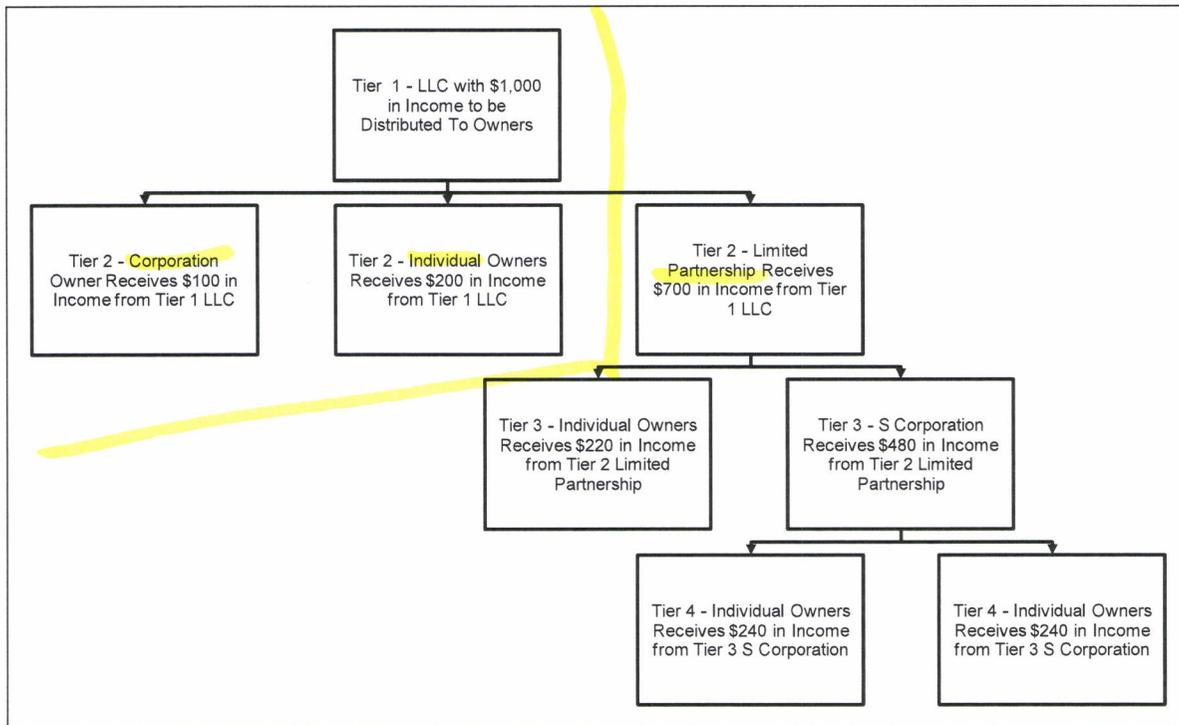


Pass-Through Entities - Ownership, Income, Deductions, and Credits



Pass-through entities classified as S corporations or partnerships with Montana source income are required to file an information return each year. If this entity has a partner, shareholder, member or other owner who is a non-resident individual, foreign C corporation, or a pass-through entity with an owner, or shareholder, that is a non-resident individual or foreign C corporation, the pass-through entity is also required to file with the state an agreement with the individual non-resident to timely file a Montana return, pay taxes and be subject to personal jurisdiction of the state with respect to the income from a pass-through. If this agreement is not met, the pass-through entity must in all subsequent tax years withhold the appropriate amount and remit the tax payment directly to the state (15-30-3313, MCA).

The pass-through information returns show the total amounts of various types of income, deductions, and credits allocated to the owners and the amount distributed to each owner. Pass-through entities operating in more than one state apportion part of their income to Montana using the same apportionment formula as C corporations. Pass-through returns show the Montana source income allocated to each owner and indicate whether each owner is an individual or another business entity.

Owners of pass-through entities taxed as partnerships may be either individuals or business entities. Shares of S corporations can only be owned by individuals, electing small business trusts or employee stock ownership plans. However, some types of pass-through entities that can be owned by other business entities can elect to be treated as S corporations for tax purposes. The table to the right shows the number of owners associated with Montana's pass-throughs broken down by individuals and business entities. Based upon information provided in each pass-through's tax forms, this table also provides a breakdown of pass-throughs based on the residency status of the owner.

Shares of Pass-Through Owners by Residency Status		
Type of Owner	Number	%
Resident Individuals	80,748	31%
Non-Resident Individuals	119,777	46%
Montana Business Entities	5,755	2%
<u>Non-Montana Business Entities</u>	<u>56,822</u>	<u>22%</u>
Total	263,102	100%