

To: Tax Software Developers

Concerning: TY23 Form PTE Preparer FAQs

We have received reports from numerous preparers that their software is having issues with the 2023 Montana PTE form. All the approved vendors passed our testing process to verify that their calculations worked and that their software can interface with our system; nevertheless, it appears that there are still numerous tweaks and corrections being made to both interface and functionality right up to the initial filing deadline. Listed below are some common issues we've seen during the initial filings we've received, along with a few workarounds to hopefully allow you to start getting your returns filed.

We'll start with some information or requests from the department:

1. Passthrough Entity Tax (PTET), Authorized Representative. As listed in the Form PTE instructions, if a PTE elects to pay the Passthrough Entity Tax, the PTE must designate an authorize representative who can make the PTET election and the Resident PTET election. This is filled out on the Flow-Through Payment Schedule, Part III. The vast majority of PTET returns that have been filed thus far have not had that field completed.

We are accepting the PTET election for returns that have not selected a representative; however, the department will not speak with anyone about PTET issues on these returns. If you have a question or an issue with a return that has no representative, we will require you to file an amended return making that election; we can then talk with that representative. In tax year 2024, we will implement a reject code to prevent any returns that have not completed that field from being accepted.

2. Another issue we have seen in returns so far is returns that have special allocations but have not selected the "Special Allocation" checkbox on the K-1s. Please be sure to use this checkbox to indicate when the income/loss will not be distributed according to profit/loss percentage. NOTE: Special allocation of PTET credit is not allowed. This only applies to Schedule K-1 Part 3, Lines 1 and 2, and Part 4, Lines 1 through 13.

Next, a few issues that we've been seeing recently, along with workarounds (when we have them):

3. We've seen several cases where a loss on the Schedule K-1, Part 4, Column B, Line 14 will result in a negative value on Part 5, Line 1, credit distributed to the owner. This is an error and will cause further errors on Page 2 of the return. Schedule K-1, Part 5, Line 1 should never be negative. If you passed our testing this should be working, but we've seen multiple cases of this happening so far.

Both the PTET election and the Resident PTET election are optional. We've heard from preparers who've said that the only way they could submit the return with the correct numbers – even in cases where the entity did not want to elect PTET – was to check one or both of those checkboxes. If your software requires you to check either of those checkboxes, it is not behaving correctly.

4. We've been seeing returns that elect PTET, or PTET and Resident PTET, but only do so on the front of the return. If the entity chooses to pay PTET, the checkboxes on all K-1s issued to owners must reflect this fact. If the software is only checking a box on the front page and not also checking the box on the owners' K-1s, please reach out to the vendor.
5. Historically, in cases where owners have a Passthrough Owner Entity Agreement (PT-AGR) on file and choose to use it, some software vendors require that preparers attach the PT-AGR to be submitted with the return. This year, preparers have told us that in cases where they elect PTET, it won't allow them to submit the return unless they also supply PT-AGRs. This is the reason for that error.

There are two options here. You can either a) provide the previously provided PT-AGRs even though they are irrelevant to the current filing, or b) attach a document explaining that the software requires you to attach PT-AGRs to file, and you are attaching this document to meet that requirement. NOTE: PT-AGRs filed with the return are not accepted by the department. You are encouraged to attach them only to get past this historical vendor requirement; if you want to submit a PT-AGR, be sure to submit it separately from the return itself.

6. It sounds like when PTET is elected, the software says the passthrough withholding or composite is also required. The question was, "Does a PTE electing PTET alleviate the passthrough withholding requirement?" And the answer, as with most things related to PTEs, is "that depends".

When an entity elects PTET, all affected owners are included in the PTET calculation. Affected owners are individuals, estates, trusts, partnerships, S corporations, and disregarded entities owned by individuals, estates, or trusts. Any owner of these entity types will not pay composite or withholding. Non-affected owners – primarily foreign C corporations and tax-exempt entities – can choose whether to pay withholding or composite, if applicable. Domestic C corporations, C corps who are registered to do business in MT, may end up distributing passthrough withholding (if applicable), but will not owe it.

7. Finally, we've been seeing an error related to the Montana Schedule K-1, Part 4, Line 14. This is a sum line, analogous to Part 5, Line 1 in previous years. It should equal Part 3, Line 1 minus Part 3, Line 2, plus the sum of Part 4, Lines 1 through 11, minus lines 12 and 13. This is a required sum line.

We hope that this information has been helpful.

Thank you,

Information Governance Unit
dore-services@mt.gov