



# MAINE TAX ALERT

A Publication of Maine Revenue Services for Tax Professionals

Volume 19, No. 9

December, 2009 (revised)

Public Communications Tel: (207) 626-8478

## Maine Itemized Deductions Sales Tax Paid on the Purchase of a New Motor Vehicle Form 1040ME, Schedule 2

Maine itemized deductions may not include state sales and use taxes (see 36 MRSA § 5125(3)(A)). Thus federal itemized deductions (the base for calculating Maine itemized deductions) that include state sales or use taxes must be adjusted on the Maine tax return. The printed 2009 Maine Form 1040ME, Schedule 2, line 5a (the line used to facilitate the adjustment) does not make reference to the motor vehicle sales tax that may be claimed on the 2009 federal Form 1040, Schedule A, line 7 (the new line relating to federal itemized deductions for motor vehicle sales and excise taxes). However, the downloadable version of Form 1040ME, Schedule 2 and the Maine I-file program has been revised so that Maine itemized deductions are properly adjusted to exclude all state sales and use taxes claimed for federal purposes, including sales taxes paid on the purchase of a new motor vehicle. Maine itemized deductions continue to include state excise taxes paid when registering a new vehicle to the extent included in federal itemized deductions. See [www.maine.gov/revenue/forms](http://www.maine.gov/revenue/forms) for downloadable Maine tax forms. Maine software developers are also being notified of the change explained above.

## Maine Tax Reform – Tax Calculator

The *tax reform* income tax calculator located on the Maine Revenue Service web site at [www.maine.gov/revenue/incomeestate/1040/taxreformindividual.htm](http://www.maine.gov/revenue/incomeestate/1040/taxreformindividual.htm) (select Information calculator) has been modified to reflect **actual** 2010 income tax brackets and standard deduction amounts. The previous calculator posted last summer was based on **projected** income tax brackets and standard deduction amounts. However, the results of the previous calculator were never off more than \$50 from amounts using the new calculator.

Note that tax reform will not take effect on the dates specified in the bill as originally enacted due to the repeal initiative vote scheduled to occur in June, 2010.

## Maine Revenue Services Rulemaking Activity

**Amendments to Rule 104, Electronic Filing of Maine Tax Returns.** This rule, which has been in place since 2008, describes the requirements for mandatory electronic filing of certain Maine

tax returns. The proposed amendments to the rule modify the electronic filing threshold for income tax return preparers beginning in 2011 from 50 or fewer returns to 10 or fewer returns in order to follow similar newly-enacted federal requirements for electronic filing by tax return preparers for that year.

The proposed amendments to Rule 104 can be found on the MRS web site at [www.maine.gov/revenue](http://www.maine.gov/revenue) (select Laws & Rules). Comments are due by January 29, 2010 and should be directed to Edward Charbonneau, Deputy Executive Director – Legal, (207) 624-9626, [Edward.Charbonneau@maine.gov](mailto:Edward.Charbonneau@maine.gov).

**Amendments to Rule 601, Estate Tax.** This rule, which has been in place since January 2008, provides comprehensive definitions and explanations of statutory terms and procedures for Maine estate tax returns. Specifically, the proposed rule is updated to conform with recent law changes as follows. The proposed amendments to the rule discuss the ongoing application of the tax, include the prior taxable gifts in the decedent's Maine taxable estate, update the definition of the final federal determination, and clarify the discharge of a personal representative's personal liability for estate tax. The proposed amendments also clarify the requirements for the release of an estate tax lien. Additional changes were made to mirror current statutory language and make editorial corrections and deletions.

The proposed amendments to Rule 601 can be found on the MRS web site at [www.maine.gov/revenue](http://www.maine.gov/revenue) (select Laws & Rules). Comments are due by January 29, 2010 and should be directed to Edward Charbonneau, Deputy Executive Director – Legal, (207) 624-9626, [Edward.Charbonneau@maine.gov](mailto:Edward.Charbonneau@maine.gov).

**Repeal and replacement of Rule 202, Tree Growth Tax Law Valuations - 2010.** This rule, which was last amended for 2009, fulfils the requirement that each year the State Tax Assessor determine 100% valuations per acre for each forest type by economic region for parcels under the Tree Growth Tax Law.

Proposed Rule 202 can be found on the MRS web site at [www.maine.gov/revenue](http://www.maine.gov/revenue) (select Laws & Rules). Comments are due by January 29, 2010, and should be directed to Edward Charbonneau, Deputy Executive Director, Maine Revenue Services, 24 State House Station, Augusta Maine 04333.

## 2009 Downloadable Tax Forms

Most downloadable income tax forms for tax year 2009 have been posted to the Maine Revenue Services web site at: [www.maine.gov/revenue/forms](http://www.maine.gov/revenue/forms). All downloadable forms posted on the MRS web site are suitable for printing and filing with the bureau. To order printed forms, visit the MRS web site at: [www.maine.gov/revenue/forms/orderhome.html](http://www.maine.gov/revenue/forms/orderhome.html).

Significant changes to the 2009 individual and corporate income tax forms include:

- An addition modification is required for the amount of discharge of indebtedness deferred for federal tax purposes in accordance with Code § 108(i). To avoid duplicating the income for Maine tax purposes, a deduction modification is allowed in future years when the income is claimed on the federal income tax return. (Form 1040ME, Schedule 1, line 1f and Form

1120ME, line 4e);

- An addition modification is required equal to unemployment compensation benefits (except unemployment benefits issued by the U.S. Railroad Retirement Board) received to the extent that those payments are excluded from federal gross income in accordance with the Code, Section 85(c). (Form 1040ME, Schedule 1, line 1h);
- A subtraction modification is allowed equal to income earned in Maine by a spouse of a nonresident military servicemember if the spouse is also a nonresident of Maine living in Maine solely for the purpose of being with the military servicemember serving on military orders. (Form 1040ME, Schedule 1, line 2k);
- Net operating losses. Maine and federal net operating loss carryover deductions are not allowed for tax years beginning in 2009, 2010 and 2011. The Maine subtraction modification line to recapture NOL deductions previously disallowed for Maine tax purposes has been removed and will not appear on Maine tax forms for 2009, 2010 and 2011. The disallowance of NOL deductions in 2009, 2010 and 2011 may be recaptured through subtraction modifications that will be allowed for tax years beginning after 2011. The recapture must be made during the federal carryover period plus the number of years the NOL deduction was disallowed.
- Bonus depreciation. Maine has decoupled from the most recent extension of the federal bonus depreciation allowance. The decoupling is consistent with Maine statutory decoupling from bonus depreciation since the first federal enactment in 2002. The recapture of the denied depreciation is claimed in the same manner as the 2008 depreciation recapture. (Form 1040ME, Schedule 1, line 1e and Form 1120ME, line 4f);
- Standard Deduction – additional federal amounts for property tax and sales/excise tax on the purchase of new vehicles. Individuals may not include in the Maine standard deduction the amount of real estate property taxes or sales/excise taxes paid on new motor vehicles that are claimed for federal income tax purposes pursuant to Code sections 63(c)(1)(C) and 63(c)(1)(E). (Form 1040ME, line 17);
- Earned Income Tax Credit. The Maine earned income tax credit, for tax years beginning in 2009 and 2010, is reduced from 5% of the federal credit to 4% of the federal credit. (Form 1040ME, Schedule A, line 7).

For more information on these and other changes, see specific line instructions, the credit worksheets and the 2009 summary of legislative changes at [www.maine.gov/revenue/](http://www.maine.gov/revenue/).

<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	
Appellate	(207) 624-9854	(207) 287-3618	
Central Registration	(207) 621-5129	(207) 287-3733	<a href="mailto:division.uctax@maine.gov">division.uctax@maine.gov</a>
Collections & Compliance	(207) 624-9595	(207) 287-6627	<a href="mailto:compliance.tax@maine.gov">compliance.tax@maine.gov</a>
Corporate Tax	(207) 624-9670	(207) 624-9694	<a href="mailto:corporate.tax@maine.gov">corporate.tax@maine.gov</a>
Economic Research	(207) 624-9789	(207) 287-3618	
E-file Help Desk (1040 ONLY)	(207) 624-9730	(207) 287-6628	<a href="mailto:efile.helpdesk@maine.gov">efile.helpdesk@maine.gov</a>
Electronic Funds Transfer	(207) 287-8276	(207) 287-6975	<a href="mailto:efunds.transfer@maine.gov">efunds.transfer@maine.gov</a>
Estate Tax	(207) 626-8480	(207) 624-9694	<a href="mailto:estatetax@maine.gov">estatetax@maine.gov</a>
Fuel Tax	(207) 624-9609	(207) 287-6628	<a href="mailto:fuel.tax@maine.gov">fuel.tax@maine.gov</a>
Forms Request Line	(207) 624-7894		
Income Tax Assistance	(207) 626-8475	(207) 624-9694	<a href="mailto:income.tax@maine.gov">income.tax@maine.gov</a>
Insurance Premium Tax	(207) 624-9753	(207) 624-7729	
NexTalk (TTY Service)	(888) 577-6690		
Payment Plan/Income Tax	(207) 621-4300	(207) 621-4328	<a href="mailto:compliance.tax@maine.gov">compliance.tax@maine.gov</a>
Payment Plan/Other	(207) 624-9595	(207) 287-6627	<a href="mailto:compliance.tax@maine.gov">compliance.tax@maine.gov</a>
Practitioners' Hotline	(207) 626-8458	(207) 624-9694	
Property Tax	(207) 287-2013	(207) 287-6396	<a href="mailto:prop.tax@maine.gov">prop.tax@maine.gov</a>
Public Communications	(207) 626-8478	(207) 624-9694	
Sales Tax	(207) 624-9693	(207) 287-6628	<a href="mailto:sales.tax@maine.gov">sales.tax@maine.gov</a>
Tax Clearance Letters	(207) 624-9628	(207) 287-6627	
Taxpayer Advocate	(207) 624-9649	(207) 287-3618	<a href="mailto:taxpayer.advocate@maine.gov">taxpayer.advocate@maine.gov</a>
Withholding Tax	(207) 626-8475	(207) 624-9694	<a href="mailto:withholding.tax@maine.gov">withholding.tax@maine.gov</a>
Tax Violations Hot Line	(207) 624-9600		

This publication is designed to keep taxpayers, tax practitioners and the general public informed of developments, problems, questions and matters of general interest concerning Maine tax law, policy and procedure. The articles in this newsletter are not designed to address complex issues in detail, and they are not a substitute for Maine tax laws and/or regulations.

## STATE OF MAINE

John Elias Baldacci, Governor

Ryan Low, Commissioner  
Administrative and Financial Services

Jerome D. Gerard, Acting Executive  
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Suggestions for the Tax Alert?

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