



# Instructions For Maine Corporate Income Tax Return 1986

FORM 1120 - ME.

## TAX LAW CHANGES FOR 1986:

**Combined Reports** — A single return may be filed on which the aggregate Maine Income Tax Liability of Maine-nexus members of a unitary group is reported. See page 2, paragraph 14 and Schedule CB.

**Maine Corporate Income Tax Preferential Rates** — In the case of an affiliated group of corporations 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. See page 3, instructions for Line 7a.

**Minimum Tax** — The method of calculating Maine Corporate Minimum Tax has changed. See page 3, instructions for Line 7b.

**Estimated Tax** — There are changes in certain requirements for payments of estimated tax. See page 2, paragraphs 5 and 7.

**NOTICE TO CORPORATIONS NOT REGISTERED FOR REPORTING  
SALES/USE TAX ON OUT-OF-STATE PURCHASES. SEE INSERT.**

For additional information or forms, contact:  
BUREAU OF TAXATION - INCOME TAX SECTION  
State Office Building  
Augusta, Maine 04333  
Telephone: (207) 289-3695

GENERAL INSTRUCTIONS

1. **CORPORATIONS SUBJECT TO INCOME TAX:** Every entity subject to Federal Income Tax as a corporation and doing business within the State of Maine must file Form 1120-ME and pay its applicable Maine Corporate Income Tax, except corporations having an election under Subchapter "S" of the Internal Revenue Code (small business corporations), insurance companies subject to tax under 36 M.R.S.A., Chapter 357 (Insurance Premiums Tax and Fire Investigation and Prevention Tax), financial institutions subject to tax under 36, M.R.S.A., Chapter 819 (Franchise Tax), and corporate small business investment companies, licensed under the United States Small Business Investment Act of 1958 and commercially domiciled in Maine and doing business primarily in Maine.

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 the Maine Franchise Tax. Please do not use this Form 1120-ME.

3. **DATE FOR FILING RETURN:** Corporations reporting for the calendar year 1986 should file, with payment, on or before March 15, 1987. 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 not less than 100% of the estimated tax is made on or before the original due date. Negligence penalties may be added for insufficient deposits. The Extension Voucher provided on Form 1120ES-ME should be used when requesting extensions that require 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 taxable corporations are required to pay estimated tax if the Maine Corporate Income Tax Liability for the taxable year can reasonably be expected to exceed \$500. See the instructions for Form 1120ES-ME for complete details. The present declaration Form 1120ES-ME voucher will continue to be used, but note that a signature is no longer required. As far as practical, Form 1120ES-ME vouchers and instructions will be mailed directly to taxpayers. However, if you do not receive them, they are available upon request from the Bureau of Taxation, Income Tax Section.

6. **INTEREST:** Interest at the prevailing rate 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 payments.

7. **PENALTIES:** Penalties may be applied to any tax due at the time of filing, if the payment deposited with the Extension Voucher and estimated tax payments (Form 1120-ES-ME.) are not equal to the lesser of:

- a. Previous year's Maine Corporate income tax liability, or
- b. at least 90% of the tax found to be due at time of filing of Maine Corporate Income Tax Return.

8. **PERIOD COVERED BY RETURN:** Your return will cover the same period as Federal Form 1120.

9. **ACCOUNTING METHODS:** A taxpayer's method of accounting for Maine Income Tax purposes must be the same as his method of accounting 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 most include a legible copy of pages 1 through 4 of the Federal consolidated return. If any member(s) of the affiliated group is a DISC, 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).

11. **FEDERAL AUDIT CHANGES AND AMENDED RETURNS:** All taxpayers must report any change or correction by Internal Revenue Service in Federal taxable income within 90 days after final determination of such change or correction.

Any taxpayer filing an amended Federal Income Tax Return must, within 90 days, file an amended Maine Income Tax Return. 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 1120X-ME for amended returns. Use Form 1120ME 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. Permission to file a consolidated return will not be granted to effect a tax savings.

13. **ALLOCATION AND APPORTIONMENT:** The State Tax Assessor has issued Rule 801 relating to the determination of business and non-business income. This rule is available upon request.

14. **COMBINED REPORTS:** Effective for tax years ending in 1983 and thereafter, 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. Additionally, any open periods may be amended to reflect combined reporting, either by the taxpayer or by the Bureau upon audit. 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.

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 ownership, 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 more detailed instructions, see Schedule CB. If you did not receive Schedule CB with your return forms and are subject to combined reporting, it is available upon request from the Bureau of Taxation, Income Tax Section.

**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. Those corporations which are members of an affiliated unitary group see further instructions under "Combined Reports" on page 2 and on Schedule CB.

**NET OPERATING LOSS:** The amount on Line 1 may be a negative amount only in the year of loss. If Federal Taxable Income as reported on the Federal return is a negative amount as the result of a net operating loss deduction, enter zero on Line 1 of Form 1120ME.

**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.

**Line 2b. FOREIGN DIVIDEND GROSS-UP:** This is the amount from Federal Form 1120, Schedule C, Line 10.

**Line 2c. FEDERAL JOBS CREDIT ADJUSTMENT:** Effective January, 1977, an adjustment equal to the taxpayer's Federal Jobs Credit will be permitted. This should be accomplished by showing here the amount of the required reduction of salaries and wages on your Federal return, due to the Jobs Credit. A copy of Federal Form 5884, "Jobs Credit," must also be attached.

**Line 2d. RECOVERY OF 1984 DEPRECIATION ADD-BACK:** Enter on this line one-third of the depreciation adjustment you were required to make on your 1984 return. Attach a schedule of your own design to support your entry on this line.

**Line 4a. INCOME TAXES IMPOSED BY MAINE OR ANY OTHER STATE:** The Maine Income Tax Law does not permit a deduction for income taxes imposed by Maine or any other state. Therefore, 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 apportionment formula may be employed. Supporting schedules detailing this adjustment must be attached.

**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 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 who are not part of an affiliated-unitary group and have income solely from business activity within this State should enter here the same amount as on Line 5. Corporations having income from within and without the State should allocate and apportion income on Schedule A and enter on this line the amount shown on Line 25 of Schedule A. All corporations who are members of an affiliated-unitary group must complete Schedule A. See General Instructions in paragraph 14, page 2 of this booklet and detailed 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

In the case of 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 apportioned equally among the taxable corporations unless those taxable corporations jointly elect a different apportionment. The balance of the Maine net income of the entire group shall be taxed at 8.93%.

**Line 7b. MINIMUM TAX:** A minimum tax is imposed, for each taxable year, upon every corporate taxpayer required to file a Maine Corporate Income Tax Return. This minimum tax is based upon that taxpayer's items of tax preference as defined in the United States Internal Revenue Code of 1954, Section 57, but excluding the capital gain tax preference item in the United States Internal Revenue Code of 1954, Section 57, Subsection (a) (9) (B). The tax imposed is equal to the result of multiplying the net amount of the tax preference items by 2.25% reduced by the greater of \$1,500 or the taxpayer's corporate income tax as listed on Line 7a of the return. Complete Schedule B 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. SPECIAL QUALIFYING INVESTMENT:** Enter on this line the amount of credit for qualifying investment in the Maine Capital Corporation and/or the Maine Natural Resource Capital Company. The amount of the credit is 10% of your qualified investment subject to limitations as outlined in 36 M.R.S.A., Sections 5216 and 5216A.

Also enter on this line qualifying Jobs and Investment Tax Credit as outlined in 36 M.R.S.A., Section 5215. Eligibility for the credit requires the addition of \$5 million of IRC sec 38 property and, generally, 200 new employees in Maine within a single taxable year.

**Line 9a. TAX BALANCE DUE:** If this amount is less than one dollar (\$1.00) no payment need be made.

**Line 9b.** If the corporation underpaid estimated tax, attach Form 2220ME to show how you computed the penalty or which exception(s) avoid the penalty.

**Line 11a. AMOUNT OF LINE 10 YOU WISH CREDITED:** Use this block only if you elect 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 automatically be refunded.

## INSTRUCTIONS FOR SCHEDULE A OF FORM 1120-ME

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

- (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 allocation and 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 not allocated.

Those corporations who are members of an affiliated unitary group see further instructions on Schedule CB which is available upon request.

**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. For the definition of "sales" for Maine Corporate income tax purposes, please refer to Rule 801.

**Sales of tangible personal property** are in this State, (1) if the property is delivered or shipped to a purchaser, other than the United States Government, within this State, 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 this State 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 in this State, if (1) the income producing activity is performed in this State; or (2) the income producing activity is performed both in and outside this State 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 amount paid in this State 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 this State, (1) if the individual's service is performed entirely within this State; or (2) the individual's service is performed both within and without the State, but the service performed without the State is incidental to the individual's service within the State; 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 the State.

**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 this State 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.** Apportionment factor or percentage, rounded to 4 decimal places, to be applied to business income on Line 22. If 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 on Line 21 all nonbusiness income allocable to Maine or any other state during the tax period. Do not include interest on United States obligations or Foreign dividend gross-up accounted for on page 1.

**Line 22.** Amount on Line 22 represents business income only, as determined by subtracting nonbusiness income (Line 21) from adjusted Federal taxable income. This is the amount on which the percentage on Line 19 should be applied.

**Line 23.** Enter here the result of multiplying Line 22 by the percentage on Line 19. This is your business income apportioned to Maine.

**Line 24.** This line pertains to nonbusiness income directly allocated to the State of Maine during the tax period. Any income which does not arise from activities in the regular course of trade or business, or which does not arise from property which constitutes an integral part of the taxpayers trade or business shall be allocated to Maine to the extent it can reasonably be determined to be derived from sources within Maine.

**Line 25.** This figure represents taxable income apportioned and allocated to Maine and should be entered on Line 6, page 1 of Form 1120-ME.

**Lines 26 & 27.** Supporting schedules, listing type and/or source of nonbusiness income and related expenses, must be attached to the Maine return. For specific instructions on allocation, please refer to Chapter 821, Section 5211 of the Maine Income Tax Law and Rule 801, concerning allocation and apportionment of income. A copy of the law, Rule 801, or further information may be obtained from: Bureau of Taxation, Income Tax Section.