2014 Montana Form CLT-4S

Small Business Corporation Booklet

MONTANA DEPARTMENT OF REVENUE

Montana Department of REVENUE

Toll Free (866) 859-2254
Helena (406) 444-6900
revenue.mt.gov

It's Easy to File and Pay Electronically!

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Choose e-file and direct deposit for a faster refund!

Hello Montana Taxpayer,

Thank you for filing your Montana tax return. In the graphs below this message you can see where our Montana tax resources come from and how they are used.

As you file your taxes and have questions, please feel free to ask us for help. You can contact our call center toll free at 866-859-2254, or in Helena at 444-6900. We also welcome you to stop by our offices in Helena and 56 counties.

As the internet becomes a more important and convenient way of doing business, we encourage you to file electronically. Please visit our website for helpful information and online options at *revenue.mt.gov*. The benefit of filing electronically will be more efficient processing of your return and a quicker refund back to you.

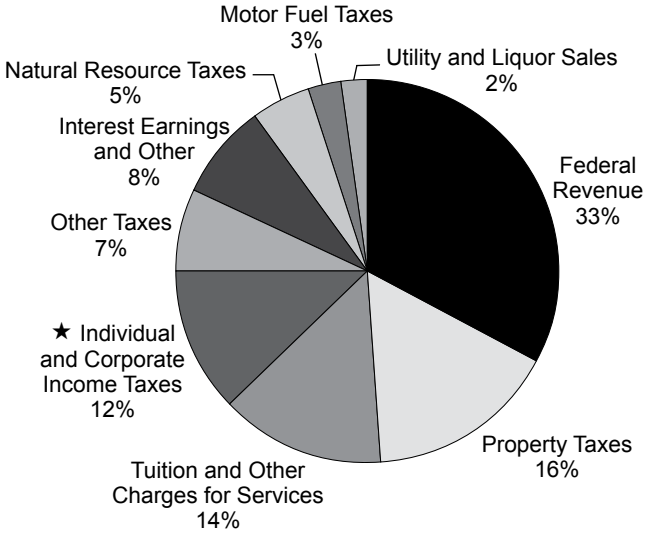
Regards,

Mike Kadas, Director
Montana Department of Revenue

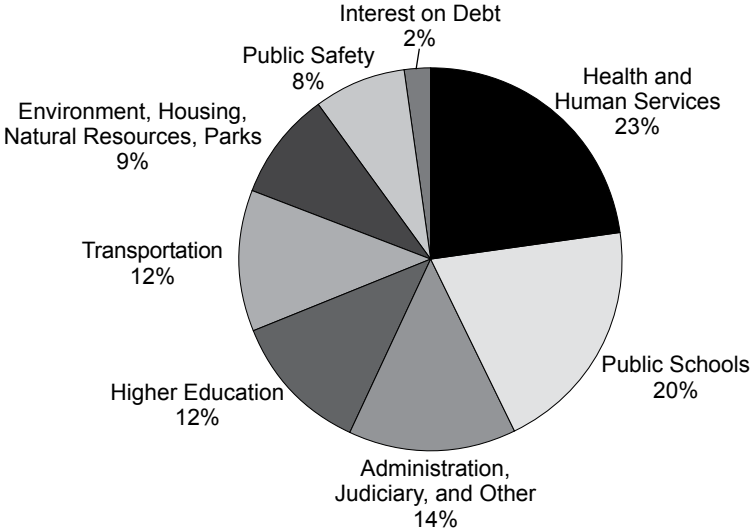
Your Tax Dollars at Work

The first chart shows the sources of revenue for both state and local governments in Montana for 2011, the most recent year for which totals are compiled. The second chart shows state and local spending.

What are Montana's Public Revenues?
Total Montana State and Local Revenue, Fiscal Year Ending 2011



Where Do Your Public Dollars Go?
Total State and Local Spending in Montana, Fiscal year Ending 2011



★ Where Your Income Tax Dollar Goes

Education	47%
Health and Human Services	22%
Public Safety and Corrections	15%
General Government Operations	8%
Transfers to Local Governments	6%
Other	2%
Total Spending	100%

The table above shows where your individual and corporate income tax dollars—about 12% of total state and local revenues—were spent in 2011.

E-file Small Business Corporation Returns

Montana participates in the federal/state e-file program. Whether you want to file your own return or file through your favorite preparer, there are options to fit your needs.

You may find a list of available software products on our website at *revenue.mt.gov*.

E-Pay

Pay with e-check or credit/debit card.

Taxpayer Access Point (TAP)

https://tap.dor.mt.gov

Pay current-year, prior-year, estimated and extension taxes.

Taxpayer Access Point (TAP)

Free online services at *https://tap.dor.mt.gov*.

- View and print prior year returns.
- Pay with e-check, credit or debit card.
- View prior payment history.
- Manage your profile information.
- Authorize tax preparer or third party access.

The following form is not included in this booklet, but you may choose to file it.

Form PT-AGR Montana Pass-Through Entity Owner Tax Agreement

Form PT-AGR is due on or before the due date of the S corporation's return, including extensions. Do not attach Form PT-AGR to the return. Please submit Form PT-AGR separately, or file it through Taxpayer Access Point (TAP).

This form is available on our website at ***revenue.mt.gov***. You may also order your form by calling us toll free (866) 859-2254 (in Helena, 444-6900).

Table of Contents

Instructions 1-11

FAQs – Frequently Asked Questions..... 12-16

Form pages

CLT-4S Montana S Corporation Information and Composite Tax Return 1-2

Schedules:

I Apportionment Factors for Multi-State S Corporations 3

II Montana S Corporation Tax Credits.....4

III Montana S Corporation Information.....5

IV Montana S Corporation Composite Income Tax Schedule 6

VI Reporting of Special Transactions 7

K-1 Partner's/Shareholder's Share of Income (Loss), Deductions, Credits, etc.....Follows forms

What's New for 2014?

Unlocking State Lands Credit

Beginning with the 2014 tax year, the Unlocking State Lands Program allows a landowner to enter into a contractual agreement with the Montana Department of Fish, Wildlife and Parks to provide public recreational access where no legal public access currently exists. The landowner may receive an annual tax credit in the amount of $500 per agreement (up to a maximum of $2,000 tax credit per year) for allowing such access. For additional information, please refer to *fwp.mt.gov*.

Updated Schedules

As a result of feedback we received from taxpayers and tax practitioners, we updated the following schedules for 2014.

- **Schedule II – Montana S Corporation Tax Credits**

  We added line 17 to Schedule II to allow an S corporation to report the unlocking state lands credit for 2014. If an S corporation received the credit from the Department of Fish, Wildlife and Parks, report the total amount of the credit(s) on Schedule II, line 17 and then report each shareholder's portion of the credit on a Montana Schedule K-1.

- **Schedule III – Montana S Corporation Information**

  Column D – We changed the reporting requirement for Schedule III, column D. Beginning in 2014, S corporations will enter each shareholder's pro rata share of Montana source income in column D. The Montana pro rata share more accurately reflects the amount of Montana source income that each shareholder may be responsible to report on their personal Montana income tax return.

  Line 8 – We simplified the calculations for the column totals on line 8. Beginning in 2014, S corporations will only report the total of all rows for columns D, E and F. Previously, S corporations subtotaled seven rows for each column. The subtotal line was removed to help reduce confusion so that the total of column D matches Form CLT-4S, line 20, the total of column E matches Form CLT-4S, line 21 and the total of column F matches Form CLT-4S, line 22.

  Entity Type Codes – We added a new entity type code as an option for Schedule III, column B. The entity type code is TE for tax-exempt entity. The new code will help S corporations more accurately identify their owners. The new code will help the department's information system more efficiently process returns.

Form CLT-4S Instructions

Heading

Tax Year

The same tax year used for federal income tax purposes (as indicated on the federal return) must be used for Montana income tax purposes. If the S corporation has a fiscal year, enter the beginning and ending dates of the fiscal year. Use the 2013 Form CLT-4S if the S corporation's fiscal year began in the 2013 calendar year.

Name and Address

Enter the S corporation's name (as it appears in the articles of incorporation or other formation documents) and mailing address in the spaces provided.

Federal Employer Identification Number (FEIN)

Enter the FEIN from page 1 of the federal Form 1120S. Montana uses the FEIN for identification purposes.

Schedule K-1 and Shareholder Information

The S corporation has to include with the Form CLT-4S a Montana Schedule K-1 for each shareholder. Enter the number of included Montana Schedule(s) K-1. Also enter the number of resident, nonresident and other types of shareholders. An example of an other type of shareholder is a foreign C corporation that administers the assets of an employee pension plan trust.

State of Incorporation

Enter the state in which the S corporation was incorporated and the date it was incorporated.

Important Include a copy of the *IRS Notice of Acceptance as an S Corporation* letter with the tax return the first year the S election is in effect.

MT Secretary of State ID Number

Enter the S corporation's Montana Secretary of State identification number. The identification number begins with a letter. Enter the letter in the first space provided. A domestic S corporation received this number when it incorporated in Montana. A foreign S corporation received this number when it obtained a certificate of authority to do business in Montana. To find the S corporation's identification number, please visit the Montana Secretary of State's website at *sos.mt.gov* and search for the S corporation's business name under the Business Services section.

Federal Business Code/NAICS

Enter the Principal Business Activity Code number from page 1, Box B, of federal Form 1120S. The Principal Business Activity Code is based on the North American Industry Classification System (NAICS). For further information, please visit *naics.com*.

Foreign S Corporations: Date S Corporation Obtained Certificate of Authority from Montana Secretary of State

If the entity is a foreign S corporation, enter the date that the S corporation obtained a certificate of authority to do business in Montana from the Montana Secretary of State.

Line Instructions

Lines 1 through 10 – Shareholders' Pro Rata Share of Income Items

Enter the amounts reported on the federal Form 1120S, Schedule K, Shareholders' Pro Rata Share Items, lines 1 through 10.

Line 5 – Ordinary Dividends

Enter the total amount of ordinary dividends reported on the federal Form 1120S, Schedule K, line 5a. Montana taxes dividends as ordinary income and does not apply the federally qualified dividend tax rate.

Lines 12a-e – Shareholders' Pro Rata Share of Deduction Items

Enter the amount of deductions reported on the federal Form 1120S, Schedule K, Shareholders' Pro Rata Share Items, lines 11 and 12.

Line 13 – Total Federal Deductions

Add lines 12a through 12e.

Line 14 – Federal Income from All Sources

Subtract line 13 from line 11.

Line 15 – Shareholders' Pro Rata Share of Montana Additions to Income

To compute Montana income taxable to shareholders, certain items have to be added to income. A detailed statement of each item must be included with the tax return.

Line 15a

Enter the interest and mutual fund dividend income that the S corporation received from bonds and obligations of another state, territory or political subdivision of another state (county, municipality, district, etc.).

Line 15b

State, local and foreign income taxes based on income or profits have to be added back to income.

Line 15c

Report all other additions.

Examples include:

- Compensation and expenditures used to compute the film production credit have to be included in the income of the year that the compensation and expenditures were incurred.
- If the S corporation received a tax credit from the Insure Montana small business health insurance program, it is not allowed a deduction for the premiums used to calculate the credit. Because the credit cannot exceed 50% of the premiums, multiply the amount of credit claimed by two and enter the result on this line.

Line 16 – Shareholders' Pro Rata Share of Montana Deductions to Income

To compute Montana income taxable to shareholders, certain items are deducted from income. A detailed statement of each item must be included with the tax return.

Line 16a

If the S corporation received interest on United States government obligations and mutual fund dividends attributable to that interest, the S corporation can subtract these amounts from total federal income as long as they are included on line 11, total federal income. In addition, if the S corporation received interest on obligations from U.S. territory or government agency obligations that are specifically exempt by federal law or any mutual fund dividends attributable to this interest, the S corporation can subtract these amounts from total federal income as long as they are included on line 11, total federal income.

Interest on obligations that are only guaranteed by the United States government is not tax exempt. If the S corporation received interest or mutual fund dividends attributable to Government National Mortgage Association (Ginnie Mae) bonds, Federal National Mortgage Association (Fannie Mae) bonds or Federal Home Loan Mortgage Corporation (FHLMAC) securities, the S corporation cannot subtract the interest or mutual fund dividends.

United States obligations that are exempt include:

- Series E, EE, F, G and H savings bonds
- U.S. treasury bills
- U.S. government notes
- U.S. government certificates

Please refer to the S corporation's federal Form 1099-DIV to determine what percentage of the dividends qualify for an exemption from Montana individual income tax.

Line 16b

Deduct an additional amount equal to 10% of the expenditures for the purchase of qualified recycled material that was otherwise deductible as business-related expenses in Montana, as computed on Montana Form RCYL, Part V. Form RCYL has to be included with the tax return if the S corporation files a paper return. If the S corporation files electronically, the S corporation represents that it has a copy in its records.

Line 16c

Report other deductions on this line, including the following:

- A deduction equal to fair market value, not to exceed 30% of the net income, of a computer or other sophisticated technological equipment or apparatus intended for use with the computer donated to an elementary, secondary or accredited postsecondary school located in Montana.

- The amount of contributions made by a small business to its independent liability fund. Please see 33-27-117(1), MCA.
- A portion of an investment made in a building for the purpose of conserving energy. To qualify, the building has to be used in the S corporation's business and the result of the investment has to be a substantial reduction in the amount of energy needed to render the building usable. Please see 15-32-103, MCA.
- Documented expenses for the donation of mineral exploration information to the Montana Tech Foundation. Please see 15-32-510, MCA.
- Nonbusiness income that is allocated to a specific state. This income is not included in computing the S corporation's income apportioned to Montana. Nonbusiness income that is allocated to Montana is entered on line 19.
- Distributive items of income (loss) that the S corporation received from a pass-through entity.

Line 17

Add lines 14 and 15, then subtract line 16.

All S corporations are required to complete lines 18 through 20.

Line 18 – Income Apportioned to Montana

For S corporations without multistate activity, enter 100% as the apportionment percentage and multiply the amount that is reported on line 17 by 100%. Enter the result on line 18.

For multistate S corporations, multiply the amount that is reported on line 17 by the apportionment percentage reported on line 5 of Schedule I, Apportionment Factors for Multistate S Corporations. Enter the result on line 18. See the instructions for Schedule I on page 6.

Line 19 – Income Allocated to Montana

For both multistate S corporations and S corporations without multistate activity, report Montana source income subject to allocation on this line. See FAQ ⓲ for "allocation of income" on page 15.

For the amount reported on line 19, the S corporation must include each of the following with Form CLT-4S:

- a statement showing each item of Montana source income subject to allocation, and its related expenses
- a statement explaining the reason for treating the item of income as Montana source income subject to allocation
- a copy of the other state's income tax or information return, if the S corporation allocates an item of income to a state other than Montana (If the S corporation is not required to file an income tax or information return with the other state, the S corporation must indicate this in a statement.)

Line 20 – Total Montana Source Income

Add the amounts on lines 18 and 19.

Line 21 – Total Montana Composite Return Tax

Enter the total amount of composite tax reported on Schedule III, column E. See instructions on page 8.

Line 22 – Total Shareholder Withholding from Schedule III

Enter the total from Schedule III, column F. This is the total amount of tax the S corporation paid to Montana on behalf of its shareholders. The shareholders will claim this amount as a refundable credit on their own Montana tax returns. This amount does not include pass-through withholding amounts paid by another pass-through entity on behalf of the S corporation and reported to the S corporation on a Montana Schedule K-1.

Line 23a – Total Montana Mineral Royalty Tax Withheld

Enter the total amount of mineral royalty tax the S corporation paid and/or the total amount of Montana mineral royalty tax withheld on behalf of the S corporation by a lower-tier pass-through entity. These amounts will be reported on federal Form(s) 1099 and Montana Schedule(s) K-1.

Royalty payments made to owners of Montana mineral rights are subject to withholding if certain thresholds are met. This withholding should not be confused with the amounts deducted from the S corporation's royalty payments for production taxes. For more information, please visit the "Mineral Royalty Withholding" link at *revenue.mt.gov*.

Line 23b – Mineral Royalty Tax Withheld Distributed to Shareholders

Enter the amount of mineral royalty tax withheld reported on line 23a that is distributed to shareholders.

Line 23c – Montana Mineral Royalty Tax Withheld Attributable to S Corporation

Subtract line 23b from 23a. This is the amount of Montana mineral royalty tax withheld that is attributable to the S corporation.

Line 24a – Total Montana Pass-Through Withholding

If the S corporation has an ownership interest in a pass-through entity that had Montana source income and the pass-through entity paid Montana income tax on behalf of the S corporation, enter the amount here. This amount is reported to the S corporation on a Montana Schedule K-1.

Line 24b – Montana Pass-Through Withholding Distributed to Shareholders

Enter the amount of Montana pass-through withholding reported on line 24a that is distributed to shareholders.

Line 24c – Montana Pass-Through Withholding Attributable to S Corporation

Subtract line 24b from line 24a. This is the amount of Montana pass-through withholding that is attributable to the S corporation.

Line 25 – Total Withholding Payments Attributable to S Corporation

Add lines 23c and 24c. This is the total withholding payments attributable to the S corporation.

Line 26 – Return Payments

Line 26a – 2013 Overpayment Applied to 2014

Enter any overpayments from 2013 that were credited to 2014.

Line 26b – 2014 Estimated Tax Payments

Enter the total Montana estimated tax payments that the S corporation made for 2014.

Line 26c – 2014 Extension Payment

Enter any extension payment for 2014 made on or before March 16, 2015.

Line 26d – For Amended Tax Returns Only– Payments Made with Original Return

Enter any payments that the S corporation made when it filed its original tax return and any subsequent payments that were applied to the S corporation's 2014 tax liability.

Line 26e – For Amended Tax Returns Only– Previously Issued Refunds

Enter the amount of any refund the S corporation received when it filed its original tax return or a previously amended tax return.

Line 26f – Total Return Payments

Add lines 26a through 26d and then subtract line 26e. This is the S corporation's total return payments.

Line 27 – Amount Due or (Overpaid)

Add lines 21 and 22; from this total, subtract the sum of lines 25 and 26f.

Line 28 – Penalties and Interest

Line 28a – S Corporation Information Tax Return Late Filing Penalty

An S corporation is charged a late filing penalty if Form CLT-4S is filed after the due date, including the automatic six-month extension. The penalty is $10 multiplied by the number of shareholders at the close of the tax year for each month or fraction of a month that the entity does not file the S corporation information return. This penalty is calculated for up to five months. Please see 15-30-3302, MCA.

Important A late filing penalty is not imposed on an entity that has ten or fewer shareholders if the shareholders have filed the required returns or other required reports timely and have paid all taxes when due.

Line 28b – Interest on Underpayment of Estimated Composite Tax

The S corporation is required to make estimated tax payments throughout the year if it expects to owe a composite income tax liability of at least $500. If the S corporation was required to make estimated composite tax payments and it did not pay the required amounts, it will have to pay interest on any underpayment. To calculate the underpayment interest, complete Worksheet I. Please see 15-30-3312, MCA.

Worksheet I – Calculation of Underpayment Interest

In 2014, the S corporation was required to pay through estimated installments, the smaller of:

- 90% of the current year's total composite tax liability, or
- an amount equal to 100% of the previous year's total composite tax liability.

If the S corporation does not meet one of the two requirements, the composite tax is subject to underpayment interest.

Payments made with extensions are not considered estimated payments.

Worksheet I - Short Method		
1	Enter the total 2014 composite tax reported on Form CLT-4S, line 21.	
2	Enter 90% of line 1 above.	
3	Enter the total of lines 25 and 26a reported on Form CLT-4S that are attributable to composite filers.	
4	Subtract line 3 from line 1. If the result is $500 or less, stop here. The S corporation does not owe interest on its underpayment.	
5	Enter the 2013 composite tax from the 2013 Form CLT-4S, line 21.	
6	Enter the smaller of line 2 or line 5.	
7	Enter the total of line 3 and the amount reported on Form CLT-4S, line 26b attributable to composite filers.	
8	Subtract line 7 from line 6. If zero or less, stop here. The S corporation does not owe interest on its underpayment.	
9	Multiply line 8 by 0.05320 and enter the result.	

Worksheet I is continued on the next page.

10	If the amount on line 8 was paid on or after the due date, enter zero. If the amount on line 8 was paid before the due date, multiply the amount on line 8 by the number of days paid before the due date. Multiply the result by 0.0002192.	
11	Subtract line 10 from line 9. This is the S corporation's underpayment interest. Enter the result here and on Form CLT-4S, line 28b.	

Line 28c – Composite income tax return late filing penalty

If the S corporation is late in filing the Form CLT-4S, a late filing penalty of $50 or the amount of composite tax owing, whichever is smaller, will be charged. There is no late filing penalty for the composite tax return if there was an overpayment of composite tax and the S corporation is receiving a refund.

Line 28d – Late payment penalty

If the S corporation does not pay all of its tax liability (line 27) by the due date of the Form CLT-4S, it will need to pay a late payment penalty. The late payment penalty is 1.2% per month or part of a month on the unpaid amount from the original due date until it is paid. This penalty cannot exceed 12% of the S corporation's tax liability on line 27.

Important If the S corporation files an amended tax return that reflects an increased tax liability, it may have the late payment penalty waived. To receive the waiver, simply mark the "Amended Return" box on the Form CLT-4S and pay the tax and applicable interest in full when the S corporation files the amended return. By marking this box and paying all tax and interest, the S corporation is treated as having requested a waiver of the late payment penalty.

Line 28e – Interest

Compute interest on any tax liability (line 27) that the S corporation has not paid by the due date of the tax return and enter the total on this line.

If 100% of the S corporation's tax liability is not paid by March 16, 2015 (for a calendar year filer), interest is due at a rate of 8% per year, computed daily on the unpaid tax balance.

To calculate the interest, multiply line 27 by 0.02192% (0.0002192) times the number of days after March 16, 2015, the S corporation's tax is paid.

Important A valid extension of time to file the S corporation's tax return does not extend the due date to pay the S corporation's income tax liability after March 16, 2015.

Line 28f – Total Penalties and Interest

Add lines 28a through 28e and enter the total.

Line 29

Add lines 27 and 28f; enter the result.

Line 30 – Amount You Owe

If the amount on line 29 is greater than zero, enter it on this line. This is the amount due with the S corporation's tax return. The S corporation can pay the amount it owes by:

- electronic funds withdrawal when e-filing the S corporation's joint federal/state tax return,
- e-check or credit/debit card – please visit our website at *revenue.mt.gov* for more information and instructions, or
- money order, personal check or cashier's check payable to MONTANA DEPARTMENT OF REVENUE. Remember to use the included voucher, sign the check and write the S corporation's FEIN and "Tax Year 2014" on the memo line. A payment voucher is also available at *revenue.mt.gov* under Forms.

By visiting our website, an S corporation can schedule a payment by e-check and have funds withdrawn at a later date. Interest and penalties will be assessed on any amount not paid when due.

Line 31 – Overpayment

If the amount on line 29 is less than zero, enter it on this line. This is the amount the S corporation has overpaid.

Line 32 – 2015 Estimated Tax Payments

All or part of the refund that the S corporation reported on line 31 can be refunded or carried over as a 2015 estimated tax payment. Enter the amount of the refund reported on line 31 that the S corporation wants applied to its 2015 estimated tax.

Line 33 – Refund

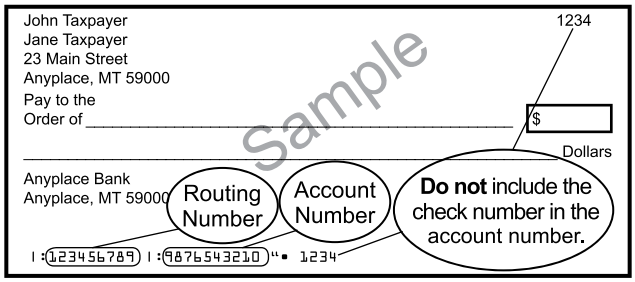
Subtract line 32 from line 31 and enter the result on this line. This is the amount of the refund that will be issued.

If the S corporation is requesting a refund, please mark the box located in the top portion of Form CLT-4S, page 1.

If the S corporation would like to use direct deposit, enter the S corporation's financial institution's routing number (RTN#) and the S corporation's account number (ACCT#) in the spaces provided. The routing number is nine digits, and the account number can be up to 17 characters, including numbers and letters. Mark whether the S corporation's account is a checking or savings account and if the S corporation's refund will go to a bank outside of the United States and its territories (Midway Islands, Puerto Rico, American Samoa, US Virgin Islands, Federated States of Micronesia, and Guam).

If the financial institution does not accept direct deposit, we will mail the S corporation a refund check.

A sample of a personal check is provided for convenience.



Sign the Return

If the S corporation is filing its return on paper, the return is not considered valid unless one of the following officers signs the return: president, vice president, treasurer, assistant treasurer or chief accounting officer. Unsigned returns cannot be processed and require us to contact the officer for a signature.

If the S corporation is filing its return electronically, the officer does not sign the return. The act of filing electronically signifies the officer's declaration, under the penalty of false swearing, that:

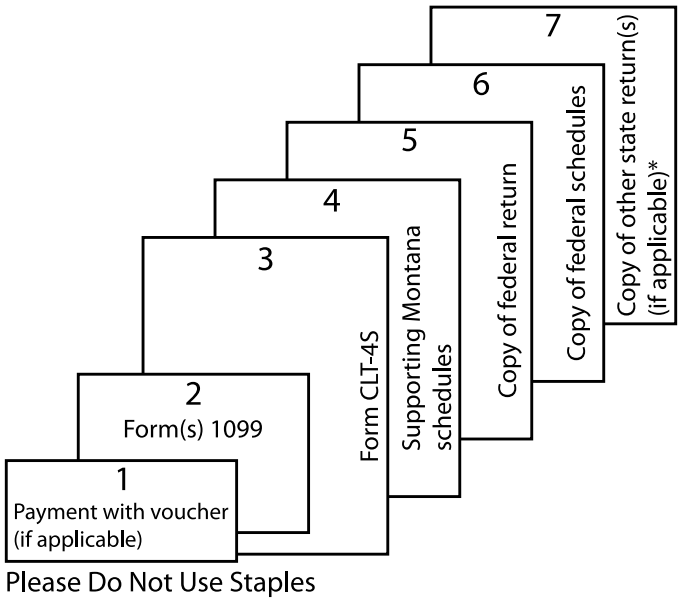
- The officer is authorized to file the return.
- The information in the return is true, correct and complete.
- The act of filing electronically is the officer's signature.

Paid Preparer

Paid preparers are required to sign the return and include his or her address and Preparer Tax Identification Number (PTIN) in the space provided.

Assemble the Return

If the S corporation is filing a return on paper, please assemble the return, without using staples, according to the following diagram or list. Include all Form(s) 1099.



*Include a copy of the return(s) from another state if the S corporation is a multistate S corporation.

File the Return

To learn more about e-filing options available to S corporations, please see FAQ ❾ on page 14. If the S corporation files its return on paper, mail the return to:

Montana Department of Revenue
PO Box 8021
Helena, MT 59604-8021

Schedule I – Apportionment Factors for Multistate S Corporations Instructions

Schedule I applies only to multistate S corporations.

A multistate S corporation with income derived from its business activities must determine whether the income is business or nonbusiness income. After the S corporation makes this determination, it will apply the apportionment factor calculated on Schedule I to identify the portion of the business income that is Montana source. The apportionment factor is the standard UDITPA (Uniform Division of Income for Tax Purposes Act) three-factor formula of property, payroll and sales.

When an S corporation is engaged in business both inside and outside Montana, business income assignable to Montana has to be determined using the apportionment factor. Include only the S corporation's own items of property, payroll and sales. Do not include any property, payroll, or sales of another pass-through entity.

The S corporation must ask the department if it can determine the amount of income that it attributes to Montana on some basis other than the apportionment method. If the department allows the S corporation to use an alternative method, the S corporation will still need to complete and submit Schedule I. Please see Title 15, Ch. 31, part 3, MCA; and Title 15, Ch. 1, part 6, MCA for additional filing information.

To calculate each of the separate factors in the apportionment factor, use the following formula: column B divided by column A, multiplied by 100. Round out to the fourth decimal (example: 25.5555%).

Property Factor (Line 1)

The property factor is a fraction. The numerator is the average value of the S corporation's real and tangible personal property owned, leased or rented and used in Montana in the production of business income during the tax period. Enter the numerator values in column B of Schedule I. The denominator is the average value of all of the S corporation's real and tangible personal property owned, leased or rented and used in the production of business income during the tax period. Enter the denominator values in column A of Schedule I.

Property owned by the S corporation is valued at its original cost. Real and tangible personal property that is used in the business includes land, buildings, machinery, equipment, stocks of goods, inventories and other tangible

property actually used in connection with the production of the business income to be apportioned. It does not include money, accounts receivable, other intangible property, real property that is held for investment or nonbusiness purposes or idle property of any nature.

To the extent that it is utilized in Montana, migratory property has to be included in both the numerator and denominator.

Unless otherwise required, the average value of owned property is determined by averaging the values at the beginning and ending of the tax period.

All property that the S corporation rents has to be valued at eight times the net annual rental rate. Rental expense cannot be averaged. The S corporation has to use its rental expense for the current year in the property factor.

If the S corporation owns an interest in a pass-through entity, the value of the property owned by the pass-through entity cannot be included in the property factor.

Payroll Factor (Line 2)

The payroll factor is a fraction. The numerator is the total amount that the S corporation paid for compensation attributable to the production of business income during the tax period in Montana. Enter the numerator values in column B of Schedule I. The denominator is the total amount that the S corporation paid for compensation attributable to the production of business income during the tax period. Enter the denominator values in column A of Schedule I.

Payroll is considered to be paid in Montana if:

- the base of operations is in Montana,
- there is no base of operations and the place from which the service is directed or controlled is in Montana, or
- the base of operations or the place from which the service is directed or controlled is not in a state where some part of the service is performed, but the person who provides the service is located in Montana.

If the S corporation owns an interest in a pass-through entity, no part of the pass-through entity's payroll is included in the payroll factor.

Sales Factor (Line 3)

Sales mean all gross receipts of the S corporation exclusive of nonbusiness income and inter-company transactions. The sales factor is a fraction. The numerator is the S corporation's total sales in Montana during the tax period. Enter the numerator values in column B of Schedule I. The denominator is the S corporation's total sales everywhere during the tax period. Enter the denominator values in column A of Schedule I.

Sales of tangible personal property are in Montana if:

- the property is delivered or shipped to a purchaser in Montana (other than the United States government), or
- the property is shipped from Montana, and the S corporation is not taxable in the state of the purchaser.

Sales other than sales of tangible personal property are in the state if:

- the income-producing activity is performed in Montana, or
- the income-producing activity is performed both inside and outside Montana, and a greater proportion of the income-producing activity is performed in Montana than in any other state, based on costs of performance.

If the S corporation owns an interest in a pass-through entity, no part of the pass-through entity's sales is included in the sales factor.

Sum of Factors (Line 4)

Add lines 1, 2 and 3 in column C. Enter the result on line 4 in column C.

Apportionment Factor (Line 5)

Divide line 4 by the number of factors present. A factor is present if the S corporation has a value in column A for property, payroll or sales. Enter the apportionment factor on line 5 of Schedule I and also insert it on line 18, page 1 of Form CLT-4S, round out to at least the fourth decimal (example: 25.5555%).

Schedule II – Montana S Corporation Tax Credits Instructions

A tax credit claimed by an S corporation is passed through to its shareholders. The S corporation identifies how much credit is available to each shareholder on a Montana Schedule K-1. The S corporation provides a copy of the Montana Schedule K-1 and a copy of the credit form that it used to calculate the credit to each shareholder.

Shareholders determine any necessary limitations when reporting the credit on their tax returns. Unused credits may not be redistributed to other shareholders. For example, if the ownership of the S corporation consists of a resident shareholder and a nonresident shareholder, the nonresident shareholder's share of the credit could not be claimed by the resident shareholder even though the nonresident shareholder is not eligible to use it.

The tax credits cannot be taken as a credit against composite tax reported on the Form CLT-4S.

For detailed tax credit instructions and forms, please visit our website at *revenue.mt.gov*. If the S corporation is eligible for a credit, please include the appropriate form with the tax return. If the S corporation files electronically, it represents that it kept a copy in the S corporation's records and will provide a copy to the department if requested.

Lines 1 through 17

Complete these lines for applicable tax credits:

1. Dependent care assistance credit (Form DCAC)
2. College contribution credit (Form CC)
3. Health insurance for uninsured Montanans credit (Form HI)

4. Recycle credit (Form RCYL)
5. Alternative energy production credit (Form AEPC)
6. Contractor's gross receipts tax credit
7. Alternative fuel credit (Form AFCR)
8. Infrastructure user fee credit (Form IUFC)
9. Historic property preservation credit (Federal Form 3468)
10. Mineral and coal exploration incentive credit (Form MINE-CRED)
11. Empowerment zone credit
12. Film production credit (Form FPC)
13. Biodiesel blending and storage credit (Form BBSC)
14. Oilseed crushing and biodiesel/biolubricant production credit (Form OSC)
15. Insure Montana small business health insurance credit
16. Temporary emergency lodging credit (Form TELC)
17. Unlocking state lands credit

Credit Recapture

Lines 18 through 21

Complete these lines if the following occurs:

18. The S corporation's historical property preservation credit has to be recaptured.
19. The S corporation's film production certification is revoked after it receives the credit.
20. The S corporation's biodiesel sales are not at least 2% of all diesel sales by the end of the third year after the credit was initially claimed, or the facility ceases blending biodiesel for sale.
21. The S corporation's biodiesel facility ceases operations for a period of 12 consecutive months within five years of claiming the credit.

Schedule III – Montana S Corporation Information Instructions

Montana S Corporation Information

Include all shareholders on this form. If more space is needed, complete additional copies of Schedule III (available on our website at *revenue.mt.gov* under Forms). We do not accept copies of federal Schedule K-1, spreadsheets or any other forms in place of a completed Schedule III. If Schedule III is not completed as an exact replica of the official form, the processing of the S corporation's return will be delayed until we receive this information.

Complete columns A through D for all shareholders. Complete columns E, F or G if the shareholder is a nonresident individual, nonresident estate, nonresident trust, foreign C corporation or tax-exempt entity. A tax-exempt entity may still be subject to income tax if the entity has not been granted tax-exempt status in Montana or if the entity has a federal unrelated business income tax liability of more than $100.

Column A – Name and Address of Shareholder

Enter the name and complete mailing address of each shareholder. Include the street address or post office box, city, state and zip code.

Column B – Entity Type and Identification Number

Enter the entity type code for each shareholder in the space provided. The entity type codes are:

C – C corporation (domestic)
E – Estate
F – Foreign C corporation
I – Individual
T – Trust
TE – Tax-exempt entity

The entity type codes are also located on the bottom of Schedule III.

If the shareholder is an individual or a disregarded entity that does not have a federal employer identification number (FEIN), enter the social security number (SSN) as it appears on the federal Schedule K-1 in the appropriate box. If the shareholder is any other type of entity, enter the SSN or FEIN as it appears on the federal Schedule K-1 in the appropriate box.

Column C – Residency Code

For each individual, estate or trust shareholder that is a resident, mark the 'R' box. For each individual, estate or trust shareholder that is a nonresident, mark the 'N' box.

Column D – MT Pro Rata Share

Enter each shareholder's pro rata share. A shareholder's pro rata share is the portion of Montana source income reported on Form CLT-4S, line 20 that a shareholder is responsible to report on a personal return.

Columns E through G

Complete columns E, F or G for each shareholder that is a nonresident individual, nonresident estate, nonresident trust, foreign C corporation or tax-exempt entity.

Column E – Composite Income Tax

If the shareholder elected to be included in a composite tax return and is an eligible participant, mark the checkbox in this column.

Enter the amount of composite income tax that was calculated for each shareholder on Schedule IV, column H. Transfer the total of this column to Form CLT-4S, line 21.

Column F – Shareholder Withholding

If the S corporation has a shareholder who is a nonresident individual, nonresident estate, nonresident trust, foreign C corporation or tax-exempt entity at any time during the year, the S corporation has to pay taxes on behalf of the

shareholder if the nonresident individual, nonresident estate, nonresident trust, foreign C corporation or tax-exempt entity:

- did not provide the S corporation with a completed Form PT-AGR and the S corporation did not file the Form PT-AGR, and
- is not participating in the S corporation's composite tax return, or
- was not compliant with their tax filing and payment obligations and the S corporation was notified that it must withhold tax on behalf of the shareholder.

Enter the amount of Montana tax the S corporation paid on behalf of each shareholder. For a nonresident individual, nonresident estate or nonresident trust, the amount required to be paid is 6.9% multiplied by the shareholder's pro rata share of Montana source income. For a foreign C corporation or tax-exempt entity, the amount required to be paid is 6.75% multiplied by the shareholder's pro rata share of Montana source income. Transfer the total of this column to Form CLT-4S, line 22.

Column G – PT-AGR

Form PT-AGR is an agreement that a nonresident individual, nonresident estate, nonresident trust, foreign C corporation or tax-exempt entity has to complete if they do not participate in a composite return and do not want the S corporation to pay taxes on their behalf. The shareholder agrees to timely file a Montana tax return, pay all taxes and be subject to the personal jurisdiction of Montana. The shareholder completes the agreement and either files it with the department or returns it to the S corporation. If the shareholder files the agreement with the department, the shareholder must also send the S corporation a copy of the agreement. A new Form PT-AGR does not have to be filed each year, but currently effective agreements for each new nonresident individual, nonresident estate, nonresident trust, foreign C corporation or tax-exempt entity shareholder have to be filed. The Form PT-AGR is due by the due date, including extensions, of the S corporation's return.

Enter the year that the agreement, Form PT-AGR, was provided to us. If the S corporation files the agreement with the department this year, enter "2014."

Schedule IV – Montana S Corporation Composite Income Tax Schedule Instructions

If more space is needed, complete additional copies of Schedule IV (available on our website at *revenue.mt.gov* under Forms). We do not accept copies of federal Schedule K-1, spreadsheets or any other forms in place of a completed Schedule IV. If Schedule IV is not completed as an exact replica of the official form, the processing of the S corporation's return will be delayed until we receive this information.

An S corporation can elect to file a composite tax return and pay a composite tax on behalf of an eligible participating shareholder. Shareholders who are nonresidents, foreign C corporation or tax-exempt entities and who properly elect to participate in the composite tax return are relieved of the obligation to file a Montana income tax return. However, if the shareholder has other Montana source income, the shareholder is not eligible to participate unless that other income is from other pass-through entities that file a composite return on behalf of the shareholder.

The tax credits from Schedule II cannot be applied to reduce the S corporation's composite tax liability.

An S corporation can include a shareholder in filing a composite tax return only if the shareholder has provided the S corporation with a power of attorney that authorizes the S corporation to file the composite return and act on the shareholder's behalf. The S corporation does not submit the power of attorney with its tax return; the S corporation retains it as authorization from the shareholder. A power of attorney form may include any tax years or periods that have already ended as of the date the form is signed and up to three future tax periods that end after the current tax year.

If the S corporation files a composite tax return, the S corporation is responsible for:

- paying the composite tax liability,
- paying any additional tax, penalty and interest we assess for the composite tax liability,
- representing the participants in any appeals, claims for refunds, hearings or court proceedings, and
- making quarterly estimated payments of the composite tax liability.

Part I

Enter the number of shareholders participating in the composite income tax return.

Part II

The composite tax ratio is the ratio of the S corporation's Montana source income to the S corporation's income from all sources for federal income tax purposes.

Column 1

Enter the amount from Form CLT-4S, line 14. This is the S corporation's federal income from all sources.

Column 2

Enter the amount from Form CLT-4S, line 20. This is the S corporation's total Montana source income.

Column 3

Divide column 2 by column 1. The result is the composite tax ratio. Round to 6 decimal places and do not enter more than 1.000000.

Part III

Column A – Name of Eligible Participating Shareholder

List the name of the participating shareholder as it appears on Form CLT-4S, Schedule III.

Column B – Social Security Number (SSN) or Federal Employer Identification Number (FEIN)

Enter the SSN or FEIN of the participating shareholder as it appears on Form CLT-4S, Schedule III.

Column C – Shareholder's Share of Federal Income from Entity

Enter the participating shareholder's share of the S corporation's total federal income (loss) from all sources. For the purpose of calculating composite income tax, divide the shareholder's pro rata share as reported on Schedule III, column D by Form CLT-4S, line 20 to determine ownership percentage for Montana purposes. Multiply the percentage by Form CLT-4S, line 14 to calculate the shareholder's share of federal income.

Column D – Standard Deduction

Each eligible participating shareholder is allowed one standard deduction equal to 20% of column C, but not less than $1,940 or more than $4,370.

Column E – Exemption

Each participating shareholder is allowed one exemption of $2,330.

Column F – Calculate Montana Taxable Income

Subtract the amounts in column D and column E from column C. Enter the result in this column, but not less than $0.

Column G – Tax from Tax Table

If the result in column F is greater than $0, use the tax table at the bottom of Schedule IV to calculate the tax on the amount in column F. Enter the result in this column. Enter $0 if the amount in column F is $0.

Column H – Montana Composite Income Tax Liability

If the amount in column G is greater than $0, multiply the amount in column G by the composite tax ratio from Part II and enter the result. If the amount in column G is $0, enter $0. This is the participant's Montana composite tax liability.

Example: Assume that S corporation ABC's composite tax ratio is 0.2500 (Part II). Also assume that Shareholder X is an eligible participant in the composite return. The federal income from all sources is $60,000 and Shareholder X's pro rata share, as reported on Schedule III, column D, is $6,000. The participating shareholder's composite tax liability is calculated in the following table.

Shareholder's share of S corporation federal income from all sources (column C)	$6,000
Standard deduction (column D)	($1,940)
Exemption allowance (column E)	($2,330)
Result of column C minus columns D and E (column F)	$1,730
Using the tax rates shown on Schedule IV, the tax (column G) on $1,730	$17
The Montana composite income tax (column H) is $17 x 0.2500	$4

Schedule VI – Reporting of Special Transactions Instructions

Mark the appropriate boxes indicating which forms were filed with the IRS. If any statements are answered *yes*, the S corporation will have to include a copy of the applicable form.

For purposes of statement 6, "related party" has the same meaning given the term in Section 267(b) or Section 707(b) of the Internal Revenue Code; 26 USC 267(b) or 26 USC 707(b).

Montana Schedule K-1 Instructions

The S corporation is required to use the Montana Schedule K-1 (Form CLT-4S and PR-1), Partner's/Shareholder's Share of Income (Loss), Deductions, Credits, etc., to provide information that shareholders will need to complete their Montana income tax return. Each Montana Schedule K-1 must be an exact replica of the official form which can be found at *revenue.mt.gov* under Forms.

A Montana Schedule K-1 has to be completed for each shareholder who was an owner at any time during the tax year. The S corporation is responsible for reporting all shareholders' applicable information on the Montana Schedule K-1, including those shareholders who elect to participate in a composite tax return.

The S corporation has to include a copy of each shareholder's Montana Schedule K-1 when filing Form CLT-4S with the department. A copy is kept as part of the S corporation's records, and each shareholder is given their own separate copy (with a copy of the Partner's/Shareholder's Instructions).

Part 1 – Pass-Through Entity Information

Mark the applicable boxes:

- Type of entity – mark the CLT-4S box.
- Final Schedule K-1 – mark this box if this is the last Montana Schedule K-1 that the S corporation will issue to the shareholder.
- Amended Schedule K-1 – mark this box if the S corporation is amending the shareholder's Montana Schedule K-1.

Fill in the S corporation's federal employer identification number (FEIN), name and address.

Part 2 – Partner/Shareholder Information

Enter the name and address of the shareholder at the end of the tax year. Enter the shareholder's tax identification number (SSN or FEIN) as the S corporation reported it for federal income tax purposes.

If the shareholder is a resident individual, estate or trust, mark the *Resident* box. If the shareholder is a nonresident individual, trust or foreign C corporation, mark the *Nonresident* box. If the resident status is unknown, treat the shareholder as a nonresident.

If the shareholder is included in a composite income tax return filed by the S corporation, mark *Yes*. Shareholders included in a composite income tax return do not file a personal Montana income tax return. If the shareholder is not included in a composite income tax return filed by the S corporation, mark *No*.

Part 3 – Montana Adjustments

A. **Montana Additions to Income.** Fill in the shareholder's pro rata share of Montana additions from the corresponding lines 15a through 15c on page 1 of Form CLT-4S. This is not an apportioned amount.

B. **Montana Deductions to Income.** Fill in the shareholder's pro rata share of Montana deductions from the corresponding lines 16a through 16c on page 1 of Form CLT-4S. This is not an apportioned amount.

Part 4 – Pro rata Share of Montana Source Income (Loss)

Lines 1-13

Shareholders will need this information to calculate their Montana tax liability when they file their Montana income tax returns.

On each line, enter the total of the shareholder's distributable share of income apportioned to Montana.

Part 5 – Supplemental Information

Line 1

Enter the amount of Montana composite income tax paid on the shareholder's behalf. This is the same amount as the amount reported for each shareholder on Schedule III, column E.

Line 2

Enter the amount of Montana income tax paid on behalf of the shareholder. This is the same amount as the amount reported for each shareholder on Schedule III, column F.

Line 3

If the S corporation received a federal Form 1099 because the S corporation had Montana mineral royalty tax withheld from its mineral royalty income in Montana, enter the shareholder's pro rata portion of the amount withheld on this line.

Line 4

Enter each shareholder's pro rata share of income (loss) allocated to Montana and reported on Form CLT-4S, line 19. Include a schedule identifying each item and the amount that each shareholder receives.

Line 5

Enter each shareholder's pro rata share of items other than those listed on lines 1 through 4 that are adjustments to the shareholder's Montana income tax return. List the type of item on this line. If additional space is needed, include a schedule. Also use this section to specify the Montana additions, subtractions and allocations reported in Part 3. For example, if the shareholder claims the Insure Montana small business health insurance credit, the shareholder has to add back the insurance premiums used to calculate the credit. Enter the shareholder's pro rata share of these insurance premiums on this line.

If the S corporation made a contribution that meets the requirements for a qualified endowment credit, report the amount of contribution distributed to the owner on this line.

Part 6 – Montana Tax Credits and Recapture

Line 1

Enter each shareholder's pro rata share of the Insure Montana small business health insurance credit. If the credit passes through a multi-tiered entity, identify on this line the FEIN of the business that the credit originated from.

Line 1a

Enter the shareholder's pro rata share of the insurance premiums used to calculate the credit. This amount will be part of the amount reported above in Part 3, A – MT Additions, line 3 Other additions.

Line 2

Enter each shareholder's pro rata share of the contractor's gross receipts (CGR) tax credit. Also enter the CGR Account ID number on this line. The S corporation received the CGR Account ID when it registered with the Department of Revenue. If the S corporation does not have the CGR Account ID number on record, please contact us. If the shareholder is receiving credit from more than one CGR account, mark the box indicating multiple accounts and include a schedule detailing how much credit each shareholder receives from each CGR account.

Line 3

Enter each shareholder's pro rata share of the health insurance for uninsured Montanans credit.

Line 4

Enter each shareholder's pro rata share of tax credits and tax credit recapture amounts that were not reported on lines 1-3. These tax credits and tax credit recapture amounts are reported on Schedule II. If additional space is needed, include a schedule.

FAQs—Frequently Asked Questions

Please find the answers to these questions identified by number on pages 12-16.

Filing Requirements

1. Who has to file the Montana S Corporation's Information and Composite Tax Return?
2. When is the S corporation's information and composite tax return due?
3. What forms and schedules have to be included with the information and composite tax return?
4. Which tax year and accounting method should the S corporation use to file its information and composite tax return?
5. Should the S corporation file a composite tax return?
6. Who has to sign the tax return?
7. Can the S corporation get an extension of time to file its information and composite tax return?
8. What does the box that asks "May the DOR discuss this return with the tax preparer?" mean?

Filing and Payment Options

9. What options does an S corporation have to file its information and composite tax return electronically?
10. What options does an S corporation have to pay its Montana taxes electronically?
11. What is the interest rate on unpaid taxes?
12. If the S corporation files an information and composite tax return electronically, what information must be sent in and what documents must be retained?
13. If the S corporation mails its information and composite tax return, where does it send the return?

Amended Returns

14. How does an S corporation amend its tax return?
15. Can S corporations have net operating losses?

Multistate S corporations and S corporations with allocable items of Montana source income (loss)

16. How does a multistate S corporation apportion its business income?
17. How does an S corporation determine which income is business income?
18. How does an S corporation allocate its nonbusiness income and the distributive items it receives from a pass-through entity?
19. How does an S corporation determine what income is sourced to Montana?

Tax Records

20. How long does an S corporation need to maintain tax records after it has filed the Montana information and composite tax return?

1 Who has to file the Montana S Corporation's Information and Composite Tax Return?

An S corporation that has Montana source income has to file an annual Montana S Corporation Information and Composite Tax Return (Form CLT-4S).

2 When is the S corporation's information and composite tax return due?

The S corporation's Montana filing period is the same as its federal filing period. Form CLT-4S is due following the close of the tax year for:

- calendar year S corporation – on or before March 15
- fiscal year S corporation – on or before the 15th day of the third month

If the due date falls on a weekend or a holiday, the return is due on the next business day.

3 What forms and schedules have to be included with the information and composite tax return?

When the S corporation files Form CLT-4S on paper, it must include a complete copy of the federal Form 1120S, U.S. Income Tax Return for an S Corporation, with all federal Schedule(s) K-1, all statements and all documents.

Montana Resident Shareholders

If the ownership of the S corporation consists only of Montana resident shareholders, the S corporation is required to complete:

- Form CLT-4S, pages 1 and 2,
- Schedule II, Montana S Corporation Tax Credits, if applicable,
- Schedule III, Montana S Corporation Information,
- Schedule VI, Reporting of Special Transactions, if applicable, and
- Montana Schedule K-1, Partner's/Shareholder's Share of Income (Loss), Deductions, Credits, etc. for each shareholder.

We do not accept copies of federal Schedule K-1 in place of a completed Schedule III. If Schedule III is not completed, including the shareholder's identification number, the processing of the S corporation's return will be delayed until we receive this completed schedule. An S corporation's return may be subject to a late filing penalty.

Nonresident Shareholders

When an S corporation has a shareholder who is a nonresident or foreign C corporation, it has additional filing and payment requirements:

- **Schedule III**, Montana S Corporation Information
- **Form PT-AGR** (Montana Pass-Through Entity Owner Tax Agreement), if applicable, is an agreement that has to be completed by a nonresident individual, nonresident estate, nonresident trust, foreign C corporation or tax-exempt entity that does not participate in a composite return or does not wish the S corporation to pay tax on its behalf. By signing the agreement, the shareholder agrees to timely file a Montana tax return, to pay all taxes and to be subject to the personal jurisdiction of Montana. The shareholder completes the agreement and either files it with the department or returns it to the S corporation. If the shareholder files the agreement with the department, the shareholder must also send the S corporation a copy of the agreement. A new Form PT-AGR does not have to be filed each year, but currently effective agreements for each new nonresident, foreign C corporation or tax-exempt shareholder have to be filed. The S corporation and owner need to retain these agreements as part of their tax records.

  If a Form PT-AGR is not filed for any shareholder that is a nonresident, foreign C corporation or tax-exempt entity, and if that shareholder does not participate in a composite return filed by the S corporation, then the S corporation is required to pay tax on the shareholder's behalf. Form PT-AGR is due on or before the due date of the S corporation's return, including extensions.
- **Schedule IV** (Montana S Corporation Composite Income Tax Schedule), if applicable, is the composite tax return that the S corporation completes and files on behalf of eligible shareholders who have elected to participate in the composite filing.
- **Montana Schedule K-1** (Partner's/Shareholder's Share of Income (Loss), Deductions, Credits, etc.), for each shareholder

❹ Which tax year and accounting method should the S corporation use to file its information and composite tax return?

The taxable year and accounting method for Montana have to be the same as the taxable year and accounting method used for federal income tax purposes. If the S corporation changes its federal taxable year or accounting method, it is required to change its Montana taxable year and accounting method accordingly. A copy of the approval from the Internal Revenue Service (IRS) to change the accounting period or method must accompany the first tax return that reflects the change.

Mark the box *Final Return* on Form CLT-4S, page 1, if the S corporation ceased to exist during the 2014 tax year.

❺ Should the S corporation file a composite tax return?

An S corporation may elect to file a composite tax return on Form CLT-4S, Schedule IV, on behalf of the eligible participating shareholders that consent to be included. If a composite return is filed, those shareholders do not have to prepare or file separate Montana returns. The composite tax rate ranges from 1% to 6.9%.

Shareholders can be included in a composite return if they meet all of the following criteria:

- they are a nonresident individual, nonresident estate, nonresident trust, foreign C corporation or tax-exempt entity,
- they have no other Montana source income (other than Montana source income from another pass-through entity that is also electing to file a composite return on the shareholder's behalf), and
- they consent to be included in the return by providing the S corporation with a written power of attorney, authorizing the S corporation to file and act on their behalf.

❻ Who has to sign the tax return?

Form CLT-4S has to be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer or any other officer duly authorized to sign the tax return. Form CLT-4S is not considered to be complete unless it is signed. Unsigned tax forms will delay the processing of the S corporation's return. If the S corporation has paid someone to prepare the Form CLT-4S, the paid preparer's PTIN or SSN, name, address and telephone number has to be included on the tax return.

If the Form CLT-4S is filed electronically, see FAQ ⓬ for more information about electronic signatures.

❼ Can the S corporation get an extension of time to file its information and composite tax return?

Yes. To receive an extension, the S corporation has to mark the extension indicator box on Form CLT-4S, page 2, and include a copy of its federal extension Form 7004 with its completed Montana S corporation return. Do not send copies of the federal extension before the S corporation files its Form CLT-4S.

The automatic extension to file Form CLT-4S with its supporting schedules is six months.

Important An extension of time to file is not an extension to pay. If the S corporation does not pay the amount of tax due by the original due date, it will owe interest and penalties on any balance due.

❽ What does the box that asks "May the DOR discuss this tax return with your tax preparer?" mean?

If the S corporation marks *yes*, we can discuss any concerns that we might have with the 2014 tax return—a missing schedule, for example—with the S corporation's tax preparer. If the S corporation does not mark the box, we cannot discuss the return with anyone except the officer who signed the return or someone to whom the S corporation has given a power of attorney that allows us to discuss the return with him or her.

If *yes* is marked on a return by the S corporation, the S corporation is authorizing us to call the tax preparer to answer any questions that arise while we are processing the 2014 tax return.

By marking the box, the S corporation is also authorizing us to:

- Request that the tax preparer give us any information that is missing from the return.
- Respond to the tax preparer's call to us for information about the processing of the S corporation's return or the status of its refund or payment(s).
- Discuss certain notices from us about math errors, offsets and return preparation. Note: The department will only send notices directly to the S corporation, not to the tax preparer.

The S corporation is not authorizing the tax preparer to receive any refund check, bind the S corporation to anything (including any additional tax liability), receive any information about any other tax year or tax matter or otherwise represent the S corporation before the department.

Please be aware that this authorization cannot be revoked. The authorization will, however, automatically end no later than the due date, without regard to extensions, for filing next year's (2015) tax return. This is March 15, 2016, for most S corporations.

If the S corporation wants to expand or change the tax preparer's authorization (for example, to verify any estimated payments it will be making in the future), it can use Form POA (Power of Attorney, Authorization to Disclose Tax Information). Form POA can be filed electronically and is available at *revenue.mt.gov*.

❾ What options does an S corporation have to file its information and composite tax return electronically?

File both the Montana and federal tax returns at the same time through a tax professional who is an Authorized IRS *e-file* Provider. For more information regarding electronic filing, visit *revenue.mt.gov* or *irs.gov*.

❿ What options does an S corporation have to pay its Montana taxes electronically?

The S corporation can pay its Montana taxes electronically by using any of the following methods:

- Electronic funds withdrawal when e-filing the joint federal/state tax return. The withdrawal date can be scheduled for any date you select. There is no fee for an electronic funds withdrawal.
- E-checks – there is no fee for an e-check payment. An electronic payment by e-check can be scheduled to be withdrawn on any date you select by visiting our website. Interest and late payment penalties will be assessed on any amount not paid when due.
- Credit/debit cards – a small fee is applied for a credit card payment.

For more information regarding electronic payment options, visit *revenue.mt.gov*.

⓫ What is the interest rate on unpaid taxes?

The current interest rate of 8% continues to be in effect for individual income tax and composite income tax. Under Montana law, the daily accrual interest rate for all unpaid income taxes depends on the rate set by the IRS and may fluctuate each year, but will not be less than 8%.

⓬ If the S corporation files its information and composite tax return electronically, what information must be sent in and what documents must be retained?

If the S corporation files its return electronically, it does not have to mail in a paper copy of the return, any accompanying federal Form(s) 1099 or any other Montana supplemental forms. When the S corporation files its return electronically, it represents that it has kept all the required documents as part of its tax record and that it will provide copies if we ask for them. The signer also does not have to sign a copy of the return and submit it to us. The act of completing and filing the return electronically is considered an authorized signature.

⓭ If the S corporation mails its information and composite tax return, where does it send the return?

If the S corporation chooses not to file electronically, please mail the return to:

Montana Department of Revenue
PO Box 8021
Helena, MT 59604-8021

⓮ How does an S corporation amend its tax return?

Use Form CLT-4S to amend an original tax return. Mark the box "Amended Return" on the form. Please include the applicable forms and statements that can explain in detail all the reason(s) for amending the tax return. Complete the entire Form CLT-4S using the corrected amounts.

If the amended tax return results in a change to income or a change in the distribution of any income or other information provided to any shareholder, the S corporation will also need to file any amended Montana Schedule(s) K-1 along with an amended Form CLT-4S. The S

corporation has to give a copy of the amended Montana Schedule K-1 to each shareholder.

Important If the S corporation files an amended tax return that reflects an increased tax liability, it may have the late payment penalty waived. Simply mark the *Amended Return* box on the tax form and pay the tax and applicable interest in full when the S corporation files the amended return. By marking this box and paying all tax and interest in full, the S corporation is requesting a waiver of the late payment penalty.

If the IRS changes or makes corrections to the S corporation's federal Form 1120S or if the S corporation amends its federal tax return, the S corporation must file an amended Form CLT-4S. The amended CLT-4S needs to be filed within 90 days after either receiving the IRS's notification of the corrections made to its federal Form 1120S or filing its amended federal tax return. Please include a copy of the S corporation's federal corrections or amended Form 1120S with the amended Form CLT-4S.

If the original Form CLT-4S was electronically filed through the joint federal/state program, then an S corporation can also file an amended Form CLT-4S as long as the original vendor supports amended filing.

⓯ Can S corporations have net operating losses?

No. Shareholders use their separate shares of the S corporation's business income and business deductions to figure a net operating loss (NOL). Shareholders who elect to be included in the composite tax return lose their ability to use their share of the income and deductions for Montana NOL purposes.

⓰ How does a multistate S corporation apportion its business income?

Montana requires each multistate S corporation to determine the income from its operations reportable to Montana using the Multistate Tax Compact guidelines. "Business income" is apportioned using three equally weighted factors: the property factor, the payroll factor and the sales factor. Complete and include Schedule I with the S corporation's information and composite tax return. Items of nonbusiness income from an S corporation's operations are allocated to a state as provided in the Multistate Tax Compact guidelines.

⓱ How does an S corporation determine which income is business income?

Income must be properly classified as business or nonbusiness income. An S Corporation must be able to substantiate the classification it places on any particular item of income found on the return.

Interest income is business income if the note or obligation from which the taxpayer received the interest arose out of, or was created in, the regular course of the taxpayer's trade or business operation.

Dividends are business income if the stock from which the taxpayer received the dividends arose out of, or was acquired in, the regular course of the taxpayer's trade or business operations. If the S corporation engages in the ownership, sale or other disposition of investments regularly and as part of the ordinary course of its business, then income arising from such transactions is presumptively business income.

Gain or loss from the sale, exchange or other disposition of real, tangible or intangible personal property constitutes business income if the property, while owned by the taxpayer, was used in the taxpayer's trade or business or was included in the apportionment factor.

Rental income from real and tangible property is business income if the property the taxpayer rents and receives income on is used in the taxpayer's trade or business, is incidental to the trade or business, or includable in the property factor.

If the S corporation owns an interest in a pass-through entity, the distributive items that the S corporation receives from the pass-through entity are not apportioned. Their status as Montana source income is determined by the pass-through entity that generated the income as part of its own operations. This Montana source income is allocated to Montana.

⓲ How does an S corporation allocate its nonbusiness income and the distributive items it receives from a pass-through entity?

An S corporation allocates to Montana nonbusiness income from its operations that are sourced to Montana and from distributive items of Montana source income that it receives from a pass-through entity in which it has an ownership interest.

Nonbusiness income means all income other than business income. The S corporation can review our apportionment and allocation rules in Title 42, chapters 9 and 26 of the Administrative Rules of Montana. The rules are available on our website at *revenue.mt.gov*.

The character of income (loss) as business or nonbusiness income and as Montana source income is determined by the pass-through entity that generated it. The distributive items of Montana source income that the S corporation receives from another pass-through entity retain their character as Montana source income and are not included by the S corporation in its business income subject to apportionment or otherwise subject to recharacterization by the S corporation.

⓳ How does an S corporation determine what income is sourced to Montana?

If the S corporation is doing business only in Montana, all of its income is Montana source income. Montana source income includes the separately and non-separately stated income, gain, loss, deduction or credit, or items of income, gain, loss, deduction or credit that it derived from a trade, business, occupation or profession carried on in Montana or that was derived from the sale or other transfer, or the rental, lease or other commercial exploitation of property located in Montana.

If an S corporation is doing business both inside and outside of Montana, Montana source income is the sum of the multistate business income that is apportioned to Montana, nonbusiness income that is allocated to Montana and all Montana source income of any pass-through entity that has been passed through, directly or indirectly, to the S corporation.

⓴ How long does an S corporation need to maintain tax records after it has filed the Montana information and composite tax return?

The S corporation should keep all of its tax records for at least five years from the date that it filed the Montana information and composite tax return. S corporations should keep their property records and carryover information longer.

Owner's Instructions for Montana Schedule K-1 (Forms CLT-4S and PR-1)

General Instructions

The Montana Schedule K-1 is required to be provided to all owners. The federal Schedule K-1 cannot serve as a substitute for the Montana Schedule K-1. Montana Schedule K-1 shows information about an owner's share of income, gains, losses, deductions, credits and other items from a pass-through entity.

Partnership or corporation partner/shareholder. If you are a corporation, partnership, or a limited liability company treated like a corporation or partnership, the Montana Schedule K-1 shows your share of Montana source income and Montana statutory adjustments from the entity that may affect the preparation of your Montana tax return.

Resident individual, estate, or trust partner/shareholder. If you are a Montana resident individual, estate, or trust, your entire share of the entity's income, gains, losses, and deductions that is includable in your federal taxable income is Montana source income. The Montana Schedule K-1 shows your share of Montana source income and Montana statutory adjustments from the entity that may affect the preparation of your Montana tax return.

Nonresident or part-year resident individual, estate, or trust partner/shareholder. If you are a nonresident or part-year resident individual, estate, or trust, the amount of your share of the entity's income, gains, losses, and deductions that are apportioned and allocated to Montana based on the entity's activity in Montana is used to determine your Montana tax liability. Your share of Montana source income and Montana statutory adjustments are reported to you on the Montana Schedule K-1. You will need your Montana Schedule K-1 to determine your tax liability on your Montana tax return unless you are a nonresident who elected to participate in a composite return.

Composite return election. If you are a nonresident individual, estate or trust, a foreign C corporation, or a pass-through entity who elected to participate in a composite return filed on your behalf by the entity, you are not required to file a Montana tax return. If this applies to you, you received the Montana Schedule K-1 to show your share of tax items the entity reported and the composite tax paid on your behalf.

Amended Schedule K-1 (Forms CLT-4S and PR-1). If you received an amended Montana Schedule K-1 from the entity, you may need to file an amended Montana tax return to report the changes in income, gains, losses and deductions.

Montana Schedule K-1, Parts 3-6

► Part 3 – Montana Adjustments

A-B. Montana Additions and Deductions

To compute Montana income taxable to pass-through entity owners, certain items have to be added to income or deducted from income. The amounts listed are your share of Montana additions and deductions. If you are an individual, estate or trust these amounts are reported as adjustments to federal adjusted gross income to determine Montana adjusted gross income as reported on your Montana income tax return.

► Part 4 – Distributive Share of Montana Source Income (Loss)

Your share of the entity's Montana source income, gains, losses and other additions and deductions to federal taxable income are shown.

4. Guaranteed payments. The guaranteed payments remain with the partner receiving the payments as reflected on the federal Schedule K-1. The portion of the guaranteed payments that represent Montana source income are reported on this line.

► Part 5 – Supplemental Information

Supplemental information which could result in adjustments to the Montana tax return is listed.

1. Montana composite income tax paid on behalf of partner/shareholder. If applicable, the amount shown on this line is the amount of Montana composite income tax paid on your behalf by the entity. If you made this election, you are not required to file your own Montana tax return. This is for your information only.

2. Montana income tax withheld on behalf of partner/shareholder. The entity was required to withhold Montana income tax for those nonresident owners who did not file a consent agreement (Form PT-AGR) or statement (Form PT-STM) and did not elect to participate in a composite return.

3. Montana mineral royalty tax withheld. If mineral rights are held by a partnership or S corporation in which you have an ownership interest, the royalty payments made to the owners may be subject to withholding if certain thresholds are met. If the partnership or S corporation attributed the withheld mineral royalty tax to you, the amount attributed is listed. This withholding should not be confused with the amounts deducted from royalty payments for production taxes.

4. Separately stated allocable nonbusiness items. All amounts that are allocable to Montana from nonbusiness activities are reported on this line.

5. Other information. Supplemental information that could result in adjustments to your Montana tax return are listed on this line. If all of the supplemental information could not be listed on this line, the entity should provide you with a statement showing the additional information. Additional information may include items that you can use to calculate a tax credit. An example of an item that can be used to calculate a tax credit is a contribution that qualifies for a qualified endowment credit. If a portion of the contribution is distributed to you, the amount will be reported on this line.

► Part 6 – Montana Tax Credits and Recapture (If Applicable)

Any credit claimed by a partnership or S corporation has to be attributable to its owners generally using the same proportion that is used to report your share of that entity's income or loss for Montana income tax purposes. The tax credits cannot be taken as a credit against composite tax. The form includes the most common tax credits along with space to provide information about any other tax credit or recapture amount.

1-1a. Insure Montana small business health insurance credit. If the entity received a tax credit for the Insure Montana small business health insurance program, the amount entered on line 1a is the portion of the premiums paid for these policies which was reported on Montana Schedule K-1 in Part 3 as an other addition to income on line 3.

2. Contractor's gross receipts tax credit. If the entity received a tax credit for contractor's gross receipts, the CGR Account ID will be entered into the space provided and the amount entered on line 2 is your portion of the credit. If credit amounts from multiple CGR accounts are passing through to you, a schedule included with your K-1 will identify how much credit passes through to you from each CGR account.

4. Other credit/recapture information. Some tax credits have provisions requiring a recapture of the tax benefit you received in an earlier tax year (if you do not meet certain requirements in subsequent tax years).

If the S corporation chooses not to file electronically, please mail the return to:

Montana Department of Revenue
PO Box 8021
Helena, MT 59604-8021

Montana Department of Revenue
Post Office Box 8021
Helena, MT 59604-8021

PRSRT STD
U.S. POSTAGE
PAID
MONTANA DEPARTMENT
OF REVENUE

No Return

You can e-file your Montana tax return!

Montana participates in the joint federal/state electronic filing program. Please visit our website at *revenue.mt.gov* for information about electronic filing options.

Important Numbers

Assistance and Help Line ..... toll free (866) 859-2254 (in Helena, 444-6900)
Forms Request ..... toll free (866) 859-2254 (in Helena, 444-6900)
For the Hearing Impaired ..... (406) 444-2830
Fax ..... (406) 444-6642