

*This booklet is designed to address the laws for the majority of tax filing situations. If you have a unique situation that is not addressed in the booklet, please refer to Title 15 of Montana law found at [mt.gov](http://mt.gov) or call us with your questions.*

## WHAT'S NEW FOR 2017?

### Legislative Changes

**Montana Due Date** – The due date for a Montana partnership return is now March 15 or, for fiscal filers, the 15th day of the 3rd month following the close of the partnership's tax year. The due date for filing a 2017 Montana partnership return is March 15, 2018.

**Domestic Second Tier Pass-Through Entity** – The 2017 Montana Legislature passed legislation revising the definition of a domestic second-tier pass-through entity.

Beginning with tax year 2017, a domestic second-tier pass-through entity is a pass-through entity whose interest is entirely held, either directly or indirectly, by one or more resident individuals, domestic C corporations, or any other entities, organizations or accounts whose principal place of business or administration is located in the state of Montana or any combination thereof.

**Calculation of Composite Income Tax Return Late Filing Penalty** – Beginning with tax year 2017, the composite tax late filing penalty is the greater of \$50 or 5% per month on the unpaid amount. The penalty is calculated from the original due date until it is paid and cannot exceed 25% of the partnership's tax liability.

**Calculation of Late Payment Penalty** – Beginning with tax year 2017, the rate for calculating the late payment penalty changes from 1.2% per month on taxes past due to 0.5% per month on taxes past due. The maximum amount of late payment penalty that may be assessed remains 12% of the tax past due.

**New Interest Rate** – Effective January 1, 2018, the interest rate assessed on outstanding balances is 4%.

Each year, the interest rate is based on the interest rate established by the Internal Revenue Service for the third quarter of the preceding year and is subject to change at the beginning of each calendar year.

**New Rules for Filing on Extension** – A partnership no longer needs to file federal Form 7004 with the Montana return to receive an extension of time to file. Beginning with tax year 2017, a partnership is granted an automatic extension of time to file of up to six months. To avoid a late filing penalty, any tax, penalties and interest due must be paid on or before the date the return is filed.

An extension of time to file is still not an extension to pay. Although it is not required to receive an extension, partnerships may still pay any additional tax due (after accounting for estimated payments and withholding) by the original due date of the return to avoid late payment penalties and interest.

### Form Changes

**New Check-box. "Schedule I Not Required"** – Some Partnerships are not required to file Schedule I if certain conditions apply. The department added this box to quickly identify when those conditions exist. Additional information is provided in the instructions.

**Schedule III Eliminated** – Beginning with tax year 2017, Schedule III, Montana Partnership Information, will no longer be used to report partner information to the department. Instead, the partnership is only required to file a Montana Schedule K-1 for each partner that holds an interest in the partnership during the year.

As a result of this change, the Montana Schedules K-1 will need to be completed after page 1 of the form is complete, but before page 2.

**Montana Schedule K-1 Revised** – As a result of the elimination of Schedule III, the Montana Schedule K-1 was revised to incorporate some key information found only on Schedule III. Changes to the Montana Schedule K-1 include, but are not limited to:

- Adding a space to enter the year the Form PT-AGR was filed on behalf of the partner.
- Adding a space to report the sum total of the partner's Montana source income.
- Providing separate lines to report a breakdown of the Montana tax withheld on behalf of the partner. One line reports amounts paid on behalf of the partner by the partnership. The other line reports the partner's distributive share of amounts paid on behalf of the partnership.

### Toll Free Number Removed

The Department of Revenue no longer offers a toll free number. If you need assistance, please call us at (406) 444-6900.

## FORM PR-1 INSTRUCTIONS

### Heading

#### Tax Year

You must use the same tax year used for federal income tax purposes (as indicated on the federal return) for Montana income tax purposes. If the partnership has a fiscal year, enter the beginning and ending dates of the fiscal year. Use the 2016 Form PR-1 if the partnership's fiscal year began in the 2016 calendar year.

#### Name and Address

Enter the partnership's name (as it appears in the partnership agreement or other formation documents) and mailing address in the spaces provided.

#### Federal Employer Identification Number (FEIN)

Enter the FEIN from page 1 of federal Form 1065. Montana uses the FEIN for identification purposes. If the partnership changed its FEIN during the tax year, include a statement with the tax return that identifies the previous FEIN.

## Schedule K-1 and Partner Information

The partnership has to include with the Form PR-1 a Montana Schedule K-1 for each partner. Enter the number of included Montana Schedules K-1. Also enter the number of resident, nonresident and other types of partners. An example of an other type of partner is a partner that is a foreign C corporation.

### Important

If the entity has more than 100 partners during the tax year, then it must file Form PR-1 electronically. The partnership may be eligible to receive a hardship waiver by completing the Partnership E-file Waiver Request (Form PWR). The partnership must submit the request at least 30 days prior to the due date of the return including extensions. For more information about e-filing, go to [revenue.mt.gov](http://revenue.mt.gov) or call us at (406) 444-6900.

## Date Registered in Montana

If the partnership registered with the Secretary of State to do business in Montana, enter the registration date.

## MT Secretary of State ID Number

Enter the partnership's Montana Secretary of State Identification number. The identification number begins with a letter followed by six to eight digits. When the partnership registered to do business in Montana, it received this number. Enter the letter, followed by the next six to eight digits of the number. For example, if your number is C123456, enter C123456 in the spaces provided. If your number is seven digits, enter the letter followed by the next seven digits of the number. Leave any extra boxes blank. To find the partnership's identification number, visit the Montana Secretary of State's website at [sos.mt.gov](http://sos.mt.gov) and search for the partnership's business name under the Business Services section. If your partnership is not registered with the Secretary of State and does not have an identification number, leave this area blank.

## State Formed In

Enter the state in which the partnership was formed and the date it was formed. If the partnership was formed in a foreign country, enter that country.

## Federal Business Code/NAICS

Enter the Principal Business Code from page 1, Box C, of federal Form 1065. The Principal Business Activity Code is based on the North American Industry Classification System (NAICS). For further information, visit [naics.com](http://naics.com).

## Line Instructions

### Lines 1 through 11 – Partners' Distributive Share of Income Items

Enter the amounts reported on the federal Form 1065, Schedule K, Partners' Distributive Share Items, lines 1 through 11.

### Line 6 – Ordinary Dividends

Enter the total amount of ordinary dividends reported on the federal Form 1065, Schedule K, line 6a. Montana taxes dividends as ordinary income and does not apply the federally qualified dividend tax rate.

### Line 13a-e – Partners' Distributive Share of Deduction Items

Enter the amount of deductions reported on the federal Form 1065, Schedule K, Partners' Distributive Share Items, lines 12 and 13.

### Line 14 – Total Federal Deductions

Add lines 13a through 13e.

### Line 15 – Federal Income from All Sources

Subtract line 14 from line 12.

### Line 16 – Partners' Distributive Share of Montana Additions to Income

To compute Montana income taxable to partners, certain items have to be added to income. You must include a detailed statement of each item with the tax return.

#### Line 16a

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

#### Line 16b

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

#### Line 16c

Report all other additions.

### Line 17 – Partners' Distributive Share of Montana Deductions to Income

To compute Montana income taxable to partners, certain items are deducted from income. You must include a detailed statement of each item with the tax return.

#### Line 17a

If the partnership received interest on United States government obligations and mutual fund dividends attributable to that interest, the partnership can subtract these amounts from total federal income as long as they are included on line 12, total federal income. In addition, if the partnership 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 partnership can subtract these amounts from total federal income as long as they are included on line 12, total federal income.

Interest on obligations that are only guaranteed by the United States government is not tax exempt. If the partnership 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 partnership 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

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

### Line 17b

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 partnership files a paper return. If the partnership files electronically, the partnership represents that it has a copy in its records.

### Line 17c

Report other deductions on this line, including the following:

- The amount of contributions made by a small business to its independent liability fund. 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 partnership'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. See 15-32-103, MCA.
- Documented expenses for the donation of mineral exploration information to the Montana Tech Foundation. See 15-32-510, MCA.
- Nonbusiness income that is allocated to a specific state. This income is not included in computing the partnership's income apportioned to Montana. Nonbusiness income that is allocated to Montana is entered on line 20.
- Distributive items of income (loss) that the partnership received from a pass-through entity.

Do not include separately stated deductions that are subjected to an election or limitation on a partner's income tax return (e.g., depletion from oil and gas).

### Line 18

Add lines 15 and 16, then subtract line 17.

**All partnerships must complete lines 19 through 21. See FAQs 16-19 beginning on page 16 for more information about the apportionment and allocation income.**

### Schedule I Not Required:

Check this box if the partnership is not required to file Schedule I, Apportionment Factors for Multistate Partnerships. You are not required to file Schedule I if at least one of the following statements is true:

- The partnership is only engaged in business in Montana.
- The partnership does not have employees, business property or sales in the state of Montana, and only holds interests in other pass-through entities that reported income to the partnership on Montana Schedules K-1.

If both statements are false, you are required to file Schedule I.

### Line 19 – Income Apportioned to Montana

For partnerships engaged in business only in Montana, enter 100% as the apportionment percentage and multiply the amount that is reported on line 18 by 100%. Enter the result on line 19.

For multistate partnerships, if you checked the box "Schedule I Not Required," enter 0% and go to line 20, otherwise, multiply the amount that is reported on line 18 by the apportionment percentage reported on line 5 of Schedule I, Apportionment Factors for Multistate Partnerships. Enter the result on line 19. See the instructions for Schedule I on page 6.

### Line 20 – Income Allocated to Montana

For both multistate partnerships and partnerships without multistate activity, report Montana source income subject to allocation on this line. See FAQ 18 for "allocation of income" on page 16.

For the amount reported on line 20, the partnership must include each of the following with Form PR-1:

- 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 other state's income tax or information return if the partnership allocates to a state other than Montana (If the partnership is not required to file an income tax or information return with the other state, the partnership must indicate this in a statement.)

### Line 21 – Total Montana Source Income

Add the amounts on lines 19 and 20.

**Important!** You need to complete Montana Schedule K-1 for each partner before you can complete lines 22-25.

### Line 22 – Total Montana Composite Return Tax

Enter the total amount of composite tax reported on Schedule IV column H. See instructions on page 9.

The amount on this line must equal the sum of part 5, line 1 on all Montana Schedules K-1 filed by this entity.

### Line 23 – Sum of Partner Withholding from all Montana Schedules K-1

Enter the sum of partner withholding reported on all Montana Schedules K-1, part 5, line 2a. This is the total amount of tax due from the partnership to Montana on behalf of its partners. The partners 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 partnership and reported to the partnership on a Montana Schedule K-1.

The amount on this line must equal the sum of part 5, line 2a on all Montana Schedules K-1 filed by this entity.

### Line 24a – Total Montana Mineral Royalty Tax Withheld

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



the Form(s) 1099 and Montana Schedule(s) K-1 you received that report amounts withheld on your behalf.

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 partnership's royalty payments for production taxes. For more information, visit [revenue.mt.gov/home/businesses](http://revenue.mt.gov/home/businesses) and select the *General Tax Information/Special Programs* tab.

#### **Line 24b – Mineral Royalty Tax Withheld Distributed to Partners**

Enter the amount of mineral royalty tax withheld reported on line 24a that is distributed to partners.

The amount on this line must equal the sum of part 5, line 3 on all Montana Schedules K-1 filed by this entity.

#### **Line 24c - Montana Mineral Royalty Tax Withheld Attributable to Partnership**

Subtract line 24b from 24a. This is the amount of Montana mineral royalty tax withheld that is attributable to the partnership.

#### **Line 25a – Total Montana Pass-Through Withholding**

If the partnership 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 partnership, enter the amount here. This amount is reported to the partnership on a Montana Schedule K-1. Attach copies of the Montana Schedule(s) K-1 you received that report amounts withheld on your behalf.

#### **Line 25b - Montana Pass-Through Withholding Distributed to Partners**

Enter the amount of Montana pass-through withholding reported on line 25a that is distributable to partners. This amount is distributable to partners who have filed a valid consent agreement or are not included in a composite return and must be reported to each applicable partner on a Montana Schedule K-1.

The amount on this line must equal the sum of part 5, line 2b on all Montana Schedules K-1 filed by this entity.

#### **Line 25c - Montana Pass-Through Withholding Attributable to Partnership**

Subtract line 25b from line 25a. This is the amount of Montana pass-through withholding that is attributable to the partnership and will apply to the composite tax reported on line 22 and/or pass-through withholding reported on line 23.

#### **Line 26 - Total Withholding Payments Attributable to Partnership**

Add lines 24c and 25c. This is the total withholding payments attributable to the partnership.

#### **Line 27 - Return Payments**

##### **Line 27a – 2016 Overpayment Applied to 2017**

Enter any overpayments from 2016 that were credited to 2017.

#### **Line 27b – 2017 Estimated Tax Payments**

Enter the total Montana estimated tax payments that the partnership made for 2017.

#### **Line 27c – 2017 Extension Payment**

Enter any extension payment for 2017 made on or before March 15, 2018.

#### **Line 27d – For Amended Tax Returns Only – Payments Made with Original Return**

Enter any payments the partnership made when it filed its original tax return and any subsequent payments that were applied to the partnership's 2017 tax liability.

#### **Line 27e – For Amended Tax Returns Only – Previously Issued Refunds**

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

#### **Line 27f – Total Return Payments**

Add lines 27a through 27d and then subtract line 27e. This is the partnership's total return payments.

#### **Line 28 – Amount Due or (Overpaid)**

Add lines 22 and 23; from this total, subtract the sum of lines 26 and 27f.

#### **Line 29 – Penalties and Interest**

##### **Line 29a – Partnership Information Tax Return Late Filing Penalty**

A partnership is charged a late filing penalty if it files Form PR-1 after the due date, including the automatic six-month extension. The penalty is \$10 multiplied by the number of partners at the close of the tax year for each month or fraction of a month that the entity does not file the partnership information return. This penalty is calculated for up to five months and may not exceed \$2,500. See 15-30-3302, MCA.

##### **Important**

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

##### **Line 29b – Interest on Underpayment of Estimated Composite Taxes**

The partnership 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 partnership 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. See 15-30-3312, MCA.

#### **Worksheet I – Calculation of Underpayment Interest**

In 2017, the partnership 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 partnership 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.

<b>Worksheet I - Short Method</b>	
1	Enter the total 2017 composite tax reported on line 22.
2	Enter 90% of line 1 above.
3	Enter the total of lines 26 and 27a that are attributable to composite filers.
4	Subtract line 3 from line 1. If the result is \$500 or less, stop here. The partnership does not owe interest on its underpayment.
5	Enter the 2016 composite tax from the 2016 Form PR-1, line 22.
6	Enter the smaller of line 2 or line 5.
7	Enter the total of line 3 and the amount reported on line 27b attributable to composite filers.
8	Subtract line 7 from line 6. If zero or less, stop here. The partnership does not owe interest on its underpayment.
9	Multiply line 8 by 0.02663 and enter the result.
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 0.0001096.
11	Subtract line 10 from line 9. This is the partnership's underpayment interest. Enter the result here and on line 29b.

### Line 29c – Composite Income Tax Return Late Filing Penalty

If the partnership is late in filing Form PR-1, a late filing penalty will be charged. The late payment penalty is the greater of \$50 or 5% per month on the unpaid amount from the original due date until it is paid. This penalty cannot exceed 25% of the partnership's tax liability on line 28.

### Line 29d – Late Payment Penalty

The late payment penalty is equal to 0.5% per month, calculated daily, on the unpaid amount from April 17, 2018, until it is paid. The daily rate is 0.0164%. Your late payment penalty will never exceed 12% (24 months x 0.5%) of the unpaid tax. Late pay penalty is automatically waived if you pay all the tax and interest with your return, or within 30 days of the first notice from the department.

If the partnership files an amended tax return that reflects an increased tax liability, it may have the late payment penalty waived. To receive the waiver, mark the "Amended Return" box on Form PR-1 and pay the tax and applicable interest in full when the partnership files the amended return. By marking this

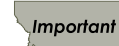
box and paying all tax and interest, the partnership is treated as having requested a waiver of the late payment penalty.

### Line 29e – Interest

Compute interest on any tax liability (line 28) that the partnership has not paid by the due date of the tax return and enter the total on this line.

If the partnership does not pay 100% of its tax liability by March 15, 2018 (for a calendar year filer), interest is due at a rate of 4% per year, computed daily on the unpaid tax balance.

To calculate the interest, multiply line 28 by 0.01096% (0.0001096) times the number of days after March 15, 2018, the partnership's tax is paid.



A valid extension of time to file the partnership's tax return does not extend the due date to pay the partnership's income tax liability after March 15, 2018.

### Line 29f – Total Penalties and Interest

Add lines 29a through 29e and enter the total.

### Line 30

Add lines 28 and 29f; enter the result.

### Line 31 – Amount You Owe

If the amount on line 30 is greater than zero, enter it on this line. This is the amount due with the partnership's tax return. The partnership can pay the amount it owes by:

- e-filing a return and requesting an electronic funds withdrawal,
- e-check - there is no fee and you can schedule an electronic payment and indicate when you want it withdrawn at [revenue.mt.gov](http://revenue.mt.gov),
- credit/debit card - there is a small fee,
- money order, personal check or cashier's check payable to MONTANA DEPARTMENT OF REVENUE. Remember to include the voucher (available at [revenue.mt.gov](http://revenue.mt.gov)), sign the check and write the partnership's FEIN and "Tax Year 2017" on the memo line.

**Note:** We may need to adjust your payment if it is not in U.S. funds.

For more information about e-pay options, visit [revenue.mt.gov](http://revenue.mt.gov). Interest and penalties will be assessed on any amount not paid when due.

### Line 32 – Overpayment

If the amount on line 30 is less than zero, enter it on this line. This is the amount the partnership has overpaid.

### Line 33 – 2018 Estimated Tax Payments

All or part of the refund that the partnership reported on line 30 can be refunded or carried over as a 2018 estimated tax payment. Enter the amount of the refund reported on line 30 that the partnership wants applied to its 2018 estimated tax.

### Line 34 – Refund

Subtract line 33 from line 32 and enter the result on this line. This is the amount of the refund that will be issued.

If the partnership is requesting a refund, mark the box located in the top portion of Form PR-1, page 1.

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

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

A sample of a personal check is provided for reference.

John Taxpayer  
Jane Taxpayer  
23 Main Street  
Anyplace, MT 59000  
Pay to the  
Order of \_\_\_\_\_ \$ 1234  
Dollars

Anyplace Bank  
Anyplace, MT 59000

Routing Number: 123456789  
Account Number: 9876543210

**Do not include the check number in the account number.**

⑆123456789⑆⑆9876543210⑆⑆1234

### Sign the Return

If the partnership is filing its return on paper, the return is not valid unless the general partner or limited liability company member manager signs the return. Unsigned returns cannot be processed and require us to contact the general partner or limited liability company member for a signature.

If the partnership is filing its return electronically, the general partner or limited liability company member manager does not sign the return. The act of filing electronically signifies the partner or member's declaration, under the penalty of false swearing, that:

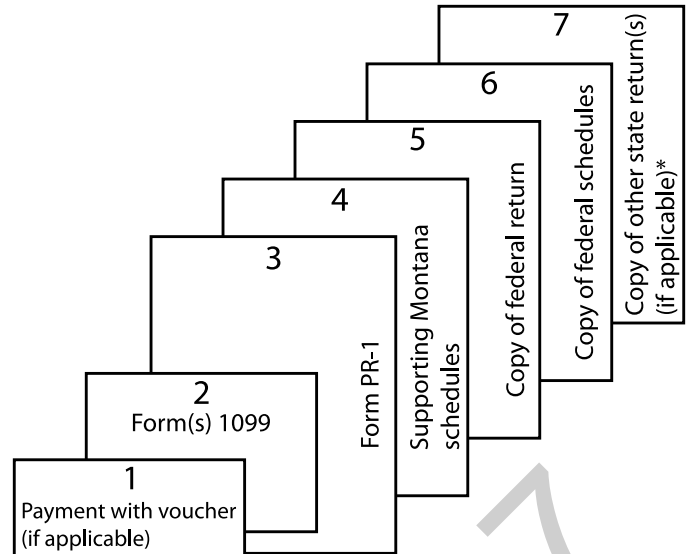
- The partner or member is authorized to file the return.
- The information in the return is true, correct and complete.
- The act of filing electronically is the partner's or member's signature.

### 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 partnership is filing a return on paper, assemble the return, without using staples, according to the following diagram or list. Include all Forms 1099.



Please Do Not Use Staples

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

### File the Return

To learn more about e-filing options available to partnerships, see FAQ 9 on page 15. If the partnership 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 PARTNERSHIPS INSTRUCTIONS

### Schedule I applies only to multistate partnerships.

A multistate partnership with income derived from its business activities must determine whether the income is business or nonbusiness income. After the partnership 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 a partnership is engaged in business activities both inside and outside Montana, business income assignable to Montana has to be determined using the apportionment factor. Include only the partnership's own items of property, payroll and sales. Do not add in any property, payroll or sales of another pass-through entity.

The partnership 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 partnership to use an alternative method, the partnership will still need to complete and submit Schedule I. 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 partnership'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 partnership'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 partnership 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 or mobile 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 end of the tax period.

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

If the partnership 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 partnership 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 partnership 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 partnership 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 partnership exclusive of nonbusiness income and intercompany transactions. The

sales factor is a fraction. The numerator is the partnership's total sales in Montana during the tax period. Enter the numerator values in column B of Schedule I. The denominator is the partnership'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 partnership 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 partnership 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 partnership 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 19, page 1 of Form PR-1. Round out to the fourth decimal (example: 25.5555%).

## SCHEDULE II – MONTANA PARTNERSHIP TAX CREDITS INSTRUCTIONS

A tax credit claimed by a partnership is passed through to its partners. The partnership identifies how much credit is available to each partner on Montana Schedule K-1. The partnership provides a copy of the Montana Schedule K-1 and a copy of the credit form that was used to calculate the credit to each partner.

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

The tax credits cannot be taken as a credit against composite tax reported on Form PR-1.

For detailed tax credit instructions and forms, visit [revenue.mt.gov](http://revenue.mt.gov). If the partnership is eligible for a credit, include the appropriate form with the tax return. If the partnership files electronically, it represents that it kept a copy in the partnership's records and will provide a copy to the department if requested.

### Lines 1 through 16

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 AFRCR)
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. Biodiesel blending and storage credit (Form BBSC)
13. Innovative educational program credit
14. Student scholarship organization credit
15. Emergency lodging credit (Form ELC)
16. Unlocking public lands credit

### Credit Recapture

#### Lines 17 through 20

Complete these lines if the following occurred:

17. The partnership's federal rehabilitation credit, on which the Montana historical property preservation credit was based, was recaptured.
18. The partnership's film production certification was revoked after it received the credit.
19. The partnership's biodiesel sales were not at least 2% of all diesel sales by the end of the third year after the credit was initially claimed, or the facility ceased blending biodiesel for sale.
20. The partnership's biodiesel facility ceased operations for a period of 12 consecutive months within five years of claiming the credit.

## SCHEDULE IV – MONTANA PARTNERSHIP COMPOSITE INCOME TAX SCHEDULE INSTRUCTIONS

If more space is needed, complete additional copies of Schedule IV (available at [revenue.mt.gov](http://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 you do not complete Schedule IV as an exact replica of the official form, the processing of the partnership's return will be delayed until we receive this information.

A partnership can elect to file a composite tax return and pay a composite tax on behalf of an eligible participating partner. Partners who are nonresidents, foreign C corporations, tax-exempt entities or second-tier pass-through entities and who properly elect to participate in the composite tax return do not have to file a Montana income tax return. However, if the partner has other Montana source income, the partner is not eligible to participate unless that other income is from other pass-through entities that file a composite return on behalf of the partner.

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

Partners that receive separately stated deductions that are subject to an election or limitation at the partner level should consult with a tax professional prior to making an election to be included on a composite return. Certain deductions are not allowed in the composite tax calculation.

A partnership can include a partner in filing a composite tax return only if the partner has provided the partnership with a power of attorney that authorizes the partnership to file the composite return and act on the partner's behalf. The partnership does not submit the power of attorney with its tax return; the partnership retains the power of attorney as authorization from the partner. 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 partnership files a composite tax return, the partnership 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 partners participating in the composite income tax return.

### Part II

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

### Column 1

Enter the amount from Form PR-1, line 15. This is the partnership's federal income from all sources.

### Column 2

Enter the amount from Form PR-1, line 21. This is the partnership'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 Partner

List the name of the participating partner as it appears on Form PR-1, Schedule K-1.

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

Enter the SSN or FEIN of the participating partner as it appears on Form PR-1, Schedule K-1.



**Column C – Partner’s Share of Federal Income from Entity**

Enter the participating partner’s share of the partnership’s total federal income (loss) from all sources. For the purpose of calculating composite income tax, divide the partner’s Montana source income as reported on the partner’s Montana Schedule K-1, part 2 by Form PR-1, line 21 to determine ownership percentage for Montana composite tax purposes. Multiply the percentage by Form PR-1, line 15 to calculate the partner’s share of federal income for composite tax purposes.

Partner’s Montana source income (Montana Schedule K-1, part 2)	\$7,200
Total Montana source income (Form PR-1, Line 21)	\$12,000
Partner’s ownership percentage (for composite tax purposes)	60.00%
Total Federal income (Form PR-1, Line 15)	\$100,000
Partner’s Share of Federal Income (for composite tax purposes)	\$60,000

**Column D – Standard Deduction**

Each eligible participating partner is allowed one standard deduction equal to 20% of column C, but not less than \$2,000 or more than \$4,510.

**Column E – Exemption**

Each participating partner is allowed one exemption of \$2,400.

**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 Partnership ABC’s composite tax ratio is 0.2500 (Part II). Also assume that Partner X is an eligible participant in the composite return. The federal income from all sources is \$60,000. The participating partner’s composite tax liability is calculated in the following table.

If the partnership does not include completed copies of Montana Schedule K-1 for each partner with the partnership return, the processing of the partnership’s return will be delayed until we receive this information and late filing penalties may apply.

Partner’s share of partnership federal income from all sources (column C)	\$60,000
Standard deduction (column D)	(\$4,510)
Exemption allowance (column E)	(\$2,400)
Result of column C minus columns D and E (column F)	\$53,090

Using the tax rates shown on Schedule IV, the tax (column G) on \$53,090	\$3,103
The Montana composite income tax (column H) is \$3,103 x 00.2500	\$776

**SCHEDULE VI – REPORTING OF SPECIAL TRANSACTIONS INSTRUCTIONS**

Mark the appropriate boxes indicating which forms were filed with the Internal Revenue Service. If any statements are answered yes, the partnership will have to include a copy of the applicable form.

For purposes of statement 5, “related party” has the same meaning given the term in Section 267(b) or Section 707(b) of the IRC; 26 USC 267(b) or 26 USC 707(b).

**MONTANA SCHEDULE K-1 INSTRUCTIONS**

The partnership is required to use the Montana Schedule K-1 (Forms CLT-4S and PR-1), Partner’s/Shareholder’s Share of Income (Loss), Deductions, Credits, etc., to provide information that partners 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](http://revenue.mt.gov) under Forms.

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

The partnership has to include a copy of each partner’s Montana Schedule K-1 when filing Form PR-1 with the department. A copy is kept as part of the partnership’s records and each partner is given their own separate copy (with a copy of the Partner’s/Shareholder’s Instructions).

If the partnership does not include completed copies of Montana Schedule K-1 for each partner with the partnership return, the processing of the partnership’s return will be delayed until we receive this information and late filing penalties may apply.

**Part 1 – Pass-Through Entity Information**

Mark the applicable boxes:

- Type of entity – mark the Form PR-1 box.
- Final Schedule K-1 – mark this box if this is the last Montana Schedule K-1 that the partnership will issue to the partner.
- Amended Schedule K-1 – mark this box if the partnership is amending the partner’s Montana Schedule K-1.

Fill in the partnership’s federal employer identification number (FEIN), name and address.

**Part 2 – Partner/Shareholder Information**

Enter the name and address of the partner at the end of the tax year. Enter the partner’s tax identification number (FEIN or SSN) as the partnership reported it for federal income tax purposes.

**Entity Type**

Enter the entity type code for the partner in the space provided. The entity type codes applicable to partners of a partnership are:

- C – C corporation
- D – Disregarded entity
- E – Estate
- F – Foreign C corporation
- I – Individual
- DOM – Domestic 2nd tier pass-through entity
- P – Partnership
- PTP – Publicly traded partnership
- S – S corporation
- T – Trust
- TE – Tax-exempt entity

**Residency**

Mark the Resident box only if the partner is a resident individual, estate or trust. Mark the Nonresident box only if the partner is a nonresident individual, estate or trust. If residency status is unknown, treat the partner as a nonresident.

**Composite Tax Election**

If the partner is included in a composite income tax return filed by the partnership, mark the box. Partners that are included in a composite income tax return do not file a Montana income tax return.

**Form PT-AGR**

If the partner filed a Form PT-AGR, Pass-Through Entity Owner Tax Agreement, enter the year that the agreement was provided to us. For example, if the partnership or owner files the agreement with the department that begins with the 2017 tax year, enter "2017."

Form PT-AGR is an agreement that a nonresident individual, nonresident estate, nonresident trust, foreign C corporation, domestic second-tier pass-through entity or tax-exempt entity has to complete if they do not participate in a composite return and do not want the partnership to pay taxes on their behalf. By completing Form PT-AGR, the partner agrees to timely file a Montana tax return, pay all taxes and be subject to the personal jurisdiction of Montana. The partner completes the agreement and either files it with the department or returns it to the partnership to file on behalf of the partner. If the partner files the agreement with the department, the partner must also send the partnership 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, domestic second-tier pass-through entity or tax-exempt entity partner have to be filed. Form PT-AGR is due by the due date, including extensions, of the partnership's return. A domestic second-tier pass-through entity is a pass-through entity whose interest is entirely held, either directly or indirectly, by one or more resident taxpayers, including corporations domiciled in Montana.

**Sum of Montana Source Income**

Enter the total of each partner's distributive share of Montana source income (loss). Calculate the total using the following formula:

<b>Add:</b>	
Part 3, lines A1 - A3, (Nonresidents use Montana Source column)	
Part 4, lines 1 - 11	
Part 5, line 4	
<b>Subtract:</b>	
Part 3, lines B1 - B3, (Nonresidents use Montana Source column)	(            )
Part 4, lines 12 and 13	(            )
<b>Total Montana Source Income</b>	

This amount is used to calculate the amount of withholding the partnership is required to pay on behalf of the partner, if applicable.

**Profit/Loss Percentage**

Enter each partner's profit/loss percentage. The percentage is equal to the profit/loss percentage reported on each partner's Federal Schedule K-1. This percentage is used to determine a partner's share of mineral royalty or pass-through withholding paid on behalf of the partnership. Round out to the fourth decimal (example: 25.5555%).

**Capital/Ownership Percentage**

Enter each partner's capital percentage. The percentage is equal to the percentage reported on each partner's Federal Schedule K-1. Round out to the fourth decimal (example: 25.5555%).

**Montana Apportionment Factor**

Enter the apportionment factor reported on Form PR-1, Schedule I, line 5. If the "Schedule I Not Required" box is checked on Form PR-1, page 1 and the partnership only has activity in Montana, enter 100%. If the "Schedule I Not Required" box is checked on Form PR-1, page 1 and the partnership is only reporting income allocable to Montana, enter 0%. Round out to the fourth decimal (example: 25.5555%).

**Part 3 – Montana Adjustments**

**A. Montana Additions to Income.** In the "Total" column, enter the partner's distributive share of Montana additions to income from the corresponding lines 16a through 16c on page 1 of Form PR-1. This is not an apportioned amount.

Do not include the partner's distributive share of separately stated items that were reported to the partnership on a Schedule K-1 and are included in part 4. For example, do not enter ordinary income or royalties on this line.

In the "Montana Source" column, multiply the amounts reported in the "Total" column by the MT apportionment factor reported in part 2 and enter the result.

**B. Montana Deductions to Income.** In the "Total" column, enter the partner's distributive share of Montana deductions from the corresponding lines 17a through 17c on page 1 of Form PR-1. This is not an apportioned amount.

Do not include the partner's distributive share of separately stated items that were reported to the partnership on a K-1 and are included in Part 4. For

example, do not include ordinary income or royalties on this line.

In the "Montana Source" column, multiply the amounts reported in the "Total" column by the MT apportionment factor reported in Part 2 and enter the result.

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

**Lines 1-13**

Partners 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 partner's distributive share of income apportioned to Montana.

In general, the distributive share of Montana source income (loss) is calculated for each partner by multiplying the amount reported on Form PR-1 by each partner's profit/loss percentage. However, this may not apply if the partnership agreement provides for special allocations or if guaranteed payments are made.

**Resident individual, estate or trust partner.** If the partner is a Montana resident individual, estate or trust, the partner's entire share of the entity's income, gains, losses and deductions that is included in the partner's federal taxable income is Montana source income.

For lines 1-13, enter the partner's distributive share of Form PR-1, lines 1-13.

**Nonresident or part-year resident individual, estate or trust partner.** If the partner is a nonresident or part-year resident individual, estate or trust, the amount of the partner's share of the entity's income, gains, losses and deductions is apportioned to Montana based on the entity's activity in Montana.

For lines 1-13, enter the partner's apportioned distributive share of Form PR-1, lines 1-13 plus the partner's apportioned distributive share of income or loss reported on Form PR-1, line 16c and the partner's distributive share of allocated income or loss reported on Form PR-1, line 20 minus the partner's apportioned distributive share of income reported on Form PR-1, line 17c.

For example: Partnership 1 (P1) reports \$50,000 of ordinary income on Form PR-1, line 1 which includes \$20,000 of allocable ordinary income reported to P1 on a federal Schedule K-1 from Partnership 2 (P2). Only \$10,000 of the ordinary income from P2 is allocable to Montana. P1's apportionment factor is 75%. Partner X's distributive share of income/loss is 40%. P1 will report the following ordinary income (OI) to Partner X on his/her Montana Schedule K-1, line 1:

Form PR-1, line 1 (\$50,000) x Apportionment Factor (.75) x Partner's distributive share of income/loss (.40)	\$15,000
Form PR-1, line 20 (\$10,000 OI) x Partner's distributive share of income/loss (.40)	\$4,000
Form PR-1, line 17c (\$20,000 OI) x Apportionment Factor (.75) x Partner's distributive share of income/loss (.40)	(\$6,000)
Total Montana ordinary income reported to Partner X on Montana Schedule K-1, line 1	\$13,000

**Partnership or corporation partner.** If the partner is a corporation, partnership or a limited liability company treated like a corporation or partnership, the amount of the partner's share of the entity's income, gains, losses and deductions are apportioned to Montana based on the entity's activity in Montana.

For lines 1-13, enter the partner's apportioned distributive share of Form PR-1, lines 1-13 plus the partner's apportioned distributive share of income or loss reported on Form PR-1, line 16c and the partner's distributive share of allocable income or loss reported on Form PR-1, line 20 minus the partner's apportioned distributive share of income reported on Form PR-1, line 17c.

See example above.

**Guaranteed payments.** The guaranteed payments remain with the partner receiving the payment as reflected on the federal Schedule K-1. The portion of the guaranteed payment that represents Montana source income is reported on this line. A guaranteed payment is considered Montana source income if the payment is considered a return of capital or if the payment compensates a partner that performed a service in the state or while a resident of the state.

**Part 5 – Supplemental Information**

**Line 1**

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

**Line 2a**

If the partnership has a partner who is a nonresident individual, nonresident estate, nonresident trust, foreign C corporation, tax-exempt entity or second-tier pass-through entity owner at any time during the year, the partnership has to pay taxes on behalf of the partner if:

- the nonresident individual, nonresident estate, nonresident trust, foreign C corporation or tax-exempt entity:
  - did not provide the partnership with a completed Form PT-AGR and did not file the Form PT-AGR,
  - is not participating in the partnership's composite tax return, or
  - was not compliant with their tax filing and payment obligations and the partnership was notified that it must withhold tax on behalf of the partner;
- the second-tier pass-through entity owner:
  - is not a domestic second-tier pass-through entity,
  - is a domestic second-tier pass-through entity and did not file a completed Form PT-AGR that identified all of its owners and established that all Montana source income that passes through to the domestic second-tier entity is accounted for on tax returns filed with the state of Montana by one or more resident taxpayers, including corporations domiciled in Montana, or
  - is not participating in the partnership's composite return.

Enter the amount of Montana tax the partnership paid on behalf of each partner. For a nonresident individual, nonresident estate, nonresident trust and a second-tier pass-through entity, the amount required to be paid is 6.9%

multiplied by the partner's distributive share of Montana source income reported in part 2. For a foreign C corporation or tax-exempt entity, the amount it must pay is 6.75% multiplied by the partner's distributive share of Montana source income reported in part 2.

The sum of this line on all of the Montana Schedules K-1 filed by this entity must equal Form PR-1, line 23.

**Line 2b**

Enter each partner's share of Montana pass-through withholding reported on Form PR-1, line 25a only if that amount is distributable to the partner. This amount is distributable to partners who have filed a valid consent agreement or are not included in a composite return.

Calculate each partner's distributive share by multiplying Form PR-1, line 25a by each partner's Profit/Loss Percentage reported in part 2.

The sum of this line on all of the Montana Schedules K-1 filed by this entity must equal Form PR-1, line 25b.

**Line 2c**

Add lines 2a and 2b. This is the total amount of income tax withheld on behalf of the partner.

**Line 3**

If the partnership received federal Form 1099 because the partnership had Montana mineral royalty tax withheld from its mineral royalty income in Montana, enter the partner's distributive portion of the amount withheld on this line.

Determine the partner's distributive portion of the amount withheld by multiplying the amount on Form PR-1, line 24a by the partner's Profit/Loss percentage in part 2.

**Line 4**

Enter each partner's distributive share of income (loss) allocated to Montana that is reported on Form PR-1, line 20.

Include a schedule identifying each item and the amount that each partner receives.

Do not include the partner's distributive share of separately stated items that were reported to the partnership on a Schedule K-1 and are included in Part 4. For example, do not include ordinary income or royalties on this line.

**Line 5**

Enter each partner's distributive share of items other than those listed on lines 1 through 4 that are adjustments to the partner's Montana income tax return. List the type of item on this line. If additional space is needed, include a schedule.

If the partnership made a contribution that meets the requirements for the Montana 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 partner's distributive share of the contractor's gross receipts (CGR) tax credit. Also enter the CGR Account ID number on this line. The partnership received the CGR Account ID when it registered with the Department of Revenue. If the partnership does not have the CGR Account ID number on record, contact us. If the partner receives credit from more than one CGR account, mark the box indicating multiple accounts and include a schedule detailing how much credit each partner receives from each CGR account.

**Line 2**

Enter each partner's distributive share of tax credits and tax credit recapture amounts that were not reported on line 1. These tax credits and tax credit recapture amounts are reported on Schedule II. If you need additional space, include a schedule.

October 2017



## FAQS—FREQUENTLY ASKED QUESTIONS

The answers to these questions are identified by number on pages 13-16.

### Filing Requirements

- 1 Who has to file the Montana Partnership Information and Composite Tax Return?
- 2 When is the partnership's information and composite tax return due?
- 3 What forms and schedules does the partnership have to include with the information and composite tax return?
- 4 Which tax year and accounting method should the partnership use to file its information and composite tax return?
- 5 Should the partnership file a composite tax return?
- 6 Who has to sign the tax return?
- 7 Can the partnership 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 a partnership have when filing its information and composite tax return electronically?
- 10 What options does a partnership have to pay its Montana taxes electronically?
- 11 What is the interest rate on unpaid taxes?

- 12 If the partnership files an information and composite tax return electronically, what information must it send in and what documents does it have to retain?
- 13 If the partnership mails its information and composite tax return, where does it send the return?

### Amended Returns

- 14 How does a partnership amend its tax return?
- 15 Can partnerships have net operating losses?

### Multistate partnerships and partnerships with allocable items of Montana source income (loss)

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

### Tax Records

- 20 How long does a partnership need to maintain tax records after it has filed the Montana information and composite tax return?

### 1 Who has to file the Montana Partnership Information and Composite Tax Return?

A partnership has to file an annual Montana Partnership Information and Composite Tax Return (Form PR-1) if:

- the partnership has any amount of Montana source income, whether a gain or loss;
- the partnership filed a return in a prior year and did not mark the return final; or
- the partnership is registered to do business with the Montana Secretary of State.

If a partnership filed a return for a prior year or is registered with the Montana Secretary of State but did not engage in any activity in Montana, the entity must file an Affidavit of Inactivity for Corporations, Partnerships and Disregarded Entities (Form INA-CT). This form is available at [revenue.mt.gov](http://revenue.mt.gov).

### 2 When is the partnership's information and composite tax return due?

The partnership's Montana filing period is the same as its federal filing period. Form PR-1 is due following the close of the tax year for:

- calendar year partnership – on or before March 15
- fiscal year partnership – 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 does the partnership have to include with the information and composite tax return?

When the partnership files Form PR-1 on paper, it must include a complete copy of the federal Form 1065, U.S. Return of Partnership Income, with all federal Schedules K-1, all statements and all documents.

#### Montana Resident Partners

If the ownership of the partnership consists only of Montana resident partners, the partnership is required to complete:

- Form PR-1, pages 1 and 2;
- Schedule II, Montana Partnership Tax Credits, if applicable;
- 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 partner.

We do not accept copies of federal Schedules K-1 in place of completed Montana Schedules K-1. If a Montana Schedule K-1 is not completed for each partner, including the partner's identification number, the processing of the partnership's return will be delayed until we receive this completed schedule. A partnership's return may be subject to a late filing penalty.

#### Nonresident Partners

When a partnership has a partner who is a nonresident (individual, estate, or trust), second-tier pass-through entity,

or a foreign C corporation at any time during the year, it has additional filing and payment requirements:

- 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, domestic second-tier pass-through entity or tax-exempt entity that does not participate in a composite return and does not wish the partnership to pay tax on its behalf. By signing the agreement, the partner agrees to timely file a Montana tax return, to pay all taxes and to be subject to the personal jurisdiction of Montana. The partner completes the agreement and either files it with the department or returns it to the partnership.

If the partner files the agreement with the department, the partner must also send the partnership 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, domestic second-tier pass-through entity or tax-exempt entity partner have to be filed. The partnership and owner need to retain these agreements as part of their tax records.

If a Form PT-AGR is not filed for any partner that is a nonresident, foreign C corporation, domestic second-tier pass-through entity or tax-exempt entity, and if that partner does not participate in a composite return filed by the partnership, then the partnership is required to pay tax on the partner's behalf. Form PT-AGR is due on or before the due date of the partnership's return, including extensions.

- **Schedule IV** (Montana Partnership Composite Income Tax Schedule), if applicable, is the composite tax return that the partnership completes and files on behalf of eligible partners 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 partner.

#### 4 Which tax year and accounting method should the partnership 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 partnership changes its federal taxable year or accounting method, it must change its Montana taxable year and accounting method accordingly. A copy of the approval letter 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 page 1 if the partnership ceased to exist during the 2017 tax year.

#### 5 Should the partnership file a composite tax return?

A partnership may elect to file a composite tax return on Schedule IV on behalf of the eligible participating partners that consent to be included. If a composite return is filed, those partners do not have to prepare or file separate Montana returns. The composite tax rate ranges from 1% to 6.9%.

Partners 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, tax-exempt entity or second-tier pass-through 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 partner's behalf); and
- they consent to be included in the return by providing the partnership with a written power of attorney, authorizing the partnership to file and act on their behalf.

#### 6 Who has to sign the tax return?

Form PR-1 has to be signed and dated by a general partner or limited liability company member manager. This form is not considered to be complete unless it is signed. Unsigned tax forms will delay the processing of the partnership's return. If the partnership has paid someone to prepare this form, the paid preparer's PTIN or SSN, name, address and telephone number have to be included on the tax return.

If the partnership files Form PR-1 electronically, see FAQ 12 for more information about electronic signatures.

#### 7 Can the partnership get an extension of time to file its information and composite tax return?

Yes. A partnership is granted an automatic extension of time to file of up to six months. To avoid a late filing penalty, any tax, penalties and interest due must be paid on or before the date the return is filed.

##### Important

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

#### 8 What does the box that asks, "May the DOR discuss this return with the tax preparer?" mean?

If the partnership marks yes, we can discuss any concerns that we might have with the 2017 tax return—a missing schedule, for example—with the partnership's tax preparer. If the partnership does not mark the box, we cannot discuss the return with anyone but the general partner or limited liability company member manager or someone to whom the partnership 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 partnership, the partnership is authorizing us to call the tax preparer to answer any questions that arise while we are processing the 2017 tax return.

By marking the box, the partnership 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 partnership's return or the status of the partnership's 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 partnership, not to the tax preparer.

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

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 (2018) tax return. This is March 15, 2019, for most partnerships.

If the partnership wants to expand or change the tax preparer's authorization (for example, to verify any estimated payments it will make 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](http://revenue.mt.gov).

### 9 What options does a partnership have when filing its information and composite tax return electronically?

File the Montana and federal tax returns separately or at the same time through a tax professional who is an authorized IRS *e-file* provider, or with department approved software. For more information regarding electronic filing, visit [revenue.mt.gov](http://revenue.mt.gov) or [irs.gov](http://irs.gov).

#### Important

If an entity has to file a Montana Partnership Information and Composite Tax Return (Form PR-1) and also has 100 or more partners over the course of its tax year, then it must file Form PR-1 electronically. This applies to tax years 2014 and later. The partnership may be eligible to receive a hardship waiver by completing the Partnership E-file Waiver Request (Form PWR). The partnership must submit the request at least 30 days before the due date of the return, including extensions. For more information about e-filing, go to [revenue.mt.gov](http://revenue.mt.gov) or call us at (406) 444-6900.

### 10 What options does a partnership have to pay its Montana taxes electronically?

A partnership can pay its Montana taxes electronically by:

- Electronic funds withdrawal when e-filing the state tax return. You can schedule the withdrawal date for any date you select. There is no fee for an electronic funds withdrawal.
- E-check—there is no fee for an e-check payment. You can schedule an e-check payment to be withdrawn on any date you select by visiting our website.
- Credit/debit cards—a small fee is applied for a credit card payment.
- Schedule an ACH credit through your bank if the bank supports this process.

Interest and late payment penalties will be assessed on any amount not paid when due. For more information regarding electronic payment options, visit [revenue.mt.gov](http://revenue.mt.gov).

### 11 What is the interest rate on unpaid taxes?

Effective January 1, 2018, the interest rate is 4%. Under Montana law, the interest rate for all unpaid income taxes

depends on the rate set by the Internal Revenue Service and may fluctuate each year.

### 12 If the partnership files its information and composite tax return electronically, what information must it send in and what documents does it have to retain?

If the partnership 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 partnership files its return electronically, it represents that it has kept all the required documents as its tax record and that it will provide copies of these if we ask for them. The general partner or limited liability company member manager 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.

### 13 If the partnership mails its information and composite tax return, where does it send the return?

If the partnership chooses not to or is not required to file electronically, mail the return to:



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

### 14 How does a partnership amend its tax return?

Use Form PR-1 to amend an original tax return. Mark the box "Amended Return" on the form. Include the applicable forms and statements that explain in detail all the reason(s) for amending the tax return. Complete the entire Form PR-1 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 partner, the partnership will also need to file any amended Montana Schedules K-1 along with an amended Form PR-1. The partnership has to give a copy of the amended Montana Schedule K-1 to each partner.

If the partnership filed the original Form PR-1 electronically through the joint federal/state program, then it can e-file an amended Form PR-1 as long as the software supports amended filing.

#### Important

If the partnership files an amended tax return that shows it owes an increased amount of taxes, 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 partnership files the amended return. By marking this box and paying all tax and interest in full, the partnership is requesting a waiver of the late payment penalty.

If the IRS changes or makes corrections to the partnership's federal Form 1065 or if the partnership amends its federal tax return, the partnership must file an amended Form PR-1 within 90 days after either receiving the IRS's notification of the corrections made to its federal Form 1065 or filing its amended federal tax return. Include a copy of the partnership's federal corrections or amended Form 1065 with the amended Form PR-1.



**15 Can partnerships have net operating losses?**

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

**16 How does a multistate partnership apportion its business income?**

Montana requires multistate partnerships to determine the income 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 partnership's information and composite tax return. Items of nonbusiness income from a partnership's operations are allocated to a state as provided in the Multistate Tax Compact guidelines.

**17 How does a partnership determine which income is business income?**

Income must be properly classified as either business or nonbusiness income. A partnership must substantiate whatever classification it places upon a particular item of income that is found on a return.

Guaranteed payments paid by the partnership are included in the business income of the partnership to the extent they represent a return of capital to the partner receiving the payment. Payments made to a partner for services are considered nonbusiness income allocable to the state where the service was performed.

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 partnership engages in the ownership, sale or other disposition of investments regularly and as part of the ordinary course of its business, then the 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 partnership owns an interest in a pass-through entity, the distributive items that the partnership 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.

**18 How does a partnership allocate its nonbusiness income and the distributive items it receives from a pass-through entity?**

A partnership 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 partnership can review our apportionment and allocation rules in Title 42, chapters 9 and 26 of the Administrative Rules of Montana. The rules are available at [revenue.mt.gov](http://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 partnership receives from another pass-through entity retain their character as Montana source income and are not included by the partnership in its business income subject to apportionment or otherwise subject to recharacterization by the partnership.

**19 How does the partnership determine what income is sourced to Montana?**

If a partnership is doing business only in Montana, all of its income is Montana source income. Montana source income includes the separately and nonseparately 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 a partnership 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 partnership.

If a partnership has an interest in another pass-through entity that has Montana source income, that income retains its character and is also Montana source income.

**20 How long does a partnership need to maintain tax records after it has filed the Montana information and composite tax return?**

Partnerships should keep all tax records for at least as long as the statute of limitations in effect for the tax period. In most cases, the statute of limitations is three years from the date the return is filed for tax periods beginning on or after January 1, 2015, and five for periods beginning before then. Omitting a significant amount of income may extend the statute an additional two years. Partnerships should keep property records and carryover information even longer.