

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 or call us with your questions.

Montana Due Date – The due date for a Montana S corporation return is March 15 or, for fiscal filers, the 15th day of the 3rd month following the close of the S corporation's tax year. The due date for filing a 2018 Montana CLT-4S is March 15, 2019.

WHAT'S NEW FOR 2018?

Apprenticeship Tax Credit – Beginning with tax year 2018, Montana employers may apply for a tax credit for every new position hired where the worker is offered on-the-job training through the Montana Registered Apprenticeship Program.

Employers may qualify to apply for the credit if they are registered as a Montana registered apprenticeship program sponsor and have hired new apprentices. For more information visit apprenticeship.mt.gov.

Applications for the credit must be submitted to the Department of Labor and Industry (DLI), Workforce Services Division.

The credit is calculated by the S corporation and equals:

- \$750 for each new registered apprentice, or
- \$1,500 for each new registered apprentice who is a veteran.

The credit must be claimed by the shareholders on their tax return of year it is approved by DLI. It is nonrefundable, and may not be carried forward or backward.

Market Sourcing of Revenues by Multistate S Corporations –

For taxable periods beginning on or after January 1, 2018, 15-31-311, Montana Code Annotated (MCA), referenced in 15-30-3302(6), MCA, requires S corporations to assign receipts, other than receipts from the sale of tangible personal property, based on the corporation's market rather than costs of performance. See page 7.

New Line – 16d Nonapportionable income/(loss) – This line was added to provide a place for businesses to specifically report nonapportionable income or losses, including the following:

- Nonapportionable income that is allocated to a specific state.
- Items of income (loss) that the S corporation received from a pass-through entity.

Previously, nonapportionable income or loss was reported with other subtractions reported on line 16c.

INTEREST RATE FOR 2019

Effective January 1, 2019, the interest assessed on outstanding balances is 5%. This rate also applies to underpayment of estimated taxes.

FORM CLT-4S INSTRUCTIONS

Heading

Tax Year

You need to use the same tax year used for federal income tax purposes (as indicated on the federal return) 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 2017 Form CLT-4S if the S corporation's fiscal year began in the 2017 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 Schedules K-1. Also enter the number of residents, nonresidents and other types of shareholders. An example of an other type of shareholder is a tax-exempt entity 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.

 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 followed by six to eight digits. 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. Enter the letter, followed by the next six to eight digits of the number. Leave any extra boxes blank. To find the S corporation's identification number, 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 federal Form 1120S, page 1, Box B. The Principal Business Activity Code is based on the North American Industry Classification System (NAICS). For further information, 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, 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 federal qualified dividends.

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

Enter the amount of deductions reported on the federal Form 1120S, Schedule K, 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. You must include a detailed statement of each item 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.

For example, if the S corporation paid tax on its federal Form 1120S that resulted in a reduction of federal taxable income, add back that portion of the income that has been reduced by any federal taxes paid by the S corporation on the income (e.g., built-in gains tax).

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

To compute Montana income taxable to shareholders, certain items are deducted from income. You must include a detailed statement of each item 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

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. 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. See 15-32-103, MCA.
- Documented expenses for the donation of mineral exploration information to the Montana Tech Foundation. See 15-32-510, MCA.

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

Line 16d

Report nonapportionable income or losses on this line. This income is not included in computing the S corporation's income apportioned to Montana. Nonapportionable income that is allocated to Montana is entered on line 19. Include the following:

- Nonapportionable income (loss) that is allocated to a specific state.
- 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 must complete lines 18 through 20. See FAQs 16-19 beginning on page 15 for more information about the apportionment and allocation of income.

Schedule I Not Required:

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

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

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

Line 18 – Income Apportioned to Montana

For S corporations engaged in business only in Montana, 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, if you checked the box “Schedule I Not Required,” enter 0% and go to line 19; otherwise, multiply the amount that is reported on line 17 by the apportionment percentage reported on Schedule I, line 5. 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 18 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.

Lines 21 – 33 Calculation of Amount Owed or Refunded



You need to complete a Montana Schedule K-1 for each shareholder before you can complete lines 21-24.

Line 21 – Total Montana Composite Tax

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

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 22 – Sum of Shareholder Withholding from all Montana Schedules K-1

Enter the sum of shareholder withholding reported on all Montana Schedules K-1, part 5, line 2a. This is the total amount of tax due from the S corporation 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.

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 23a – Total Montana Mineral Royalty Tax Withheld

Enter the total amount of mineral royalty tax withheld on behalf of the S corporation, including by a lower-tier pass-through entity. These amounts are found on federal Forms 1099 and Montana Schedules K-1. Attach copies of the Forms 1099 and Montana Schedules K-1 showing the amounts withheld.

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, visit 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.

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 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. Attach copies of the Montana Schedules K-1 you received that report amounts withheld on your behalf.

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

Enter the amount of Montana pass-through withholding reported on line 24a that is distributable to shareholders. This amount is distributable to shareholders who have filed a valid Pass-Through Entity Owner Tax Agreement (PT-AGR) or are not included in a composite return and must be reported to each applicable shareholder 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 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 and will apply to the composite tax reported on line 21 and/or pass-through withholding reported on line 22.

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 – 2017 Overpayment Applied to 2018**

Enter any overpayments from 2017 that were credited to 2018.

Line 26b – 2018 Estimated Tax Payments

Enter the total Montana estimated tax payments that the S corporation made for 2018.

Line 26c – 2018 Extension Payment

Enter any extension payment for 2018 made on or before March 15, 2019.

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 2018 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 it files Form CLT-4S 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 and may not exceed \$2,500. See 15-30-3302, MCA.

 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. See 15-30-3312, MCA.

Worksheet I – Calculation of Underpayment Interest

In 2018, 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 2018 composite tax reported on line 21.
2	Enter 90% of line 1 above.
3	Enter the total of lines 25 and 26a 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 2017 composite tax from the 2017 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 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 0.029 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 0.0001370.
11	Subtract line 10 from line 9. This is the S corporation's underpayment interest. Enter the result here and on line 28b.

Line 28c – Composite income tax return late filing penalty

If the S corporation is late in filing Form CLT-4S, a late filing penalty will be charged. The late filing penalty is the greater of \$50 or 5% per month on the unpaid amount from the extended due date until the return is filed or the tax is paid. This penalty cannot exceed 25% of the S corporation's tax liability on line 27.

Line 28d – Late payment penalty

The late payment penalty is equal to 0.5% per month, calculated daily, on the unpaid amount from March 15, 2019, 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 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, mark the "Amended Return" box on 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.

Effective January 1, 2019, the interest rate is 5%. To calculate the interest, multiply line 28 by 0.0137% (0.000137), and then multiply that product by the number of days between March 15, 2019, and the day 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 15, 2019.

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:

- 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,
- 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), sign the check and write the S corporation's FEIN and "Tax Year 2018" 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. 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 – 2019 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 2019 estimated tax payment. Enter the amount of the refund reported on line 31 that the S corporation wants applied to its 2019 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, mark the box located in the top portion of 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, U.S. 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 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.

1 23456789 | 9876543210 * 1234

Sign the Return

If the S corporation is filing its return on paper, the return is not 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:

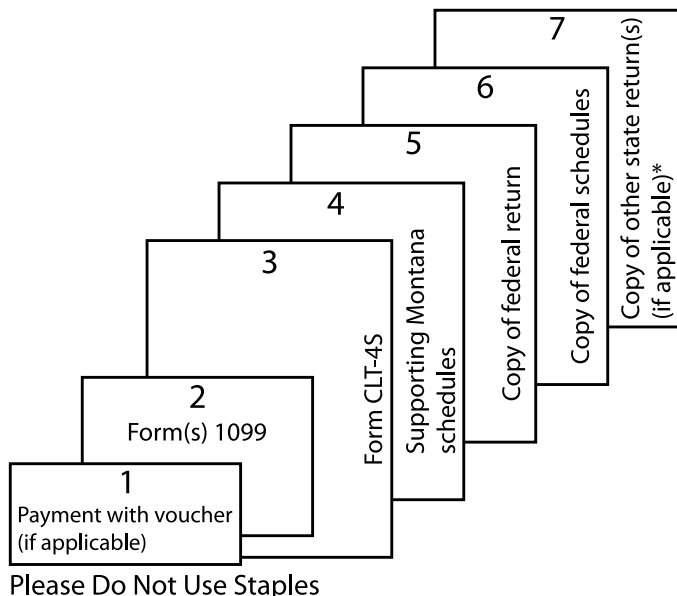
- The officer is authorized to file the return.
- The information in the return is true, correct and complete.
- The act of filing electronically is the officer's signature.

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, assemble the return, without using staples, according to the following diagram or list. Include all Forms 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, see FAQ 9 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 apportionable or nonapportionable income. After the S corporation makes this determination, it will apply the apportionment factor calculated on Schedule I to identify the portion of the apportionable 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 receipts.

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

Receipts Factor (Line 3)

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

Receipts from the sale 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.

For taxable periods beginning on or after January 1, 2018, Section 15-31-311, MCA, referenced in 15-30-3302(6) MCA, requires S corporations to assign receipts, other than receipts from the sale of tangible personal property, based on the S corporation's market. The former "cost of performance" method no longer applies. The market assignment method may result in Montana allocable income or apportionable income if an S corporation is receiving income from intangibles or services from Montana sources.

Such income is determined as follows:

- Receipts from services are assigned to Montana to the extent the service is delivered to a location in Montana.
- Receipts from intangible property are assigned to Montana to the extent the property is used in Montana.
- Receipts from the sale, lease, rental or license of real property are assigned to Montana to the extent the property is located in Montana.
- Receipts from the lease, rental or license of tangible personal property are assigned to Montana to the extent the property is located in Montana.

Rules for assignment of receipts based on the S corporation's market are provided for in ARM 42.26.245 through 42.26.250. The administrative rules provide various assignment methods that apply sequentially in a hierarchy.

For each receipt to which an assignment method applies, the S corporation must make a reasonable effort to apply the primary method first before seeking to apply the next method. For example, in some cases, the applicable method first requires an S corporation to determine the state or states of assignment, and if the S corporation cannot do so, the method requires the S corporation to reasonably approximate the state or states. In these cases, the S corporation must attempt to apply the primary method to determine the state or states of assignment in good faith and with reasonable effort before it may reasonably approximate the state or states of assignment. Please see ARM 42.26.245 through 42.26.250.

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 receipts. Enter the apportionment factor on line 5 of Schedule I and also insert it on line 18, page 1. Round out to 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 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 Form CLT-4S.

For detailed tax credit instructions and forms, visit *revenue.mt.gov*. If the S corporation is eligible for a credit, 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 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
17. Apprenticeship tax credit

Credit Recapture

Lines 18 through 21

Complete these lines if the following occurred:

18. The S corporation's federal rehabilitation credit, on which the Montana historical property preservation credit was based, was recaptured.
19. The S corporation's film production certification was revoked after it received the credit.
20. The S corporation'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.
21. The S corporation's biodiesel facility ceased operations for a period of 12 consecutive months within five years of claiming the credit.

SCHEDULE IV – MONTANA S CORPORATION COMPOSITE INCOME TAX SCHEDULE INSTRUCTIONS

If you need more space, complete additional copies of Schedule IV (available 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 you do not complete Schedule IV 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 or tax-exempt 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 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.

Shareholders that receive separately stated deductions that are subject to an election or limitation at the shareholder 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.

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 K-1.

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 K-1.

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 Montana source income as reported on Schedule K-1, part 2 by Form CLT-4S, line 20 to determine ownership percentage for Montana composite tax purposes. Multiply the percentage by Form CLT-4S, line 14 to calculate the shareholder's share of federal income for composite tax purposes.

Shareholder's Montana source income (Montana Schedule K-1, part 2)	\$7,200
Total Montana source income (Form CLT-4S, line 20)	\$12,000
Shareholder's ownership percentage for Montana composite tax purposes.	60.00%
Total federal income (Form CLT-4S, line 14)	\$100,000
Shareholder's Share of Federal Income (for composite tax purposes)	\$60,000

Column D – Standard Deduction

Each eligible participating shareholder is allowed one standard deduction equal to 20% of column C, but not less than \$2,030 or more than \$4,580.

Column E – Exemption

Each participating shareholder is allowed one exemption of \$2,440.

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. 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)	\$60,000
Standard deduction (column D)	(\$4,580)
Exemption allowance (column E)	(\$2,440)
Result of column C minus columns D and E (column F)	\$52,980
Using the tax rates shown on Schedule IV, the tax (column G) on \$52,980	\$3,086
The Montana composite income tax (column H) is \$3,086 x 0.2500	\$772

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 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

Note: These instructions should be used to prepare the Montana Schedule K-1 for each shareholder. For instructions on how the shareholders report information received on a Montana Schedule K-1 on their own return, refer to the owner's instructions that accompany the Montana Schedule K-1.

The S corporation 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 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 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).

If the S corporation does not include completed copies of Montana Schedule K-1 for each shareholder with the S corporation return, the processing of the S corporation'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 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.

Entity Type

Enter the entity type code for the shareholder in the space provided. The entity type codes applicable to shareholders of an S corporation are:

- E – Estate
- I – Individual
- T – Trust
- TE – Tax-exempt entity

Residency

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

Composite Tax Election

If the shareholder is included in a composite income tax return filed by the S corporation, mark the box. Shareholders

included in a composite income tax return do not file a Montana income tax return.

Form PT-AGR

If the shareholder filed a Form PT-AGR, Pass-Through Entity Owner Tax Agreement, enter the year that the agreement was provided to us. If the S corporation or owner files the agreement with the department this year, enter "2018."

Form PT-AGR is an agreement that a nonresident individual, nonresident estate and nonresident trust 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. By completing Form PT-AGR, 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 to file on behalf of the shareholder. 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 or nonresident trust shareholder have to be filed. Form PT-AGR is due by the due date of the S corporation's return, including extensions.

Sum of Montana Source Income

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

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

This amount is used to calculate the amount of withholding the S corporation is required to pay on behalf of the shareholder, if applicable.

Profit/Loss Percentage

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

Capital/Ownership Percentage

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

Montana Apportionment Factor

Enter the apportionment factor reported on Form CLT-4S, Schedule I, line 5. If the "Schedule I Not Required" box is

checked on Form CLT-4S, page 1 and the S corporation only has activity in Montana, enter 100%. If the "Schedule I Not Required" box is checked on Form CLT-4S, page 1 and the S corporation 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 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.

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 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. Do not include any amount reported on line 17d. 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 – 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.

In general, the pro rata share of Montana source income (loss) is calculated for each shareholder by multiplying the amount reported on Form CLT-4S by each shareholder's profit/loss percentage.

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

For lines 1-13, enter the shareholder's pro rata share of Form CLT-4S, lines 1-12.

All other shareholders. If the shareholder is a nonresident or part-year resident individual, estate or trust, the amount of the shareholder's share of the entity's income, gains and deductions are sourced to Montana based on the entity's activity in Montana.

For lines 1-13, the shareholder's Montana source income must reflect the apportionable and the non-apportionable income or loss attributable to Montana for each line. This calculation starts with the shareholder's distributive share reported on Form CLT-4S, lines 1-12. Deduct the shareholder's distributive share of non-apportionable income or loss reported on Form CLT-4S, line 16d. Then, add the shareholder's distributive share of income or loss allocated to Montana reported on Form CLT-4S, line 19.

For example: S corporation 1 (S1) reports \$50,000 of ordinary income on Form CLT-4S, line 1 which includes \$20,000 of

allocable ordinary income reported to S1 on a Schedule K-1 from Partnership 2 (P2). Only \$10,000 of the ordinary income from P2 is allocable to Montana. S1's apportionment factor is 75%. Shareholder X's pro rata share of income/loss is 40%. S1 will report the following ordinary income (OI) to Shareholder X on his/her Montana Schedule K-1, line 1:

Form CLT-4S, line 1 (\$50,000) x Apportionment Factor (.75) x Shareholder's pro rata share of income/loss (.40)	\$15,000
Form CLT-4S, line 16d (\$20,000 OI) x Apportionment Factor (.75) x Shareholder's pro rata share of income/loss (.40)	(\$6,000)
Form CLT-4S, line 19 (\$10,000 OI) x Shareholder's pro rata share of income/loss (.40)	\$4,000
Total Montana ordinary income reported to Shareholder X on Montana Schedule K-1, line 1	\$13,000

Part 5 – Supplemental Information

Line 1

Enter the amount of Montana composite income tax paid on the shareholder's behalf. This amount is calculated for each shareholder on Schedule IV, column H.

Line 2a

If the S corporation has a shareholder who is a nonresident individual, nonresident estate, nonresident trust or tax-exempt entity at any time during the year, the S corporation has to pay withholding taxes on behalf of the shareholder if the nonresident individual, nonresident estate, nonresident trust or tax-exempt entity has \$1,000 or more of Montana source income and:

- did not provide the S corporation with a completed Form PT-AGR and did not file the Form PT-AGR,
- 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 and nonresident trust, the amount required to be paid is 6.9% multiplied by the shareholder's pro rata share of Montana source income reported in part 2. For a tax-exempt entity, the amount it must pay is 6.75% multiplied by the shareholder's pro rata 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 CLT-4S, line 22.

Line 2b

Enter each shareholder's share of Montana pass-through withholding reported on Form CLT-4S, line 24a only if that amount is distributable to the shareholder. This amount is distributable to shareholders who have filed a valid consent agreement or are not included in a composite return.

Calculate each shareholder's pro rata share by multiplying Form CLT-4S, line 24a by each shareholder'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 CLT-4S, line 24b.

Line 2c

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

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.

Determine the shareholder's pro rata share of the amount withheld by multiplying the amount on Form CLT-4S, line 23a by the shareholder's Profit/Loss percentage in part 2.

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.

Do not include the shareholder's pro rata share of separately stated items that were reported to the S corporation 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 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.

If the S corporation 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 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, contact us. If the shareholder receives 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 2

Enter each shareholder's pro rata 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.

FAQs—FREQUENTLY ASKED QUESTIONS

The answers to these questions are identified by number on pages 12-15.

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 does the S corporation have to include 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 it send in and what documents does it have to retain?
- 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 calculate its apportionable income?
- 17 How does an S corporation determine which income is apportionable income?
- 18 How does an S corporation allocate its nonapportionable 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 has to file an annual Montana S Corporation Information and Composite Tax Return (Form CLT-4S) if:

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

If an S corporation 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.

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 does the S corporation have to include 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 Schedules 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 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 Schedules K-1 in place of completed Montana Schedules K-1. If a Montana Schedule K-1 is not completed for each shareholder, 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, 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 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 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 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

4 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 must 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 page 1, if the S corporation ceased to exist during the 2018 tax year.

5 Should the S corporation file a composite tax return?

An S corporation may elect to file a composite tax return on 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 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.


6 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. This form 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 this form, the paid preparer's PTIN or SSN, name, address and telephone number have to be included on the tax return.

If the S corporation files Form CLT-4S electronically, see FAQ 12 for more information about electronic signatures.

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

Yes. An S corporation is granted an automatic extension of time to file of up to six months.

 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.

8 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 2018 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 2018 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 (2019) tax return. This is March 15, 2020, 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 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.

9 What options does an S corporation have to file 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 or irs.gov.

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

An S corporation 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 card – 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.

11 What is the interest rate on unpaid taxes?

Effective January 1, 2019, the interest rate is 5%. 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 S corporation files its information and composite tax return electronically, what information must it send in and what documents does it have to retain?

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.

13 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, mail the return to:



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

14 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. 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 Schedules 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. If the S corporation filed the original Form CLT-4S electronically through the joint federal/state program, then it can e-file an amended Form CLT-4S as long as the software supports amended filings.



If the S corporation 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 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 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. Include a copy of the S corporation's federal corrections or amended Form 1120S with the amended Form CLT-4S.

15 Can S corporations have net operating losses?

No. Shareholders use their separate shares of the S corporation's apportionable 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.

16 How does a multistate S corporation calculate its apportionable income?

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

17 How does an S corporation determine which income is apportionable income?

Income must be properly classified as apportionable or nonapportionable 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 apportionable 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 apportionable 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 apportionable income.

Gain or loss from the sale, exchange or other disposition of real, tangible or intangible personal property constitutes apportionable 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 apportionable 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

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

An S corporation allocates to Montana nonapportionable 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.

Nonapportionable income means all income other than apportionable 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 at revenue.mt.gov.

The character of income (loss) as apportionable or nonapportionable 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 apportionable income subject to apportionment or otherwise subject to recharacterization by the S corporation.

19 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 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 an S corporation is doing business both inside and outside of Montana, Montana source income is the sum of the multistate apportionable income that is apportioned to Montana, nonapportionable 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.

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

S corporations 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. S corporations should keep property records and carryover information even longer.