

- Complete your federal Form 1041 first.** Maryland uses information from the federal return to determine the proper tax due. We also recommend that you begin your Maryland Form 504 before you start Form 504NR, as a number of line items come from Form 504.
- Enter the income items from lines 1 through 9 of federal Form 1041 on the respective lines 1-9 of Column A of Form 504NR.
- Enter the sum of your federal deductions from line 16 of Form 1041 onto line 10 of Form 504NR. Note: the federal deductions are grouped together on the Form 504NR.
- Check to ensure that line 17 of Form 1041, Adjusted Total Income or (Loss) corresponds with line 11 of Form 504NR, which is named, "Federal Adjusted Taxable Income." Both lines are the result of subtracting deductions from total income.
- Enter the amount of your federal distribution deduction from Line 18 of Form 1041 onto line 12 of Form 504NR.
- Enter any estate tax deduction taken on line 19 of Form 1041 onto line 13 of Form 504NR.
- Subtract lines 12 and 13 from line 11 to yield the **federal taxable income before exemption**, Form 504NR, line 14.



Take a look at the front of Fiduciary Form 504. On line 14 we ask for the federal taxable income from line 22 of Form 1041. On Form 504, Line 15, we ask for the exemption amount; and on Form 504, Line 16 we ask you to add line 14 and 15. This means that the amount on Form 504, Line 16 **MUST** equal Form 504NR, line 14, Column A. If these figures do not match, find the error before continuing any further.

- Now, allocate the federal income into its four component parts. The federal income must equal the Maryland income plus the non-Maryland income. The Maryland income, as well as the non-Maryland income, is broken down into Distributable Income and Non-Distributable income. **It is essential that the totals of Column B through Column E equal Column A;** otherwise, we will send the taxpayer an error notice or will send the Maryland Form 504 back.

In the simplest terms non-distributable income is the income which cannot be distributed to the beneficiaries because of federal or state law, or because of the terms of the trust instrument or other legal documents. Distributable income is the income with no restrictions as to whether the income can pass on to the beneficiaries. When allocating income between Maryland and non-Maryland you must follow the federal guidelines as to whether income is recognized. For example, if a loss is limited at the federal level, the sum of the

Maryland and non-Maryland income must reflect the loss limitation. **Do not leave Form 504NR, line 14 incomplete.**

If you are in doubt, you may allocate the federal income between Maryland and non-Maryland sources in any fair, consistent, and reasonable manner. Note that Maryland does not tax the interest and dividends of a nonresident, so this type of income should not be reflected in the Maryland columns. Be advised that any income which is being reflected as Maryland source income distributed to a beneficiary, should appear on Maryland Schedules K-1(504) issued to the beneficiaries.

- After you have allocated the income, deductions and distributions among their respective columns, **compute the non-Maryland income factor** on Form 504NR, line 15. You will use the information that you have entered on Form 504NR, line 14. This factor is derived by taking the sum of the Distributable and Non-Distributable Non-Maryland income on Form 504NR, line 14 (Columns B and C) and dividing it by the federal income on line 14, Column A. If the result is 1 or greater, it means that **all of the income is from non-Maryland sources** and a factor of 1.000000 is entered. If the result is 0 or negative, it means that **none of the income is from a non-Maryland source** and a factor of 0.000000 is entered.
- Enter the amount from line 17 of Maryland Form 504 onto Form 504NR, Line 16a. This represents the **fiduciary's share** of net modifications. The computation to arrive at this figure came from applying the percentage of the fiduciary's federal Distributable Net Income (DNI) to the total modifications on page 2 of Form 504. This figure came from line 9d of Form 504 unless the fiduciary elected the alternative method which produced a figure on Form 504, line 10f. Either line 9d or 10f was entered on line 17 of Form 504 depending upon the method elected.
- Enter on line 16b of Form 504NR the portion of the modifications on Form 504NR, line 16a that are attributable from non-Maryland sources. This is determined in one of two ways: the standard method is to multiply Form 504NR, line 16a by the non-Maryland factor computed on line 15. The alternate method may be elected if the fiduciary believes that the non-Maryland factor will not accurately reflect the proper allocation of modifications. It must be used when a trust is Electing a Small Business Trust (ESBT) as the Fiduciary return instructions tell you that you may not apply the non-Maryland factor against ESBT income.
- Subtract line 16b from 16a on Form 504NR and enter the difference on line 16c, which is the fiduciary's Maryland modification.

**TAX PREPARER'S CHECKLIST FOR FIDUCIARY
NONRESIDENT INCOME TAX CALCULATION**

Please use this checklist before submitting a Fiduciary
Nonresident Return Form 504 & 504NR

- Enter the amount from Form 504NR, line 14, Column D onto Form 504NR, line 17a. This is the Fiduciary's share of Distributable Maryland income.
 - Enter the amount from Form 504NR, line 14, Column E onto Form 504NR, line 17b. This is the fiduciary's share of non-Distributable Maryland income.
 - Combine the Maryland modifications with the two types of Maryland income by entering the sum of lines 16c, 17a, and 17b onto line 17c of Form 504NR.
 - Enter the amount of the Maryland exemption from line 21 of Maryland Fiduciary Form 504 onto Form 504NR, line 17d.
 - Subtract line 17d of Form 504NR from line 17c and enter this amount on Form 504NR, line 17e. This is the **Maryland taxable net income**.
 - Enter on Form 504NR, line 18 the amount of income shown on Form 504, line 22.
 - Use the fiduciary tax rate schedule from the Fiduciary return instructions to calculate the tax to be entered on Form 504NR, line 19 based on the income shown on Form 504NR, line 18.
 - To calculate the Nonresident factor on line 20 of Form 504NR, divide line 17e by line 18 of Form 504NR. If the factor equals or exceeds 1, use 1.000000 as the factor. If it is equal to or less than 0, use 0.000000 as the factor.
 - Calculate the State tax on Form 504NR, line 21 by multiplying the tax shown on Form 504NR, line 19 by the factor calculated on Form 504NR, line 20. Enter the result on Form 504NR, line 21 and on Form 504, line 23.
 - Finally, multiply the Maryland taxable net income on Form 504NR, line 17e by 1.25% (0.0125) to generate the Special Nonresident Tax. This figure is entered on Form 504NR, line 22 and on Form 504, line 24.
- At this point, the Form 504NR should be complete and you continue the calculations on Form 504. Make sure that Form 504NR is always submitted with Form 504 when a nonresident fiduciary return is filed, or the Comptroller will calculate the tax at the higher resident rate.