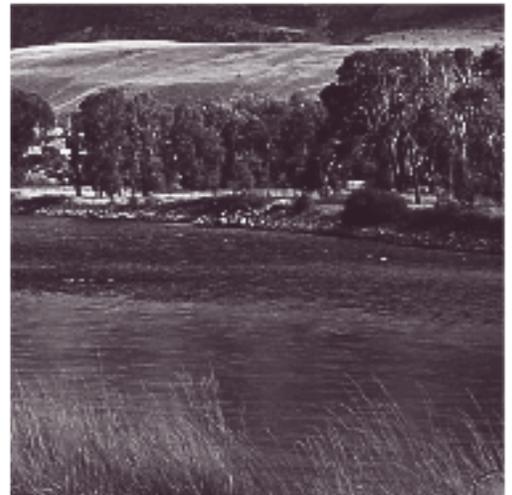
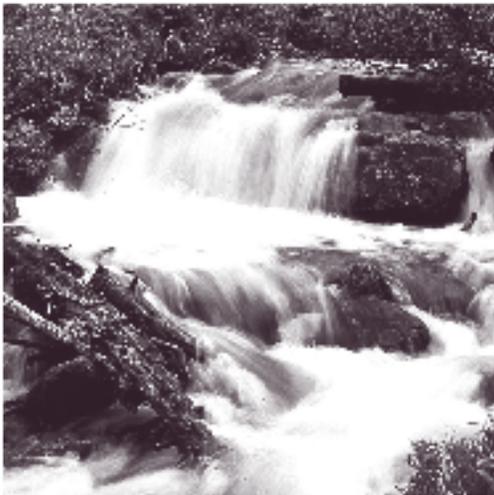


# 2012 Montana Form CLT-4S

Small Business Corporation Booklet

## MONTANA DEPARTMENT OF REVENUE



Toll Free (866) 859-2254  
Helena (406) 444-6900  
[revenue.mt.gov](http://revenue.mt.gov)

**It's Easy to File Your Montana Tax Return Online!**

**File and pay electronically this year.  
Check out the options at [revenue.mt.gov](http://revenue.mt.gov).**

Choose e-file and direct deposit for a faster refund!  
Use this booklet to file electronically or on paper.

**Dear Montana Business Taxpayer:**

Thank you for filing and paying Montana taxes. By paying taxes, your business supports public services that help make Montana a great place to live, work and conduct commerce.

Your Montana Department of Revenue is committed to providing the best possible services to the taxpayers of our great state. We promise to do the best we can to provide you with accurate and timely assistance to help your business file tax returns, and to ensure that all citizens and businesses pay their fair share of Montana taxes—no more and no less.

We strongly encourage you to file electronically. Throughout this tax season, tax professionals who are *Authorized E-file Providers* can submit your federal and state tax returns electronically. Please ask your tax professional to use this easy and convenient service. Our website at [revenue.mt.gov](http://revenue.mt.gov) has the details, along with a list of approved software vendors.

You can also e-file your Montana return for free using our website at [revenue.mt.gov](http://revenue.mt.gov). Our Taxpayer Access Point (TAP) service provides you many options, including methods to file, pay, review and manage your Montana tax account online that are simple, secure and convenient. You can also use TAP to look up your tax records from the previous two years, regardless of how you filed your returns. Please visit [revenue.mt.gov](http://revenue.mt.gov) for more information about electronic filing and payment options.

We encourage you to contact us with any questions, requests or suggestions by sending an email message to [DORFormsDesignTeam@mt.gov](mailto:DORFormsDesignTeam@mt.gov) or by calling us toll free at (866) 859-2254 (in Helena 444-6900).

Thank you for helping make our tax system work for all Montanans and for all the businesses that participate in our economy!

Best Regards,

Dan Bucks, Director  
Montana Department of Revenue

## Your Tax Dollars at Work

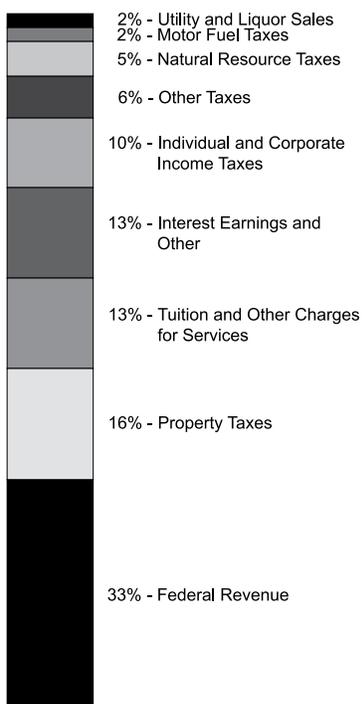
The table to the right shows where your individual and corporate income tax dollars (about 10% of total state and local revenues) were spent in 2011. For the charts below, the left chart shows the sources of revenue for both state and local governments in Montana for 2010, the most recent year for which totals are compiled. The right chart shows state and local spending.

### Where Your Income Tax Dollar Goes

Education.....	47%
Health and Human Services.....	21%
Public Safety and Corrections .....	15%
Funds for Local Governments .....	6%
General Government Operations .....	9%
Other.....	2%
<b>Total Spending.....</b>	<b>100%</b>

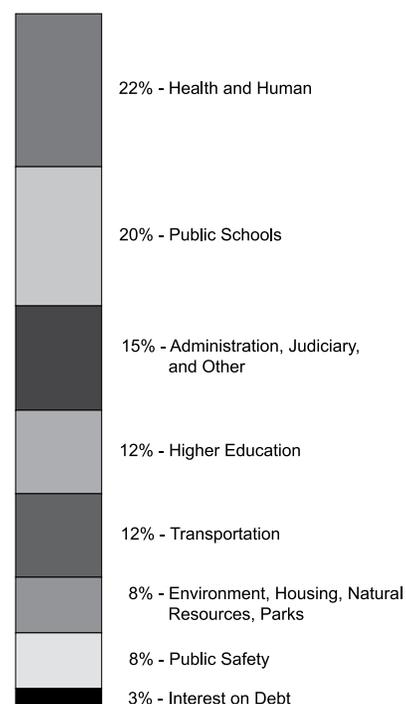
### What are Montana's Public Revenues?

**Total Montana State and Local Revenue, Fiscal Year Ending 2010**



### Where Do Your Public Dollars Go?

**Total State and Local Spending in Montana, Fiscal Year Ending 2010**



# It's Easy to File Your Tax Return Online!



It's easier than ever before to file your Montana tax return electronically. Whether you want to file your own return online or through your favorite tax preparer, there are options to fit your needs.

## **TAXPAYER ACCESS POINT (TAP)**

TAP is FREE. After you sign up for account access, you can view your Montana tax information, file your tax return, pay your tax and much more. (TAP is only available if you have filed previously in Montana.)  
Go to [revenue.mt.gov](http://revenue.mt.gov)

### **Benefits:**

**Avoid Making Errors!**

**Use Our Safe Secure Website**

**Authorize Tax Preparer Access**

**Schedule and Make Payments**

**View Payment History**

**Manage Your Profile Information**

**View and Print Prior Year Returns**

**Verify Sooner That Your Return  
is Filed**

## **FORMS AND MORE INFORMATION ARE AVAILABLE ONLINE**

Before you begin we recommend that you take the time to become familiar with the forms, schedules, worksheets and other documents necessary to complete your tax return. Go to [revenue.mt.gov](http://revenue.mt.gov) to find the documents not included in this booklet.

- Did you know?**
- You can file now and pay later by scheduling payments in Taxpayer Access Point (TAP).
  - Direct deposit of your refund is available when you e-file.

## Table of Contents

Instructions .....	1-12
FAQs – Frequently Asked Questions.....	12-16
	<b>Form pages</b>
CLT-4S Montana S Corporation Information and Composite Tax Return .....	1-2
<b>Schedules:</b>	
I Apportionment Factors for Multi-State S Corporations .....	3
II Montana S Corporation Tax Credits .....	4
III Montana S Corporation Information .....	5
IV Montana S Corporation Composite Income Tax Schedule .....	6
VI Reporting of Special Transactions .....	7
K-1 Partner's/Shareholder's Share of Income (Loss), Deductions, Credits, etc.....	Follows forms

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

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

Form PT-AGR is due on or before the due date of the S corporation's return, including extensions. You should no longer attach Form PT-AGR to the return. Please submit Form PT-AGR separately, or file it through Taxpayer Access Point (TAP).

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

## WHAT'S NEW FOR 2012?

---

### Form PT-WH Discontinued

The Form PT-WH (Montana Income Tax Withheld for a Nonresident Individual, Foreign C Corporation, or Second Tier Pass-Through Entity) has been discontinued beginning with tax year 2012 to eliminate duplicated reporting of pass-through entity withholding amounts. In prior years, a pass-through entity reported the amount of pass-through withholding attributable to each owner on a Form PT-WH and the owner's Montana Schedule K-1. Now, pass-through entities will only report each owner's distributive amount of pass-through withholding on a Montana Schedule K-1.

### New Filing Requirement for Form PT-AGR

Prior to tax year 2012, the Form PT-AGR (Pass-Through Entity Owner Tax Agreement) was attached to a pass-through entity's tax return. However, beginning with tax year 2012, pass-through entities or their owners are required to file the Form PT-AGR separately with the department. The Form PT-AGR is due on or before the due date of the pass-through entity's return. If the Form PT-AGR is filed correctly and on time, the pass-through entity does not have to pay tax on behalf of its owners who are nonresidents or foreign C corporations. Specific requirements apply.

Beginning with tax year 2012, the Form PT-AGR can be filed electronically on TAP (Taxpayer Access Point)! Filing the form electronically is fast, easy and you receive immediate confirmation from the department. To file the Form PT-AGR electronically, go to [revenue.mt.gov](http://revenue.mt.gov) and click on Taxpayer Access Point. The form can also be filed by mail.

### Improved Forms and Schedules

As a result of feedback we have received from taxpayers and tax practitioners, we updated the following forms and schedules for 2012.

- **Form CLT-4S – lines 18 through 20**

We revised the calculation of Montana source income on Form CLT-4S, lines 18 through 20. S corporations that do not have multistate activity can now include allocated items of Montana source income received from a pass-through entity in the calculation of total Montana source income. Previously, S corporations that did not have multistate activity would not complete lines 18 through 20. Now all S corporations will complete lines 18 through 20.

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

Beginning with tax year 2012, if an S corporation made a contribution that meets the requirements for a qualified endowment credit, the S corporation will no longer calculate the credit and distribute the credit to its owners. Instead, an S corporation will distribute the contribution, and the owners will calculate the qualified endowment credit on their income tax return. S corporations will report the distributed contribution to an owner on Montana Schedule K-1, Part 5, line 5.

We revised this calculation so that owners who have contribution amounts from multiple sources could calculate the qualified endowment credit and use any amount of contribution in excess of the credit limitation as a charitable contribution.

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

On Schedule III, column E, we added a checkbox for the composite income tax election. The new checkbox will help us process returns more efficiently. If an owner elects to be included in a composite income tax return, the composite income tax reported on Schedule III, column E, may equal zero and no amount would be entered for that owner in column E. The new checkbox will ensure that we will be able to identify all of the owners that elect to be included in the composite income tax return.

- **Schedule IV – Montana S Corporation Composite Income Tax Schedule**

The composite tax ratio calculation on Schedule IV, Part II, was simplified as a result of the changes to Form CLT-4S, lines 18-20. The amount of Montana source income reported on Form CLT-4S, line 20, applies to all pass-through entities, not just those entities with multistate activity. Previously, the amount on Form CLT-4S, line 20, only applied to entities with multistate activity. As a result, the composite tax ratio calculation differed depending on whether the pass-through entity had multistate activity.

- **Montana Schedule K-1 (CLT-4S and PR-1)**

The 2012 Montana Schedule K-1 now reports Montana source income distributed to all owners (including residents) in Part 4. Prior years' Montana Schedule(s) K-1 only required pass-through entities to report amounts distributed to nonresident owners in Part 4. Montana source income for resident owners is all income distributed to the owner from the pass-through entity.

## FORM CLT-4S INSTRUCTIONS

---

### Heading

#### Tax Year

The same tax year used for federal income tax purposes (as indicated on the federal return) must be used for Montana income tax purposes. If the S corporation has a fiscal year, enter the beginning and ending dates of the fiscal year. Use the 2011 Form CLT-4S if the S corporation's fiscal year began in the 2011 calendar year.

#### Name and Address

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

#### Federal Employer Identification Number (FEIN)

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

## Schedule K-1 and Shareholder Information

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

### State of Incorporation

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



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

### MT Secretary of State ID Number

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

### Federal Business Code/NAICS

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

### Foreign S corporations: date S corporation obtained certificate of authority from Montana Secretary of State

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

## Line Instructions

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

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

#### Line 5 – Ordinary Dividends

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

### Lines 12a-e – Shareholders' Distributive Share of Deduction Items

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

#### Line 13 – Total Federal Deductions

Add lines 12a through 12e.

#### Line 14 – Federal Income from All Sources

Subtract line 13 from line 11.

### Line 15 – Shareholders' Distributive Share of Montana Additions to Income

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

#### Line 15a

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

#### Line 15b

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

#### Line 15c

Report all other additions.

Examples are:

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

### Line 16 – Shareholders' Distributive Share of Montana Deductions to Income

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

#### Line 16a

If the S corporation received interest on United States government obligations and mutual fund dividends attributable to that interest, the S corporation can subtract these amounts from total federal income as long as they are included on line 11, total federal income. In addition, if the S corporation received interest on obligations from

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

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

United States obligations that are exempt include:

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

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

### Line 16b

Deduct an additional amount equal to 10% of the expenditures for the purchase of qualified recycled material that was otherwise deductible as business-related expenses in Montana, as computed on Montana Form RCYL, Part IV. 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.
- 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 entity'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.
- Documented expenses for the donation of mineral exploration information to the Montana Tech Foundation.
- Nonbusiness income that is allocated to a specific state. This income is not included in computing the S corporation's income apportioned to Montana. Income that is allocated to Montana is entered on line 19.

- Distributive items of income (loss) that the S corporation received from a pass-through entity.

### Line 17

Add lines 14 and 15, then subtract line 16.

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

#### Line 18 – Income Apportioned to Montana

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

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

#### Line 19 – Income Allocated to Montana

For both multistate S corporations and S corporations without multistate activity, report Montana source income subject to allocation on this line. See FAQ <sup>18</sup> for "allocation of income" on page 15.

For the amount reported on line 19, the S corporation must include 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, and
- if the S corporation allocates an item of income to a state other than Montana, a copy of that other state's income tax or information return must be included. If the S corporation is not required to file an income tax or information return with the other state, the S corporation must indicate this in a statement.

#### Line 20 – Total Montana Source Income

Add the amounts on lines 18 and 19.

#### Line 21 – Total Montana Composite Return Tax

Enter the total amount of composite tax reported on Schedule III, column E. See instructions on page 9.

#### Line 22 – Total Shareholder Withholding

Enter the total from Schedule III, column F. This is the total amount of tax the S corporation paid to Montana on behalf of its shareholders. The shareholders will claim this amount as a refundable credit on their own Montana tax returns.

#### Line 23 – S Corporation Montana Mineral Royalty Tax 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, please visit the “Mineral Royalty Withholding” link at [revenue.mt.gov](http://revenue.mt.gov).

### **Line 23a – Total Montana mineral royalty tax withheld**

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

### **Line 23b – Mineral royalty tax withheld attributable to Montana residents**

Enter the total amount withheld that is attributable to Montana resident shareholders.

### **Line 23c – Mineral royalty tax withheld attributable to nonresidents that are not participating in the composite return on Schedule IV**

Enter the total amount withheld that is attributable to nonresident shareholders who are not participating in the composite return on Schedule IV.

### **Line 23d**

Add lines 23b and 23c. This is the total mineral royalty tax withheld that may be claimed as tax paid by the shareholders on their Montana income tax returns.

### **Line 23e**

Subtract line 23d from 23a. This is the mineral royalty tax withheld attributable to nonresident shareholders that are participating in the composite return on Schedule IV.

### **Line 24 – Return Payments**

#### **Line 24a – 2011 overpayment applied to 2012**

Enter any overpayments from 2011 that were credited to 2012.

#### **Line 24b – 2012 estimated tax payments**

Enter the total Montana estimated tax payments that the S corporation made for 2012.

#### **Line 24c – 2012 extension payment**

Enter any extension payment for 2012 made on or before March 15, 2013.

#### **Line 24d – Montana income tax withheld**

Enter the Montana income tax withheld and reported to the S corporation on Montana Schedule(s) K-1.

#### **Line 24e – 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 2012 tax liability.

### **Line 24f – 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 24g**

Add lines 24a through 24e and then subtract line 24f. This is the S corporation’s total return payments.

### **Line 25 – Amount Due or (Overpaid)**

Add lines 21 and 22; from this total, subtract the sum of lines 23e and 24g.

### **Line 26 – Penalties and Interest**

#### **Line 26a – S corporation information tax return late filing penalty**

An S corporation is charged a late filing penalty if Form CLT-4S is filed after the due date, including the automatic six-month extension. The penalty is \$10 multiplied by the number of shareholders at the close of the tax year for each month or fraction of a month that the entity does not file the S corporation information tax return. This penalty is calculated for up to five months. Please 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 tax returns or other required reports timely and have paid all taxes when due.

#### **Line 26b – Interest on underpayment of estimated composite tax**

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

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

In 2012, 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 2012 composite tax reported on Form CLT-4S, line 21.
2.	Enter 90% of line 1 above.
3.	Enter the total of lines 23e, 24a and 24d reported on Form CLT-4S.
4.	Subtract line 3 from line 1. If the result is \$500 or less, the S corporation does not need to complete the rest of the form. The S corporation does not owe interest on its underpayment.
5.	Enter the 2011 composite tax from the 2011 Form CLT-4S, line 21.
6.	Enter the smaller of line 2 or line 5.
7.	Enter the amount from line 3 plus any estimated payments made and reported on Form CLT-4S, line 24b.
8.	Subtract line 7 from line 6. This is the S corporation's total underpayment for the year. If zero or less, stop here. The S corporation does not owe interest on its underpayment.
9.	Multiply line 8 by 0.05320 and enter the result.
10.	If the amount on line 8 was paid on or after the due date of the Form CLT-4S, enter zero. If the amount on line 8 was paid before the due date of the Form CLT-4S, multiply the amount on line 8 times the number of days paid before the due date of the information tax return. Multiply the result by 0.0002192.
11.	Subtract line 10 from line 9. This is the S corporation's underpayment interest. Enter the result here and on Form CLT-4S, line 26b.

### Line 26c – Composite income tax return late filing penalty

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

### Line 26d – Late payment penalty

If the S corporation does not pay all of its tax liability (line 25) by the due date of the Form CLT-4S, it will need to pay a late payment penalty. The late payment penalty is 1.2% per month or part of a month on the unpaid amount from the original due date until it is paid. This penalty cannot exceed 12% of the S corporation's tax liability on line 25.

#### Important

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

### Line 26e – Interest

Compute interest on any tax liability (line 25) that the S corporation has not paid by the due date of the tax return and enter the total on this line.

If 100% of the S corporation's tax liability is not paid by March 15, 2013 (for a calendar year filer), interest is due at a rate of 8% per year, computed daily on the unpaid tax balance.

To calculate the interest, multiply line 25 by 0.02192% (0.0002192) times the number of days after March 15, 2013, 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, 2013.

### Line 26f – Total penalties and interest

Add lines 26a through 26e and enter the total.

### Line 27

Add lines 25 and 26f; enter the result.

### Line 28 – Amount You Owe

If the amount on line 27 is greater than zero, enter it on this line. This is the amount due with the S corporation's tax return. The S corporation can pay the amount it owes by:

- electronic funds withdrawal when e-filing the S corporation's joint federal/state tax return,
- e-check or credit/debit card – please visit our website at [revenue.mt.gov](http://revenue.mt.gov) for more information and instructions, or
- money order, personal check or cashier's check payable to MONTANA DEPARTMENT OF REVENUE. Remember to use the included voucher, sign the check and write the S corporation's FEIN and "Tax Year 2012" on the memo line.

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

### Line 29 – Overpayment

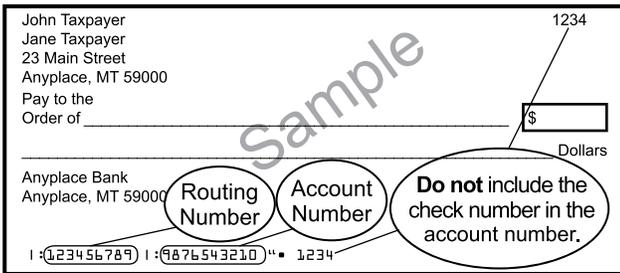
If the amount on line 27 is less than zero, enter it on this line. This is the amount the S corporation has overpaid.

**Line 30 – 2013 Estimated Tax Payments**

All or part of the refund that the S corporation reported on line 29 can be refunded or carried over as a 2013 estimated tax payment. Enter the amount of the refund reported on line 29 that the S corporation wants applied to its 2013 estimated tax.

**Line 31 – Refund**

Subtract line 30 from line 29 and enter the result on this line. This is the amount of the refund that will be issued. If the S corporation is requesting a refund, please mark the box located in the top portion of Form CLT-4S, page 1. If the S corporation would like to use direct deposit, enter the S corporation’s financial institution’s routing number (RTN#) and the S corporation’s account number (ACCT#) in the spaces provided. The routing number will be nine digits and the account number can be up to 17 characters, including numbers and letters. Mark whether the S corporation’s account is a checking or savings account and if the S corporation’s refund will go to a bank outside of the United States and its territories (Midway Islands, Puerto Rico, American Samoa, US Virgin Islands, Federated States of Micronesia, and Guam). If the financial institution does not accept direct deposit, we will mail the S corporation a refund check. A sample of a personal check is provided for convenience.



**Sign the Return**

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

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

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

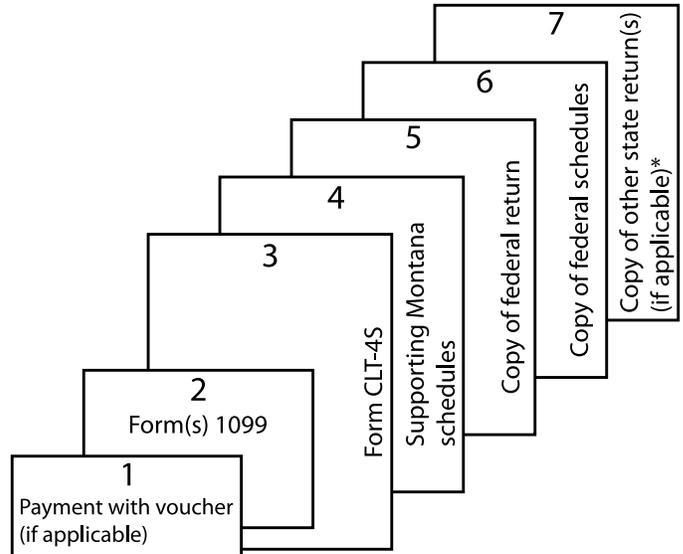
**Paid Preparer**

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

PTIN, but the preparer’s social security number (SSN) may be used when the paid preparer does not have a PTIN.

**Assemble the Return**

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



Please Do Not Use Staples

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

**File the Return**

To learn more about e-filing options available to S corporations, please see FAQ 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 business or nonbusiness income. After the S corporation makes this determination, it will apply the apportionment factor calculated on Schedule I to identify the portion of the business income that is Montana source. The apportionment factor is the standard UDITPA (Uniform Division of Income for Tax Purposes Act) three-factor formula of property, payroll and sales.

When an S corporation is engaged in business both inside and outside Montana, business income assignable to Montana has to be determined using the apportionment factor. Include only the S corporation’s own items of

property, payroll and sales. Do not include any property, payroll, or sales of another pass-through entity.

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

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

### Property Factor (Line 1)

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

Property owned by the S corporation is valued at its original cost. Real and tangible personal property that is used in the business includes land, buildings, machinery, equipment, stocks of goods, inventories and other tangible property actually used in connection with the production of the business income to be apportioned. It does not include money, accounts receivable, other intangible property, real property that is held for investment or nonbusiness purposes or idle property of any nature.

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

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

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

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

### Payroll Factor (Line 2)

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

amount that the S corporation paid for compensation attributable to the production of business income during the tax period. Enter the denominator values in column A of Schedule I.

Payroll is considered to be paid in Montana if:

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

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

### Sales Factor (Line 3)

Sales mean all gross receipts of the S corporation exclusive of nonbusiness income and inter-company transactions.

The sales factor is a fraction. The numerator is the S corporation's total sales in Montana during the tax period. Enter the numerator values in column B of Schedule I. The denominator is the S corporation's total sales everywhere during the tax period. Enter the denominator values in column A of Schedule I.

Sales of tangible personal property are in Montana if:

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

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

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

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

### Sum of Factors (Line 4)

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

### Apportionment Factor (Line 5)

Divide line 4 by the number of factors present. A factor is present if the S corporation has a value in column A for property, payroll or sales. Enter the apportionment factor on line 5 of Schedule I and also insert it on line 18, page 1 of Form CLT-4S, rounding it 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 a Montana Schedule K-1. The S corporation provides a copy of the Montana Schedule K-1 and a copy of the credit form that was used to calculate the credit to each shareholder.

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

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

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

### Lines 1 through 17

Complete these lines for applicable tax credits:

1. Dependent Care Assistance Credit (Form DCAC).
2. College Contribution Credit (Form CC).
3. Health Insurance for Uninsured Montanans Credit (Form HI).
4. Recycle Credit (Form RCYL).
5. Alternative Energy Production Credit (Form AEPC).
6. Contractor's Gross Receipts Tax Credit.
7. Alternative Fuel Credit (Form AFCR).
8. Infrastructure User Fee Credit (Form IUFC).
9. Historic Property Preservation Credit (Federal Form 3468).
10. Increase Research Activities Credit (credit expired December 31, 2010).
11. Mineral and Coal Exploration Incentive Credit (Form MINE-CRED).
12. Empowerment Zone Credit.
13. Film Production Credit (Form FPC).
14. Biodiesel Blending and Storage Credit (Form BBSC).
15. Oilseed Crushing and Biodiesel/Biolubricant Production Credit (Form OSC).
16. Insure Montana Small Business Health Insurance Credit.
17. Temporary Emergency Lodging Credit (Form TELC).

## Credit Recapture

### Lines 18 through 21

Complete these lines if the following occurs:

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

## SCHEDULE III – MONTANA S CORPORATION INFORMATION INSTRUCTIONS

### Montana S Corporation Information

Include all shareholders on this form. If additional space is needed, make copies of Schedule III. We do not accept copies of federal Schedule K-1 in place of a completed Schedule III. If Schedule III is not completed, the processing of the S corporation's return will be delayed until we receive this information.

Complete columns A through D for all shareholders. Complete columns E, F or G if the shareholder is a nonresident individual, nonresident estate, nonresident trust or foreign C corporation.

### Column A – Name and Address of Shareholder

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

### Column B – Entity Type and Identification Number

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

- C** – C corporation (domestic)
- E** – Estate
- F** – Foreign C corporation
- I** – Individual
- T** – Trust

The entity type codes are also located on the bottom of Schedule III. If the shareholder is a nonprofit 501(c)(3) corporation formed in Montana, use entity type code C. If the shareholder is a nonprofit 501(c)(3) corporation formed outside of Montana, use entity type code F.

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

SSN or FEIN as it appears on the federal Schedule K-1 in the appropriate box.

### Column C – Residency Code

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

### Column D – Ownership Percentage

Enter each shareholder's ownership percentage. This percentage is used to calculate the shareholder's share of income or (loss).

### Columns E through G

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

### Column E – Composite Income Tax

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

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

### Column F – Shareholder Withholding

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

- the nonresident individual, nonresident estate, nonresident trust or foreign C corporation:
  - did not provide the S corporation with a completed Form PT-AGR and the S corporation did not file a Form PT-AGR, and
  - is not participating in the S corporation's composite tax return.

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

### Column G – PT-AGR

Form PT-AGR is an agreement that has to be completed by a nonresident individual, nonresident estate, nonresident trust or a foreign C corporation if they do not participate in a composite return and do not want the S corporation to pay taxes on their behalf. The shareholder agrees to timely file a Montana tax return, pay all taxes and be subject to the personal jurisdiction of Montana. The shareholder completes the agreement and either files it with the department or returns it to the S corporation. If the shareholder files the agreement with the department,

the shareholder must also send the S corporation a copy of the agreement. A new Form PT-AGR does not have to be filed each year, but currently effective agreements for each new nonresident individual, nonresident estate, nonresident trust or foreign C corporation shareholder have to be filed. The Form PT-AGR is due by the due date of the S corporation's return.

Enter the year that the agreement, Form PT-AGR, was provided to us. If the S corporation is providing the agreement to us this year, enter "2012."

## SCHEDULE IV – MONTANA S CORPORATION COMPOSITE INCOME TAX SCHEDULE INSTRUCTIONS

If additional space is needed, the S corporation may make copies of Schedule IV.

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 foreign C corporations and who properly elect to participate in the composite tax return, are relieved of the obligation to file a Montana income tax return. However, if the shareholder has other Montana source income, the shareholder is not eligible to participate unless that other income is from other pass-through entities that file a composite return on behalf of the shareholder.

The tax credits from Schedule II cannot be applied to reduce the S corporation's composite tax liability. The tax credits may be used only by the shareholders to offset income or corporation license tax reported on their Montana tax returns.

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 their 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 and for use in subsequent years.

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 4**

Divide column 2 by column 1. The result is the composite tax ratio. Round to 4 decimal places and do not enter more than 1.0000.

**Part III****Column A – Name of Eligible Participating Shareholder**

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

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

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

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

Enter the participating shareholder's share of the S corporation's total federal income (loss) from all sources. For the purpose of calculating composite income tax, the shareholder's share of federal income from the entity is the shareholder's ownership percentage as reported on Form CLT-4S, Schedule III, column D, multiplied by the federal income from all sources reported on Form CLT-4S, line 14.

**Column D – Standard Deduction**

Each eligible participating shareholder is allowed one standard deduction equal to 20% of column C, but not less than \$1,860 or more than \$4,200.

**Column E – Exemption**

Each participating shareholder is allowed one exemption of \$2,240.

**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 a participating shareholder with a 10% interest in the S corporation's income, gain, loss or deduction. The federal income from all sources is \$60,000 and Shareholder X's share is \$6,000. The participating shareholder's composite tax liability is:

Shareholder's share of S corporation federal income from all sources (column C)	\$6,000
Standard deduction (column D)	(\$1,860)
Exemption allowance (column E)	(\$2,240)
Result of column C minus columns D and E (column F)	\$1,900
Using the tax rates shown on Schedule IV, the tax (column G) on \$1,900	\$19
The Montana composite income tax (column H) is \$19 x 0.2500	\$4.75

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

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

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

**MONTANA SCHEDULE K-1 INSTRUCTIONS**

The S corporation is required to use the Montana Schedule K-1 (Form CLT-4S and PR-1), Partner's/Shareholder's Share of Income (Loss), Deductions, Credits, etc., to provide information that shareholders will need to complete their Montana income tax return.

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 to report all shareholders' applicable information on the Montana Schedule K-1, including those shareholders who elect to participate in a composite tax return.

The S corporation has to include a copy of each shareholder's Montana Schedule K-1 with the Form CLT-4S filed with the department. A copy is kept as part of the S corporation's records and each shareholder is given

their own separate copy (with a copy of the Partner's/ Shareholder's Instructions).

## Part 1 – Pass-Through Entity Information

Mark the applicable boxes:

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

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

## Part 2 – Partner/Shareholder Information

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

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

## Part 3 – Montana Adjustments

- A. Montana Additions to Income.** Fill in the shareholder's distributive share of Montana additions from the corresponding lines 15a through 15c on page 1 of Form CLT-4S. This is not an apportioned amount.
- B. Montana Deductions to Income.** Fill in the shareholder's distributive share of Montana deductions from the corresponding lines 16a through 16c on page 1 of Form CLT-4S. This is not an apportioned amount.

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

### Lines 1-13

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

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

## Part 5 – Supplemental Information

### Line 1

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

### Line 2

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

### Line 3

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

### Line 4

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

### Line 5

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

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

## Part 6 – Montana Tax Credits and Recapture

### Line 1

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

### Line 1a

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

### Line 2

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

**Line 3**

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

**Line 4**

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

**FAQS—FREQUENTLY ASKED QUESTIONS**

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

**Filing Requirements**

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

**Filing and Payment Options**

- 9 What options does an S corporation have to file its information and composite tax return electronically?
- 10 What options does an S corporation have to pay its Montana taxes electronically?
- 11 What is the interest rate on unpaid taxes?

- 12 If the S corporation files its information and composite tax return electronically, what information must be sent in and what documents must be retained?
- 13 If the S corporation is mailing its information and composite tax return, where does it send the return?

**Amended Returns**

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

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

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

**Tax Records**

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

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

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

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

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

- calendar year S corporation – on or before March 15
- fiscal year S corporation – on or before the 15th day of the 3rd month

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

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

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

**Montana Resident Shareholders**

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

- Form CLT-4S, pages 1 and 2,
- Schedule II, Montana S Corporation Tax Credits, if applicable,
- Schedule III, Montana S Corporation Information,
- Schedule VI, Reporting of Special Transactions, if applicable, and

- Montana Schedule K-1, Shareholder's Share of Income (Loss), Deductions, Credits, etc. for each shareholder.

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

### Nonresident Shareholders

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

- **Schedule III**, Montana S Corporation Information,
  - **Form PT-AGR** (Montana Pass-Through Entity Owner Tax Agreement), if applicable, is an agreement that has to be completed by a nonresident individual, nonresident estate, nonresident trust or foreign C corporation 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 foreign C corporation 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 a foreign C corporation, 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 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 is required to change its Montana taxable year and accounting method accordingly. A copy of the approval

from the Internal Revenue Service (IRS) to change the accounting period or method must accompany the first tax return that reflects the change.

Mark the box "Final Return" on Form CLT-4S, page 1, if the S corporation ceased to exist during the 2012 tax year.

### 5 Should the S corporation file a composite tax return?

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

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

- they are a nonresident individual, nonresident estate, nonresident trust or foreign C corporation,
- 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. Form CLT-4S is not considered to be complete unless it is signed. Unsigned tax forms will delay the processing of the S corporation's return. If the S corporation has paid someone to prepare the Form CLT-4S, the paid preparer's PTIN or SSN, name, address and telephone number has to be included on the tax return.

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

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

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

**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 2012 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 but 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 them.

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 2012 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 (2013) tax return. This is March 15, 2014, for most S corporations.

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

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

- File the Montana Form CLT-4S FREE through our website. For more information, please visit [revenue.mt.gov](http://revenue.mt.gov) and look for the Taxpayer Access Point (TAP) option. Please note that this service only applies to the Montana S corporation information and composite tax return.
- File both the Montana and federal tax returns at the same time through a tax professional who is an Authorized IRS E-file Provider.

For more information regarding electronic filing visit [revenue.mt.gov](http://revenue.mt.gov) or [irs.gov](http://irs.gov).

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

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

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

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

The current interest rate of 8% for individual income tax and composite income tax will continue to be in effect through December 31, 2012. Under Montana law, the daily accrual interest rate for all unpaid income taxes depends on the rate set by the IRS and may fluctuate each year, but will not be less than 8%.

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

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

**13 If the S corporation is mailing its information and composite tax return, where does it send the return?**

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



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

**14 How does an S corporation amend its tax return?**

If the S corporation discovers that its return was incorrect, it has five years from the due date of the original tax return to file an amended Montana S corporation return.

Use Form CLT-4S to amend an original tax return. Mark the box “Amended Return” on the form. Please include the

applicable forms and statements that can explain in detail all the reason(s) for amending the tax return. Complete the entire Form CLT-4S using the corrected amounts.

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

#### Important

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

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

#### 15 Can S corporations have net operating losses?

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

#### 16 How does a multistate S corporation apportion its business income?

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

#### 17 How does an S corporation determine which income is business income?

Income has to be properly classified as business or nonbusiness income based upon factual evidence. The burden of proof is on the S corporation to justify the manner in which the income is claimed on the tax return.

Interest income is business income when the note or obligation with respect to which the interest was received,

arose out of, or was created in the regular course of, the taxpayer's trade or business operations.

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

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

Rental income from real and tangible property is business income if the property, with respect to which the rental income was received, is used in the taxpayer's trade or business, 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 and this Montana source income is allocated to Montana.

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

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

Nonbusiness income means all income other than business income. The S corporation can review our apportionment and allocation rules in Title 42, chapters 9 and 26 of the Administrative Rules of Montana. The rules are available on our website at [revenue.mt.gov](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 S corporation receives from another pass-through entity retain their character as Montana source income and are not included by the S corporation in its business income subject to apportionment or otherwise subject to recharacterization by the S corporation.

#### 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 non-separately stated income, gain, loss, deduction or credit, or items of income, gain, loss, deduction or credit that it derived from a trade,

business, occupation or profession carried on in Montana or that was derived from the sale or other transfer, or the rental, lease or other commercial exploitation of property located in Montana.

If an S corporation is doing business both inside and outside of Montana, Montana source income is the sum of the multistate business income that is apportioned to Montana, nonbusiness income that is allocated to Montana and all Montana source income of any pass-through entity which 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?**

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



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



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

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

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

No Return

***Did you know that you can e-file your Montana tax return?***

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



**Important Numbers**

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