



MAINE TAX ALERT

A Publication of Maine Revenue Services for Tax Professionals

Volume 9, No. 3

JUNE/JULY 1999

Public Communications Tel: (207) 626-8475

The first session of the 119th Maine Legislature adjourned in late June this year. Here is a summary of selected tax-related law changes:

Statute of Limitations on Income Tax Refund

Claims: The statute of limitations for claiming a refund is three years (previously two years) from the date of the payment of the tax or three years from the date the original return is filed, whichever is later. This applies retroactively to tax years beginning on or after January 1, 1996 effective September 18, 1999.

Personal Exemption: The personal exemption for individuals is set at \$2,850 for tax years beginning on or after January 1, 2000. The personal exemption is \$2,750 for the 1999 tax year. Provisions for inflation adjustments after the year 2000 have been deleted.

MSRS Rollovers: Maine State Retirement System distributions resulting from rollovers are not taxable on the Maine individual income tax return even if included in federal adjusted gross income. This change applies retroactively to tax years beginning on or after January 1, 1996.

Historic Rehabilitation Credit: A taxpayer is allowed a credit equal to the amount of the federal credit for rehabilitation of certified historic structures located in Maine. The credit is nonrefundable and is limited to \$100,000 annually per taxpayer. The credit is subject to the same recapture provisions as under the Internal Revenue Code. The credit applies to tax years beginning on or after January 1, 2000.

Use Tax: The use tax will no longer be automatically assessed when the taxpayer fails to enter an amount or zero on the use tax line on the tax return. This applies to tax years beginning on or after January 1, 1999.

Nonresident Business Tax Credits: Individual nonresident taxpayers will now get the full benefit of business income tax credits. These credits were previously prorated based on Maine source income. Subject to credit limitations, the nonresident taxpayer can now claim 100% of the allowable business credits. This applies retroactively to tax years beginning on or after January 1, 1996.

Nonresident Thresholds: Nonresident individuals who work in Maine no more than 20 days or derive no more than \$6,000 in Maine gross income from personal services during the taxable year are no longer subject to the Maine income tax. These taxpayers are not required to file a Maine income tax return. Special rules apply for individuals who have a business presence in Maine. See Rule 806 for more detailed information. This applies retroactively to tax years beginning on or after January 1, 1996.

Quality Child Care Credits: Quality child care means care provided at a child care site that meets minimum licensing standards; is accredited by an independent, nationally recognized program approved by the Department of Human Services (DHS), Office of Head Start and Child Care; utilizes recognized quality indicators for child care approved by DHS, Office of Head Start and Child Care; includes provisions for client and parent input, a review of the provider's policies, procedures and program records, and an on-site program review. The following credits apply to tax years beginning on or after January 1, 2001.

a. Employer-assisted Day Care Credit:
The allowable credit doubles if the day care provided constitutes quality child care.

b. Individual Credit for Child Care Expenses: The allowable credit doubles if the child care expenses paid were for

quality child care. The credit is refundable up to \$500.

c. Quality Child Care Investment Credit:

Corporate taxpayers that incur expenses for investments in quality child care services qualify for a credit equal to 30% of up to \$30,000 in eligible expenditures. Individual taxpayers that expend at least \$10,000 during the tax year qualify for a credit equal to \$1,000 each year for 10 years, plus \$10,000 at the end of the 10-year period (actual credit may be limited to qualifying expenses paid). The credit is nonrefundable. Any unused credit amount may be carried forward until exhausted.

Long-Term Care Income Modification: For tax years beginning on or after January 1, 2000, individuals may reduce Maine taxable income for premiums paid for long-term care insurance only if the policy meets the federal definition for long-term care insurance contracts. Premiums paid on long-term care insurance policies previously certified by the Bureau of Insurance as being eligible for this deduction will continue to be eligible even if the policy does not meet the federal definition for a long-term care insurance contract. The premiums claimed as a deduction under this provision must be reduced by any premiums claimed as Maine itemized deductions.

Innocent and Injured Spouses: The tax assessor is now authorized to relieve the income tax liability of innocent or injured spouses who meet the qualifications for relief for federal income tax purposes. The spouse is not required to request federal relief prior to requesting state relief. Effective October 1, 2000.

Credit for Dependent Health Benefits Paid: As originally enacted, the credit was the lesser of 20% of the dependent health benefits paid during the taxable year or \$125 per employee. The change clarifies that the latter amount is \$125 per employee with dependent health benefits coverage. The credit applies to tax years beginning on or after January 1, 1999.

Clean Fuel Vehicle Credit: The credit is based on expenditures for the construction or installation

of or improvements to any filling or charging station for the purpose of providing clean fuels to the general public for use in motor vehicles. Clean fuels include compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, alcohol fuels, electricity, solar energy and others. The credit was changed to clarify that the filling or charging station must be located in Maine. The credit applies to tax years beginning on or after January 1, 1999.

State Income Tax Refunds: Corporate income taxpayers may reduce Maine taxable income by the amount of state income tax refunds included in federal taxable income provided the amount has already been taxed by Maine. The modification may not reduce Maine Net Income to less than zero. Any unused portion of the modification may be carried forward or back. Applies retroactively to tax years beginning on or after January 1, 1996 effective September 18, 1999.

Employer-Provided Long-term Care Credit: For tax years beginning on or after January 1, 2000, employers are eligible for the employer-provided long-term care credit only if the policy on which premiums are paid meets the federal definition of a qualified long-term care insurance contract. Premiums paid on long-term care insurance policies previously certified by the Bureau of Insurance as being eligible for this credit will continue to be eligible even if the policy does not meet the federal definition for a qualified long-term care insurance contract. Premiums claimed as Maine itemized deductions may not be used as a basis for this credit.

Family Development Account (FDA) Credit: Individuals whose family income is below 200% of the poverty level may open a family development account in connection with an approved community development organization. Use of the funds include educational expenses, home and auto purchases or repairs, emergency expenses for basic needs, capital to start a business and health care costs. Accounts are funded by deposits made by family members participating in the program and matching funds from community development organizations. Deposits to the fund are not exempt from tax; however, withdrawals

(both principle and interest) are exempt from Maine income tax.

New legislation provides a credit to contributors to family development accounts. The credit per tax return is equal to the lesser of \$25,000 or 50% of the amount contributed. The credit is limited to the tax liability on the return and must be taken after the allowance of all other credits. Maine itemized deductions must exclude any contributions claimed for this credit. The aggregate allowable credit amount in a state fiscal year is limited to \$200,000. The Finance Authority of Maine is required to certify the allowable credit for each contributor. The credit applies to tax years beginning on or after January 1, 2000.

Self-employed Health Insurance Deduction Add-Back: For tax years beginning in 1999, taxpayers must add back to federal adjusted gross income 25% of any self-employed health insurance deduction claimed on the federal return as an income adjustment. For tax years beginning in 2000 and 2001, taxpayers must add back to federal adjusted gross income 16.67% of any self-employed health insurance deduction claimed on the federal return as an income adjustment.

Liability Insurance: Beginning with registrations due January 30, 2000, each payroll processor must provide proof of liability insurance equal to twice the highest weekly payroll processed by the business in the preceding year or \$5,000,000, whichever is less. For liability insurance coverage, the processor may choose from one of the following: fidelity bond, employee dishonesty bond, third-party fidelity coverage or liability insurance that includes crime coverage.

New Sales Tax Provision: Title 36 section 1760-C has been enacted to provide that existing sales/use tax exemptions provided to specific organizations apply only if the property or service sold is intended to be used by the organization primarily in the exempt activity. If the organization is engaged in both exempt and nonexempt activities, the exemption certificate will be issued only if the organization has adequate accounting controls to limit the use of the certificate to exempt

purchases. (This has no impact on those statutory exemptions that are based on the type of property or the use to which the property is put, such as the exemptions for prosthetic devices or for interstate commerce.)

APPELLATE DIVISION TO REQUIRE POWER OF ATTORNEY IN ALL CASES WHERE TAXPAYER IS REPRESENTED:

Effective immediately, when a taxpayer is represented by another individual, the Appellate Division will require from such representative a formal Power of Attorney signed by the taxpayer which confers upon the representative the authority to represent the taxpayer in the State tax matter at issue. The Appellate Division will require this documentation prior to holding discussions with any representative about a taxpayer's case. In addition, without a proper Power of Attorney, the Appellate Division will send correspondence regarding the case directly to the taxpayer. Evidence of proper authority to act on behalf of a taxpayer can take the form of a document prepared by the representative and signed by the taxpayer or a completed Form 2848-ME. Form 2848-ME can be obtained by writing to Maine Revenue Services, 24 State House Station, Augusta, ME 04333 or calling (207)624-7894.

SMALL BUSINESS TAX WORKSHOP: The SCORE Association and the IRS will present a Small Business Tax Workshop in Caribou on September 8, Bangor on September 9, Augusta on September 15, Lewiston on September 16, and Portland on September 22. Designed for the small business owner and the self-employed, the workshop provides information about different types of business organizations, record keeping requirements and business tax returns. Discussion will relate to real life business tax situations enabling the business owner to understand and determine his or her specific tax liability. For further information you can call SCORE at (207)622-8378 or William Shuman at (207)563-5934.

SUGGESTIONS FOR TAX ALERT?

**Please contact: Maine Revenue Services
Public Communications Director
24 State House Station
Augusta, ME 04333-0024**

MAINE REVENUE SERVICES

<http://janus.state.me.us/revenue>

STATE OF MAINE
Angus S. King, Governor
Janet E. Waldron, Commissioner Administrative and Financial Services
Anthony J. Neves, Executive Director

...Order tax forms through the WebPage?...YES!

TAX QUESTIONS? PLEASE CONTACT US:

<u>Department</u>	<u>Telephone Numbers</u>	<u>FAX Numbers</u>	<u>E-mail Addresses</u>
Taxpayer Service Center	(207)287-2076	(207) 287-5855	
Central Registration	(207)287-2338	(207) 287-3733	
Collections & Compliance	(207)287-3301	(207) 287-6627	tax_compliance@state.me.us
Corporate Tax	(207)624-9670	(207) 287-6627	corporate_tax@state.me.us
Electronic Funds Transfer	(207)287-8276	(207) 287-6627	electronic_funds_transfer@state.me.us
Estate Tax	(207)626-8480	(207) 624-9694	income_estate_tax@state.me.us
Excise Tax	(207)287-3851	(207) 287-6628	sales_tax@state.me.us
Forms Request Line	(207)624-7894	(207) 622-3517	
Income Tax Assistance	(207)626-8475	(207) 624-9694	income_estate_tax@state.me.us
Paym't Plan/Income Tax	(207)621-4300	(207) 621-4328	
Payment Plan/Other	(207)287-3301	(207) 287-6627	
Practitioners' Hotline	(207)626-8458	(207) 624-9694	
Property Tax	(207)287-2011	(207) 287-6396	property_tax@state.me.us
			abandoned_property@state.me
Sales Tax	(207)287-2336	(207) 287-6628	sales_tax@state.me.us
Taxpayer Advocate	(207)287-4562	(207) 287-3294	
TTY Service	(207)287-4477	-----	
Withholding Tax	(207)626-8475	(207) 624-9694	withholding_tax@state.me.us

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Return Service Requested