



ADMINISTRATIVE RULES OF MONTANA



42.9.203 COMPUTATION OF COMPOSITE TAX

- (1) The composite tax, required to be remitted to the department with the composite tax return, is the sum of each electing eligible participant's composite tax liability.
- (2) A participant's composite tax liability is assessed on the participant's share of the entity's federal income, adjusted according to 15-30-3312, MCA, and multiplied by the composite tax ratio. To determine a participant's composite tax liability, the entity must use the five-step calculation in (3).
- (3) The composite return liability of each eligible consenting participant is calculated as follows:
 - (a) compute the entity's composite tax ratio, used to determine the Montana portion of the tax, by:
 - (i) calculating the entity's federal income;
 - (ii) calculating the entity's Montana source income;
 - (A) if the entity is only doing business in Montana, the entity's Montana source income is the net taxable income after Montana additions and deductions to income as allowed in 15-30-3302, MCA; or
 - (B) if the entity is engaged in multistate business, the entity's Montana source income is determined as provided in ARM 42.9.107; and
 - (iii) dividing the entity's Montana source income by the entity's federal income from all sources;
 - (b) compute each participant's share of federal income by multiplying the entity's federal income by the ratio of the participant's distributive share of Montana source income over the entity's total Montana source income;
 - (c) subtract the allowable standard deduction for a single individual and one exemption allowance from each participant's share of federal taxable income to obtain each participant's adjusted share of federal income;
 - (d) apply the rates specified in 15-31-121, MCA, for C corporations and the rates specified in 15-30-2103, MCA, for all other eligible participants on each participant's adjusted share of federal income to obtain the amount of tentative tax used to determine the Montana composite tax; and
 - (e) compute each participant's Montana composite tax liability by multiplying the tentative tax on the participant's share of federal income determined in (d) by the composite tax ratio computed in (a).

(4) Examples of the computations in (3) are as follows:

- (a) Example 1a. Composite tax ratio: Assume a partnership's federal income from all sources (as reported on Form PR-1, line 15) is \$60,000 and the partnership's Montana source income (as reported on Form PR-1, line 21) is \$20,000. The composite tax ratio is $\$20,000/\$60,000 = 33.333333\%$.
- (b) Example 1b. Participant's share of federal income: Assume that the partnership in Example 1a. has one electing eligible participant in the composite tax return, an individual. To determine the electing partnership's share of federal taxable income, multiply the entity's federal income (as reported on Form PR-1, line 15) by the ratio of the participant's distributive share of Montana source income (as reported on the participant's Montana Schedule K-1, part 2) over the entity's total Montana source income (Form PR-1, line 21). Assume the participant's share of Montana source income is \$10,000.

Participant's share of Montana source income	\$10,000
Divide by total Montana source income (Form PR-1, line 21)	÷ \$20,000
Ratio of participant's share of Montana source income over the entity's total Montana source income	50%
Multiply by the partnership's federal income from all sources (Form PR-1, line 15)	x \$60,000
Participant's share of federal income	\$30,000

- (c) Example 1c. Participant's share of adjusted federal income: Reduce the electing partner's distributive share of federal income from all sources by the allowable standard deduction for a single individual and one exemption allowance.

Electing partner's distributive share of federal income	\$30,000
Standard deduction	(\$ 4,460)
Exemption allowance	(\$ 2,380)
Participant's share of adjusted federal taxable income	\$23,160

- (d) Example 1d. Participant's tentative tax: Using the tax rates in 15-30-2103, MCA, assume the tax is \$1,043.
- (e) Example 1e. Participant's Montana composite tax liability: Multiply the resulting tentative tax by the composite tax ratio determined in Example 1a.

Tax on the distributive share of federal income	\$1,043
Composite tax ratio (from Example 1a.)	x 33.333333%
Total Montana composite tax liability	\$348

- (5) Tax credits may not be claimed against composite tax.
- (6) Separately stated deductions subjected to election or limitation on the participant's federal income tax return cannot be subtracted from the participant's share of the federal income for the purpose of calculating composite tax.
- (7) When shareholders and partners elect to be included in the composite return, the entity must apply their share of mineral royalty tax withheld on mineral rights paid to the entity, and their share of pass-through withholding paid on behalf of the entity, to the composite tax liability.
- (8) The entity is required to make quarterly estimated tax payments as prescribed by 15-30-2512, MCA, on the total composite tax liability as computed in (1).
- (9) For the purposes of this rule, "federal income" means an entity's income from all sources as determined for federal income tax purposes.

Authorizing statute(s): 15-1-201, 15-30-2620, 15-30-3312, MCA

Implementing statute(s): 15-30-2103, 15-30-2512, 15-30-3302, 15-30-3312, 15-31-121, MCA

History: NEW, 1996 MAR p. 2985, Eff. 10/4/96; TRANS, from ARM 42.15.705 and AMD, 2002 MAR p. 3708, Eff. 12/27/02; AMD, 2004 MAR p. 2751, Eff. 11/5/04; AMD, 2010 MAR p. 174; Eff. 1/15/10; AMD, 2011 MAR p. 2679, Eff. 12/9/11; AMD, 2016 MAR p. 2072, Eff. 11/11/16; AMD, 2017 MAR p. 2094, Eff. 11/10/17.