



MAINE TAX ALERT

A Publication of the Maine Bureau of Taxation for Tax Professionals

Volume 7, No. 1

JANUARY 1997

Public Communications Tel: (207) 287-6362

1997 TAX SEASON BEGINS

As this 1997 tax season begins, the Bureau of Taxation expects this individual income tax filing period to one of the best. For you, for your clients, for the staff of the Bureau of Taxation, we intend to work with you in every way that we can during the next six months. This is the second year of the Maine Imaging and Scanning Project and the fifth year of the Maine Automated Tax System. We here are concentrating on putting together a smooth 1997 tax season.

To this end, we are passing on to you some suggestions from the staff here. We have talked to the Income Tax Division staff, taxpayer service staff, and collections staff to find out more about items that caused problems last year so we can give you some suggestions on how we can all avoid these items during this tax season.

ALWAYS USE EXTENSIONS FOR MAINE 1040

For every 1996 Maine Individual Income Tax Return to be filed after the due date, an extension must be filed with the Maine Bureau of Taxation. For extension beyond the April 15, 1997 due date, a copy of IRS Form 4868 must be filed with payment by April 15, 1997. For returns to be filed after the August 15, 1997 extended due date, a copy of the IRS Form 2688 must be filed with the Bureau of Taxation. For a Maine extension, use the appropriate IRS form and write "Maine Extension" across the top. For extensions with payment, write on the form in the payment area "Maine Tax Due" and the amount. File the extension and payment of amounts due to Maine Bureau of Taxation, 24 State House Station, Augusta, ME 04333-0024.

Maine returns must be filed by the April 15, 1997 due date unless a valid extension is filed. This requirement is in the law and has been enforced since 1995. We expect to issue an extension form for Maine individual income tax for use in 1998.

TIPS on RETURN PREPARING

- **Taxpayer Information:** Double check that information on the top portion is accurate. Check the social security number, name spelling and address.
- **Include income and withholding amount from your clients' 1099s.**
- **Exemption Amount:** Remember that the state exemption is \$2,100, not the same as the federal tax exemption amount.
- **Income Modifications:** Be sure to include necessary additions to and deductions from federal adjusted gross income on Schedule 1.

- **Itemized Deductions:** Be sure to fill out Schedule 2 to adjust federal itemized deductions to determine Maine itemized deductions total.
- **Credit for Taxes Paid to Other Jurisdictions:** A copy of the other state tax return must be filed with the Maine return to receive this credit.
- **Complete returns only** when complete information is available to you to avoid filing an amended return quickly after filing the original return.
- **Non-Resident Returns:** For clients filing schedule NR as a part-year resident, the residency dates must be filled in at the top of the form. Please note that the amount of accompanying documentation necessary with a non-resident return depends upon the type of Maine income. For Maine business income or the sale of Maine real estate, all pages of the federal return are required.

DOES YOUR CLIENT OWE MAINE INCOME TAX?

For the 1996 return, your clients should pay all of the tax due on the return. If they are unable to pay the total due with their Maine return, please urge them to pay as much as they can with the return. They should call the payment plan line immediately to arrange a payment plan to clear that tax debt. Interest accrues at 10% annual rate on the unpaid balance. Income tax payment plans are available through a call to (207)621-4300.

Please consider suggesting to your clients that they increase their current withholding so that they will not owe additional tax on next year's return.

DECEASED? OR NOT DECEASED?

On the Maine return, the check-off for indicating that a taxpayer is deceased is on page 2 in the taxpayer signature area. Please make sure that your clients do not check this box. In the past few years, we have received many returns signed in person with the deceased box checked. As you can imagine, this causes some real problems for record keeping. This anomaly delays any refund and can cause the refund check to be issued under an incorrect name.

DIRECT DEPOSIT OF REFUND

Maine is offering direct deposit of refund to paper return filers who file a Maine Form 8888 with their Maine tax return. If the Form 8888 is not filed with the paper return, any refund will be sent by check to the taxpayer. We cannot accept direct deposit requests sent separately from the paper return.

INCOMPLETE RETURNS NOTICE

Individual income tax returns which are mailed without required data will be sent back with a notice indicating which parts of the form are missing. The items which may be listed as missing on the notice include the following:

1. The return was filled out in red or orange pen or pencil and must be rewritten in blue or black ink so that the return will be processed as a complete return. A red return is a blank return in processing.
2. **Short and Long Forms:** form is missing required data - federal adjusted gross income, filing status, social security number for taxpayer or spouse; or "converting" another year's form into a 1996 form.

EARNED INCOME CREDIT FOR MAINE

The State is helping the Internal Revenue Service publicize the Earned Income Credit this year. During the 1996 filing season, 81,664 Maine taxpayers applied for the Earned Income Credit with the resulting benefit to the Maine economy of \$96,629,000 as well as the benefit to the individuals and families receiving the federal payments. We are enlisting the aid of State agencies with mailings during the January through March period to people who might benefit from the program. Eligible families must file a 1996 federal tax return to receive the EIC for 1996. Some people may be able to receive advanced EIC for 1997 by filing a Form W-5 with their employer.

PRACTITIONER HOTLINE

The telephone number for specialized practitioner assistance is (207)626-8458. You may e-mail general questions through the webpage. We do not advise the use of confidential taxpayer information in an e-mail message. As in previous years, we will confirm amounts of estimated payments for your clients when you need that information to prepare an accurate Maine return.

TELEFILE for Simple Returns

TeleFile is available this year to the 150,000 taxpayers who received booklets during the 3rd week in January. This group includes many of the short form filers. TeleFile will now accept a change of address from the previous filing year and so will be open to more people. Most eligible taxpayers will be expecting a tax refund and should receive their checks in about two weeks.

DO YOU NEED MORE TAX FORMS?

You may order additional copies of Bureau printed tax forms through the internet webpage e-mail if you are ordering one copy of a form, or by downloading the order form to send with payment, for multiple forms orders. Alternatively, for single forms requests, you may call the Forms Line at (207)624-7894. The forms orders are all filled by Goodwill Industries here in Augusta under their contract with the Bureau of Taxation.

COMBINED FORMS ORDER FORM

Included in the issue is an Order Form 2333C-ME entitled "1996 Withholding Tax and Unemployment Contributions Forms and Instructions." An employer's choice among the four filing options will determine which forms must be used.

COMBINED FORMS - Effective January 1, 1997

Please remember that withholding taxes for wages paid during December 1996 or for the 4th Quarter of 1996 will be due on January 21, 1997. The new filing and payment schedules are effective for wages paid beginning January 1, 1997. Payments for monthly payors will be due on the last day of the month following the end of the period. The first return, for all categories of payors, will be the 1st Quarter Combined Return. The 1st Quarter Combined Return will be due on April 30, 1997, the last day of the month following the end of the 3rd month of the quarter. Payments due on April 30, 1997 will be paid with the Combined Return. Even monthly and semi-weekly payors will file the Quarterly Combined Return at the end of April, 1997. The Quarterly Combined return is the return for unemployment insurance contributions for the quarter and for withholding tax filing for all three months of the quarter. Employers required to make monthly or semi-weekly payments of withholding tax will reconcile those payments on the quarterly return.

TAX LEGISLATION PROPOSED

The Bureau of Taxation has proposed nine pieces of legislation for the current session. The conformity bill would bring Maine tax law into conformity with the Internal Revenue Code as of December 31, 1996, including the changes affecting small business in the recently passed federal Small Business Jobs Protection Act of 1996. The technical corrections bill will not be completed until near the end of the session so that we can include technical changes which may be discovered in the next few months.

There is a proposal to modernize the fuel tax. This bill would shift the tax collection point for all fuel taxes to "the rack," the wholesaler from the retailer. This will reduce the number of fuel taxpayers and collections points. The federal government and several other states already use the wholesale delivery as the taxable transaction.

A sales tax proposal simplifies the trade-in credit mechanism by combining several equipment categories into a larger "special mobile equipment" category. Any type of equipment from this category could be traded in for any other type of equipment from the category to receive a trade-in credit. Trade-in credits in general are allowed for like-kind items. With the change making several additional items part of the special mobile equipment category, many businesses will appreciate the increased flexibility in this area.

In addition to the Bureau's tax proposals, there are now a total of 250 proposed tax bills. There are also tax changes in the Governor's Budget Bill.

NONRESIDENTS - Rule 806

This rule was effective January 1, 1997. The threshold requiring a nonresident to file a Maine return is now a combination of both a 20 day period working in Maine as an employee and \$6,000 in Maine income. The threshold was incorrectly identified in the December 1996 Tax Alert as being either, or.