

## MAINE REVENUE SERVICES

### TAX REFORM LD 1495 – PL 2009, c. 382

#### Provisions Relating to: Individual Income Tax

Following is a brief summary of the recently enacted tax reform changes that relate to individual income tax. A more comprehensive summary and guidance will be developed in the following months. **Unless otherwise indicated, all changes cited in this document apply to tax years beginning on or after January 1, 2010.**

The enacted language of LD 1495 can be viewed at:

[http://www.mainelegislature.org/legis/bills/bills\\_124th/chapters/PUBLIC382.asp](http://www.mainelegislature.org/legis/bills/bills_124th/chapters/PUBLIC382.asp)

Tax Reform did not make any changes to the corporate income tax or the financial institution franchise tax.

#### **Individual Income Tax - for tax years beginning on or after January 1, 2010**

The three existing **tax rate schedules** (single, married joint [MJ] & head of household [HH]) are replaced with a flat tax rate of 6.5% of Maine taxable income for all taxpayers. Taxpayers with taxable income greater than \$250,000 must also pay an income tax surcharge equal to .35% of Maine taxable income in excess of \$250,000. The 6.5% tax rate, but not the surcharge, will also apply to the Maine fiduciary income tax on taxable trusts and estates under the Maine *income tax* law.

The Maine **standard and itemized deductions** are repealed; however, an adjusted federal itemized deduction amount will be used to calculate the alternative household credit explained below.

The Maine **alternative minimum tax (AMT) and alternative minimum tax credit for individuals** are repealed. The corporate AMT and corporate AMT credit are retained.

The additional Maine tax on **lump-sum retirement plan distributions** is repealed. See the 2008 Maine Form 1040ME, Schedule A, line 1 and related instructions for more information on this tax addition.

The additional tax on **early distributions from qualified retirement plans** is repealed. See the 2008 Maine Form 1040ME, Schedule A, line 2 and related instructions for more information on this tax addition.

A new **refundable household credit** is enacted containing the following elements:

- only **resident** individuals qualify; nonresidents and part-year residents do not qualify;
- the **base credit amount** is **\$700**/single; **\$1,050**/HH; **\$1,200**/MJ; **\$600**/MS (married separate);
- the base credit is **increased** by **\$250** for each exemption claimed on the return;
- the credit is **phased out** by **\$1.50** for every \$100 that Maine taxable income exceeds:  
**\$27,500**/single/MS; **\$41,250**/HH; **\$55,000**/MJ;
- the credit is **refundable** up to **\$70** for MJ returns and **\$50** for all other returns.

An **alternative refundable household credit** is also enacted. A taxpayer who has itemized deductions may elect to use this credit instead of the regular household credit described above. The alternative credit contains the following elements:

- only **resident** individuals qualify; nonresidents and part-year residents do not qualify;
- the **base credit amount** for the alternative household credit is **5.5%** of adjusted federal itemized deductions plus: **\$400/single/MS; \$600/HH; \$800/MJ**. (The adjusted federal itemized deductions amount is calculated using Maine Form 1040ME, Schedule 2 adjustments);
- the **maximum** base credit amount allowed is: **\$1,150/single/MS; \$1,750/HH; \$2,300/MJ**;
- the base credit is **increased** by **\$250** for each exemption claimed;
- the credit is **phased out** by **\$1.50** for every \$100 that Maine taxable income exceeds: **\$27,500/single/MS; \$41,250/HH; \$55,000/MJ**;
- the credit is **refundable** up to **\$70** for MJ returns and **\$50** for all other returns.

For tax years beginning after 2009, the Maine **withholding tables** will be adjusted to reflect the impact of the regular household credit on the Maine income tax.

A Maine **charitable contributions credit** is enacted. The credit is equal to 5% of charitable contributions claimed on the federal return exceeding \$250,000, but must exclude contribution deductions carried over from prior tax years.

A Maine **elderly credit** is enacted. The credit is \$60 for each taxpayer who is 65 years of age or older. The credit is phased out by \$2 for every \$100 of Maine adjusted gross income that exceeds: **\$32,000/single; \$52,000/MJ; \$48,000/HH; \$26,000/MS**.

The **retirement and disability credit** is repealed. See the 2008 Maine Form 1040ME, Schedule A, line 5 and related instructions for more information on this tax credit.

The **low-income tax credit** is repealed. See 2008 Maine Form 1040ME, line 22 and Form 1040S-ME, line 21 and related instructions for more information on this tax credit.

The Maine **earned income tax credit (EITC)** is made refundable for tax years beginning after 2009. The credit must be claimed on the Maine return after all other tax credits except for the child care credit. The maximum refundable amount for both the household credit and the EITC together is limited to \$150 for MJ returns and \$125 for all other returns.