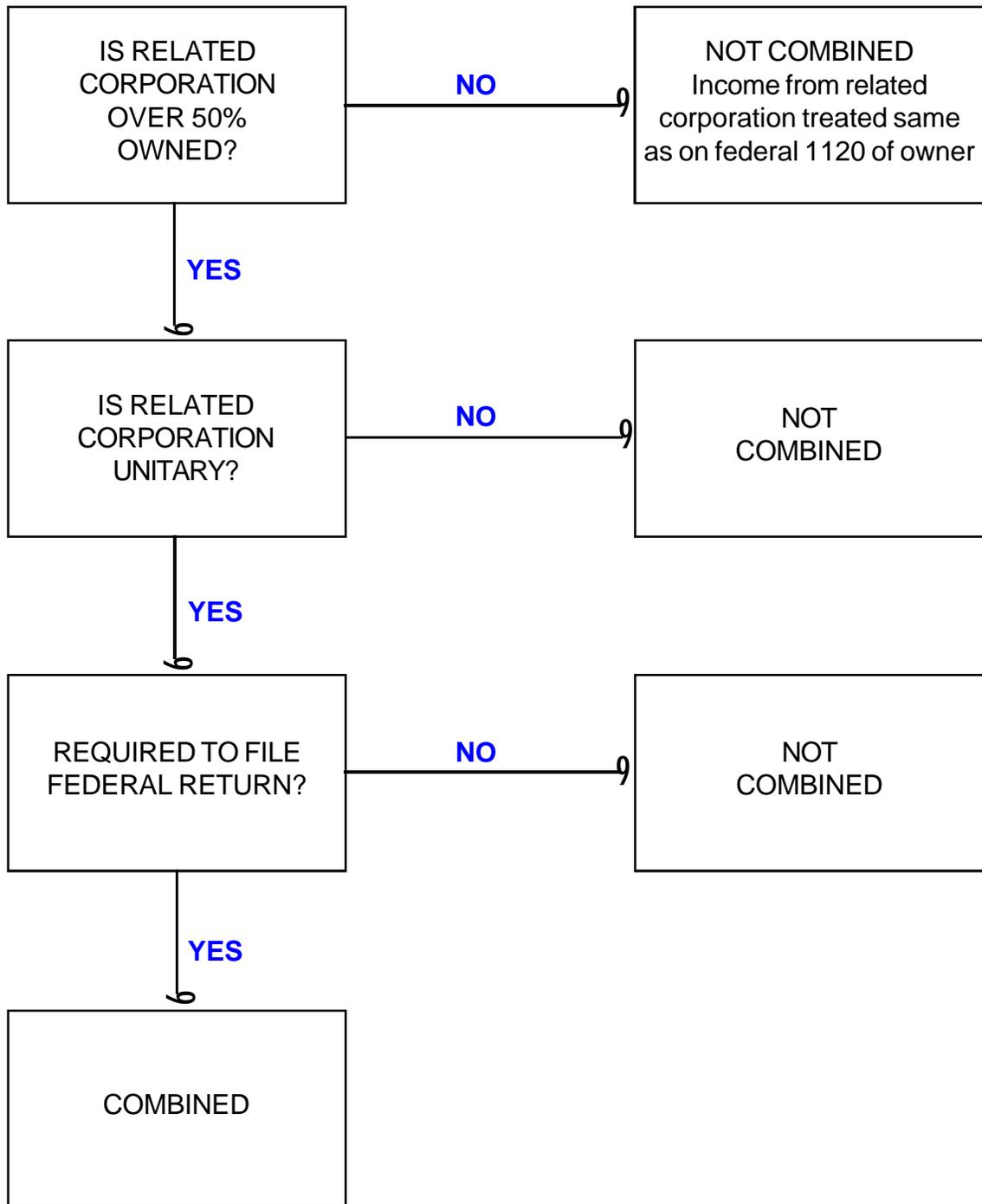
Functional integration refers to transfers between or pooling among business segments that significantly affect the business operations of the segments. There is no specific type of functional integration that must be present. Facts suggesting the presence of functional integration should be analyzed for their cumulative effect and not in isolation. Functional integration can be illustrated by: common marketing, intercompany sales, exchanges or transfers of products, services or intangibles, common distribution systems, common purchasing, etc.

Economies of Scale exist when companies interact to achieve, or have the potential to achieve, a decrease in the cost of production or in the cost of administrative functions due to the increase in size of the combination. Economies of scale may exist from the inherent cost savings that arise from the presence of functional integration or centralization of management.

A unitary determination is made by reviewing all the business activities of an affiliated group. A flow of value arising from these activities is indicative of multi-corporate unity. A unitary questionnaire is available on Maine Revenue Services web site (<http://janus.state.me.us/revenue>) to help determine whether businesses operate in a unitary manner.

See Schedule CB and instructions on pages 17-20 for additional information on combined reporting.

MAINE COMBINED REPORTING DECISION TREE



Note: For tax years beginning on or after January 1, 1997, 80/20 corporations must be included in the base for Maine net income and combined reporting.

Net Operating Loss Recovery Adjustment (Form 1120ME, line 4d). This includes:

(1) The amount of any net operating loss for this taxable year which has or will be carried back to previous taxable years pursuant to IRC, §172 and;

(2) The amount of any net operating loss carryover deduction claimed in this taxable year under IRC, §172 which has been previously used to offset Maine modifications to federal taxable income (FTI).

The following example illustrates the NOL Recovery Adjustment:

	<u>NOL Year</u>	<u>Carryback Years</u>	
	1999	1997	1998
FTI	- 60,000	30,000	25,000
NOL Carryback from 1999		<u>- 60,000</u>	<u>- 30,000</u>
Amended FTI		- 30,000	- 5,000
<u>Maine Modifications</u>			
Income taxes imposed by Maine and other states ..	12,000	10,000	8,000
NOL adjustment	60,000		
Addback of previously offset Maine modifications			10,000
Maine net income	<u>12,000</u>	<u>- 20,000</u>	<u>13,000</u>

For additional information concerning the NOL recovery adjustment, request a copy of Rule 807.

SPECIFIC INSTRUCTIONS

Line 1. FEDERAL TAXABLE INCOME: Enter federal taxable income from line 30 of federal Form 1120 or line 26 of federal Form 1120A, unless the corporation is an S corporation. For S corporations, the corporate level federal taxable income would be entered on line 1 of the Maine corporate return. Corporations that are members of an affiliated unitary group should refer to the "Combined Reporting Instructions" on pages 5 and 6 and on Schedule CB.

Line 2a. NONTAXABLE INTEREST: Enter interest on U.S. Bonds, U.S. Treasury Notes or other obligations of the U.S. government 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: Enter the amount from federal Form 1120, Schedule C, line 15.

Line 2c. WORK OPPORTUNITY CREDIT: Enter on this line an amount equal to your federal Work Opportunity Credit from federal Form 5884, line 14.

Line 2d. INCOME NOT TAXABLE UNDER THE CONSTITUTION OF MAINE OR THE U.S.: Enter non-unitary income this state is prohibited from taxing under the constitutions of the United States or the State of Maine. The amount must be decreased by any expenses incurred in the production of that income to the extent that these expenses are deductible in determining federal taxable income.

Line 2e. DIVIDENDS FROM AFFILIATED CORPORATIONS: Enter 50% of all apportionable dividends from affiliated corporations that are not included by the taxpayer in a Maine combined report. Dividends must be included in federal taxable income, line 1.

Line 2f. NET OPERATING LOSS DEDUCTION CARRYOVER: If you have a net operating loss for tax years beginning in 1989, 1990, 1991 or 1992 that was carried back for federal purposes but not allowed for Maine, you are allowed a deduction on this line as a net operating loss carryover. However, the net operating loss carryover cannot reduce Maine net income to less than zero.

Line 2g. INCOME FROM OWNERSHIP INTEREST IN FLOW-THROUGH ENTITY FINANCIAL INSTITUTIONS SUBJECT TO MAINE FRANCHISE TAX: All financial institutions are subject to Maine's franchise tax, regardless of the entity's organizational structure. If federal taxable income includes income from ownership of a financial institution that is a flow-through entity (partnership, S corporation, entity disregarded as separate from its owner), enter the amount on this line. Attach Schedule K-1 to verify this amount.

Line 2h. STATE INCOME TAX REFUNDS: Enter on this line the amount of state income tax refunds included in federal taxable income provided the amount has already been taxed by Maine. This modification may not reduce Maine Net Income to less than zero and the amount to be refunded from this state or another state may not have been previously used as a modification. Any unused portion of the modification may be carried back two years and forward 20 years.

Line 2i. NORTHERN MAINE TRANSMISSION CORPORATION ADJUSTMENT: Beginning September 18, 1999, bonds, notes, other evidences of indebtedness; interest and profits from bonds, notes, other evidences of indebtedness and any other income or money of the Northern Maine Transmission Corporation are exempt from state corporate income tax.

Line 4a. INCOME TAXES IMPOSED BY MAINE OR ANY OTHER STATE: Maine does not permit a deduction for income taxes imposed by Maine or any other state. Add back income taxes taken as a deduction on federal Form 1120.

Line 4b. UNRELATED EXPENSES: If the corporation(s) listed on this return is (are) part of a group, but filing separately for Maine, any expenses incurred by the corporation(s) on behalf of subsidiaries or other members of a group that are not included on this return must be added back. Attach supporting schedules.

Line 4c. INTEREST FROM STATE AND MUNICIPAL BONDS OTHER THAN MAINE: Corporations must add interest on state and municipal bonds that originate outside Maine to federal taxable income for Maine income tax purposes.

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

(1) The amount of any net operating loss for this taxable year which has or will be carried back to previous taxable years pursuant to Internal Revenue Code, §172, and;

(2) The amount of any net operating loss carryover deduction claimed in this taxable year under Internal Revenue Code, §172, which has previously been used to offset Maine modifications to federal taxable income. (36 MRSA, §5200A, sub-§1). See example on page 7.

Line 4e. LOSS, EXPENSES OR DEDUCTIONS FROM OWNERSHIP INTEREST IN FINANCIAL INSTITUTIONS SUBJECT TO MAINE FRANCHISE TAX: All financial institutions are subject to Maine's franchise tax, regardless of the entity's organizational structure. If federal taxable income includes a loss, expense or deduction from ownership of a financial institution that is a flow-through entity (partnership, S corporation, entity disregarded as separate from its owner), enter the amount on this line. Attach Schedule K-1 to verify this amount.

Line 4f. HIGH-TECHNOLOGY CREDIT ADD-BACK: Maine net income must be increased by the amount of investment credit base used for the high-tech credit also claimed as a business expense for federal income tax purposes.

Line 6. MAINE NET INCOME: Corporations that are not part of an affiliated-unitary group and have income solely from business activity within Maine enter on line 6 the same amount as on line 5. Corporations having income from within and outside the state apportion income on Schedule A and enter on this line the amount shown on line 17 of Schedule A. All corporations that are members of an affiliated-unitary group must complete Schedule A. See Combined Reporting Instructions on pages 5 and 6 of this booklet and the instructions on Schedule CB.

Line 7a. MAINE CORPORATE INCOME TAX: For tax years beginning in 1999, the Maine corporate tax rates are as follows:

If the Maine net income (MNI) is:

Greater Than	But not over	The tax is:
\$ 0	\$ 25,000	3.5% of Maine net income
25,000	75,000	\$ 875 plus 7.93% of the excess over \$ 25,000
75,000	250,000	4,840 plus 8.33% of the excess over \$ 75,000
250,000	or more	19,417 plus 8.93% of the excess over \$250,000

In the case of an affiliated group of corporations subject to Maine tax and engaged in a unitary business, the respective

SPECIFIC INSTRUCTIONS CONTINUED

preferential rates are applied only to the first \$250,000 of Maine net income of the entire group and are divided equally among the taxable corporations unless those taxable corporations jointly elect a different assignment. The balance of Maine net income of the entire group is taxed at 8.93%. Attach a schedule to show income assignment to each corporation.

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. Complete Schedule B to compute the amount to be entered on this line.

Lines 8a and b. CREDITS: These lines are for taxpayers that have made estimated tax payments and deposits when requesting an extension of time for filing. If claiming real estate withholding payments on line 8a, you must attach Form REW-1.

Line 8c. OTHER CREDITS: The amount on this line cannot exceed the tax liability on line 7c of Form 1120ME.

Line 9b. PENALTY FOR UNDERPAYMENT OF ESTIMATED TAX: If the corporation underpaid estimated tax, complete and attach Form 2220ME to the corporate return.

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

Line 11b. AMOUNT TO BE REFUNDED: Enter here the difference between lines 10 and 11a. Refunds of \$1.00 or more will be mailed to you.

SCHEDULE A INSTRUCTIONS

GENERAL INSTRUCTIONS

Schedule A is for corporations engaged in interstate business. Maine employs a three-factor formula to determine the percentage of corporate income that is apportioned to Maine. This percentage is derived from a fraction, the numerator of which is the property factor plus the payroll factor plus twice the sales factor, and the denominator of which is four. If the apportionment provisions do not fairly represent the extent of the taxpayer's business activity in this state, the taxpayer may petition for, or the Executive Director 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, or;
- (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 12, 13 and 14, means the period represented by adjusted federal taxable income on line 5 of Form 1120ME.

"Sales" means all gross receipts including trade sales, dividends, interest, rents and royalties.

Those corporations that are members of an affiliated-unitary group should see further instructions on pages 5 and 6, and on Schedule CB.

SPECIFIC INSTRUCTIONS

Line 12. 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 taxed 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 13. PAYROLL FACTOR: The payroll factor is a fraction, the numerator of which is total compensation paid in Maine during the tax period by the taxpayer, and the denominator of which is 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, (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 this state and the base of operations (or, if there is no base of operations, the place from where 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 14. 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 (including inventory) 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 (including inventory) 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 eight 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 the property shall be determined by averaging the values at the beginning and end of the tax period, but the Executive Director 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 16. Enter adjusted federal taxable income from page 2, line 5 of Form 1120ME.

SCHEDULE C INSTRUCTIONS

29a. 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 MRSA, §5216-B.

***29b. Jobs and Investment Tax Credit:** A tax credit for qualifying jobs and investment is entered on this line. Eligibility for the credit requires the addition of \$5 million of IRC, §38 property based on the Internal Revenue Code of 1954, as of December 31, 1985, §38(b)(1), and 100 new jobs in the 24-month period following the date the property was placed in service. For further details see 36 MRSA, §5215. **Jobs created between August 1, 1998 and October 1, 2001 must be covered by qualified retirement and health insurance plans and wages must be greater than the average per capita income in the labor market area in which the employee is employed.**

29c. Employer-Assisted Day Care Tax Credit: A taxpayer constituting an employing unit is allowed a credit for providing or paying day care expenses of employees subject to the limitations of 36 MRSA, §5217. The tax credit is limited to the lowest of \$5,000, 20% of the cost incurred or \$100 for each child of an employee of the taxpayer enrolled on a full-time basis. Carryover provisions apply.

29d. Employer-Provided Long-Term Care Benefits Credit: A taxpayer constituting an employing unit is allowed a credit against tax for providing employees with long-term care insurance coverage subject to the limitations of 36 MRSA, §5217-B. The tax credit is limited to the lowest of \$5,000, 20% of the costs incurred or \$100 for each employee provided with a long-term care policy. Carryover provisions apply.

29e. Machinery and Equipment Investment Tax Credit: Machinery and equipment placed into service prior to January 1, 1989 and after April 1, 1996 does not qualify for the Machinery and Equipment Investment Tax Credit. The credit is equal to 1% of the investment credit base of the taxpayer. Machinery and equipment on which property taxes are reimbursed pursuant to 36 MRSA, Chapter 915 are also not eligible for the investment tax credit for that taxable year (applicable to tax years ending on or after July 1, 1997). The credit is limited to 100% of the first \$25,000 of tax liability plus 75% of any liability that exceeds \$25,000. The credit may not exceed the actual tax liability. Carryover provisions apply. New legislation also requires that the 12 year reimbursement period under the Business Equipment Tax Reimbursement Program be reduced one year for every year the qualified equipment was included in the Investment Tax Credit base (36 MRSA, §5219-E).

29f. Solid Waste Reduction Investment Tax Credit: Taxpayers can claim a credit on solid waste reduction, reuse or recycling machinery and equipment certified as eligible for the credit by the State Planning Office. The credit is the amount certified by the State Planning Office and applies to machinery and equipment placed into service from January 1, 1990 to June 30, 1991 or January 1, 1993 to June 30, 1995. Carryover of any unused credit must be used by December 31, 2004. The taxpayer must attach a copy of the eligibility certificate in order to claim the credit. Recapture provisions apply on the early disposal of machinery and equipment for which a credit has been claimed (36 MRSA, §5219-D).

***29g. Research Expense Tax Credit:** The credit is 5% of qualified research expenses incurred during the taxable year that exceed the average qualified research expense for the previous 3 tax years, plus 7.5% of the basic research payments determined pursuant to IRC, §41(e)(1)(A). Only expenditures for research conducted in Maine qualify for the credit. The term "qualified research" is defined in IRC, §41(d). The credit is limited to the first \$25,000 of tax liability before credits plus 75% of the tax liability that exceeds \$25,000. Carryover provisions apply (36 MRSA, §5219-K).

29h. Super Research & Development Credit: Businesses whose Maine research expenses increase by more than 50% over the average research expenses incurred in the three years immediately preceding the effective date of the credit qualify for the credit. The credit is equal to the excess over 150% of the 3-year average. The credit is limited to 50% of the net income tax due after other credits and may not reduce the tax liability below the liability of the previous year. Maine net income must be increased by the amount of the investment credit base also claimed as a business expense for federal income tax purposes. Carryover provisions apply. **The credit applies to tax years beginning on or after January 1, 1998** (36 MRSA, §5219-L).

29i. High-Technology Investment Tax Credit: Entities engaged primarily in high-tech activities are eligible for this credit. The credit is equal to the adjusted basis of eligible equipment on the date that equipment is placed in service in Maine, net of any lease payments received during the year. Lessors may claim the credit only if the lessee waives its entitlement to the credit. The credit may not reduce current year's tax liability below the liability of the previous year after the allowance of all other credits. The credit may not reduce tax liability below zero. Carryover provisions apply. **The credit applies to tax years beginning on or after January 1, 1998** (36 MRSA, §5219-M).

29j. Maine Minimum Tax Credit: A minimum tax credit is available for tax years beginning on or after January 1, 1992. This credit is modeled after the federal alternative minimum tax credit. Complete Schedule D on page 4 of Form 1120ME to calculate your credit.

29k. Credit for Dependent Health Benefits Paid: Employers that offer a qualified health benefit plan and that employ fewer than five low-income employees may qualify for this credit. The credit is equal to the lesser of 20% of the dependent health benefits paid by the employer or \$125 per employee with dependent health benefits coverage. A taxpayer that employs five or more low-income employees after qualifying for the credit may continue to qualify for the credit for another two years. Otherwise, a taxpayer may claim a credit only for those periods during which the employer: 1) offers a qualified health benefit plan that is made available to all of its low-income employees; 2) pays at least 80% of the health insurance costs for each low-income employee under the plan, and; 3) pays at least 60% of the cost of dependent health insurance benefits for children under 19 who are dependents of a low-income employee under the plan. The credit is limited to 50% of the income tax due. Any unused credit may be carried over for two years. The credit applies to tax years beginning on or after January 1, 1999 (36 MRSA, §5219-O).

29l. Clean Fuel Credit: The credit is based on the expenditures paid or incurred for construction, installation of or improvements to any filling station or charging station in Maine for the purpose of providing clean fuels to the general public for use in motor vehicles. Clean fuel is defined as any product or energy source other than conventional gasoline, diesel or reformulated gasoline, that lowers emissions of certain pollutants. Clean fuel includes, but is not limited to, compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, hythane, dynamic flywheels, solar energy, alcohol fuels and electricity. **The credit applies to expenditures incurred on or after January 1, 1999 and automatically expires January 1, 2006** (36 MRSA, §5219-P).

(NOTE: The total of Schedule C cannot exceed the tax liability on line 7c of Form 1120ME.)

IMPORTANT: IF ALL REQUIRED LINES AND SCHEDULES (INCLUDING SCHEDULE CB) ARE NOT COMPLETED, THE RETURN IS INCOMPLETE AND NOT CONSIDERED A FILED RETURN. ALSO, PAGES 1-4 OF THE FEDERAL RETURN MUST BE ATTACHED TO YOUR MAINE CORPORATE RETURN.

*** Any employer claiming a credit amount on this line in excess of \$10,000 must file a report with the Department of Economic and Community Development. The report covers credit amounts and employment information and is available on the Maine Revenue services web site at <http://janus.state.me.us/revenue> or by calling 207-624-9670**

INSTRUCTIONS FOR SCHEDULE CB AND COMBINED REPORTING

(This schedule, when applicable, is required to be filed with Form 1120ME or Form 1120X-ME)

A. SCHEDULE CB:

Any taxable corporation with Maine nexus that is a member of an affiliated group, whether or not unitary as defined by Maine law, must complete Schedule CB. All members of the affiliated group must be listed, except those members that are not required to file a federal income tax return. In Column 6, Schedule CB, list federal taxable income for each member of the affiliated group from line 30, federal Form 1120 (from pro forma returns or from the consolidated income and expense summary). The total on line 13 is the federal taxable income of those affiliates that are unitary (those with a check mark in Column 5(a) or 5(c)).

B. COMBINED REPORTING:

A taxable corporation that is a member of an affiliated group and that is engaged in a unitary business must file a combined report and base its Maine net income on the federal taxable income of the unitary group. Corporations that are part of a unitary group but are not subject to federal income tax are to be excluded from the combined report.

“Affiliated group” means 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 (36 MRSA, §5102(1-B)). A “unitary business” is a business activity that is characterized by unity of ownership, functional integration, centralization of management and economies of scale (36 MRSA, §5102(10-A)).

All corporations required to file federal returns that are part of an affiliated unitary group are required to be included in the combined report of any taxable corporation with Maine nexus even though the affiliated corporation has no nexus with Maine, including any FSC corporations.

C. SPECIFIC INSTRUCTIONS - COMBINED REPORTING/SCHEDULE CB:

All members of the affiliated group are to be listed on Schedule CB, except those members who are not required to file a federal income tax return. The corporations listed that check Column 5(a) or 5(c) form the basis for the Maine corporate income tax return.

A single return may be filed on which the aggregate Maine income tax liability of the Maine nexus members of the unitary group is reported. In addition, a combined report shall be provided which includes, both in the aggregate and by corporation: federal taxable income; state modifications and; sales, payroll and property in Maine and everywhere. **Schedule CB, pages 1 and 2, must be completed and filed with Form 1120ME as part of this combined report.**

Line 13. Total the entries in Columns 6 through 10 for only those corporations that check Columns 5(a) or 5(c). Enter the results on line 13 and on the appropriate lines on Form 1120ME. Line 13, Column 7(A), must agree with line 2j of Form 1120ME and line 13, Column 7(B) must agree with line 4g of Form 1120ME. It is not necessary to provide detailed amounts for each corporation for the amounts entered on lines 2a, b, c, d, e, f, g, h and i and lines 4a, b, c, d, e and f of Form 1120ME. The amounts listed on line 13, Columns 8, 9 and 10 of Schedule CB must agree with those entered on lines 12, 13 and 14, Columns (A) and (B) of Schedule A, Form 1120ME.

SEE EXAMPLES ON REVERSE OF SCHEDULE CB, PAGE 2

Example 1: Corporations X, Y and Z elect to file a federal consolidated Form 1120 as part of an affiliated group. Only X has nexus with Maine. X and Y are a unitary business; Z is unitary with neither X nor Y. Schedule CB would be completed as follows:

Column 1 Name	Column 3 Nexus?		Column 5*				Column 6 FTI
	Yes	No	(a)	(b)	(c)	(d)	
Corp X	x		x				\$100
Corp Y		x	x				\$110
Corp Z		x		x			\$140

13. FTI - Unitary	\$210
14. FTI - Consolidated	\$350

* Column 5:

- (a) Unitary member of federal consolidated group
- (b) Non-unitary member of federal consolidated group
- (c) Non-consolidated unitary member, greater than 50% ownership
- (d) Non-consolidated, non-unitary member, greater than 50% ownership

FTI - Federal Taxable Income

Example 2: Corporations X, Y and Z elect to file a federal consolidated Form 1120 as part of an affiliated group. X and Y are unitary and have nexus with Maine. Z does not have nexus with Maine, and is unitary with neither X nor Y. X and Y have losses. Schedule CB would be completed as follows:

Column 1 Name	Column 3 Nexus?		Column 5*				Column 6 FTI
	Yes	No	(a)	(b)	(c)	(d)	
Corp X	x		x				– \$80
Corp Y	x		x				– \$50
Corp Z		x		x			\$150

13. FTI - Unitary	– \$130
14. FTI - Consolidated	\$20

* Column 5:

- (a) Unitary member of federal consolidated group
- (b) Non-unitary member of federal consolidated group
- (c) Non-consolidated unitary member, greater than 50% ownership
- (d) Non-consolidated, non-unitary member, greater than 50% ownership

INSTRUCTIONS FOR FORM 1120ES-ME

1. WHO MUST PAY ESTIMATED TAX?

Every corporation subject to taxation under 36 MRSA, Part 8, Income Taxes, must pay estimated tax. Effective January 1, 1999, if the income tax liability for the taxable year or for the prior tax year reduced by any allowable credits is less than \$1,000, the requirement is waived.

2. AMOUNT OF ESTIMATED TAX TO BE PAID.

The corporation required to make payment of estimated tax is liable for an estimated tax which is no less than the smaller of the following (Exception: Large corporations as defined in the United States IRC, §6655(g)(2)(A), are subject only to paragraph b, except as provided in 36 MRSA §5228(5)(C)):

- a. An amount equal to the preceding year's tax liability, if that preceding year was a taxable year of 12 months; or
 - b. An amount equal to 90% of the tax liability for the current taxable year. However, corporations cannot use current year machinery and equipment investment tax credits to determine the estimated corporate income tax liability.
-

3. DUE DATES FOR ESTIMATED TAX INSTALLMENTS.

Installment payments are due on the 15th day of the 4th, 6th, 9th and 12th months following the beginning of the corporation's fiscal year. If the due date falls on a Saturday, Sunday or legal holiday, substitute the next succeeding day which is not a Saturday, Sunday or legal holiday.

4. AMOUNT OF INSTALLMENTS.

The amount of estimated tax due for the taxable year must be paid in four equal installments unless:

- a. The taxpayer establishes by adequate record the actual distribution of tax liability and allowable credits; or
 - b. The taxpayer is a large corporation as defined by IRC, §6655(g)(2)(A). Such large corporations may elect to determine the first required installment for any taxable year based on the preceding year's state income tax liability, if that preceding year was a taxable year of 12 months. However, if the corporation so elects, the second required installment for the taxable year must equal 90% of the corporation's income tax liability for the first half of the current year, less the amount of the first installment for the taxable year as determined under this provision.
-

5. UNDERPAYMENT PENALTY.

A penalty equal to the interest rate on overdue taxes accrues automatically on underpayments of the required installment amount for the period of underpayment. The period of underpayment is the period of time from the date the installment is due until the underpayment is satisfied or until the tax return to which the estimate installment applies is due, whichever is less.

6. SHORT TAXABLE YEAR.

For a corporation having a taxable year of less than 12 months, the estimated tax must be paid in full by the 15th day of the last month of the taxable year. If you are filing a tax return for a short taxable year, identify your next filing period.



MAINE CORPORATE INCOME TAX

ESTIMATED TAX WORKSHEET

For Form 1120ES-ME

1. **MAINE NET INCOME** (check one) For immediate prior year Estimated 1. _____

2. **ESTIMATED MAINE CORPORATE INCOME TAX** 2. _____

For tax years beginning on or after January 1, 1999, the Maine corporate tax rate is as follows:

If Maine net income is:	The tax is:
Not over \$25,000	3.5% of Maine net income
\$ 25,000 but not over \$ 75,000	\$ 875 plus 7.93% of excess over \$ 25,000
\$ 75,000 but not over \$250,000	\$ 4,840 plus 8.33% of excess over \$ 75,000
\$250,000 or more	\$19,417 plus 8.93% of excess over \$250,000

3. **OVERPAYMENT** from prior year elected for credit to estimated tax: 3. _____

4. **BALANCE** of estimated Maine corporate income tax (line 2 minus line 3): 4. _____

5. **COMPUTATION and RECORD OF PAYMENTS**

Voucher Number and Date Paid	Total Estimate Original or Amended	Amount of Installment Payable	Prior Year Overpayment Applied to Installment	Balance Payable by Check	Total Payments and Refund Applied
1. _____	\$ _____	April 15 \$ _____	\$ _____	\$ _____	\$ _____
2. _____	\$ _____	June 15 \$ _____	\$ _____	\$ _____	\$ _____
3. _____	\$ _____	Sept 15 \$ _____	\$ _____	\$ _____	\$ _____
4. _____	\$ _____	Dec 15 \$ _____	\$ _____	\$ _____	\$ _____

Fiscal year corporations: Use dates corresponding with the 15th day of the 4th, 6th, 9th and 12th months of the fiscal year.

NOTE: If your estimated tax should change during the year, you may use the amended computation worksheet below to determine the amended amounts to be entered on declaration.

1. **AMENDED ESTIMATED CORPORATE INCOME TAX** 1. _____

2. **LESS:**

a. Amount of **OVERPAYMENT** from prior year credited to
this year's estimated tax and applied to date 2a. _____

b. **PAYMENTS** made for current year 2b. _____

c. **TOTAL:** Line 2a plus line 2b 2c. _____

3. **UNPAID BALANCE:** Line 1 minus line 2c 3. _____

4. **AMOUNT TO BE PAID:** Line 3 divided by number of remaining installments 4. _____

**(KEEP FOR YOUR RECORDS)
SEE REVERSE SIDE FOR INSTRUCTIONS**

ANNUALIZED INSTALLMENT WORKSHEET (located on page 28)

If your income varied during the year because, for example, you own a seasonal business or the majority of your income was received at once, you may be able to lower or eliminate the amount of your quarterly estimated tax payments by using the annualized income installment method. Use the Annualized Income Installment Worksheet to calculate the required 1999 installment for each payment due date.

SPECIFIC INSTRUCTIONS

NOTE: You must complete lines 1-18 of each column before going on to the next column.

(First complete Form 2220ME, lines 1 through 4)

Line 1 - Annualized periods. Enter on line 1, columns A through D, respectively, the annualization periods from line 1 of your federal Annualized Income Installment Method worksheet.

Line 3 - Annualization amounts. Enter on line 3, Columns A through D, respectively, the annualization amounts from line 3 of your federal Annualized Income Installment Method worksheet.

Line 6 - Alternative minimum tax. For the amount in each column, compute the annualized alternative minimum tax on Schedule B of Form 1120ME. Enter on lines 19, 20 and 21 of Schedule B the annualized amounts calculated for federal purposes for each annualized period.

Line 8. Enter the **credits** the corporation is entitled to for the months shown in each column on line 1.

Line 12. Complete lines 13 through 18 in each of the preceding columns before completing line 12.

Line 14 - Large corporations. The taxpayer is a large corporation as defined by IRC, §6655(g)(2)(A). Such large corporations may elect to determine the first required installment for any taxable year based on the preceding year's state income tax liability, if that preceding year was a taxable year of 12 months. However, if the corporation so elects, the second required installment for the taxable year must equal 90% of the corporation's income tax liability for the first half of the current year, less the amount of the first installment for the taxable year as determined under this provision.

INSTRUCTIONS FOR FORM 2220ME

PURPOSE OF FORM. Form 2220ME will enable corporations, estates, trusts and financial institutions to determine if they paid the correct amount of estimated tax by the proper due date. If the minimum amount was not paid timely, an underpayment penalty is imposed for the period of underpayment. This form helps you to determine whether or not you are subject to this penalty.

WHO MUST PAY THE UNDERPAYMENT PENALTY. If you did not pay enough estimated tax by any due date for paying estimated tax, you may be charged a penalty.

In general, you may owe the penalty if, for 1999, you did not pay the smaller of 90% of your tax liability for 1999 or 100% of the tax liability for 1998 if the 1998 return covered 12 months. Large corporations, as defined by IRC, §6655(g)(2)(A), must also meet the test required by 36 MRSA, §5228(5)(c).

EXCEPTIONS TO THE PENALTY. You will not have to pay the penalty or file this form if either of the following two situations applies:

1. Your tax liability for 1999, reduced by allowable credits, is less than \$1,000.
2. Your 1998 tax liability was less than \$1,000.

The penalty may be avoided if at least 90% of the 1999 tax was paid when due, even though you may be required to file this form.

ACTUAL LIABILITY FOR EACH QUARTER. Taxpayers are required to make four equal installments of estimated tax unless the actual liability can be established, by adequate record, for each required installment payment of estimated tax.

COMPUTATION OF UNDERPAYMENT PENALTY. If no exception applies for an installment date, complete lines 9 through 13 to determine the amount of the penalty. The penalty is based on the amount of the underpayment of the required installment for the period of underpayment. It is computed at the stated rate for each month or fraction thereof in the period of underpayment. For calendar years 1999 and 2000, the penalty rate is .75% per month or fraction thereof, compounded monthly. The effective rate for the number of months shown on line 10 is listed below.

Number of Months shown on line 10	1	2	3	4	5	6	7	8	9	10	11	12
Enter this Rate on line 11, Column A	.007500	.015056	.022669	.030339	.038067	.045852	.053696	.061599	.069561	.077583	.085664	.093807
Enter this Rate on line 11, Column B	.007500	.015056	.022669	.030339	.038067	.045852	.053696	.061599	.069561	.077583		
Enter this Rate on line 11, Column C	.007500	.015056	.022669	.030339	.038067	.045852	.053696					
Enter this Rate on line 11, Column D	.007500	.015056	.022669									

1120X-ME

General Instructions

Overpayment Defined: Excess payments for this period which have been refunded or credited to another filing period.

Purpose of form: Maine amended Form 1120X-ME must be filed if 1) an amended federal return has been filed that affects the taxpayer's liability; 2) the Internal Revenue Service has made a change or correction that affects the taxpayer's liability; or 3) there are other changes or corrections that affect the taxpayer's liability.

How to file: Use Form 1120X-ME to correct Maine Form 1120ME or Form 1120A-ME for **years beginning on or after January 1, 1991**. For years prior to 1991, use Form 1120ME for the year(s) you are amending and print or type "amended" in the upper left corner of the form.

Attach copies of federal Form 1120X or the federal revenue agent report to support changes shown on Maine Form 1120X-ME. In the event of a net operating loss, attach a copy of federal Form 1139 for each year that you are amending. **An incomplete Form 1120X-ME cannot be processed. Attaching schedules or spreadsheets in lieu of completing this form is not acceptable.**

Maine Revenue Services uses optical scanners to process Forms 1120ME and 1120X-ME; the use of these forms cannot be altered in any way. Do not change line numbers or descriptions as these changes will not be detected when scanned. All dollar amounts other than zero must be written in the appropriate column even if the amount has not changed from a previous return or filing period. Any box on Form 1120X-ME Column C which is left blank will be read as a zero.

When to file: Amended Maine income tax returns must be filed within 90 days of the final determination of the change or correction of the filing of the federal amended return or revenue agent report. File form 1120X-ME only after you have filed an original return.

Generally, to receive a refund of taxes paid, Form 1120X-ME must be filed within three years after the date the original return was filed, or within three years after the date the tax was paid, whichever is later. This time limit does not apply when the Internal Revenue Service makes an adjustment that affects the taxpayer's liability.

Combined Returns: Refer to the instructions for Schedule CB and Combined reporting in the corporate income tax booklet. You must attach a copy of Schedule CB to Form 1120X-ME if you are a member of an affiliated group, whether or not engaged in a unitary business.

SPECIFIC INSTRUCTIONS

Reason for change: Check the appropriate box to identify the reason for filing this form. 1) If an Internal Revenue Service audit change, attach a copy of the federal audit. 2) If a net operating loss, attach a copy of federal Form 1139. 3) If an amended federal Form 1120X, attach a copy of the federal amended return. 4) If an accounting change, attach approval of acceptance from the Internal Revenue Service. 5) If other, attach a written explanation of change.

Column A: Enter the amounts from your return as originally filed or previously amended. If your return was adjusted or audited by the State of Maine, enter the amounts as last adjusted.

Column B: Enter the net increase or net decrease for each line that is changed. Use a minus sign to the left of the number to indicate a decrease.

Column C: This column must be filled out completely even if the amount in Column A is not being adjusted. Combine the increase or decrease in Column B with the amount in Column A and enter the result in Column C.

SCHEDULES A - D:

Check the amended box if the schedule is being changed as a result of this amended return and complete each schedule with the amended figures. Check the original or previously adjusted box if the schedule shows the figures as last adjusted or originally filed. In all cases, properly complete Columns A, B and C of Form 1120X-ME, lines 6, 7b and 8d as they relate to Schedules A, B and C.

SCHEDULE A: Schedule A is for corporations engaged in interstate business. If this is the case, you must complete this schedule, even if you are not changing the figures from the original or as previously adjusted. See additional Schedule A instructions on page 9.

SCHEDULE B: Complete this schedule even if figures are the same as originally filed or previously adjusted. The rate (line 25) is 29.7% for years prior to 1993 and 27% for years 1993 and after.

SCHEDULE C: If you had other credits on your original return, you must enter those credits here, even if you are not making any adjustments. See additional Schedule C instructions on page 10.

SCHEDULE D: A minimum tax credit is available for tax years beginning on or after January 1, 1992. This credit is modeled after the federal alternative minimum tax credit. Complete this schedule to calculate your credit. You must complete this schedule and enter line g on Schedule C, line 29k, even if you are not changing the figures from the original return or as previously adjusted.

