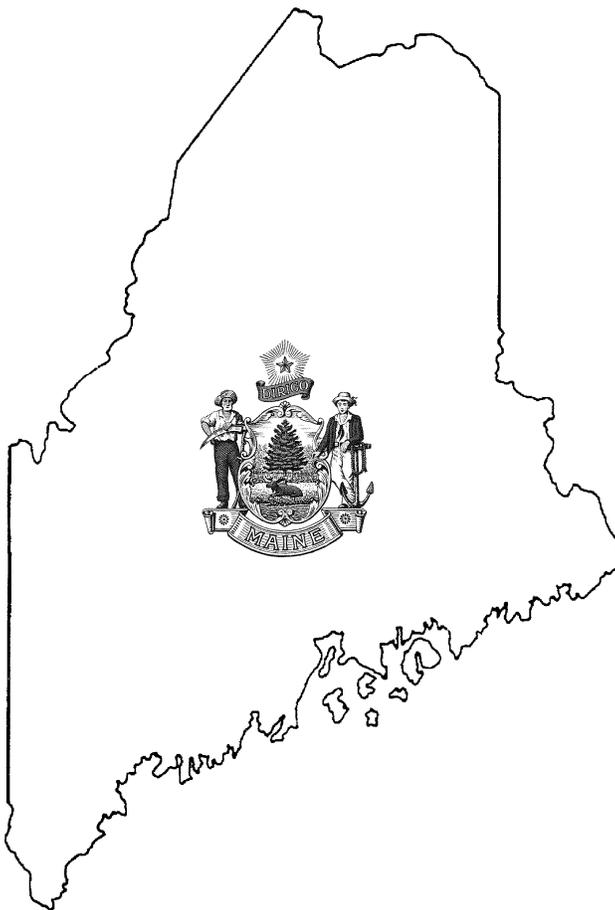


MAINE INCOME TAX CREDITS



GUIDANCE DOCUMENT

Maine Revenue Services, Income/Estate Tax Division

CONTENTS

Introduction	p.	3
Credit Summaries	p.	5

INTRODUCTION

Maine has several income tax credits that are available for taxpayers to reduce their Maine income tax liability. These credits apply against the State of Maine income tax and are separate from federal income tax credits that are used to reduce a taxpayer's federal tax liability. This guidance document is intended solely as advice to persons seeking information about Maine income tax credits and provides more information than is available in the filing instructions for the individual and corporate income tax returns. The applicable statutory references are listed below. For more information, including the method of calculating each credit, see the worksheets for tax credits on the MRS web site. The 2011 worksheets can be found at: <http://www.maine.gov/revenue/forms/credits/2011.htm>.

<u>Section</u>	<u>Credit Name</u>
36 M.R.S.A. § 5203-C(4)	Minimum tax credit
36 M.R.S.A. § 5214-A	Credit to beneficiary for accumulation distribution
36 M.R.S.A. § 5215	Jobs and investment tax credit
36 M.R.S.A. § 5216-B	Seed capital investment tax credit
36 M.R.S.A. § 5216-C	Contributions to family development account reserve funds
36 M.R.S.A. § 5216-D	Maine fishery infrastructure investment tax credit program
36 M.R.S.A. § 5217	Employer-assisted day care
36 M.R.S.A. § 5217-A	Income tax paid to other taxing jurisdiction
36 M.R.S.A. § 5217-C	Employer-provided long-term care benefits on and after January 1, 2000
36 M.R.S.A. § 5217-D	Credit for educational opportunity
36 M.R.S.A. § 5218	Income tax credit for child care expenses
36 M.R.S.A. § 5219-A	Retirement and disability credit
36 M.R.S.A. § 5219-C	Forest management planning income credits
36 M.R.S.A. § 5219-G	Tax credit for partners, S corporation shareholders and beneficiaries of estates and trusts
36 M.R.S.A. § 5219-K	Research expense tax credit
36 M.R.S.A. § 5219-L	Super credit for substantially increased research and development
36 M.R.S.A. § 5219-M	High-technology investment tax credit
36 M.R.S.A. § 5219-N	Low-income tax credit
36 M.R.S.A. § 5219-O	Credit for dependent health benefits paid
36 M.R.S.A. § 5219-Q	Quality child care investment credit
36 M.R.S.A. § 5219-R	Credit for rehabilitation of historic properties
36 M.R.S.A. § 5219-S	Earned income credit
36 M.R.S.A. § 5219-W	Pine tree development zone tax credit
36 M.R.S.A. § 5219-X	Biofuel commercial production and commercial use
36 M.R.S.A. § 5219-Y	Certified visual media production credit
36 M.R.S.A. § 5219-BB	Credit for rehabilitation of historic properties after 2007
36 M.R.S.A. § 5219-DD	Dental care access credit
36 M.R.S.A. § 5219-FF	Credit for wellness programs
36 M.R.S.A. § 5219-GG	Maine capital investments credit
36 M.R.S.A. § 5219-HH	New markets capital investment credit

Link to the statute: <http://www.mainelegislature.org/legis/statutes/36/title36ch822sec0.html>

In addition to income tax credits, a taxpayer may also qualify for one or more tax reductions in other areas of Title 36, such as property tax exemptions under Part 2, sales tax exemptions under Part 3 or benefit programs under Part 9.

CREDIT SUMMARIES

Minimum Tax Credit. The minimum tax credit is available to taxpayers who had paid Maine minimum tax in a previous year. The credit is generally equal to the aggregate amount of minimum tax paid in prior years and is limited in any one year to the amount by which a taxpayer's regular tax exceeds the tentative minimum tax. Unused credits can be carried forward to subsequent year or years, until used. 36 M.R.S.A. § 5203-C(4).

Credit to Beneficiary for Accumulation Distribution. This credit, available to beneficiaries of trusts, prevents double taxation by the state of accumulation distributions. The credit is equal to the Maine income tax imposed on income distributed to a beneficiary, if that income had been taxed by Maine in a previous year to the trust. The credit cannot reduce a beneficiary's income tax below the tax that would have been imposed if the accumulation distribution was disregarded. 36 M.R.S.A. § 5214-A.

Jobs and Investment Tax Credit. This credit is available to employers that invest at least \$5 million in certain tangible property in a single year and create at least 100 new jobs within two years. The credit is based on the federal credit amount, according to the Internal Revenue Code in effect as of December 31, 1985, which is based on a qualified investment in property. A qualified investment generally consists of depreciable property (other than a building, its structural components, air conditioning or heating units) that is used as an integral part of manufacturing, production, or extraction, or depreciable property that is related to furnishing transportation, communications, electrical energy, gas, water, or sewage disposal services. Research facility property, elevators and escalators, agricultural structures and certain rehabilitated property, timber property and storage facilities may also be considered qualified investments. The credit is generally equal to 10% of a taxpayer's qualified investment in Maine. The credit is limited to tax liability or \$500,000, whichever is less, and cannot be carried back, but can be carried forward for up to six years. 36 M.R.S.A. § 5215.

Maine Seed Capital Tax Credit. This credit is equal to a percentage of a person's qualified investment in a new or recent business venture. A certificate, issued by the Finance Authority of Maine to an investor, is equal to 60% of the qualified investment for all investors and is refundable for private venture capital funds. The investor can use 25% of the credit in the year of the investment and 25% in each of the following three years. Except with respect to the refundable credit available to private venture capital funds, the amount of the credit taken in any one year is limited to 50% of the investor's total Maine income tax liability. The refundable portion of the credit included in federal income is excludable for purposes of calculating Maine taxable income. Any unused credit amount may be carried forward for up to 15 years. 36 M.R.S.A. § 5216-B.

Family Development Account Credit. This credit is based on eligible contributions to a family development account reserve fund, as defined by 10 M.R.S.A. § 1075(4). A family development account reserve fund is the fund created by an approved community development organization for the purposes of funding the administrative costs of the family development account program and providing matching funds for deposit in family development accounts.

Eligible contributions are certified by the Finance Authority of Maine. The credit is equal to 50% of the contribution up to \$25,000. The aggregate credit claimed by all taxpayers in a state fiscal year is limited to \$200,000. 36 M.R.S.A. § 5216-C.

Maine Fishery Infrastructure Investment Tax Credit Program. An income tax credit is available for investments (including contributions) in public fishery infrastructure projects. The credit is equal to 50% of the eligible investment, as certified by the Department of Inland Fisheries and Wildlife. The credit must be taken in equal installments over four years. The investment limit per project is \$5 million. The credit is limited to 50% of the state income tax liability for the taxable year immediately preceding the year during which the taxpayer applies for the credit. Any unused portion of the credit may be carried forward for up to 15 years. The credit is subject to recapture and is prohibited if the taxpayer receives any other Maine income tax benefit for the investment or contribution. 36 M.R.S.A. § 5216-D.

Employer-Assisted Day Care Tax Credit. This credit is based on expenses incurred by an employer to provide full-time day care to children of employees. The credit is equal to 20% of qualified expenses and is limited to \$100 for each child enrolled on a full-time basis or \$5,000 in total. Any unused credit can be carried back for three years and carried forward for up to 15 years. 36 M.R.S.A. § 5217.

Income Tax Paid to Other Taxing Jurisdiction. This credit is available to Maine residents who pay income tax to another state on income derived from sources in that state. The credit is equal to the tax paid to another state on income earned in that state up to the amount of tax that Maine would impose on that income. 36 M.R.S.A. § 5217-A.

Employer-Provided Long-Term Care Benefits Credit. This credit is based on expenses incurred by an employer for providing long-term care insurance to employees as part of a benefits package. The credit is equal to 20% of qualified expenses and is limited to \$100 per covered employee or \$5,000 in total. Any unused credit can be carried forward for up to 15 years. 36 M.R.S.A. § 5217-B.

Credit for Educational Opportunity. This credit is available to college graduates who earn an associate or bachelor's degree from a Maine college or university and who subsequently live and work in Maine. The credit is based on educational loan payments made during the year and may be claimed by the graduate and/or the employer of a qualifying graduate, whoever is making the scheduled loan payments. Any unused credit may be carried forward for up to ten years. If eligible, both spouses on a married filing joint return may claim the credit. Maine universities and colleges are required to certify qualified loans and applicable limitations. 36 M.R.S.A. § 5217-D.

Income Tax Credit for Child Care Expenses. This credit is available to people who are eligible for the federal child and dependent care credit. Generally, an individual who pays someone to care for a dependent who is under age 13 or unable to care for himself or herself is allowed a credit. The Maine credit is equal to 25% of the federal credit. The Maine credit is

doubled (50% of the federal credit) if a quality child care facility is used. Quality child care facilities are certified through the Maine Department of Health and Human Services. This credit is refundable up to \$500. The credit is apportioned for nonresidents based on the percentage of income earned in Maine. 36 M.R.S.A. § 5218.

Retirement and Disability Credit. This credit is based on the federal credit for the elderly and the permanently and totally disabled. The federal credit is generally available to a person who is 65 or older and retired or, if under 65, retired on permanent and total disability. The federal adjusted gross income of a qualifying individual must be less than \$17,500 (\$20,000 if married and one spouse is a qualifying individual; \$25,000 if married and both spouses are qualifying individuals) or received nontaxable social security and pensions of less than \$5,000 (\$7,500 if married and both spouses are qualifying individuals). The Maine credit is equal to 20% of the federal credit and is apportioned for nonresidents based on the percentage of income earned in Maine. The credit is limited to the tax liability of the taxpayer and unused credit amounts may not be carried back or forward. 36 M.R.S.A. § 5219-A.

Forest Management Planning Income Credits. Once every 10 years, an individual is allowed a credit equal to the cost, up to \$200, of a forest management and harvest plan developed by a licensed professional forester for a parcel of forest land in Maine that is larger than 10 acres. An individual claiming this credit must add back to income any expense claimed on the federal income tax return that is used for this credit. 36 M.R.S.A. § 5219-C.

Tax Credit for Partners, S Corporation Shareholders and Beneficiaries of Estates and Trusts. Each partner, shareholder or beneficiary is allowed a credit against Maine income tax equal to that partner's, shareholder's or beneficiary's pro rata share of pass-through entity tax credits. Financial institutions subject to Maine's franchise tax that are organized as pass-through entities, however, must apply credits at the entity level and may not pass credits through to the partners or shareholders. 36 M.R.S.A. § 5219-G.

Research Expense Tax Credit. This credit is based on a percentage of the federal credit for increasing research activities. The credit is equal to 5% of the qualified research expenses in excess of the previous three-year average, plus 7.5% of the basic research payments to qualified organizations (educational, scientific or grant institutions) under IRC § 41(e)(1)(A). For corporate taxpayers, the credit is limited to 100% of the first \$25,000 in tax liability plus 75% of the tax liability in excess of \$25,000. For taxpayers other than corporations, the credit is limited to the tax liability of the taxpayer. Any unused credit can be carried forward for up to 15 years. 36 M.R.S.A. § 5219-K.

Super Credit for Substantially Increased Research and Development. Taxpayers that qualify for the research expense credit may qualify for an additional credit. This credit is based on qualified research expenses that exceed 150% of the average for the three taxable years immediately preceding June 12, 1997. This credit is limited to 50% of the total income tax liability after other credits. The credit can be carried forward for up to five years. 36 M.R.S.A. § 5219-L.

High-Technology Investment Tax Credit. This credit is available to a business primarily engaged in a high-tech activity and that invests in high-tech equipment. High-tech activities include the design, creation and production of computer software, computer equipment, supporting communications components and associated accessories. High-tech equipment includes computer equipment, electronics components and accessories, communications equipment and computer software placed in service in Maine. The credit is equal to the adjusted basis of eligible equipment up to \$100,000. A person claiming this credit must add back to income any expense claimed on the federal income tax return that is also included in the investment base in the year the credit is claimed. The credit can be carried forward for up to five years. 36 M.R.S.A. § 5219-M.

Low-Income Tax Credit. This credit is available to individuals (other than dependents and those who are subject to the Maine minimum tax) who have taxable income less than or equal to \$2,000. The credit is equal to the Maine income tax liability of the individual. Individuals who are allowed this credit do not have to file a Maine income tax return, unless claiming a refund of taxes withheld or prepaid. Beginning in 2013, this credit will become obsolete due to changes in the individual income tax structure. The changes will result in a zero tax liability for any taxpayer who would have otherwise qualified for this credit. 36 M.R.S.A. § 5219-N.

Credit for Dependent Health Benefits Paid. This credit is available to employers who employ fewer than five employees. The credit is based on the employer expenses related to providing health benefits to dependents of low-income employees. The credit is equal to 20% of qualified expenses and is limited to \$125 per low-income employee with covered dependents. The credit may reduce up to 50% of the employer's income tax liability. The employer must meet benefit plan availability and funding requirements. Unused credit amounts may be carried forward for up to two years. 36 M.R.S.A. § 5219-O.

Quality Child Care Investment Credit. This credit is available to an investor in a child care site, if the investment is used to improve the level of services with the goal of that site attaining certification as a quality child care facility. The credit is based on expenditures related to investments in quality child care that are certified by the Department of Health and Human Services. A corporation may claim a credit of 30% of qualified expenses up to \$9,000. An individual who invests at least \$10,000 in one year is allowed a credit of \$1,000 each year for 10 years and \$10,000 at the end of the 10-year period. Any unused credit can be carried forward until exhausted. 36 M.R.S.A. § 5219-Q.

Credit for Rehabilitation of Historic Properties. This credit is available to taxpayers who qualify for the federal rehabilitation credit and those who would qualify for the federal credit if not for the "substantial rehabilitation" test. The credit is equal to 25% of the federal historic rehabilitation expenditures under IRC § 47. If a developer is not eligible for the federal credit due to the substantial rehabilitation threshold, that person may still qualify for the credit if certified by the Maine Historic Preservation Commission. If an eligible rehabilitation project involves affordable housing, the developer may be eligible for a credit of 30% of rehabilitation expenditures. The credit is limited to \$5,000,000 per project and is refundable. Recapture provisions and other limitations apply. 36 M.R.S.A. § 5219-BB.

Two separate credits are also available to certain owners of specific property who qualify for the federal rehabilitation credit. These credits are to be claimed in lieu of the general rehabilitation credit described above. The first separate credit is allowed for an owner of two or more structures in the Kennebec Arsenal District National Historic Landmark in Augusta. The credit is equal to the federal historic rehabilitation credit under IRC § 47, is refundable up to \$500,000 per year and may be claimed through the 2012 tax year. The second separate credit is allowed for a developer of building Number 2 in the Lockwood Mill Historic District in Waterville. The credit is equal to the federal historic rehabilitation credit under IRC § 47, is refundable up to \$1,000,000 per year and may be claimed through the 2013 tax year. 36 M.R.S.A. § 5219-R.

Earned Income Credit. This credit is available to an individual who is allowed a federal earned income tax credit. The credit is equal to 5% of the federal credit. The credit is apportioned for nonresidents based on the percentage of income earned in Maine. 36 M.R.S.A. § 5219-S.

Pine Tree Development Zone Tax Credit. This credit is available for certain businesses that expand by hiring new employees. An entity engaged in the business of financial services, manufacturing or a targeted technology, as defined by 5 M.R.S.A. § 15301, may be eligible for a tax credit and other benefits. To be eligible, the business must add at least one new, full-time job that meets certain wage requirements and that offers retirement and health care benefits. Eligible businesses are certified by the Department of Economic and Community Development. The credit is equal to 100% of the Maine income tax liability associated with qualified business activity for each of the first five years. An additional credit for 50% of the Maine income tax liability associated with qualified business activity for each of the years six through ten is available to businesses located in most areas of the state. Eligible businesses may also receive 80% reimbursement of Maine income tax withholding from qualified new employees (36 M.R.S.A. chapter 917) and sales tax exemptions for purchases of tangible personal property (36 M.R.S.A. §§ 1760(87) & 2016). Reduced electricity rates are also available for qualified businesses. 36 M.R.S.A. § 5219-W.

Biofuel Production and Use Credit. This credit is available for a business engaged in the production of biofuel. Biofuel means “any liquid or gaseous product or energy source . . . that is derived from agricultural crops or residues or from forest products or byproducts, as distinct from petroleum or other fossil carbon sources.” The credit is equal to 5¢ per gallon of biofuel produced. The credit may only be applied to the tax liability on income associated with the production of biofuels. Unused credit amounts may be carried forward for up to ten years. The Maine Department of Environmental Protection will certify eligible entities. 36 M.R.S.A. § 5219-X.

Certified Visual Media Production Credit. This credit is available to a business engaged in a media production that is certified by the Department of Economic and Community Development. The credit is equal to 5% of qualified media production expenses, as long as the business spends at least \$75,000. Businesses may only use the credit in the tax year the media production is completed. Businesses eligible for the Pine Tree Development Zone income tax credit under 36 M.R.S.A. § 5219-W must claim that credit in lieu of this credit. Eligible

businesses may also qualify for a partial reimbursement of wages paid during a visual media production (see 36 M.R.S.A. chapter 919-A). 36 M.R.S.A. § 5219-Y.

Dental Care Access Credit. Dentists certified as eligible for this credit by the Department of Health and Human Services, Oral Health Program, in years 2009 through 2011 may claim a \$15,000 income tax credit. Dentists certified in years 2012 through 2015 are eligible for a \$12,000 credit. The department may certify up to five eligible dentists in each year from 2009 through 2011. An additional six dentists may be certified in each year from 2012 through 2015. To be eligible, a dentist must be licensed by Maine and must practice in an underserved area of Maine for at least five years. The credit may be claimed beginning the first year the dentist meets the conditions of eligibility for at least six months and each of the four subsequent years. 36 M.R.S.A. § 5219-DD.

Credit for Wellness Programs. Beginning in 2014, an employer with 20 or fewer employees is allowed a credit equal to expenditures for developing, instituting and maintaining a wellness program for its employees. Expenditures applied to a credit claim that are also used as an expense against federal adjusted gross income must be added back to income through a Maine modification. The credit is limited to the lower of \$100 per employee or \$2,000. The credit cannot reduce Maine income tax liability below zero, but unused portions can be carried forward for up to five years. 36 M.R.S.A. § 5219-FF.

Maine Capital Investments Credit. A credit is available to businesses that place depreciable property in service in Maine during the taxable year beginning in 2011 or 2012. The credit is equal to 10% of the federal bonus depreciation claimed for the taxable year under Internal Revenue Code, § 168(k) on that property. The credit is prohibited with respect to certain property. The credit is limited to the Maine income tax liability of the taxpayer, but any unused portion of the credit may be carried forward for up to 20 years. The credit is subject to full recapture if the property is not used in Maine for a full twelve months following the date placed in service. Taxpayers must add back to income any bonus depreciation claimed on the property for which the credit is claimed, but may not recapture the add-back amount in future years. 36 M.R.S.A. § 5219-GG.

New Markets Tax Credit. Beginning in 2012, a person making a qualified equity investment in a low-income community business is allowed a credit equal to 39% of the investment. The credit is taken over seven years, with 0% allowed in the first two years, 7% allowed in year three and 8% allowed in each of years four through seven. The credit is fully refundable, or the taxpayer may elect to carry any unused portion of the credit forward for up to 20 years. Certain recapture provisions apply. 36 M.R.S.A. § 5219-GG.