



## Pass-Through Entities Practitioner

*Note: Some questions have been edited for conciseness. Where multiple practitioners submitted similar questions, we consolidated them into a single question and response and marked them with an asterisk (\*). If you have a question about a specific taxpayer or a matter you have asked about previously that is still unresolved, email [TACORPORATE@marylandtaxes.gov](mailto:TACORPORATE@marylandtaxes.gov) with the details and your contact information so that we can respond to you directly.*

**1. \*What is the email address for PTE issues?**

Please email the details of your request to [TACORPORATE@marylandtaxes.gov](mailto:TACORPORATE@marylandtaxes.gov).

**2. Would Maryland consider allowing a Maryland composite return for PTEs who elect [to] the MD PTE? Hopefully, this would make applying PTE credits easier for the DOR.**

Currently, composite returns (Form 510C) may only be filed by non-electing PTEs on behalf of eligible non-resident individual members. We do appreciate that recommendation and will strategically discuss it; however, it is unlikely that we can create that opportunity until after we've gone live with the Compass tax system for PTEs.

**3. Can you please clarify how a trust would report the MD PTE credit received on a K-1 for the following situations:**

**a. Pass through 100% of the credit to the beneficiaries**

Like other business tax credits, the PTE tax credit is applied against the Fiduciary's income tax liability and then distributed to the beneficiaries on the 504 K-1, Line 6. To the extent the FIDO is overpaid, the FIDO receives a refund of the overpayment.

**b. Use 100% of the credit on the MD trust return and how to reflect the add-back of this credit**

Report the PTE credit on Form 504CR, part CCC, Line 10. This amount flows to Line 30 of Form 504. From Instructions to Form 504: Add the total of business

income tax credits from Form 504CR, Part CCC, Line 11 to Line 30 of Form 504. Complete and submit Form 504CR with Form 504. Add the credit back to the FIDO's income on line 1 of the 504. From the instructions to Form 504: A trust that is a member of a pass-through entity that elects to pay tax on all members' distributive or pro rata share of income ("electing pass-through entity") must add back to income the amount of the credit received for the tax paid by the electing pass-through entity. Enter the total federal taxable income plus the amounts from Maryland Schedule K-1 (510/511), Part D, Lines 2 and 4 on Line 1.

The PTE credit is distributed to beneficiaries on the 504 K-1, line 6, with other 504CR credits.

**4. Is there an ability to pull a taxpayer protest involving a misapplied PTET or NR withholding credit matter out of the queue for formal appeals and be able to readdress the taxpayer matter with a tax practitioner hotline rep?**

A taxpayer may withdraw their appeal at any time by email to [cdhearings@marylandtaxes.gov](mailto:cdhearings@marylandtaxes.gov), or by contacting the assigned hearing officer directly. The email should include the case tracking number, if available. In withdrawing an appeal, the taxpayer waives their right to a timely appeal.

5. **\*Will Maryland pay interest on refunds issued to members of electing PTEs if the refund is paid more than 45 days from the date of the refund claim?**

The Comptroller is prohibited from paying interest on a refund when the claim for refund is based on an overpayment of estimated income tax.

6. **\*Is MD considering changing the payment vouchers so that the 510/511 payments utilize their own forms instead of relying on a check box to distinguish payments made via the PTE election?**

Not at this time.

7. **\* Has there been any update to the process on being able to put a taxpayer's account on hold while the PTE matter is being resolved to 1) eliminate future notices that are "false" and, more importantly, avoid placing garnishments on other refunds/bank/etc. when the debt that MD is saying is owed will go away when the PTE is properly credited. This is a huge pain point.**

The efforts to go back and re-approve PTE credits are effectively completed, but there is an immaterial number of laggards that require additional complicated efforts and correspondence. Therefore, for the individual account tax types, this issue is now effectively moot. The process for validating the collections and liabilities for the PTEs themselves is underway. PTE accounts are not being billed at this time, though we hope to start those efforts accurately within the next four months. It is worth noting that collection activity is suspended during a timely appeal. In the future, "parking" returns that are pending adjudication will ensure that collection notices are not sent prematurely.

8. **\*When will the COM begin accepting online PTE estimated payments, and how can a PTE make estimated payments in the meantime?**

Currently, the only PTE payments that can be made online at [marylandtaxes.gov](http://marylandtaxes.gov) are bill payments; a notice number is required. The Comptroller's Office is working to launch an online tool to accept estimated

PTE payments this fall. Until that launch, estimated payments may be scheduled using certain commercially available software products, or you may pay by check sent along with Form 510/511D.

9. **Are you saying we can NOT file a partnership with PTE on paper, or will it just take longer?**

Returns filed by paper take longer to process than electronically filed returns.

10. **\*When will the State finally send notices to PTEs with unpaid balances that have resulted in the denial of PTE credits claimed by individual members?**

Tax computation will be sent to PTEs with outstanding balances within the next four months. Similar to the new program that we wrote for individuals, we are working to build a program that will identify PTE taxpayers that are possibly out-of-balance as a result of processing system limitations. After identification, an extensive manual effort will be necessary to fix those accounts. These efforts will be completed prior to any noticing.

11. **Can you pay PTE for an entity that has solely capital gains? It is an entity that has been holding land for years, and now they have sold that piece of land, and was curious if you can pay PTE? One owner is a resident, and the other is a non-resident and is not a trade or business.**

Income from the sale of Maryland property by a pass-through entity is included in taxable income, even though capital gains may be taxed federally at a special rate.

12. **Will a PTE be assessed an underpayment penalty for the first two quarters if they start to pay estimates in the 3rd quarter? The sale occurred in August.**

The answer will depend on various factors, including tax paid in the prior year and tax due in the current year. See Form 500UP and the instructions to determine if UP interest and penalty are due.

13. How can I get my client's individual refund of 2021 PTE tax that I've been working with MD for at least 18 months? I've been told multiple times in the past few months that they were releasing the credits and to expect a check. The client still hasn't received anything.

Please email the details of your request to [TACORPORATE@marylandtaxes.gov](mailto:TACORPORATE@marylandtaxes.gov).

14. I have had to send copies of PTE payment checks multiple times. Where is MD depositing these checks that were cleared and deposited when received?

The State's primary depository bank is Wells Fargo Bank, N.A., and the current lockbox vendor is Santander Bank, N.A.

15. When the PTE credit is disallowed, the notice of tax due comes to the Individual taxpayer. We then send correspondence to challenge until the payment can be proven and, in many situations, for the Comptroller to "FIND" the PTE paid in. The TSD correspondence email (the person behind the curtain) WILL NOT place the notice on hold without knowing what info they want (even if it doesn't exist). It takes time to get through this process, but without placing these notices on hold, the outcome is that clients are going to collections, which must be appealed and, thus, is taking A LOT of time to resolve even though nothing is really owed. Disallowed PTE notices to the individual taxpayers MUST be put on hold immediately when a practitioner contacts the Comptroller through the TSD correspondence email when a professional makes the Comptroller aware of the issue. Can this be addressed ASAP? There is too much time in appeals for money that is not owed! This is unfair to MD taxpayers.

In our new process, parking the return of a member when the PTE has not yet filed will address this issue.

16. Will a member receive a tax notice if the return is parked?

COM is currently building out the process to notify a member when their return is parked. To be clear, among the many

efforts in development related to PTEs, this item is lower on the priority list and will not be available for several months.

That said, the "parking" should not be an issue for most until the beginning of the 2025 processing season.

17. Why do these returns still have to be manually processed? Also, why must we attach the K-1 to the individual return? It seems that your system should be able to match the social security number on the schedule B to the actual individual filing. This appears to be a straightforward match that would allow the return to be processed. VA enacted this same law a few years after MD and did not require the K-1 to be attached, and the return must be immediately processed.

Thank you for the feedback. Pass-through entity tax is part of our next modernization phase, scheduled for the autumn of 2025.

Currently, the information on the K-1s is not an exact match for the information on Schedule B, and the K-1 provides some information on the credit claimed when the PTE has not yet filed the return. We are leveraging Schedule B information and will continue reviewing our PTE processing.

18. Some clients filed 511s filed that showed refunds due to the business. Where are those refunds?

Please email the details of your request to [TACORPORATE@marylandtaxes.gov](mailto:TACORPORATE@marylandtaxes.gov).

19. Some tax software [products] do not support the electronic filing of PTE returns. Can PTE returns be filed online on the MD website?

The Comptroller does not host a product to file PTE returns directly through the Comptroller's website or Maryland Tax Connect portal. Not all software vendors and software products support all forms. You can find the list of vendors and software products approved for specific forms, including PTE forms, on our website at [marylandtaxes.gov/pros/approved-vendors.php](http://marylandtaxes.gov/pros/approved-vendors.php)

20. Who is the best person to contact at the Comptroller's office for assistance with ongoing issues with PTE credits? (for taxpayers that have been waiting for a year or more for resolution) We generally go through the Practitioner line first, but their abilities seem to be limited when it comes to PTE processing, and cases are referred to other debts.

Please email the details of your request to [TACORPORATE@marylandtaxes.gov](mailto:TACORPORATE@marylandtaxes.gov).

21. Is it advisable to delay the individual [E-filing] until after the PTE [E-filed] return has been accepted? If so, what is the ideal amount of time to wait?

Filing the PTE return before member returns can improve processing times, but it is not required. It may reduce the time a return is parked if the PTE return is still in process.

22. Is there any way (or contact) to get the status of taxpayer refunds held up due to PTE credit verification? Will you be notifying the businesses that the PTE is Parked or denied? Currently, there is no notification, and when we call Tax Practitioner Hotline, we are being told, "We need to allow for more time. It is taking longer because of our new system."

Billing notices to PTEs will begin going out within the next four months. Due to confidentiality requirements, PTEs will not be notified if a member's return is parked. A denial notice is mailed when a refund claim is denied or partially denied. We are working on notifications regarding "parking."

23. I have a PIT notice for a client that says the PTE credit was disallowed (credit from two different PTEs). The notice says it was reduced or disallowed due to the PTE not filing or paying the tax. However, the PTEs did file and pay the tax, and never received a notice that this wasn't true. I haven't been able to get through to the Comptroller by phone. Would this PIT be considered as "parked"?

Please email the details of your request to [TACORPORATE@marylandtaxes.gov](mailto:TACORPORATE@marylandtaxes.gov).

24. I'm still having an issue with a 2020TY PTE. Who can I contact to discuss this? The letters are not working.

Please email the details of your request to [TACORPORATE@marylandtaxes.gov](mailto:TACORPORATE@marylandtaxes.gov).

25. How can I get a transcript of a taxpayer account for each year to determine if the state is correct? We have accounts that requested refunds and carry-forwards, and we are not sure this has been handled correctly. Like the Federal Government, we can get a transcript of the annual return, both returns processed as well as payments. We are in the dark as to the status of various annual accounts. We need this for each year we have had PTE. Clients are asking us questions, and we cannot respond to them.

We anticipate an account transcript will be available when PTE goes live in the Compass system in the autumn of 2025. In the meantime, this is a manual effort. Please email your request to [TACORPORATE@marylandtaxes.gov](mailto:TACORPORATE@marylandtaxes.gov).

26. What is a recommended way to pause collection efforts when taxpayers are caught up in PTE "purgatory"? It would be great if assessments stemming from PTEs could be removed from collection efforts while process improvements work their way through the backlog.

Please email the details of your request to [TACORPORATE@marylandtaxes.gov](mailto:TACORPORATE@marylandtaxes.gov).

27. Is Maryland delaying individual taxpayer refunds due to the inability to process PTE credits promptly? By how many months?

Under the new process, individual member returns claiming a credit may be parked until the PTE return is processed. The time a return is parked will depend on when the respective returns are filed.

28. I have had instances where the PTE owes a balance when the return is filed. The individual members then get notices when they claim the credit on their individual returns that they now have a balance due. The PTE then pays the balance due (late payment). Will the individual members automatically get credit for the PTE, and will they get an updated notice? From my experience, this is not happening now.

It has not happened in the past, but the parking and regular review of returns should address this issue going forward.

29. Can anyone explain why a taxpayer would (in 2023) receive a notice from your office that stated they had an overpayment of about \$7,500 from the year 2000? Not a typo.

Please email the details to [cdcollectionind@marylandtaxes.gov](mailto:cdcollectionind@marylandtaxes.gov).

30. Clients electing to file federal amended returns for ERC increase in income. The amended State PTE returns were filed, and then amended Personal returns were filed. Since these returns have balances due, you are happy to take the money. Clients are frustrated that penalties and interest are charged on these returns. Is there a process to abate these, or do interest and penalties apply?

Interest and penalty are automatically applied to any late-paid liability. You may send a request for an abatement of interest or penalty for cause, along with the reason for your request to [cdcollectionind@marylandtaxes.gov](mailto:cdcollectionind@marylandtaxes.gov).

31. Will this webinar discuss the difference between the 510 and 511 filings, or will it be statistical and informational about PTE filings?

Generally speaking, Form 510 and its related forms are to be used by partnerships, S corporations, limited liability companies, and business trusts. Form 511 and its associated forms are to be used by partnerships, S corporations, limited liability companies, and business trusts that elect to pay tax on members' distributive or pro-rata shares of income at the entity level.

An entity may file Form 510 as its year-end return only if it did not elect to pay tax at the entity level with respect to all members' shares on its first filing of the tax year (Form 510/511D or Form 510/511E). An entity that made such an election must file Form 511 as its year-end return. If the year-end return is the entity's first tax year filing, filing Form 510 will be deemed an irrevocable decision to pay tax only on behalf of non-resident members.

32. Do you have any recommendations for tax practitioners who are actively working with their clients who were denied a credit because the PTE return hasn't been processed, or are there issues with their processing?

If you have been unable to resolve these issues to date, please email the details of your request to [TACORPORATE@marylandtaxes.gov](mailto:TACORPORATE@marylandtaxes.gov).

33. New S Corp formed in May 2024. Obviously past the required 4/15 date to make PTE election. Can PTE election still be made via payment for Q3 or Q4?

The election must be made on the PTE's first filing of the year, whatever that filing may be. In this case, where the PTE was formed in May, the first filing of the year for this entity will be the Q3 estimated return.

34. If PTE has made 2024 estimates filed electronically through software, where are those payments now sitting if you cannot pay this way?

Where an approved, commercially available software product was used to schedule estimated PTE payments to be drawn from a taxpayer's bank account via direct debit on specific dates, those payments are posted to the taxpayer's tax account.

35. How long after we electronically file a PTE return should we wait to file the individual returns to make the payments match up?

It takes about ten business days when both are filed electronically. Paper-filed returns have many more points of failure and can take up to thirty days.

36. Can it be rectified if a return is sent in for resident PTE but taxpayer has become a non-resident PTE?

You can file an amended Form 511 by checking the Amended Return box and then indicating the corrected number of resident and non-resident members in question 1.

37. Currently, when the individual receives a notice due to underpayment by the PTE, when the PTE corrects the underpayment, the individual is not automatically corrected. Will that process change in the future, or will it still require reaching out to re-request the credit be applied?

The new process will address this issue by parking returns and continuously reviewing PTE filings and payments.

38. Can you discuss the PTE tax add-back on the MD personal return? We received K-1s with the add-back listed; otherwise, we must add the tax back.

Electing PTEs should not include in additions the member's add-back of the electing PTE credit. The electing PTE credit is added back on the member's return.

The member of an electing PTE reports the credit on line 9 of Part CC, Form 502CR. That amount is added back on the member's return, Line 5, code r. See page 7 of the resident booklet.

39. Client's 2023 Form MD511 was e-filed and accepted in mid-April 2024, but the balance has not yet been withdrawn from the bank. After contacting the Maryland Comptroller, I was informed that the payment would be processed once the return was fully processed. They also advised holding off on submitting the member's individual tax return until this is done. It's been four months since the submission, and this is the first time filing Form MD511. Q: What is the typical processing time frame?

Payments are typically drawn on the scheduled dates, but occasionally, an error occurs in that process. Please email the details to [TACORPORATE@marylandtaxes.gov](mailto:TACORPORATE@marylandtaxes.gov) so that we can assist you in resolving this issue.

40. Electronically filed 510/511D estimated tax payments are being misapplied as 510 instead of 511. How will that be corrected on your end?

Please email the details of your request to [TACORPORATE@marylandtaxes.gov](mailto:TACORPORATE@marylandtaxes.gov). Best practices on a going-forward basis – make sure that the first filing of the year indicates the PTE's election or non-election, and that all subsequent filings for the tax year conform to the choice on the first filing.

41. A trust is a pass-through, so will it be able to make a PTE election?

Business trusts filing pass-through entity returns are eligible to make the PTE election. The election may be made annually and must be made on the first filing of the tax year. Fiduciaries that file Maryland Form 504 are not eligible to elect to pay tax at the entity level.

42. Who do I contact for a question related to estimated PTE payments sent electronically via our tax software...the State confirmed receiving the payments, but the client's bank account was not debited for two different quarters. The payments are pending with the state.

Please email the details to [TACORPORATE@marylandtaxes.gov](mailto:TACORPORATE@marylandtaxes.gov) so we can assist you in resolving this issue.

43. If a taxpayer filed their 2023 return before April 15th, PTE credit was denied because PTE payment was not made until April 15th. Will the new system correct this, or must we continue responding to notices?

Please email the details of your request to [TACORPORATE@marylandtaxes.gov](mailto:TACORPORATE@marylandtaxes.gov).

44. What happens when an estate files on a fiscal year and has K-1s from LLCs that have elected PTE, thus claiming credit for two years on Form 1041?

Please email the details of your question to [CompMDLegal@marylandtaxes.gov](mailto:CompMDLegal@marylandtaxes.gov).

45. We have seen several adjustments to credit for tax paid to other states adjusted on residents' individual returns and have not gotten clarification or resolution. Will this be a focus area? Even if notices are updated to show the state for which credit for tax paid was adjusted or denied. It is often not reconcilable.

Thank you for your feedback. Our ability to expand the complexity of our notices is limited in our legacy system. However, we will review this issue to see if it can be incorporated into our integrated tax system during the personal income tax release.

46. How should the difference in the estimated payment and actual tax be treated on the PTE tax return? Does it get applied?

Following the holding in *Comptroller of Maryland v FC-Gen Operations Investments LLC*, the amount of any overpayment of estimated tax concerning the actual tax calculated on a PTE return may be refunded to the PTE or applied to the estimated tax for the following year.

The taxpayer will indicate their preference for a refund or carry forward to the following year's estimated payments on Form 510 or Form 511.

47. We had an individual return with an add-back for MD PTE from 100% flow-through income from a trust, but the trust claimed the credit and refund for the PTE tax. This is correct, but the 1040 was rejected for e-file because there was not a 502CR for each MD add-back MOD coded 12?

Please email the details of your request to [TACORPORATE@marylandtaxes.gov](mailto:TACORPORATE@marylandtaxes.gov).

48. How are you handling FYE PTE credits? The electronic K-1 on taxpayers' return is 2023. However, the return filed for the FYE PTE is 2022. Should we still attach the FYE k-1 instead of using the electronic K-1?

The FYE K-1s should be attached to the return.

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### Additional Resources

The Comptroller of Maryland's August 14th [Tax Professionals' Webinar on Pass Through Entities](#) elaborates on many of the questions answered in this document.

### Maryland Tax Connect

Our [Maryland Tax Connect](#) website hosts a [FAQ section](#) as well as [previous webinars](#). Additionally, business taxpayers can [schedule an appointment](#) with our call center.

### Future Webinars

Please join us for our next webinar on January 14, 2025, at 2:00 p.m. EST. [Registration is required](#).