

# MAINE TAX ALERT

A Publication of the Maine Bureau of Taxation for Tax Professionals

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Public Communications Tel: (207) 287-6362

## 1996 TAX RATES AND EXEMPTION AMOUNTS

State of Maine - Individual Income Tax

1996 Inflation Factor is .992

**Note:** Since the Inflation Factor is less than 1.000, no adjustments have been made in the tax rate schedule dollar bracket amount and the personal exemption amount (see MRSA Sec.5403)

**Do not use these tax rate schedules to determine income tax withholding from wages.**

### Tax Rate Schedule #1

For Single Individuals and Married Persons Filing Separate Returns

If the taxable income is:	The tax is:
Less than \$4,150	2.0% of the taxable income
\$ 4,150 but less than \$8,250	\$ 83 plus 4.5% of excess over \$ 4,150
\$ 8,250 but less than \$16,500	\$ 268 plus 7.0% of excess over \$ 8,250
\$ 16,500 or more	\$ 846 plus 8.5% of excess over \$16,500

### Tax Rate Schedule #2

For Unmarried or Legally Separated Individuals who Qualify as Heads-of-Households

If the taxable income is:	The tax is:
Less than \$6,200	2.0% of the taxable income
\$ 6,200 but less than \$12,400	\$ 124 plus 4.5% of excess over \$ 6,200
\$ 12,400 but less than \$24,750	\$ 403 plus 7.0% of excess over \$ 12,400
\$ 24,750 or more	\$ 1,268 plus 8.5% of excess over \$ 24,750

### Tax Rate Schedule #3

For Married Individuals and Surviving Spouses Filing Joint Returns

If the taxable income is:	The tax is:
Less than \$8,250	2.0% of the taxable income
\$ 8,250 but less than \$16,500	\$ 165 plus 4.5% of excess over \$ 8,250
\$ 16,500 but less than \$33,000	\$ 536 plus 7.0% of excess over \$ 16,500
\$ 33,000 or more	\$ 1,691 plus 8.5% of excess over \$ 33,000

**Personal Exemption Amount:** \$2,100

**Standard Deduction:** Single - \$4,000

Married Filing Jointly - \$6,700

Head-of-Household - \$5,900

Married Filing Separate - \$3,350

**Additional Amount for Age or Blindness:**

Married (whether filing jointly or separately) or a qualified surviving spouse. \$ 800

One spouse 65 or over and blind \$ 1,600

Both spouses 65 or over \$ 1,600

Both spouses 65 or over and blind \$ 3,200

Not Married (whether single or head-of-household) \$ 1,000

Individual 65 or over and blind \$ 2,000

**Note:** If taxpayer can be claimed as a dependent on another person's return, the standard deduction is the greater of \$650 or earned income up to the standard deduction amount.

## **FORMS ORDERING**

You will see that the annual order form for Maine tax forms is included in this issue. This year, in addition to tax forms, we are offering two reference publications. The Reference Guide to Maine Sales and Use Tax was written by Peter Beaulieu, Director of the Sales and Excise Tax Division and his staff for the 1996 Sales and Use Tax Seminars. We are pleased to make this available for purchase for accountants and taxpayers who were unable to attend the seminars. The Maine tax code, 36 MRSA, is available unbound and 3-hole punched, ready for a 8 1/2" x 10" binder.

## **AMENDED RULE:NON-RESIDENTINCOME TAX**

Maine individual income tax Rule 806 provides income tax guidance for nonresidents of Maine as to types of income subject to taxation, deduction of losses, apportionment of income to Maine. The rule also specifies the return form to be used and clarifies the determination of taxable income for spouses filing as single individuals and the determination of tax credits for spouses filing as single individuals.

The rule is being amended to clarify several points and to incorporate changes required by changes in federal tax law. For non-residents with Maine sourced income, other than those operating a business, there is now a threshold provision. Under this new section of the rule, the non-resident performing personal service in Maine is not taxed in Maine unless working in Maine for more than 20 days or earning more than \$6,000 in Maine gross income. The definition of personal service income is explained as including taxable benefits such as annual and sick leave. Unemployment compensation received by a nonresident that is derived from employment in Maine is Maine sourced income. A new section has been added to clarify apportionment of income or loss to Maine, including business losses and examples of personal service income apportioned by number of work days. Recently enacted federal law required that we add to income not subject to Maine income tax, deferred compensation paid in the form of an annuity. Previously, deferred compensation was taxable to Maine under some circumstances.

This rule change and the following new rule are making their way through the required rule making process. Soon, you will be able to refer to the Bureau's webpage at <http://www.state.me.us/taxation> for copies of this and other rules.

## **NEW RULE: TAX AND RENT PROGRAM**

For the first time, there is a proposed rule providing guidance on eligibility for the tax and rent refund program: Rule No. 901, Maine Residents Property Tax Program. The rule interprets and expands upon the statutory definitions and provides sample situations to illustrate how the law and the rule are applied to applicants for the program. The definitions of claimant, homestead, household, property taxes accrued, income and rent constituting property taxes accrued are likely to be a help to practitioners who are assisting their clients in applying for the program. The rule is now in the required notice stage. At the end of the required rule making process, Rule 901 will be posted on the Bureau's webpage. It will also be available on paper.

**COMBINED UNEMPLOYMENT INSURANCE AND WITHHOLDING TAX FORM** Effective January 1, 1997 From August 20 through August 28, the Maine Bureau of Taxation and the Maine Department of Labor presented seminars in different parts of the state to introduce the combined form for reporting of Maine state income tax withholding and unemployment insurance contributions. The meetings in Augusta, Portland, Orono and Presque Isle were well attended with over 100 participants in most locations. The new filing and payment procedure is intended to reduce the compliance burden on employers and make it easier to do business in Maine.

The seminars have provided both Taxation and Labor with valuable suggestions for changes in the proposed combined form. The audience at all of the seminars showed a great deal of interest in magnetic media filing opportunities both for employee lists and for the combined form.

**One concern that we must answer here is the following: All Fourth Quarter '96 filings in January follow past law. The new law covers tax withheld and contributions as of January 1, 1997 and filings associated with that tax and those contributions.**

## **PORT OF ENTRY USE TAX AUDITS**

**The Bureau of Taxation is continuing to enhance use tax enforcement efforts through the use of U.S. Customs port of entry data. Each U.S. resident or U.S. family files a declaration with U.S. Customs at the port of entry when returning from another country. The Bureau of Taxation has for many years received data from U.S. Customs from the customs declarations collected at many ports of entry.**

**Maine residents purchasing goods outside of Maine for use in Maine may be liable for use tax in Maine. If the resident can show proof that the local tax was paid when the goods are purchased, then there is not a use tax obligation when the goods are used in Maine. In Canada, for instance, both Quebec and New Brunswick charge a provincial tax in addition to the national goods and services tax (the GST). Refunds of provincial tax may be available to non-residents who apply for the refund. New Brunswick does not provide refunds to out of province residents.**

**Purchases made for use in Maine are also exempt from Maine use tax if the circumstances of the sale would be classed as a "casual sale" under Maine law.**

**Some examples of the types of goods which become subject to Maine use tax when purchased outside of the United States and brought into Maine for use in Maine are the following:**

- boat motors**
- furniture and kitchen cabinets**
- lumber**
- lawnmowers**

**Farm equipment is taxable in Maine unless it falls under the exemption granted for agricultural equipment. Prefabricated and modular homes are taxed on 50% of the value of the purchase.**

**It may be that some Maine residents do not have to worry about use tax liability, as the burden of collecting the tax may fall upon the seller. Foreign businesses, whether out of state or out of country, delivering personal property into Maine, should be registered for sales tax in Maine and should be collecting Maine sales tax at point of sale.**

**Currently, the Maine Bureau of Taxation is contacting many Maine residents who have purchased goods and brought them back to Maine for use here. The first letter merely seeks information on the purchase, as there are many circumstance which would show that the resident did not have a Maine use tax obligation resulting from the purchase and importation of the goods. Subsequent letters assess use tax based upon the information the Bureau has on file. At that point, the taxpayer is under a slim time limit to pay the tax or show why the assessment is not applicable.**

## **1996 TAX PRACTITIONER INSTITUTES**

**Maine tax professionals will soon be receiving an invitation from SCORE to attend the 1996 Tax Practitioner Institutes. This year, the Internal Revenue Service and the Maine Bureau of Taxation will speak during the morning session. The afternoon part of the course will include four sessions. The Institutes will be in Caribou on October 29, Augusta on November 5, Bangor on November 19 and Portland on November 26. The Augusta SCORE office is organizing these Insitutes again this year.**

## **OCTOBER TAX MEETINGS**

**The Thomas College Tax and Accounting Seminar will be held on October 18, 1996 at Thomas College in Waterville. The Maine Merchants Association will hold their Annual Members' meeting on October 23, 1996 with an afternoon session with speakers from the Bureau of Taxation and other state regulating agencies. The Bureau of Taxation is also participating in the regulatory panels for the Governor's Regional Conferences on Small Business. The Conferences scheduled for October are October 28 for the Bangor Region and October 30 for the Androscoggin County. You can contact the local Chambers of Commerce for more information. You can call (207) 947-0307 in Bangor and (207) 783-2249 in Lewiston.**

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