MARYLAND FORM
500DM

DECOUPLING MODIFICATION

20500N099

2020

OR FISCAL YEAR BEGINNING [_____] 2020, ENDING [_____]

Name of taxpayer(s)   **Taxpayer Identification Number**

Use this form only if the Maryland return is affected by the use (for any tax year) of any of the following federal provisions from which Maryland has decoupled (Decoupled Provisions):

- Certain provisions of the federal CARES Act of 2020 have an impact on business interest expense deductions, limitation on excess business losses for non-corporate taxpayers, net operation loses (NOLs), and qualified improvement property (QIP) bonus depreciation. For more information, see Tax Alert 7-24 at **www.marylandtaxes.gov**.

- Special Depreciation Allowance under the federal Job Creation and Worker Assistance Act of 2002 (JCWAA) as increased and extended under the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA); and subsequent federal legislation, including the American Recovery and Reinvestment Act of 2009 (ARRA).

- Carryover of a net operating loss (NOL) under IRC Section 172 without regard to an election under IRC Section 172(b)(1)(H) for a carryback period of up to 2 years (Farming loss only).

- Federal Section 179 depreciation deductions taken for a tax year beginning on or after January 1, 2003. For Maryland tax purposes, a taxpayer only is allowed to expense up to $25,000, reduced dollar-for-dollar by the amount over $200,000, of the cost of Section 179 property that is purchased and put in service for a trade or business for the tax year. For vehicles placed in service after May 31, 2004, Maryland also has decoupled from the higher depreciation deduction for certain heavy duty SUVs allowed under Internal Revenue Code Section 280F.

- Deferral of recognition of income from discharge of indebtedness under the ARRA.

- Deferral of deduction for original issue discount in debt for debt exchanges under the ARRA.

Read instructions and complete the worksheet.

	Column 1 Federal Return as Filed	Column 2 Federal Return without Decoupled Provisions	Column 3 Difference Increase/ Decrease (-)
1. **Depreciation Deductions** Subtract the amount in Column 2 from the amount in Column 1 and enter in Column 3. If less than 0, enter as a negative amount (-).	.00	.00	.00
2. **NOL Deductions** Subtract the amount in Column 2 from the amount in Column 1 and enter in Column 3. If less than 0, enter as a negative amount (-).	.00	.00	.00
3. **Original Issue Discounts** Subtract the amount in Column 1 from the amount in Column 2 and enter in Column 3. If less than 0, enter as a negative amount (-).	.00	.00	.00
4. **Discharge of Business Indebtedness** Subtract the amount in Column 1 from the amount in Column 2 and enter in Column 3. If less than 0, enter as a negative amount (-).	.00	.00	.00

5. **Other Changes** (See instructions.) . . . . [_____].00

6. **Net Decoupling Modification** Net the amounts on lines 1 through 5 of Column 3. This is the Decoupling Modification. Enter here and include as a positive number on the appropriate line of the Maryland return being filed. Also enter the applicable letter code(s) on the lines provided on the return. See table on page 2. . . . . [_____].00

7. **Decoupling from PTE.** Enter code letter dp. (See instructions.) . . . . [_____].00

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Return Filed	If line 6 above is positive enter on the line for:	Use the following code if there is an amount above on:				If line 6 above is negative enter on the line for:	Use the following code if there is an amount above on:			
		Line 1 only	Line 2 only	Line 4 only	Multiple Lines		Line 1 only	Line 2 only	Line 4 only	Multiple Lines
500	Addition Adjustments	e	f	cd	dm	Subtraction Adjustments	j	k	cd	dm
502	Other Additions	l	m	cd	dm	Other Subtractions	bb	cc	cd	dm
504 Sch A	Other Additions	No code required				Other Subtractions	No code required			
505	Other Additions	j	k	cd	dm	Other Subtractions	bb	cc	cd	dm
502X	Additions to Income	No code required				Subtractions from Income	No code required			
505X	Additions to Income	No code required				Subtractions from Income	No code required			

General Instructions

Purpose of Form

Maryland has decoupled from certain federal provisions, as listed at the top of Form 500DM, by enacting addition and subtraction modifications which eliminate the effect of the changes on Maryland and local taxes. This form is used to determine the amount of the required modification.

Use of Pro Forma Returns

Separate (pro forma) federal and Maryland returns must be prepared for use in completing Form 500DM. In addition to calculating depreciation and NOL deductions without the benefits afforded under the federal provisions from which Maryland has decoupled, pro forma returns also will help to determine other related items that affect Maryland and local income tax liability (e.g., income items, addition and subtraction modifications, deductions and credits).

Additional Information

For more information regarding these modifications, see Administrative Release 38 at **www.marylandtaxes.gov**.

Specific Instructions

Column 1 – Federal Return as Filed

Column 1 (lines 1 through 4) is used for the amounts reported on the federal return which **include** the impacts of the Decoupled Provisions.

Column 2 – Federal Return Without Decoupled Provisions

Column 2 (lines 1 through 4) is for the amounts which would have been reported on the federal return without regard to the Decoupled Provisions.

Column 3 – Change – increase/decrease (-)

Lines 1 and 2 – Subtract the amount in Column 2 from the amount in Column 1. Enter in Column 3.

Lines 3 and 4 – Subtract the amount in Column 1 from the amount in Column 2. Enter in Column 3.

Line 5 is for the change to taxable income in other related items (calculated before and after application of the Decoupled Provisions) that would affect taxable income.

If the change decreases taxable income, enter the amount with a minus sign (-) in front of the number.

Line 1 – Depreciation Deductions

Use line 1 only for the depreciation expense deductions.

Line 2 – NOL Deductions

Use line 2 for NOL deductions. For Columns 1 and 2, limit the deductions for non-corporation taxpayers so that the deduction may not exceed the federal modified taxable income as determined on federal Form 1045, Schedule B. If more than one loss year, attach a schedule providing the amounts on line 2 applicable to each loss

year. For corporation taxpayers filing Form 500, the **impact** of the decoupling on the NOL Deduction is no longer calculated on Form 500DM with the other decoupling modifications. Instead, a pro forma or adjusted federal taxable income is first computed to include the effect of the other decoupling modifications, and then the pro forma or adjusted federal NOL is applied to reduce the pro forma or adjusted federal taxable income, to no less than zero. **For more information about these deductions, see Administrative Release 18 and the CARES Act of 2020 (see Tax Alert 7-24) at www.marylandtaxes.gov.**

Line 3 – Deferred Deduction for Original Issue Discount (OID)

Use line 3 to reflect the subtraction to income resulting from Maryland's decoupling from the federal deferral of deduction for OID. The deferral or deduction must be claimed in debt-for-debt exchanges, unless the deduction was deferred by a pass-through entity. If the deduction was deferred by a pass-through entity, use line 7. On line 7, partners, shareholders or members should report only their share of the deferred deduction. In those years when the Internal Revenue Code permits the deduction, line 3 will reflect an addition to income.

Line 4 – Deferred Discharge of Indebtedness Income

Use line 4 to report the addition to income resulting from Maryland decoupling with the federal deferral of income arising from business indebtedness discharged by reacquisition of a debt instrument, unless the income was deferred by a pass-through entity. If the income was deferred by a pass-through entity, use line 7. On line 7, partners, shareholders or members should report only their share of the deferred income. In those years when the Internal Revenue Code requires the ratable inclusion of this income, line 4 will reflect a subtraction to income.

Line 5 – Other Changes

Decoupling also may affect other items included in federal adjusted gross income and allowable itemized deductions, as well as Maryland addition and subtraction modifications. Because these items also affect Maryland taxable income, the decoupling modification must include an adjustment for these changes. If the net change for these items reduces taxable income, enter as a negative amount (-). **See Administrative Release 38 for scenarios with examples of certain items that affect decoupling.**

Line 6 – Net Decoupling Modification

Net the amounts from lines 1 through 5 and enter on line 6. If line 6 is positive, include this amount in the appropriate line of the Maryland tax return being filed. Also enter the appropriate code letter(s) on the line(s) provided for the type of addition modification (either depreciation or NOL, or both).

If line 6 is negative, include this amount as a positive number in the appropriate line of the Maryland tax return being filed. Enter the appropriate code letter(s) on the line(s) provided for the type

of subtraction modification (either depreciation or NOL, or both). See the table at the bottom of Form 500DM for the line numbers and code letters to use.

Note: there is no separate code for line 3 as this decoupling would not occur if there was no entry on line 4, and therefore, code dm would be used for multiple decoupling.

Infrequently, the only decoupling that may exist on the return may be for "Other Changes." In this case, use the code for the decoupling issue that gave rise to the "Other Changes."

Line 7 – Decoupling from Pass-Through Entity

Enter any decoupling modification resulting from income received from a pass-through entity on line 7 and use code dp on the member's return as an addition or subtraction. If line 7 is positive, include this amount as an addition on the appropriate line for addition on the Maryland tax return being filed. If line 7 is negative, include this amount as a positive number on the appropriate line for subtraction on the Maryland tax return being filed. See **Income from a PTE** below.

Credits

For Maryland income tax credits affected by the Decoupling Provisions, enter on the return to be filed credits as calculated on the Maryland pro forma return without the Decoupling Provisions.

Note: If a credit for a tax paid to another state was claimed on the original return and the tax liability to the other state and/or Maryland changes as a result of the treatment of decoupling provisions in either state, a revised Form 502CR must be completed using the Maryland and the other state's returns as filed, including all amendments and modifications.

Pass-Through Entities (PTE)

If the entity is a PTE (partnership, S-corporation, limited liability company or business trust), no adjustment is made on the PTE's Maryland income tax return (Form 510). However, Form 500DM must be submitted with Form 510 and the PTE must provide each partner, shareholder or member a statement showing their share of the decoupling modification.

Income from a PTE

Each partner, shareholder or member that has a decoupling modification from a PTE also must complete Form 500DM. Enter the decoupling modification from the PTE on line 7 of Form 500DM. Use code dp under other additions or subtractions on the return being filed by the member. (Do not include in lines 1 through 4). Also use this amount to adjust the income from the PTE on the pro forma federal return to determine if other related changes exist. Other related changes would be entered on line 5 of Form 500DM. Do not include any decoupling modification from a PTE on the Maryland pro forma return.

Attachment of Forms

- **Original Return** Attach the completed Form 500DM to the Maryland income tax return to be filed. **Pro forma returns used to complete this form are not to be filed with the Comptroller or the IRS, but should be retained with your tax records.**

- **Amended Return** Attach the completed Form 500DM, schedules and pro forma returns to the amended return to be filed.

For questions concerning Form 500DM contact:

Taxpayer Services Division
110 Carroll Street
Annapolis, Maryland 21411-0001
410-260-7980 or
toll-free at 1-800-MDTAXES or (800-638-2937)
www.marylandtaxes.gov